

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

**RATINGS: Fitch: AA-  
S&P: AA**

**See “DESCRIPTION OF RATINGS” herein.**

*In the opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, under existing law and subject to certain qualifications described herein, the interest on the 2021 Bonds is excludable from gross income for federal income tax purposes. In addition, interest on the 2021 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. See “TAX MATTERS.”*

**TACOMA POWER**  
TACOMA PUBLIC UTILITIES

**CITY OF TACOMA, WASHINGTON**  
**\$121,855,000**  
**Electric System Revenue Bonds, Series 2021 (Green Bonds)**

**DATED:** Date of Delivery

**DUE:** January 1, as shown on the inside cover

The City of Tacoma, Washington (the “City”), Electric System Revenue Bonds, Series 2021 (Green Bonds) (the “2021 Bonds”), will be issued in fully registered form under a book entry only system. When issued, the 2021 Bonds initially will be registered to Cede & Co., as bond owner and nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as initial securities depository for the 2021 Bonds. Individual purchases of the 2021 Bonds will be made in the principal amount of \$5,000 or integral multiples thereof within a maturity. Purchasers of the 2021 Bonds (the “Beneficial Owners”) will not receive certificates representing their beneficial ownership interest in the 2021 Bonds purchased. The fiscal agent of the state of Washington (the “State”), currently U.S. Bank National Association, will act as the registrar, paying agent, transfer agent and authenticating agent for the 2021 Bonds (the “Bond Registrar”).

The 2021 Bonds will bear interest payable semiannually on each January 1 and July 1, commencing January 1, 2022, to the maturity or prior redemption date of the 2021 Bonds. The 2021 Bonds will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover. For so long as the 2021 Bonds are held in book-entry only form, the principal of and interest on the 2021 Bonds will be paid by the Bond Registrar to DTC, which in turn is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners. See Appendix B—“BOOK-ENTRY SYSTEM.”

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

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The 2021 Bonds are subject to redemption by the City prior to their stated maturities as described herein. See “DESCRIPTION OF THE 2021 BONDS—Redemption Provisions.”

The 2021 Bonds are being issued to refinance certain capital improvements to the Electric System and to pay costs of issuance. See “PURPOSE AND APPLICATION OF 2021 BOND PROCEEDS.”

The 2021 Bonds are payable solely from special funds of the City known as the Electric System Revenue Fund and the Electric System Revenue Bond Fund, and from Net Revenues of the Electric System (each as defined herein), and other funds pledged therefor, on a parity with the outstanding Electric System revenue bonds and other Electric System revenue bonds hereafter issued on a parity therewith. See “SECURITY FOR THE 2021 BONDS.”

The 2021 Bonds have been designated as “Green Bonds” by Kestrel Verifiers. See “2021 BONDS DESIGNATED AS GREEN BONDS.”



**THE 2021 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, OR THE STATE OF WASHINGTON, OR A CHARGE UPON ANY GENERAL FUND OR OTHER PROPERTY OF THE CITY OR THE STATE OF WASHINGTON NOT SPECIFICALLY PLEDGED THERETO BY THE BOND ORDINANCE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE ELECTRIC SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF. SEE “SECURITY FOR THE 2021 BONDS.” BY PURCHASE OF THE 2021 BONDS, THE OWNERS OF THE 2021 BONDS SHALL BE DEEMED TO HAVE CONSENTED TO CERTAIN AMENDMENTS TO THE MASTER ORDINANCE (AS DEFINED HEREIN) TO OCCUR IN THE FUTURE UPON SATISFACTION OF CERTAIN CONDITIONS. SEE “SECURITY FOR THE 2021 BONDS—RATE COVENANT AND DEBT SERVICE COVERAGE COVENANT.”**

The City has not designated the 2021 Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

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

*The 2021 Bonds are offered when, as and if issued, subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. A form of Bond Counsel’s opinion is attached hereto as Appendix C. Certain matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. It is anticipated that the 2021 Bonds in definitive book-entry form will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about on or about September 14, 2021.*

**Citigroup**  
**Goldman Sachs and Co. LLC**

**KeyBanc Capital Markets**  
**Siebert Williams Shank & Co., LLC**

Official Statement Dated: August 25, 2021

**CITY OF TACOMA, WASHINGTON**

**\$121,855,000**

**ELECTRIC SYSTEM REVENUE BONDS, SERIES 2021 (GREEN BONDS)**

Due January 1	Principal Amount	Interest Rate	Yield*	Price	CUSIP No. (873519)**
2036	\$ 5,355,000	5.00%	1.370%	133.172	PS5
2037	5,625,000	5.00	1.400	132.848	PT3
2038	5,915,000	5.00	1.440	132.418	PU0
2039	6,220,000	5.00	1.480	131.990	PV8
2040	6,470,000	3.00	1.940	109.414	PW6
2041	6,670,000	3.00	1.960	109.227	PX4

\$38,460,000 5.00% Term Bond due January 1, 2046, yield of 1.780%,\* price of 128.829, CUSIP No. 873519PY2\*\*

\$22,140,000 4.00% Term Bond due January 1, 2051,\*\*\* yield of 2.000%,\* price of 117.711, CUSIP No. 873519PZ9\*\*

\$25,000,000 2.50% Term Bond due January 1, 2051,\*\*\* yield of 2.450%,\* price of 100.431, CUSIP No. 873519QA3\*\*

\* Calculated to the par call date of July 1, 2031.

\*\* CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. Neither the City nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

\*\*\* Bifurcated maturity.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the cover page and Appendices, must be considered in its entirety. The offering of the 2021 Bonds is made only by means of this entire Official Statement.

The information within this Official Statement has been compiled from sources considered reliable and, while not guaranteed as to accuracy, is believed to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in APPENDIX B—"BOOK-ENTRY SYSTEM," which has been obtained from DTC's website, the form of opinion of Bond Counsel. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the City or in the other matters described herein since the dates as of which such information is provided.

Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the 2021 Bonds.

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

No dealer, broker, sales representative, or other person has been authorized by the City to give any information or to make any representations with respect to the 2021 Bonds other than as contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2021 Bonds by any person, in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

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

The presentation of certain information, including tables of receipts from taxes and other revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue to be repeated in the future. Information relating to debt and tax limitations is based on existing statutes and constitutional provisions. Changes in State law could alter these provisions.

The 2021 Bonds have not been registered under the Securities Act of 1933, as amended, and the Bond Ordinance has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such Acts. No federal or state securities commission or regulatory authority has passed upon the merits of the 2021 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

## **TACOMA PUBLIC UTILITIES**

3628 South 35<sup>th</sup> Street  
Tacoma, Washington 98409  
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mytpu.org\*

## **MAYOR AND TACOMA CITY COUNCIL**

Victoria Woodards	Mayor
Keith Blocker	Deputy Mayor and Council Member
Chris Beale	Council Member
John Hines	Council Member
Lillian Hunter	Council Member
Conor McCarthy	Council Member
Robert Thoms	Council Member
Catherine Ushka	Council Member
Kristina Walker	Council Member

## **PUBLIC UTILITY BOARD**

Mark Patterson, Chair  
Christine Cooley, Vice Chair  
Carlos M. Watson, Secretary  
Joe Bushnell  
Holland Cohen

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

Jackie Flowers, Director of Utilities, Chief Executive Officer  
Chris Robinson, Power General Manager/Superintendent/Chief Operating Officer  
Rachel Allen, Power Shared Services Manager  
Bill Berry, Rates, Planning, and Analysis Manager  
Tenzin Gyaltzen, Utility Technology Services Manager/Chief Information Officer  
Chris Mattson, Generation Manager  
Clay Norris, Power Management Manager  
Joe Tellez, Chief Technology Officer  
Joseph Wilson, Transmission and Distribution Manager

## **CERTAIN CITY ADMINISTRATIVE STAFF**

Elizabeth Pauli, City Manager  
Andy Cherullo, Finance Director/Acting City Treasurer  
Susan Calderon, Assistant Finance Director/Controller  
William C. Fosbre, City Attorney  
Doris Sorum, City Clerk

## **BOND AND DISCLOSURE COUNSEL**

Pacifica Law Group LLP  
Seattle, Washington

## **MUNICIPAL ADVISOR**

Montague DeRose and Associates, LLC  
Walnut Creek, California

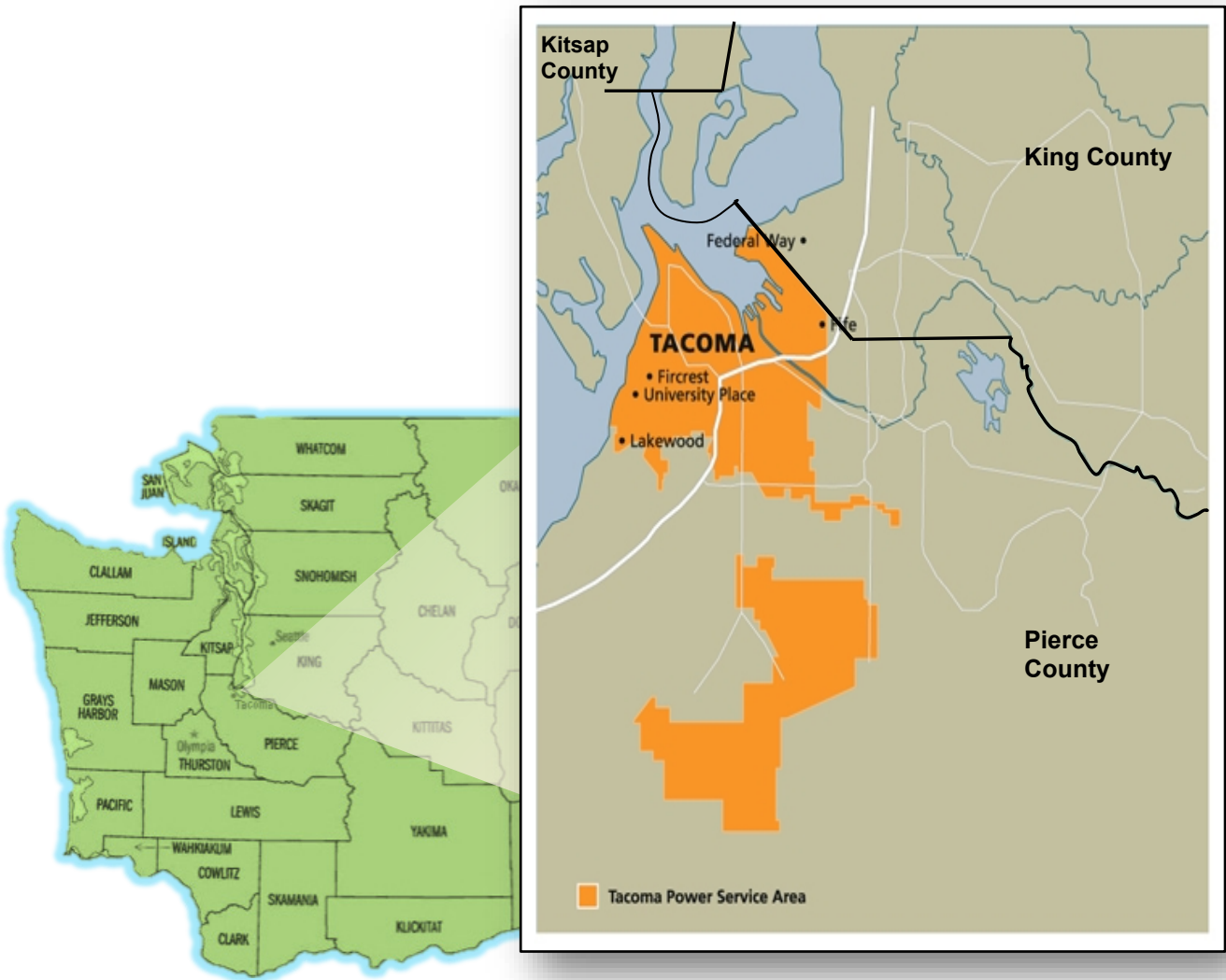
## **INDEPENDENT AUDITORS**

Moss Adams LLP  
Portland, Oregon

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\* The City's website is not part of this Official Statement, and investors should not rely on information presented in the City's website in determining whether to purchase the 2021 Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

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



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

**\$121,855,000**  
**Electric System Revenue Bonds,**  
**Series 2021 (Green Bonds)**

**INTRODUCTION**

**General**

The City of Tacoma, Washington (the “City” or “Tacoma”), a municipal corporation duly organized and existing under the laws of the State of Washington (the “State”), furnishes this Official Statement in connection with the offering of \$121,855,000 principal amount of its Electric System Revenue Bonds, Series 2021 (Green Bonds) (the “2021 Bonds”).

The City is a municipal corporation under the Constitution and laws of the State. The Light Division, doing business as Tacoma Power (“Tacoma Power”), of the City’s Department of Public Utilities (the “Department”) operates the City’s electrical generation, transmission and distribution facilities (collectively, the “Electric System”). Tacoma Power is one of the largest municipally-owned utilities in the Pacific Northwest in terms of customers served and energy sold. In 2020, Tacoma Power served an average of approximately 183,000 retail accounts, had over 700 employees and had operating revenues of approximately \$461 million. See “THE DEPARTMENT OF PUBLIC UTILITIES—TACOMA POWER.”

The 2021 Bonds are being issued in accordance with the Charter of the City, the applicable laws of the State, and Ordinance No. 28146, passed by the City Council on April 30, 2013, as supplemented and amended (the “Master Ordinance”), including as supplemented and amended by Supplemental Ordinance No. 28773 passed by the City Council on August 3, 2021 (the “Supplemental Ordinance,” and collectively, the “Bond Ordinance”). Certain capitalized words and phrases used in this Official Statement not defined herein have the meanings given in the Bond Ordinance, unless the context shall clearly indicate that another meaning is intended. See Appendix A for certain definitions.

The 2021 Bonds are special limited obligations of the City payable from and secured solely by the funds and accounts specifically pledged for such purpose under the Bond Ordinance. See “SECURITY FOR THE 2021 BONDS.” The 2021 Bonds are issued on a parity of lien with the following outstanding obligations of the Electric System:

- Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds – Direct Payment) (the “2010B Bonds”);
- Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds – Direct Payment) (the “2010C Bonds,” and together with the 2010B Bonds, the “2010 Bonds”);
- Electric System Revenue and Refunding Bonds, Series 2013A (the “2013A Bonds”);
- Electric System Revenue Refunding Bonds, Series 2013B (the “2013B Bonds” and together with the 2013A Bonds, the “2013 Bonds”); and
- Electric System Revenue Bonds, Series 2017 (the “2017 Bonds”).

The 2010 Bonds, the 2013 Bonds, and the 2017 Bonds are collectively referred to herein as the “Outstanding Parity Bonds.” The City has reserved the right in the Bond Ordinance to issue additional parity bonds upon satisfaction of certain requirements (“Future Parity Bonds”). The 2021 Bonds, the Outstanding Parity Bonds and any Future Parity Bonds are referred to as the “Parity Bonds.” The Outstanding Parity Bonds are currently outstanding in the aggregate principal amount of \$366,105,000. See “DEBT INFORMATION” herein.

The outbreak of the 2019 novel coronavirus (“COVID-19”) is a significant event that is affecting many parts of the world, including the State, the City and the local economy served by the City. Certain historic information in this Official Statement about the finances and operations of the City predate the outbreak of COVID-19 and should be considered in light of the negative effects the COVID-19 pandemic has had and is expected to continue to have on the current and future finances and operations of the City. See “THE DEPARTMENT OF PUBLIC UTILITIES-TACOMA POWER—Response to COVID-19.” Any information related to the impacts of the COVID-19 pandemic is subject to change.

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

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

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

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

### **Springing Amendments**

The Supplemental Ordinance includes certain springing provisions that will take effect immediately upon receipt of certain consents, including the consent of not less than 51% in aggregate principal amount of the Parity Bonds at the time outstanding, without with the need for further action of the City Council. These amendments: (a) modify the calculation of Net Revenues for purposes of the annual debt service coverage calculation, and (b) permit the City to take into consideration certain designated “Balloon Indebtedness” when calculating Annual Debt Service for purposes of satisfying the annual debt service coverage calculation and the additional bonds test. ***By purchase of the 2021 Bonds, the owners of the 2021 Bonds shall be deemed to have consented to these springing amendments. As a result, owners of the 2021 Bonds should expect that the springing amendments will become effective while the 2021 Bonds are outstanding.*** See “SECURITY FOR THE 2021 BONDS—Rate Covenant and Debt Service Coverage Covenant” and Appendix A.

## **PURPOSE AND APPLICATION OF 2021 BOND PROCEEDS**

### **Purpose of the 2021 Bonds**

The 2021 Bonds are being issued to provide funds (a) to refinance the City’s Electric System Subordinate Revenue Note, Series 2015A, proceeds of which were used to finance certain capital improvements to the Electric System, and (b) to pay the costs of issuance of the 2021 Bonds. See “DEBT INFORMATION—Subordinate Lien Obligations.”

The 2021 Bonds have been certified as “Green Bonds.” See “2021 BONDS DESIGNATED AS GREEN BONDS.”

## Estimated Sources and Uses of Funds

The following table shows the estimated sources and uses of the 2021 Bond proceeds (amounts in table have been rounded).

**TABLE 1**  
**SOURCES AND USES OF FUNDS**

<b>Sources of Funds</b>	<b>2021 Bonds</b>
Par Amount of the 2021 Bonds	\$ 121,855,000
Original Issue Premium	23,872,489
Total	<u>\$ 145,727,489</u>
<b>Uses of Funds</b>	
Repay 2015A Note <sup>(1)</sup>	\$ 145,000,000
Issuance Expenses <sup>(2)</sup>	727,489
Total	<u>\$ 145,727,489</u>

<sup>(1)</sup> See “DEBT INFORMATION—Subordinate Lien Obligations.”

<sup>(2)</sup> Issuance expenses include underwriters’ discount, legal fees, Municipal Advisor’s fees, rating agency fees, and other costs incurred in connection with the issuance of the 2021 Bonds.

## 2021 BONDS DESIGNATED AS GREEN BONDS

### General

The 2021 Bonds have been designated as “Green Bonds” (as referred to in this Section, the “Green Bonds”). This designation is intended to allow investors the opportunity to invest directly in bonds that finance environmentally-beneficial projects. This designation is not intended to provide or imply that the holders of the Green Bonds are entitled to any additional terms or security to those provided in the Bond Ordinance.

The City has retained Kestrel Verifiers, a Climate Bonds Initiative (“CBI”) Approved Verifier, to verify that the Green Bonds conform, in all material respects, with the International Capital Market Association (“ICMA”) Green Bond Principles (June 2021) (the “Green Bond Principles”). According to the Green Bond Principles, “green bonds” are any type of debt instrument where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible green projects and which are aligned with the four core components of the Green Bond Principles, as discussed below.

### Green Bonds Designation

Per the ICMA, “green bonds” are any type of debt instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible “green projects” and which are aligned with the four core components of the Green Bond Principles. The four core components are: 1. Use of Proceeds; 2. Process for Project Evaluation and Selection; 3. Management of Proceeds; and 4. Reporting. The projects to be refinanced with proceeds of the Green Bonds are eligible green projects as defined by the Green Bond Principles project category “Renewable Energy.” See Appendix G for additional information.

Kestrel Verifiers has determined that the Green Bonds are aligned with the four core components of the Green Bond Principles and qualify for green bonds designation, as described in Kestrel Verifiers’ “Second Party Opinion”, which is attached hereto as Appendix G.

In connection with the delivery of the Second Party Opinion, the City has agreed to provide one post-issuance report specific to the Green Bonds at the end of 2022 in tandem with the closing of its Fiscal Year. See Appendix G for additional information. This report will be posted on the Electronic Municipal Market Access system operated by the Municipal Securities Rulemaking Board and on Tacoma Public Utilities’ investor relations webpage located at [www.mytpu.org/about-tpu/investors/tacoma-power-investor-information/](http://www.mytpu.org/about-tpu/investors/tacoma-power-investor-information/) (which website is not incorporated herein

by this reference). This post-issuance report is in addition to and separate from the City's continuing disclosure undertaking to be entered into in connection with the issuance of the Green Bonds. See Appendix F. No failure by the City to comply with this post-issuance reporting requirement will constitute a default with respect to the Green Bonds or under its ongoing disclosure undertaking.

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

For 20 years, Kestrel Verifiers has been consulting in sustainable finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is an Approved Verifier accredited by the CBI and an Observer for the ICMA Green Bond Principles. Kestrel Verifiers verifies transactions in all asset classes worldwide for alignment with ICMA Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and the Climate Bonds Initiative Standards and criteria.

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

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

## **DESCRIPTION OF THE 2021 BONDS**

### **General Terms**

The 2021 Bonds will be dated their date of delivery and will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof within a maturity. The 2021 Bonds will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement and will bear interest from their date, payable on January 1, 2022 and semiannually thereafter on July 1 and January 1 of each year, until maturity or prior redemption, as applicable, at the rates set forth on the inside cover of this Official Statement. Interest on the 2021 Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

### **Registration and Payment**

**Book-Entry System.** The 2021 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"). DTC will act as the initial securities depository for the 2021 Bonds. Individual purchases and sales of the 2021 Bonds will be made in book-entry form only in minimum denominations of \$5,000 or integral multiples thereof within a maturity. Purchasers ("Beneficial Owners") will not receive certificates representing their interests in the 2021 Bonds. So long as Cede & Co. is the Registered Owner of the 2021 Bonds, as nominee of DTC, references herein to the Registered Owners will mean Cede & Co. or its successor and will not mean the Beneficial Owners of the 2021 Bonds. For information about DTC and its book-entry system, see APPENDIX B—"BOOK-ENTRY SYSTEM." The City makes no representation as to the accuracy or completeness of the information in Appendix B provided by DTC. Purchasers of the 2021 Bonds should confirm this information with DTC or its broker-dealer participants.

**Bond Registrar.** The City has adopted the system of registration for the 2021 Bonds approved, from time to time, by the State Finance Committee (the "Committee"). Pursuant to chapter 43.80 RCW, the Committee designates one or more fiscal agencies for bonds issued within the State. The State fiscal agency contract is bid out on a competitive basis for a four-year term. The current contract began on February 1, 2015 and has been extended to January 31, 2023. U.S. Bank National Association, Seattle, Washington (the "Bond Registrar") currently serves in this capacity. The Bond Registrar will authenticate the 2021 Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the 2021 Bonds, recording the purchase and registration, exchange or transfer,

and payment of 2021 Bonds and performing the other obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar.

**Payments.** To pay the principal of and interest on the 2021 Bonds and other Parity Bonds when due, the City will remit money from the Bond Fund for the purpose of paying debt service to the Bond Registrar. The Bond Registrar is obligated to remit such payments to DTC participants for subsequent disbursement to the Beneficial Owners of the 2021 Bonds as described in Appendix B.

For so long as the 2021 Bonds are held by a depository, payments of principal thereof and interest thereon shall be made as provided in accordance with the operational arrangements of DTC. In the event that the 2021 Bonds are no longer held by a depository, interest on the 2021 Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the 2021 Bond Register on the Record Date (as defined below), or upon the written request of a Registered Owner of more than \$1,000,000 of 2021 Bonds (received by the Bond Registrar at least by the Record Date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the 2021 Bonds shall be payable upon presentation and surrender of such 2021 Bonds by the Registered Owners at the designated office of the Bond Registrar. "Record Date" is defined in the Bond Ordinance as the close of business for the Bond Registrar that is 15 days preceding any interest and/or principal payment or redemption date.

**Transfer and Exchange.** The transfer of any 2021 Bond may be registered and 2021 Bonds may be exchanged as provided in the Bond Ordinance. Upon such surrender, the Bond Registrar shall cancel the surrendered 2021 Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new 2021 Bond (or 2021 Bonds at the option of the new Registered Owner) of the same date, maturity, and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered 2021 Bond, in exchange for such surrendered and cancelled 2021 Bond. Any 2021 Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of 2021 Bonds of the same date, maturity, and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to register the transfer of or to exchange any 2021 Bond during the period between the preceding Record Date and the principal payment or redemption date.

## Redemption Provisions

**Optional Redemption.** The 2021 Bonds are subject to optional redemption, as a whole or in part (and if in part, with maturities to be selected by the City), on any date on or after July 1, 2031, at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

**Mandatory Redemption.** The 2021 Bonds stated to mature on January 1, 2046, are term bonds and, if not previously redeemed under the optional redemption provisions or purchased by the City and surrendered for cancellation, are to be called for mandatory redemption at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, on the dates and in the principal amounts set forth below.

### 2046 TERM BONDS

Years (January 1)	Amounts
2042	\$ 6,940,000
2043	7,300,000
2044	7,675,000
2045	8,065,000
2046 <sup>(1)</sup>	8,480,000

<sup>(1)</sup> Final Maturity

The 2021 Bonds stated to mature on January 1, 2051 and bearing interest at 4.00%, are term bonds and, if not previously redeemed under the optional redemption provisions or purchased by the City and surrendered for cancellation, are to be called for mandatory redemption at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, on the dates and in the principal amounts set forth below:

#### **2051 (4.00% COUPON) TERM BONDS**

Years (January 1)	Amounts
2047	\$ 4,225,000
2048	4,325,000
2049	4,425,000
2050	4,530,000
2051 <sup>(1)</sup>	4,635,000

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<sup>(1)</sup> Final Maturity

The 2021 Bonds stated to mature on January 1, 2051 and bearing interest at 2.50%, are term bonds and, if not previously redeemed under the optional redemption provisions or purchased by the City and surrendered for cancellation, are to be called for mandatory redemption at a price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption, on the dates and in the principal amounts set forth below:

#### **2051 (2.50% COUPON) TERM BONDS**

Years (January 1)	Amounts
2047	\$ 4,610,000
2048	4,795,000
2049	4,995,000
2050	5,195,000
2051 <sup>(1)</sup>	5,405,000

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<sup>(1)</sup> Final Maturity

To the extent that the City redeems (other than in satisfaction of the mandatory sinking fund requirements) or purchases for cancellation any term bonds that are subject to mandatory redemption, the City may reduce the mandatory sinking fund requirement of such term bonds of the same maturity, in like aggregate principal amount for the year specified by the City.

***Selection of 2021 Bonds for Redemption.*** For as long as the 2021 Bonds are held in book-entry only form, the selection of 2021 Bonds within a maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC. If the 2021 Bonds are no longer held in uncertificated form, the selection of such 2021 Bonds to be redeemed shall be made as follows: If the City redeems at any one time fewer than all of the 2021 Bonds having the same maturity date, the particular 2021 Bonds or portions of 2021 Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a 2021 Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each such 2021 Bond as representing such number of separate 2021 Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such 2021 Bonds, as applicable, by \$5,000. In the event that only a portion of the principal sum of a 2021 Bond is redeemed, upon surrender of such 2021 Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a 2021 Bond of like maturity and interest rate in any of the denominations authorized in the Bond Ordinance.

***Notice of Redemption; Conditional Redemption; Rescission.*** For so long as the 2021 Bonds are held by a depository, notice of redemption shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. The notice of redemption may be conditional. If the 2021 Bonds are no longer held by a depository, notice of redemption will be given as follows: Unless waived by any owner of 2021 Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the 2021 Bond or 2021 Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

On or prior to any redemption date, unless any condition to such redemption has not been satisfied or waived or unless such redemption has been rescinded, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the 2021 Bonds or portions of 2021 Bonds which are to be redeemed on that date.

The City retains the right to rescind any optional redemption notice and the related optional redemption of 2021 Bonds by giving notice of rescission to the affected Registered Owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the 2021 Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

***Effect of Call for Redemption.*** If an unconditional notice of redemption has been given and not rescinded, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the 2021 Bonds or portions of 2021 Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date such 2021 Bonds or portions of 2021 Bonds shall cease to bear interest. Upon surrender of such 2021 Bonds for redemption in accordance with said notice, such 2021 Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as provided in the Bond Ordinance for payment of interest. All 2021 Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued.

#### **Purchase**

The City reserves the right to purchase any or all of the 2021 Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

#### **Failure to Pay Bonds**

If any 2021 Bond is duly presented for payment and funds have not been provided by the City on the applicable payment date, then interest will continue to accrue thereafter on the unpaid principal thereof at the rate stated on the 2021 Bond until the 2021 Bond is paid.

#### **Defeasance**

In the event that the City, to effect the payment, retirement, or redemption of any 2021 Bond, sets aside in the Bond Fund or in another special account, cash or noncallable Government Obligations, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such 2021 Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into such Bond Fund for the payment of the principal of and interest on such 2021 Bond. The owner of a 2021 Bond so provided for shall cease to be entitled to any benefit or security of the Bond Ordinance except the right to receive payment of principal, premium, if any, and interest from the Bond Fund or such special account, and such 2021 Bond shall be deemed to be not outstanding under the Bond Ordinance. The City shall give written notice of defeasance to the Registered Owner(s) of the 2021 Bonds and to each party entitled to receive notice in accordance with the Continuing Disclosure Certificate.

The term “Government Obligations” is defined in the Bond Ordinance to mean direct or indirect obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

## **SECURITY FOR THE 2021 BONDS**

### **Pledge**

Under the Bond Ordinance, the 2021 Bonds are special limited obligations of the City payable from and secured solely by (i) Net Revenues of the Electric System and (ii) the money and investments, if any, credited to the Electric System Revenue Fund (the “Revenue Fund”) and the Bond Fund and the income therefrom.

Pursuant to the Bond Ordinance, the City has pledged as security for the payment of the principal of, premium, if any, and interest on the 2021 Bonds, subject only to the provisions of the Bond Ordinance restricting or permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Ordinance: (i) the proceeds of the sale of the 2021 Bonds to the extent held in funds established by the Bond Ordinance, (ii) Net Revenues, and (iii) the money and investments, if any, credited to the Revenue Fund and the Bond Fund, and the income therefrom.

All Parity Bonds shall be equally and ratably payable and secured under the Bond Ordinance without priority by reason of date of adoption of the ordinance providing for their issuance or by reason of their series, number or date of sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts, assignments, and covenants made in the Bond Ordinance, except as otherwise expressly provided or permitted in the Bond Ordinance.

“Net Revenues,” is defined in the Bond Ordinance to mean for any period, the excess of Revenues over Operating Expenses for such period, excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets of the Electric System, or resulting from the early extinguishment of debt; (b) insurance and condemnation proceeds; (c) income from investment of money on hand in any construction fund and other investment income restricted to a particular purpose inconsistent with its use for the payment of debt service; and (d) any other extraordinary, non-recurring income or contribution.

“Revenues” is defined in the Bond Ordinance to mean all income (including investment income), receipts and revenues received by the City through the ownership and operation of the Electric System (including any income derived by the City through the ownership and operation of any facilities that may hereafter be purchased, constructed, or otherwise acquired and operated by the City as a separate utility system, which income is available after meeting all requirements of the obligations of such separate system and is paid into the Revenue Fund) “Revenues” do not include investment income restricted to a particular purpose inconsistent with its use for the payment of debt service, including investment income derived pursuant to a plan of debt refunding.

“Operating Expenses” is defined in the Bond Ordinance to mean the City’s expenses for operation and maintenance of the Electric System, including all operation and maintenance expenses included in the Uniform System of Accounts and includes, without limiting the generality of the foregoing, (a) all costs of purchased Power and Services required under contracts existing as of the date of passage of the Bond Ordinance to be taken by the City for the account of the Electric System, and otherwise all costs of purchased Power and Services to the extent, but only to the extent, that the City is not obligated to make payment therefor unless the City is receiving Power and Services in return for such payment and (b) costs of Contract Resource Obligations upon satisfaction of the requirements established by the Bond Ordinance. “Operating Expenses” include payments to the City for services rendered to the electric utility by other departments or offices of the City but do not include any extraordinary, non-recurring expenses, any costs or expenses for new construction, interest, amortization, any allowance for depreciation or any taxes payable to the City (or payments in lieu of taxes) upon the properties or earnings of the Electric System or the earnings of any separate electric utility system derived from payments by the Electric System.

“Power and Services” is defined in the Bond Ordinance to mean energy, capacity, reserves and services, excluding the purchase of ownership of generating capability.



## **Limited Obligations**

THE 2021 BONDS SHALL NOT IN ANY MANNER OR TO ANY EXTENT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY OR OF THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY OR OF THE STATE, OR OF ANY POLITICAL SUBDIVISION OF THE STATE, NOT SPECIFICALLY PLEDGED THERETO BY THE BOND ORDINANCE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR OF THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE ELECTRIC SYSTEM OF THE CITY, OR ANY OTHER MONEYS OR PROPERTY OF THE CITY, ARE PLEDGED TO THE PAYMENT THEREOF.

Washington State law provides that the owner of a bond, such as the 2021 Bonds, the payment of which is pledged from a special fund, such as the Bond Fund, has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a city to set aside and pay into the special fund the amount that a city is obligated to set aside and pay therein if funds are sufficient and it has otherwise failed to do so.

## **Flow of Funds**

The City has covenanted under the Bond Ordinance to pay or cause to be paid all Revenues into the Revenue Fund as promptly as practicable after receipt thereof. The Revenues in the Revenue Fund are required by the Bond Ordinance to be held by the City in trust for the equal and ratable benefit of owners of the Parity Bonds and holders of reimbursement obligations ranking on a parity of lien with the Parity Bonds subject to application thereof in accordance with the Bond Ordinance. The City is further required by the Bond Ordinance to hold the Revenue Fund separate and distinct from all other funds of the City.

The City by ordinance has previously created in the Revenue Fund two accounts to be known as the General Account and the Operating Account. The Revenues paid into the Revenue Fund shall first be credited to the General Account and thereafter applied and used only for the following purposes and in the following order of priority:

First, to make all payments required to be made into the Operating Account to pay Operating Expenses;

Second, to make all payments required to be made into the Interest Account in the Bond Fund for the payment of accrued interest on the next interest payment date;

Third, to make all payments required to be made into the Principal Account in the Bond Fund for the payment of the principal amount of Serial Bonds next coming due, and into the Bond Retirement Account in the Bond Fund for the mandatory redemption of Term Bonds;

Fourth, to make all payments required to be made pursuant to a reimbursement agreement in connection with a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility, unless such payments are contractually obligated to be paid under Third above, provided that if there is not sufficient money to make all payments under reimbursement agreements the payments will be made on a pro rata basis;

Fifth, to make all payments required to be made into the Reserve Account in the Bond Fund for the Parity Bonds;

Sixth, to make all payments required to be made into any special fund created to pay and secure the payment of any revenue bonds, warrants or other revenue obligations of the City having a lien upon Net Revenues and money in the Reserve Fund and accounts therein junior or inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds;

Seventh, to pay any taxes (or payments in lieu of taxes) upon properties or earnings of the Electric System payable to the City;

Eighth, to deposit into the Rate Stabilization Fund the amounts budgeted or appropriated to be deposited therein; and

Ninth, for any lawful purpose of the City related to the Electric System, including capital improvements to the Electric System.

#### **Rate Covenant and Debt Service Coverage Covenant**

**General Rate Covenant.** The City has covenanted in the Bond Ordinance to establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System that will be fair and adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on the Parity Bonds for which the payment otherwise has not been provided, for all payments the City is obligated to make into the Bond Fund and for the proper operation and maintenance of the Electric System, including payment of all Contract Resource Obligations included in the Electric System's Operating Expenses, and all necessary repairs, replacements and renewals thereof, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the Electric System or the Revenues therefrom, or payments in lieu thereof, and the payment of all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract. See "Contract Resource Obligations" below for conditions qualifying such obligations as Operating Expenses.

**Debt Service Coverage Covenant.** The City also has covenanted in the Bond Ordinance to establish, maintain and collect rates and charges which shall be adequate to provide, in each Fiscal Year, Net Revenues in an amount equal to at least 1.25 times the actual Annual Debt Service for such year.

Upon receipt of consent of not less than 51% in aggregate principal amount of the Parity Bonds at the time outstanding and consent of Assured Guaranty Municipal Corporation ("Assured"), and without the need for any further action by the City Council, the City's debt service coverage covenant shall read as follows:

The City shall establish, fix and prescribe rates and charges which are reasonably expected to be at least sufficient to provide, in each Fiscal Year, Net Revenues in an amount equal to at least 1.25 times the actual Annual Debt Service for such year. In connection with establishing, fixing and prescribing rates and charges for the upcoming Fiscal Year, the City shall take into account the collection experience in the then-current Fiscal Year.

The City expects to receive the required consent of Assured at or prior to closing of the 2021 Bonds.

So long as the City has complied with its general rate covenant and debt service coverage covenant, after the effective date of this amendment, the failure to collect Net Revenues in an amount equal to at least 1.25 times Annual Debt Service at the end of a Fiscal Year shall not constitute a default or an Event of Default under the Bond Ordinance so long as the City has complied with its debt service coverage covenant as of the commencement of such Fiscal Year.

***By purchase of the 2021 Bonds, the owners of the 2021 Bonds shall be deemed to have consented to these springing amendments. As a result, owners of the 2021 Bonds should expect that the springing amendments will become effective while the 2021 Bonds are outstanding.***

Solely for purposes of this calculation, there is added to Revenues in any Fiscal Year any amount withdrawn from the Rate Stabilization Fund in such Fiscal Year and deposited in the Revenue Fund, and there shall be subtracted from Revenues in any Fiscal Year any amount withdrawn from the General Account in the Revenue Fund and deposited in the Rate Stabilization Fund. See "Rate Stabilization Fund" below.

Under the Bond Ordinance, Annual Debt Service, for any Fiscal Year means the amount equal to:

- (A) the interest accruing during such Fiscal Year on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of sale of Parity Bonds and less any federal credit for a portion of interest on Parity Bonds if permitted to be deducted as provided in the Bond Ordinance; and
- (B) the principal of all outstanding Serial Bonds due in such Fiscal Year; and
- (C) the Sinking Fund Requirement, if any, for such Fiscal Year.

For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of a Sinking Fund Requirement shall be included in the calculations of accrued and unpaid and accruing interest or principal in such manner and during such period of time as is specified in any Parity Bond Ordinance authorizing such Capital Appreciation Bonds or Deferred Income Bonds.

For the purpose of calculating the principal and interest on Option Bonds in any Fiscal Year, such Option Bonds shall be assumed to mature on the stated maturity date or mandatory redemption date thereof.

Upon receipt of consent of not less than 51% in aggregate principal amount of the Parity Bonds at the time outstanding and consent of Assured, and without the need for any further action by the City Council, the following shall be taken into account in the calculation of "Annual Debt Service":

For purposes of computing Annual Debt Service on any Parity Bonds which constitute Balloon Indebtedness (as defined below), it shall be assumed that the principal of such Balloon Indebtedness, together with interest thereon at the then-current rate applicable to such Balloon Indebtedness or, at the option of the City, on a fixed rate equal to the rate at which the City could borrow for such period, as certified by the Municipal Advisor, shall be amortized for a period specified by the City at the time of issuance of the Balloon Indebtedness (but no longer than thirty (30) years from the Issue Date of the Parity Bonds to which such Balloon Indebtedness relates) on a substantially level debt service basis or other amortization basis designated by the City.

"Balloon Indebtedness" shall mean any series of Parity Bonds (a) more than 25 percent of the principal of which, in accordance with the terms of such Parity Bonds, is due and payable in any one Fiscal Year either by reason of the stated maturity date of such Parity Bonds or pursuant to a Sinking Fund Requirement, and (b) are designated by the City as "Balloon Indebtedness" at or prior to the Issue Date of such bonds; provided, that with respect to any Parity Bonds issued as Term Bonds, such Bonds shall only be treated as Balloon Indebtedness if more than 25 percent of the principal thereof is due in any one Fiscal Year pursuant to the applicable Sinking Fund Requirement or upon the stated maturity date thereof (assuming that the only principal due on the stated maturity date thereof will be the principal remaining outstanding after all redemptions have been made pursuant to the applicable Sinking Fund Requirement).

The City expects to receive the required consent of Assured at or prior to closing of the 2021 Bonds.

***By purchase of the 2021 Bonds, the owners of the 2021 Bonds shall be deemed to have consented to these springing amendments. As a result, owners of the 2021 Bonds should expect that the springing amendments will become effective while the 2021 Bonds are outstanding.***

The calculation of the coverage requirement set forth above, and the City's compliance therewith, may be made without regard to changes in generally accepted accounting principles. If the City has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise, then a default relating to the coverage requirement shall not be considered an Event of Default if the coverage requirement would have been complied with had the City continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of the Bond Ordinance.

## **Rate Stabilization Fund**

Tacoma Power has previously established by ordinance, and will maintain, a Rate Stabilization Fund as a means of managing potential volatility in rates and augmenting reserve policies. Funds are intended to mitigate the need for large changes in rates from one year to the next. The Fund also may be used as a rate stabilization account for purposes of the ordinances authorizing the Parity Bonds. For purposes of calculating the coverage requirement, there shall be added to Revenues in any Fiscal Year any amount withdrawn from the Rate Stabilization Fund in such Fiscal Year and deposited in the Revenue Fund, and there shall be subtracted from Revenues in any Fiscal Year any amount withdrawn from the Revenue Fund and deposited in the Rate Stabilization Fund. See “Rate Covenant and Debt Service Coverage Covenant” above.

The City transferred \$10,000,000 from the Rate Stabilization Fund to the Revenue Fund in 2019 to offset lower than budgeted wholesale revenues. See “FINANCIAL INFORMATION—Debt Service Coverage.” The current balance in the Rate Stabilization Fund is approximately \$38,000,000. The City policy is to review the adequacy of the Fund’s balance annually.

## **Debt Service Reserve Account**

The Bond Ordinance established a Reserve Account in the Bond Fund and permits the City to establish subaccounts within the Reserve Account and separate Reserve Account Requirements in connection with the issuance of Parity Bonds. The City has previously established subaccounts in the Reserve Account in connection with the issuance of the 2010 Bonds and the 2013 Bonds (the “2010 and 2013 Reserve Subaccounts”). The Reserve Account Requirement with respect to the 2010 Bonds and the 2013 Bonds means an amount equal to the lesser of maximum Annual Debt Service in any Fiscal Year following the date of computation or 125% of average Annual Debt Service. See “2010 and 2013 Reserve Subaccounts” below. The 2010 and 2013 Reserve Subaccounts secure only the payment of principal of and interest on the 2010 Bonds and the 2013 Bonds and any Future Parity Bonds that the City elects to have secured by such subaccounts, and do not secure the payment of the principal of or interest on the 2017 Bonds or the 2021 Bonds.

*The Reserve Account Requirement with respect to the 2021 Bonds will be zero. Thus, payment of debt service on the 2021 Bonds will not be secured by any debt service reserve account.*

The Reserve Account Requirement with respect to any Future Parity Bonds will be an amount, if any, set forth in the Supplemental Ordinance authorizing the issuance thereof. The Supplemental Ordinance authorizing such Future Parity Bonds may provide a separate reserve account for such bonds or that such Future Parity Bonds will be secured by a common reserve account, including the 2010 and 2013 Reserve Subaccount.

**2010 and 2013 Reserve Subaccounts.** As of December 31, 2020, the value of cash and investments the City had on deposit in the 2010 and 2013 Reserve Subaccounts was \$4,997,639. In addition, the City obtained, for the benefit of the 2010 and 2013 Reserve Subaccounts, a reserve account surety policy from Financial Security Assurance (“FSA”), now Assured, with a policy limit of \$24,279,910. Moody’s Investors Service (“Moody’s”) and S&P Global Ratings (“S&P”) currently rate Assured “A2 (stable)” and “AA (stable),” respectively. The reserve surety policy from Assured applies to all Parity Bonds secured by the 2010 and 2013 Reserve Subaccounts and expires on the earlier of January 1, 2042 or the date that the 2010 Bonds and the 2013 Bonds are no longer outstanding.

## **Contract Resource Obligations**

The Bond Ordinance authorizes the City to create, acquire, construct, finance, own and operate one or more electric utility systems for the purpose of generating, transmitting or distributing electric power and energy. The Council may declare any such system to be a separate utility system not financed from Revenues (except as a Contract Resource Obligation (i) included in Operating Expenses of the Electric System upon compliance with the Bond Ordinance or (ii) on a basis junior and inferior to the lien on Revenues pledged to secure Parity Bonds). The revenue of such separate utility system may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand such separate utility system.

The City has retained the right under the Bond Ordinance to create and incur Contract Resource Obligations. Contract Resource Obligations are payable from Revenues as an Operating Expense and thus prior to the payment of debt service on the Parity Bonds. The City does not have any Contract Resource Obligations.

A Contract Resource Obligation is defined in the Bond Ordinance to mean an obligation of the Electric System to pay the following costs, whether or not Power and Services are available to the Electric System in return for such payment:

(i) costs associated with generation, transmission or distribution facilities (including any common undivided interest therein) acquired, purchased or constructed by the City, and declared by the City to be a separate utility system, which such costs shall include but are not limited to costs of normal operation and maintenance, renewals and replacements, additions and betterments and debt service on the bonds or other obligations of such separate electric utility system, or

(ii) costs associated with the purchase of Power and Services under a contract.

The City may declare that the costs associated with any separate utility system shall constitute a Contract Resource Obligation and may be included in the Electric System's Operating Expenses; provided, however, no Contract Resource Obligation constituting the costs of a separate utility system for the retail distribution of electric power and energy may be included in the Electric System's Operating Expenses.

A Contract Resource Obligation may be included in the Electric System's Operating Expenses if at the time the Contract Resource Obligation is incurred:

(a) No Event of Default has occurred and is continuing;

(b) There shall be on file with the City Clerk a certificate of an Engineer stating that the average annual Net Revenues for the period beginning with the first Fiscal Year following the earlier of (1) the date to which interest is capitalized or (2) the date of initial operation of the facilities to be financed and ending with the fifth full Fiscal Year after such date shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year, as estimated by the Engineer; and

(c) There shall be on file with the City Clerk an opinion of the Engineer to the effect that;

(1) If the Contract Resource Obligation is to be utilized to supply power and energy, (A) the additional source of power and energy is sound from a power supply planning standpoint and is technically and economically feasible in accordance with prudent utility practice; and (B) the estimated cost of such Contract Resource Obligation is reasonable; or

(2) If the Contract Resource Obligation is to be utilized to supply transmission capability, (A) the transmission capability will be necessary within a reasonable time after the estimated date of commercial operation of the transmission facilities; and (B) the estimated cost of such Contract Resource Obligation is reasonable.

Under the provisions of the Bond Ordinance, the above-referenced certificate of an Engineer may be given by a Certified Public Accountant.

### **Future Parity Bonds**

The City may issue Future Parity Bonds payable from the Bond Fund on an equal lien with the 2021 Bonds and the Outstanding Parity Bonds and any Future Parity Bonds for:

(i) any lawful purpose of the City related to the Electric System, including acquiring, but not limited to, constructing and installing additions, betterments and improvements to and extensions of, acquiring necessary

equipment for, or making necessary renewals, repairs, replacements and capital improvements to the Electric System, and

(ii) the purpose of providing funds, with any other available funds, for retiring at or prior to their maturity or maturities any or all of the outstanding Parity Bonds of any series or any reimbursement obligation made pursuant to a Parity Bond Ordinance, including the payment of any redemption premium thereon, and, if deemed necessary by the City, for paying the interest to accrue thereon to the date fixed for their retirement and any expenses incident to the issuance of such Future Parity Bonds.

Future Parity Bonds may be issued in such denominations, bear interest at such fixed or variable rates payable on such dates and mature on such date or dates in such year or years as the City shall determine by ordinance. Future Parity Bonds may include Capital Appreciation Bonds, Deferred Income Bonds and Option Bonds.

The City may issue additional Future Parity Bonds only upon compliance with the following conditions:

A. Except as to Future Parity Bonds issued for purposes of (ii) immediately above, at the time of the issuance of those Future Parity Bonds, there is no deficiency in the Bond Fund, and no Event of Default has occurred and is continuing.

B. There shall be on file with the City Clerk either:

(i) A certificate of an appropriate financial officer of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the authentication and delivery of the Future Parity Bonds then proposed to be issued, as determined from the financial statements of the Electric System prepared by the Department, were not less than 125% of the maximum Annual Debt Service in any future Fiscal Year on all outstanding Parity Bonds and the bonds then proposed to be issued, (provided, that (x) in the event that any adjustment in the rates, fees and charges collected by the City for the services of the Electric System shall be effective at any time on or prior to the date of authentication and delivery of the Future Parity Bonds then proposed to be issued, such officer shall reflect in the certificate the Net Revenues such officer estimates would have been collected in such 12-month period if such new rates, fees, and charges had been in effect for the entire 12-month period, and (y) with respect to any Variable Interest Rate Bonds outstanding on the date such certificate is delivered, such officer shall estimate the debt service based upon such assumptions as such officer shall consider reasonable and set forth in such certificate), or

(ii) A certificate of an Engineer stating that the average annual Net Revenues for the period beginning with the first Fiscal Year following the earlier of (x) the date to which interest has been capitalized, or (y) the date of initial operation of the facilities to be financed by such Future Parity Bonds, and ending with the fifth Fiscal Year after such date shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year, as estimated by the Engineer in accordance with the Bond Ordinance.

C. If Future Parity Bonds are being issued for purposes of retiring outstanding Parity Bonds or any reimbursement obligation, the City Clerk shall have on file either:

(i) A certificate of an appropriate financial officer of the City showing that the maximum Annual Debt Service in any Fiscal Year thereafter shall not be increased by more than \$5,000 by reason of the issuance of such Future Parity Bonds, or

(ii) Either of the certificates described under by paragraph B above.

Such Future Parity Bonds shall not be delivered unless the proceeds of such Future Parity Bonds, together with any other money that has been made available for such purposes, and the principal of and the interest on the investment thereof, shall be sufficient to pay the principal of and the redemption premium, if any, on the bonds to be refunded

and the interest which will become due and payable on or prior to the date of their payment or redemption, and the expenses incident to the issuance of such Future Parity Bonds.

In rendering any certificate summarized above, the Engineer may rely upon, and such certificate shall have attached thereto, financial statements of the Electric System, certified by an appropriate financial officer of the City, showing income and expenses for the period upon which the same are based and a balance sheet as of the end of such period, or similar certified statements by a Certified Public Accountant. Furthermore,

- A. In estimating Net Revenues for each of the Fiscal Years covered by any certificate required to be delivered by it as described above, the Engineer may base its estimate upon such factors as it shall consider reasonable.
- B. In estimating the Annual Debt Service for each of the Fiscal Years covered by any certificate required to be delivered by it as described above, the Engineer shall include the Annual Debt Service on all Parity Bonds estimated to be outstanding during each such Fiscal Year. With respect to (a) any Parity Bonds which are not outstanding on the date such certificate is delivered but which are projected to be issued during the period covered by such certificate to complete construction of the facilities being financed by the Future Parity Bonds then being issued, and (b) any Variable Interest Rate Bonds outstanding on the date such certificate is delivered, the Engineer shall estimate the debt service on such bonds upon such assumptions as the Engineer shall consider reasonable and set forth in such certificate, including assumptions with respect to the interest rate or rates to be borne by such bonds and the amounts and due dates of the principal installments for such bonds; provided, however, that the interest rate or rates assumed to be borne by any Variable Interest Rate Bonds shall not be less than the interest rate borne by such Variable Interest Rate Bonds at the time that the Engineer delivers such certificate.

Under the provisions of the Bond Ordinance, the above-referenced certificate of an Engineer may be given by a Certified Public Accountant.

### **Subordinate Obligations**

The Bond Ordinance permits the Electric System to incur debt obligations which are payable from Revenues, after the payment of Operating Expenses, on a basis junior and subordinate to the Parity Bonds. The City adopted a subordinate master bond ordinance in 2015 (the “Master Subordinate Ordinance”) authorizing and setting forth the terms and provisions of Subordinate Revenue Bonds of the Electric System (“Subordinate Obligations”). See “DEBT INFORMATION—Subordinate Lien Obligations” for a summary of current Subordinate Obligations of Tacoma Power.

### **Additional Covenants**

The City has covenanted in the Bond Ordinance to maintain the properties of the Electric System in good repair, working order, and condition; to sell or otherwise dispose of the Electric System in its entirety only if provision is made for the payment, redemption or retirement of all Parity Bonds then outstanding, and in part only upon satisfaction of certain conditions; to insure (or self-insure) the properties of the Electric System; to keep proper books of account of the Electric System; to comply with permits or licenses of the Electric System; and to satisfy certain other covenants for the benefit of the owners of the Parity Bonds. See Appendix A—“SUMMARY OF THE BOND ORDINANCE” for a summary of these and other covenants agreed to by the City for the benefit of the owners of the Parity Bonds.

### **Permitted Investments**

Money held in the Revenue Fund, the Rate Stabilization Fund, the Construction Fund and the Bond Fund (and the accounts therein) may be invested in Permitted Investments, as defined in Appendix A. For a description of the funds and accounts created by the Bond Ordinance, see Appendix A.

## **Derivative Products**

The City may enter into Derivative Products on a parity with the Parity Bonds upon complying with certain conditions. See Appendix A—“SUMMARY OF THE BOND ORDINANCE.” At this time the City has no Derivative Products.

## **Reimbursement Obligations**

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

In the event that the City elects additionally to secure any issue of Option Bonds through the use of a Qualified Letter of Credit, Qualified Insurance, or other equivalent credit enhancement device, the City may contract with the entity providing such Qualified Letter of Credit, Qualified Insurance, or other equivalent credit enhancement device that the City’s reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds; provided that the payments due under such reimbursement agreement are such that if such reimbursement obligation were a series of Future Parity Bonds, such bonds could be issued in compliance with the applicable provisions of the Bond Ordinance. See “Future Parity Bonds” above.

## **Contingent Payment Obligations**

The City has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation by the City to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events, including events beyond the direct control of the City. These agreements may include interest rate swaps and other similar agreements, agreements with respect to the delivery of electric energy or other energy, letter of credit agreements, and other financial and energy hedging transactions. Such contingent payments or posting of collateral may be conditioned upon the future credit ratings of the City and/or other parties, maintenance by the City of specified financial ratios, future changes in energy prices, and other factors. The amount of any such payments or posting of collateral could be substantial. Some such payments may be characterized as Operating Expenses, and thus may be payable from Revenues prior to the payment of debt service on the Parity Bonds. Other such payments may be payable on a parity with debt service on the Parity Bonds, including any “scheduled and specified payments” with respect to Derivative Products. The City has entered into an agreement with the Bonneville Power Administration (“BPA”) that includes such contingent payment obligations. The agreement includes obligations on the part of the City to post collateral or a letter of credit contingent upon the occurrence or nonoccurrence of certain future events, such as credit rating downgrades. The City may enter into future agreements with such requirements. See Appendix A—“SUMMARY OF THE BOND ORDINANCE” and “POWER SUPPLY RESOURCES AND COST OF POWER—Long-Term Purchases of Power Supply and Related Transmission Services—*BPA Purchases*.”



## DEBT INFORMATION

### Description of the Outstanding Parity Bonds

The 2021 Bonds are issued on a parity with the Outstanding Parity Bonds and any Future Parity Bonds that may be issued in the future. The following is a summary of the Outstanding Parity Bonds expected to be outstanding on the day of issuance of the 2021 Bonds.

**TABLE 2**  
**OUTSTANDING PARITY BONDS**  
**AS OF JULY 1, 2021**

<b>Outstanding Parity Bonds</b>	<b>Authorizing Ordinance</b>	<b>Bonds Dated</b>	<b>Principal Amount Originally Issued</b>	<b>Principal Amount Outstanding</b>	<b>Final Maturity</b>
2010B Bonds	27889	July 27, 2010	\$ 147,070,000	\$ 147,070,000	1/1/2035
2010C Bonds	27889	July 27, 2010	24,185,000	24,185,000	1/1/2027
2013A Bonds	28146	June 13, 2013	181,610,000	88,655,000	1/1/2042
2013B Bonds	28146	June 13, 2013	35,620,000	35,620,000	1/1/2030
2017 Bonds	28444	September 1, 2017	70,575,000	70,575,000	1/1/2047
			<u>\$ 459,060,000</u>	<u>\$ 366,105,000</u>	

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## Debt Service Requirements

After issuance of the 2021 Bonds, the debt service requirements of the Outstanding Parity Bonds and the 2021 Bonds will be as follows (amounts in table have been rounded):

**TABLE 3**  
**TACOMA POWER ELECTRIC SYSTEM REVENUE BONDS**  
**PARITY BOND DEBT SERVICE REQUIREMENTS<sup>(1)</sup>**

Year	Outstanding Parity Bonds		2021 Bonds			Total <sup>(3)</sup>
	Principal	Interest <sup>(2)</sup>	Principal	Interest	Total	
2021 <sup>(4)</sup>	-	\$ 9,425,805	-	\$ 1,481,222	\$ 1,481,222	\$10,907,027
2022	\$ 5,945,000	18,554,360	-	4,983,550	4,983,550	29,482,910
2023	6,240,000	18,242,360	-	4,983,550	4,983,550	29,465,910
2024	6,555,000	17,914,610	-	4,983,550	4,983,550	29,453,160
2025	6,885,000	17,656,062	-	4,983,550	4,983,550	29,524,612
2026	7,135,000	17,378,500	-	4,983,550	4,983,550	29,497,050
2027	24,185,000	16,014,224	-	4,983,550	4,983,550	45,182,774
2028	7,420,000	15,643,224	-	4,983,550	4,983,550	28,046,774
2029	7,785,000	15,253,974	-	4,983,550	4,983,550	28,022,524
2030	8,180,000	14,844,974	-	4,983,550	4,983,550	28,008,524
2031	27,310,000	13,263,452	-	4,983,550	4,983,550	45,557,002
2032	28,335,000	11,607,566	-	4,983,550	4,983,550	44,926,116
2033	29,335,000	9,857,439	-	4,983,550	4,983,550	44,175,989
2034	30,460,000	8,040,196	-	4,983,550	4,983,550	43,483,746
2035	31,630,000	6,153,150	-	4,983,550	4,983,550	42,766,700
2036	14,165,000	5,444,900	\$ 5,355,000	4,715,800	10,070,800	29,680,700
2037	14,870,000	4,701,400	5,625,000	4,434,550	10,059,550	29,630,950
2038	15,615,000	3,920,650	5,915,000	4,138,800	10,053,800	29,589,450
2039	16,395,000	3,228,100	6,220,000	3,827,800	10,047,800	29,670,900
2040	17,090,000	2,505,900	6,470,000	3,633,700	10,103,700	29,699,600
2041	17,810,000	1,752,950	6,670,000	3,433,600	10,103,600	29,666,550
2042	18,565,000	967,800	6,940,000	3,086,600	10,026,600	29,559,400
2043	4,470,000	789,000	7,300,000	2,721,600	10,021,600	15,280,600
2044	4,645,000	603,200	7,675,000	2,337,850	10,012,850	15,261,050
2045	4,830,000	410,000	8,065,000	1,934,600	9,999,600	15,239,600
2046	5,025,000	209,000	8,480,000	1,510,600	9,990,600	15,224,600
2047	5,225,000	-	8,835,000	1,226,350	10,061,350	15,286,350
2048	-	-	9,120,000	933,475	10,053,475	10,053,475
2049	-	-	9,420,000	631,600	10,051,600	10,051,600
2050	-	-	9,725,000	320,525	10,045,525	10,045,525
2051	-	-	10,040,000	-	10,040,000	10,040,000
<b>Total<sup>(3)</sup></b>	<b>\$366,105,000</b>	<b>\$234,382,792</b>	<b>\$121,855,000</b>	<b>\$110,138,372</b>	<b>\$231,993,372</b>	<b>\$832,481,164</b>

<sup>(1)</sup> Based on fiscal years ending December 31. Each fiscal year's debt service requirement includes interest that accrues in that year and principal due in that year. Table 3 excludes subordinate lien obligations payable from Net Revenues. See "Subordinate Lien Obligations" below.

<sup>(2)</sup> Does not reflect offsets resulting from the federal interest subsidies with respect to the 2010B Bonds and the 2010C Bonds.

<sup>(3)</sup> Column totals may not add due to rounding.

<sup>(4)</sup> Reflects interest accrued from July 1, 2021 through December 31, 2021.

Source: The City.

A portion of the interest on the 2010B Bonds and 2010C Bonds is reimbursed to the City by the federal government. Federal government sequestration, however, has and is expected to continue to reduce such federal subsidy. The City does not expect any such reduction to have a material adverse impact on the City's ability to pay debt service on such 2010B Bonds or 2010C Bonds.

### **Subordinate Lien Obligations**

The City retains the right to issue revenue obligations with a subordinate lien on Net Revenues. The City adopted a Master Subordinate Ordinance authorizing and setting forth the terms and provisions of Subordinate Revenue Bonds of the Electric System.

The City issued its Electric System Subordinate Revenue Note, 2015A ("2015A Note") to evidence a revolving line of credit issued by Wells Fargo Bank, National Association ("Wells Fargo") in the principal amount of not to exceed \$150,000,000 outstanding at any time. The City has used the 2015A Note as a short-term borrowing facility for capital projects of the Electric System. The 2015A Note matures on December 1, 2021. Proceeds of the 2021 Bonds will be used immediately by the City to prepay the 2015A Note in full, and after such prepayment, the 2015A Note will be cancelled. See "PURPOSE AND APPLICATION OF 2021 BOND PROCEEDS."

On or around October 1, 2021, the City expects to issue its Electric System Subordinate Revenue Note, Series 2021 (the "2021 Note"), to replace the 2015A Note as a short-term borrowing facility. The 2021 Note will evidence a revolving line of credit issued by Wells Fargo in the principal amount of not to exceed \$150,000,000 outstanding at any time. The 2021 Note will mature three years from its issue date and bears interest at a variable rate (based on SIFMA index rate) subject to a default rate and a taxable rate, as provided for in the Note Purchase Agreement to be executed in connection with the issuance of the 2021 Note.

The City also issued its Electric System Subordinate Revenue Note, Series 2020 (Taxable) (the "2020 Note") to evidence a revolving line of credit issued by KeyBank National Association ("KeyBank") in the principal amount of not to exceed \$100,000,000 outstanding at any time. The 2020 Note serves as a general liquidity facility for the Electric System. The 2020 Note was originally scheduled to expire on May 21, 2022. On or around September 16, 2021, the City expects to amend the 2020 Note and the related Note Purchase Agreement with KeyBank to reduce the aggregate principal amount available to be outstanding at any time to \$50,000,000, to extend the final maturity date to December 1, 2024, and to allow the City to convert a portion of the revolving line of credit represented by the 2020 Note to a letter of credit in the event that such form of credit facility is needed to satisfy certain collateral obligations of the City under its power purchase and other agreements. The 2020 Note bears interest at a variable rate (based on one-month LIBOR) subject to a default rate, as provided for in the Note Purchase Agreement. The City has not drawn on the 2020 Note and does not currently expect to in the near future.

### **Future Financing**

The Bond Ordinance authorizes the issuance of one or more series of refunding bonds for the purpose of refunding all or a portion of the 2013 Bonds for overall debt service savings. Such bonds would be issued under the Bond Ordinance as "Future Parity Bonds" under the conditions described therein. The issuance of such refunding bonds is dependent on market conditions, preliminary, and may not occur under the authority granted in the Bond Ordinance.

Except as described herein, the City does not expect to issue any other bonds or notes secured by Net Revenues in the next 12 months.

## **THE CITY**

### **General**

The City was incorporated in 1884 and utilizes the council-manager form of government, which is administered by a City Council under the Constitution and laws of the State and the City Charter. The City Council is composed of nine members: a Mayor and eight Council Members, five of whom are elected from districts which have been apportioned according to population. The three remaining positions are "at large" positions, nominated and elected City-wide. The Council Member positions are four year terms with overlapping terms to allow for the election of

four Council Members every two years. The Mayor is elected City-wide for a four year term and is the presiding officer of the City Council. Council Members, including the Mayor, can serve no more than ten consecutive years as a member of the City Council, Mayor or combination thereof.

In addition to the Department, various departments within the City provide a full range of services to the citizens of the City including police and fire protection, water distribution, wastewater and surface water services, solid waste services, public works (which includes street operations, engineering, facility management and fleet operations), planning and development services, community and economic development, neighborhood and community services, and many others.

### **City Administration**

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

The City Manager appoints a Finance Director who supervises the financial and purchasing functions of the City, including the City's accounting system. The Finance Director is responsible for preparing the Comprehensive Annual Financial Report in accordance with generally accepted accounting principles and the instructions of the State Auditor's Office. The Finance Director is responsible for the payment of principal and interest on all bonds issued by the City, including the Parity Bonds.

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

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

*Andrew ("Andy") Cherullo, Finance Director/Acting City Treasurer.* Andrew Cherullo joined the City in February 2013, serves as the Finance Director and on August 9, 2021 was appointed by the City Manager to also serve as the Acting City Treasurer for all necessary purposes related to debt issuances. Prior to joining the City, he most recently served as the Chief Financial Officer for the Washington State Health Care Authority. Prior to that, Mr. Cherullo served as the Chief Financial Officer for the Massachusetts School Building Authority. He started his career in public finance at the Massachusetts House Ways and Means Committee, where within four years he became the Budget Director. As Finance Director for the City, Mr. Cherullo serves as the Chief Financial Officer for the City. He is responsible for overseeing the City's financial affairs, including accounting, debt and investment management, procurement and purchasing, and financial reporting. Mr. Cherullo has Bachelor's degrees in Economics and Political Science from the University of Montana and a Master's degree in Economics from Tufts University.

## **THE DEPARTMENT OF PUBLIC UTILITIES-TACOMA POWER**

### **Overview**

Tacoma Power was formed in 1893 when the City purchased the water and electric utility properties of the former Tacoma Water and Light Company. Tacoma Power is the fourth largest public power utility in the State, serving an average of approximately 183,000 retail customer accounts in 2020, with approximately 717 employees and operating revenues of approximately \$461 million.

In 1912, the City constructed its first hydroelectric generation facility on the Nisqually River. Since then it has acquired generating capacity to meet the growing needs of its customers through a variety of arrangements. In 2020 the four hydroelectric generating projects owned by Tacoma Power produced approximately 38% of Tacoma Power's resource portfolio. Tacoma Power's remaining power supply is purchased pursuant to power purchase contracts and market purchases. See "POWER SUPPLY RESOURCES AND COST OF POWER." Tacoma Power owns and operates five transmission substations, 352 miles of transmission facilities, 49 distribution substations and 2,034 miles of distribution lines. See "TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE."

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

The Department consists of the Light Division ("Tacoma Power"), Water Division ("Tacoma Water"), and Belt Line Railroad Division ("Tacoma Rail"). The Board has supervision and control over most Department business. In the case of budgets, rates, bond issues, and additions and betterments to a utility system and system expansions, actions approved by the Board must also be approved by the City Council.

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

Utility rates and charges are initiated by the Board and adopted by the City Council, and are not subject to review or approval by any other governmental agency. See "ELECTRIC SYSTEM CUSTOMERS, ENERGY SALES, REVENUES AND RATES—Electric Rates."

The City Charter provides that the revenues of utilities owned and operated by the City shall never be used for any purposes other than the necessary operating expenses thereof, including a reasonable gross earnings tax imposed by the City Council for the benefit of the general fund of the City, interest on and redemption of the outstanding debt thereof, the making of additions and betterments thereto and extensions thereof, and the reduction of rates and charges for supplying utility service to consumers. The funds of any utility may not be used to make loans to or purchase the bonds of any other utility, department, or agency of the City. See "FINANCIAL INFORMATION—Taxes Imposed on Tacoma Power."

### **Tacoma Power - General**

Tacoma Power is organized into the following business units:

- **Generation** operates and maintains Tacoma Power's four hydroelectric generating projects (Cowlitz, Cushman, Nisqually and Wynoochee) and the associated recreational facilities, fisheries facilities and other project lands.
- **Power Management** plans for future power resources through integrated resource planning processes; acquires power resources as needed through contracts, construction decisions, and customer energy programs; determines operating levels of the hydropower generation fleet and engages in power marketing activities; conducts research and development to support electrification of transportation and to learn about new energy resources; engages in state, federal, and regional energy policy and regulatory matters; and assures compliance with various local, state, and federal mandates.
- **Power Shared Services** brings together the work of several different workgroups, serving both Tacoma Public Utilities and Tacoma Power specifically. These workgroups include areas such as Reliability and Compliance, Strategic Planning, People Programs, Training and Apprenticeships, Performance Management, Facilities and Grounds Maintenance, Safety, Emergency Management and Environmental Compliance, and Internal Communications. Power Shared Services is responsible for advising senior and executive leaders in each of

these areas, preparing plans to mitigate adverse impacts on the utilities, and implementing programs that address future strategies.

- ***Transmission and Distribution*** plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, revenue metering facilities and all overhead transmission and distribution systems.
- ***Rates, Planning and Analysis*** plans for and manages the retail rate process, financial planning activities, operations and capital budget development and monitoring, strategic asset management, construction project management, and energy risk management analysis and modeling.
- ***Utility Technology Services*** (“UTS”) maintains owned and leased communication networks, on-premises and cloud-based operational and informational technology systems, and related equipment and infrastructure to optimize utility operations and improve reliability, security and service quality. UTS develops operational technology strategic plans and delivers key utility modernization projects. UTS also manages Tacoma Power’s North American Electric Reliability Corporation (“NERC”) Critical Infrastructure Protection (“NERC CIP”) compliance program.

Tacoma Power previously operated Click! Commercial Network (“Click!”), which provided retail cable TV and wholesale high-speed Internet services to residential and business customers, and data transport services to retail customers. In early 2020, operational control of Click! was transferred from Tacoma Power to Rainier Connect North, LLC (“Rainier Connect”), a private operator. Under the terms of the Indefeasible Right of Use Agreement between the City and Rainier Connect and related documents, the City transferred certain inventory, equipment and vehicles and operational control of Click! to Rainier Connect in exchange for an upfront purchase price and an ongoing annual fee. The annual fee ranges from \$2.5 million in the first year to \$3.0 million in the fifth year, and increasing thereafter to reflect the Consumer Price Index. From and after the operational control transition date, Rainier Connect assumed all operations and liabilities associated with Click!, except for certain liabilities accrued before the operational control transfer date, including for instance any liability associated with ongoing litigation. See “LITIGATION—Other Litigation.” The City continues to own Click! under the various agreements to ensure that it meets certain security requirements and the needs of Tacoma Power, Tacoma Water and Tacoma Rail. The term of the Indefensible Right of Use Agreement is 20 years from its effective date, unless earlier terminated in accordance with its terms, subject to two additional 10 year extensions.

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The following table summarizes selected operating and financial data regarding Tacoma Power as of December 31, 2020.

**TABLE 4  
TACOMA POWER  
SELECTED OPERATING AND FINANCIAL DATA  
CALENDAR YEAR 2020**

Average Number of Customer Accounts .....	182,526
Energy Sales in Megawatt-Hours (Retail) .....	4,610,764
Operating Revenues.....	\$460,538,416
Gross Investment in Utility Plant.....	\$2,209,267,388
Net Investment in Utility Plant .....	\$1,098,579,166
Total Municipal Equity .....	\$292,479,721
Net Current Assets .....	\$123,878,874
Ratio of Current Assets to Current Liabilities .....	5:3
Long-Term Debt to Total Capitalization <sup>(1)</sup> .....	57%
Parity Bond Debt Service Coverage .....	4.39x

<sup>(1)</sup> Ratio of long-term debt to long-term debt plus equity.

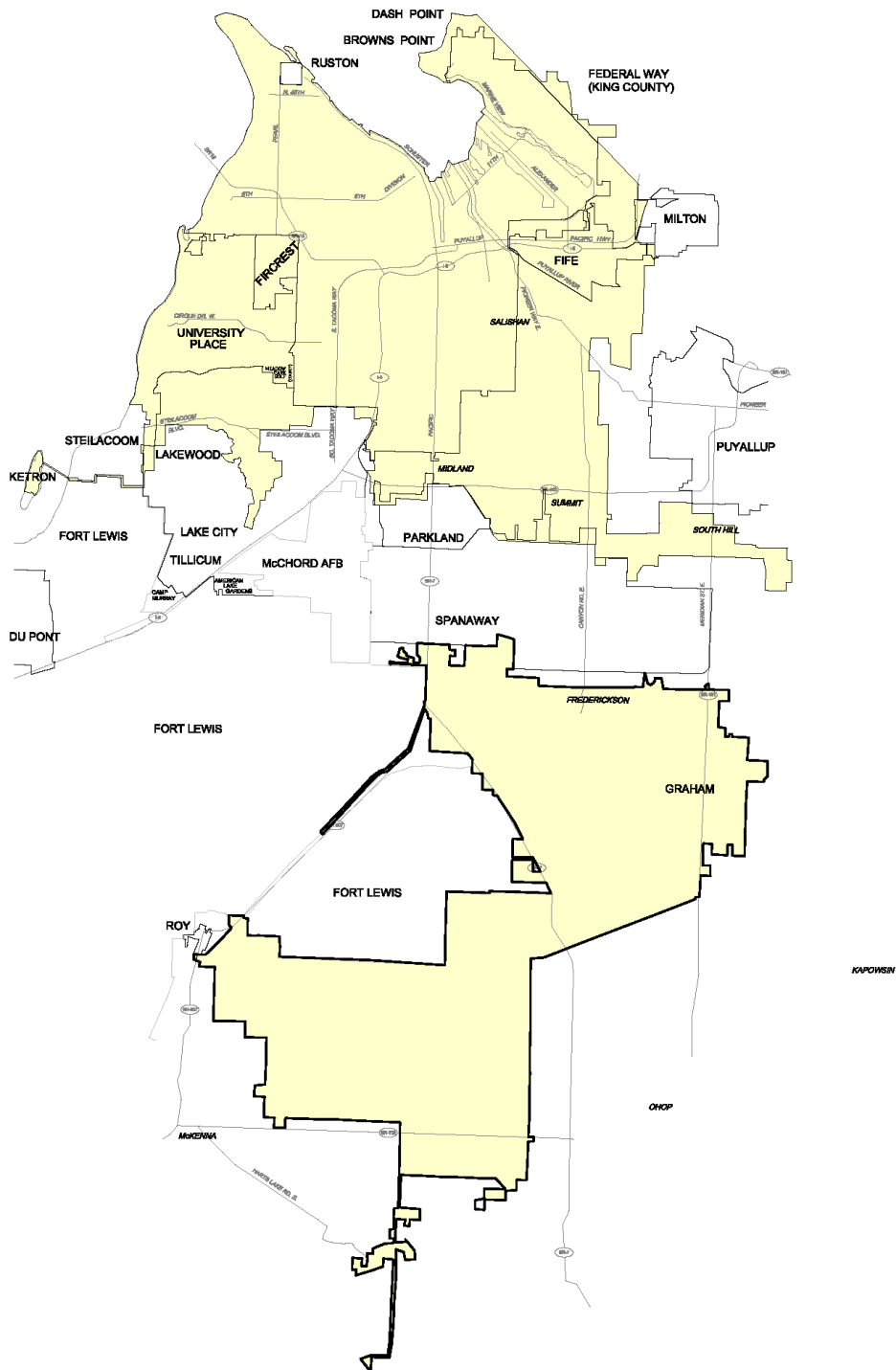
Source: *City of Tacoma*

### **Service Territory and Map**

Tacoma Power's service area consists of approximately 180 square miles, including the entire 43 square miles comprising the City of Tacoma. Tacoma Power provides electric service within its service area and indirectly serves other portions of the Tacoma metropolitan area through sales to Joint Base Lewis-McChord, the Town of Ruston and several other customers. The area that bounds Tacoma Power's service area is served by several cooperative utility companies, two municipal utilities, and Puget Sound Energy Company. The City Charter prohibits the City Council from granting any franchise to sell or supply electricity within the City as long as the City is engaged in supplying electricity. A map showing Tacoma Power's service area follows.

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TACOMA POWER SERVICE AREA



booper 3-18-10



## Response to COVID-19

The COVID-19 pandemic currently is affecting many parts of the world, including the State and the City. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States, and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 a national emergency. On February 29, 2020, the State Governor declared a state of emergency due to the number of confirmed cases of COVID-19 in the State, directing State agencies to use all resources necessary to prepare for and respond to the outbreak. The County Executive and the City Mayor have made similar declarations of emergency.

The State Governor has issued a series of proclamations designed to limit social interactions, including orders requiring or encouraging individuals, governments and businesses to take certain precautionary measures designed to prevent the spread of COVID-19. On March 23, 2020, the State Governor issued a statewide “Stay Home, Stay Healthy” proclamation, requiring individuals to stay home except for essential activities, banning social and other gatherings, and closing all businesses with certain exceptions for essential businesses. The State has been following phased re-opening and recovery plans. The State Department of Health has begun distributing COVID-19 vaccines under emergency use approvals according to the State allocation and priority plan. The plan began in December 2020 and opened to anyone 16 and older on April 15, 2021, and to anyone 12 and older on May 13, 2021. Effective June 30, 2021, the City and the State reopened and all businesses are able to return to normal capacity and operations, provided some restrictions on large indoor events continue, subject to future evaluation.

In March 2020, the City Mayor issued an emergency rule that prohibits utility shutoff due to nonpayment of fees and charges for residential and commercial customers during the City Mayor’s emergency proclamation. The City Mayor’s emergency rule extends until the City’s state of emergency is lifted. The State issued a similar moratorium on disconnecting electric, water and other utility services due to nonpayment, and charging fees for late payment or reconnection for certain utilities, including Tacoma Power. The state-wide moratorium on disconnections for nonpayment has been extended until September 30, 2021, and prohibition on late fees is in effect until October 27, 2021, or until the state of emergency is lifted, whichever is sooner. These dates may be further extended.

The COVID-19 pandemic is ongoing, and the duration and severity of the crisis are uncertain. The City and Tacoma Power took aggressive budget actions in early 2020 to manage the impacts of COVID-19. The actions included, but were not limited to, the following: reducing 2020 revenue projections, eliminating discretionary spending, cancelling certain planned projects, establishing purchasing and contract freezes, establishing a hiring freeze, putting certain staff on temporary furloughs and conducting targeted lay-offs. Other actions taken by the City included, but were not limited to, the following: closing many City facilities/buildings to the general public, instituting telework for all non-frontline service staff (approximately 1,800 staff converted to telework), providing health screening for employees reporting to City facilities, implementing an Emergency Leave Program for employees impacted by COVID-19, increasing the number of homeless shelter beds, providing additional funding for Rental Assistance programs, and providing additional funding for utility bill assistance. Some of these measures as they relate to Tacoma Power are discussed in more detail below. Many of these measures will remain in place until further notice.

In response to the COVID-19 pandemic, Tacoma Power took and is in the process of taking the following actions, among others:

- Reduced planned spending by approximately \$22 million in 2020 and \$35 million for the 2021-2022 biennium planned budget in response to the reduction in energy usage from the COVID-19 pandemic.
- Delayed a planned 2% rate increase in 2020 by three months, from April 1 to July 1, which reduced retail revenues by approximately \$1.8 million.
- Secured a \$100 million taxable Note Purchase Agreement with KeyBank as of May 21, 2020, to provide general credit and additional liquidity for operational purposes, in an abundance of caution. See “DEBT OBLIGATIONS—Subordinate Lien Obligations.”
- Created a \$2.4 million fund to help customers experiencing immediate financial crisis with a utility bill credit for eligible households. The grant application period closed December 31, 2020.

- In collaboration with Pierce County Human Services and the City, Tacoma Power provided utility assistance for tenants impacted by COVID-19. These funds apply to the past due utilities of eligible applicants and are distributed on a first-come, first-served basis. This program was provided in connection with a rental assistance program for those past due on rental payments.
- Developed several options for payment assistance, including developing payment arrangements, extending due dates for utility payments from 15 days to 12 weeks, waived late fees, and discontinued shut-off due to non-payment.
- Instituted various precautionary measures for staff, including field staff and dispatchers, for home and other visits in the field.

As noted above, since March 2020, Tacoma Power's customers have not been charged a late fee (of the greater of \$3.00 or 1% of the outstanding bill). All customers are included: residential, commercial, and industrial. Past due balances as of December 31, 2020 for Tacoma Power for all customers total more than \$11.6 million. Residential utility customer balances more than 30 days past due were \$5.1 million and are approximately 400% higher than normal. While some past-due residential balances are approximately \$10,000, the majority of overdue customers owe less than \$2,000.

Accounts receivable write-offs by Tacoma Power in 2020 were \$6.4 million, or 1.5%, of retail electrical energy sales revenue, compared to write-offs of \$1.7 million, or 0.4%, in 2019. Tacoma Power continues to engage with customers to connect them with federal and local assistance and/or provide payment flexibility to recover past-due accounts. Tacoma Power is currently exploring policy options to address the aggregate amount of deferred payments while providing payment flexibility to help customers get back on track.

While the aggregate amount of deferred payments is greater than in prior years, the amount is not expected to have a material impact on Tacoma Power or its operations.

The City and Tacoma Power will continue to monitor the community impacts of COVID-19 and remain flexible on responding to community needs.

In 2020, the City received from the State and Pierce County approximately \$9.6 million in Federal Coronavirus Aid, Relief, and Economic Security Act assistance. Of this amount, in 2020, Tacoma Power was allocated \$464,000, of which \$377,000 was used to support small business for business interruptions, and \$87,000 was used for COVID-19 related expenses. Based on allocation projections, the City expects to receive approximately \$60 million in American Rescue Plan Act of 2021 (the "2021 Act") assistance. Funds received under the 2021 Act may be used for authorized purposes relating to mitigating the fiscal effects of the COVID-19 pandemic, including responding to the public health emergency, providing governmental services to the extent of reduced revenues, and making certain infrastructure investments, among other purposes. The City and Tacoma Power will monitor and apply for additional Federal and State support for expenses related to responding to the COVID-19 pandemic if and as such relief becomes available.

While the full impact of the COVID-19 pandemic on the City, Tacoma Power and the regional economy is currently uncertain, the City and Tacoma Power currently believe that the measures they have taken will help mitigate the anticipated revenue shortfall. The City and Tacoma Power, however, cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the regional and local economy or on the revenues and expenses of the City and Tacoma Power. Management will continue to monitor the evolving situation and respond as needed. See "CERTAIN INVESTMENT CONSIDERATIONS—COVID-19 Pandemic."

## **Management**

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

**Jackie Flowers**, Director of Utilities, was appointed Tacoma Public Utilities Director in 2018. Ms. Flowers has 30 years professional experience, with 15 of those managing public utilities, including hydropower generation, power supply, power transmission and distribution, energy efficiency, engineering, operations technology, fiber optic networks, and traffic signalization. She serves on the Board of Directors for the Tacoma-Pierce County Chamber of

Commerce, the Economic Development Board for Tacoma-Pierce County, the Large Public Power Council and GridForward. She is also a member of the American Public Power Association CEO Climate Change Taskforce.

**Chris Robinson**, Superintendent/Chief Operating Officer, assumed his position in May 2015. He joined Tacoma Power in 2001 and became Power Manager in April 2010, after having previously served as Assistant Power Section Manager of Energy Resource Planning. Prior to his tenure with Tacoma Power, Mr. Robinson worked with various electrical utility clients as a private-sector consultant. He received his M.S. in Resource Economics from the University of Maine, and his B.A. in Economics and B.A. in Political Science from Rutgers University.

**Rachel Allen**, Power Shared Services Manager, has served in this position since 2018. Ms. Allen joined Tacoma Power in 2002 as a Senior Systems Planning Engineer in Transmission and Distribution. Following her time in Systems Planning, Ms. Allen then supervised the Asset Management and Meter Relay work groups, before managing Transmission and Distribution's Electrical Services section. Prior to working for Tacoma Power, Ms. Allen served for 10 years in several engineering positions at Avista Utilities in Spokane, Washington. Ms. Allen obtained her B.S. in Electrical Engineering from Gonzaga University and is an Executive Sponsor of Western Energy Institute's Women in Leadership Program.

**Bill Berry**, Rates, Planning and Analysis Manager, assumed his current position in 2012. He was previously employed at the San Francisco Public Utilities Commission as Assistant General Manager for Business Services with responsibility for Customer Service, Finance, Information Technology Services, Human Resources, and Commercial Land Management. Earlier in his career, Mr. Berry served as Vice President for Corporate Finance with the New York Power Authority and also as a Senior Vice President in the Public Power and Water group at Lehman Brothers. He received his B.A. in Political Science from Williams College.

**Tenzin Gyaltsen**, Utility Technology Services ("UTS") Section Manager/Chief Information Officer assumed this position in 2019. He brings over 25 years of experience to his role. Before joining Tacoma Power in 2011, Mr. Tenzin worked at the City of San Bruno in California as cable television director. Upon coming to Tacoma, Mr. Tenzin worked at Click! as general manager until operational control of the cable system was transitioned to a private entity in 2020. He has served as an expert panelists for various conferences. Tenzin obtained a B.S. in accounting from Metropolitan State University of Denver and an MBA from the University of Colorado – Denver.

**Chris Mattson**, Generation Manager, assumed this position in 2017. Mr. Mattson joined Tacoma Power in 1995 and served in various engineering positions before becoming Production Engineering Manager in 2012. He received his B.S. and M.S. in Electrical Engineering from the University of Washington and is a registered Professional Engineer.

**Clay Norris**, Power Manager, joined Tacoma Power as the Power Manager in 2015. Prior to his joining Tacoma Power, Mr. Norris worked in executive positions with the Northwest Energy Efficiency Alliance, Eugene Water and Electric Board, and ElectriCities of North Carolina. He started his career at Illinois Power, where he worked in planning, generation, strategic planning, and financial areas of the company. He received a M.B.A. from the University of Illinois - Springfield, a B.S. in Electrical Engineering from Missouri University of Science and Technology, and a B.A. in Math and Physics from Illinois College.

**Joe Tellez**, Chief Technology Officer, has served in this position since 2013. He brings over 25 years of experience to this role. Before joining Tacoma Power, Mr. Tellez served as Vice President at Utility Integration Solutions/Alstom Grid and in numerous technology leadership roles at San Diego Gas & Electric/Sempra Energy. He serves on the UW-Tacoma School of Engineering & Technology Advisory Board and has served as the Executive in Residence at the University of Colorado's Global Energy Management Program. He obtained a B.S. in industrial and systems engineering and an M.S. in systems architecture & engineering from the University of Southern California.

**Joseph Wilson**, Transmission and Distribution Manager, has served in this position since 2017. Before joining Tacoma Power in 2010, Mr. Wilson worked at Seattle City Light and Eugene Water & Electric Board in engineering roles. His roles at Peninsula Light Company and Tacoma Power have been engineering management roles. At Tacoma Power, Mr. Wilson has led the System Operations, System Planning and Construction & Maintenance

teams. He currently serves as a Northwest Public Power Association Board member. Mr. Wilson obtained his B.S in Electrical Engineering from the University of Washington and maintains his Professional Engineer (PE) license.

### **Labor Relations**

Tacoma Power has approximately 717 employees, of which approximately 399 are represented by unions. Approximately 200 other City employees provide administrative and other support to the Department, including Tacoma Power. The majority of Tacoma Power's represented employees are represented by the International Brotherhood of Electrical Workers ("IBEW") Local 483, one of 12 labor organizations that represent City employees. The current four-year agreement for the Tacoma Power collective bargaining unit expired on March 31, 2021. A new agreement has been negotiated and approved by IBEW Local 483, and is now subject to approval by the Board and City Council. Management of Tacoma Power promotes responsive and respectful labor relations that are beneficial both to its business operations and to its employees.

Retirement benefits through the Tacoma City Employees' Retirement System historically have been recommended by the Tacoma Retirement Board, which includes representatives of City employees and retirees, as well as City management, and approved by the City Council. See "FINANCIAL INFORMATION—Retirement System."

## **ELECTRIC SYSTEM CUSTOMERS, ENERGY SALES, REVENUES AND RATES**

### **Tacoma Power Customers**

Tacoma Power serves seven classes of retail electricity customers: Residential; Small General; General, including other industrial and large commercial customers; High Voltage General; Contract Industrial, comprised of two large industrial customers; New Large Load customers, and Other (principally municipal). Tacoma Power's relatively low-cost resource base and its access to preference power from BPA permit the rates it charges to be lower than almost all Western Washington investor-owned and municipally-owned utilities. See the table entitled "Comparative Monthly Electric Bills" under "Electric Rates" below.

In 2020, Tacoma Power began upgrading and replacing its electric meters with Advanced Metering Infrastructure ("AMI"). The AMI project will allow Tacoma Power to capture more data remotely, improve billing accuracy and provide additional services to its customers, such as outage management and leak detection. Customers who do not want to participate in the AMI project have the option to receive an advanced electric meter with the radio frequency transmitter disabled, for potentially an additional fee for manual billing. The cost of the AMI project is included in current rates, and the project is expected to be completed in December 2022.

***Residential Customers.*** In 2020, Tacoma Power supplied electric energy to 162,367 residential customer accounts with a total usage of 1,909,650 megawatt-hours ("MWh") (41% of total retail sales). Tacoma Power received approximately \$185 million in revenue (50% of total retail revenues) from this class in 2020.

The following table provides billing history for the residential class.

**TABLE 5**  
**TACOMA POWER**  
**SUMMARY OF RESIDENTIAL USAGE<sup>(1)</sup>**

<b>Year</b>	<b>Number of Customer Accounts</b>	<b>MWh Billed (1000 kWh)</b>	<b>Revenue</b>	<b>Average Annual Cost (cents per kWh)</b>
2020	162,367	1,909,650	\$185,112,028	9.69
2019	162,213	1,889,361	180,549,765	9.56
2018	158,427	1,857,368	174,592,873	9.40
2017	157,813	1,931,900	168,264,913	8.71
2016	157,540	1,810,757	152,830,273	8.44

<sup>(1)</sup> Includes only class A Residential customers, usage and revenues. This table may differ from information presented in Tacoma Power's audited financial statements attached as Appendix D which combines other customers described below with residential customers.

*Source: Tacoma Power*

**Small General Customers.** This class includes small non-residential customers, including retail, restaurant and other small businesses, and consumed 306,418 MWh (7% of total retail sales) in 2020 and accounted for \$28.6 million in revenues (7.7% of total retail revenues). There were 16,666 Small General customers in 2020.

**General Customers.** This class includes medium and large commercial and industrial users. Tacoma Power had 2,542 General customers in 2020. Total retail sales for the group were approximately 1,404,600 MWh (30.5% of total retail sales) in 2020 and accounted for approximately \$105.6 million in revenues (28.4% of total retail revenues).

**High Voltage General Customers.** Tacoma Power serves two military bases and six industrial companies as the High Voltage General customer class. This class includes the Fort Lewis Army Post and the McChord Air Force Base, now known as Joint Base Lewis-McChord. All customers in this class are served at transmission level voltage. In 2020, Fort Lewis Army Post used 258,101 MWh and McChord Air Force Base used 76,694 MWh of electrical energy, ranking them among Tacoma Power's 10 largest retail customers. Total sales in 2020 for the High Voltage General class were approximately 474,743 MWh (10% of total retail sales) and \$25.4 million (6.8% of total retail revenues), of which the two military bases accounted for 334,795 MWh (7.3% of total retail sales) and \$25.4 million (6.8% of total retail revenues).

**Contract Industrial Customers.** Tacoma Power currently serves two Contract Industrial customers that together accounted for 10.8% of retail energy sales and 6.5% of retail revenue in 2020. One of these customers manufactures paper products and the other industrial gases. These customers are served under contracts that specify contract demand quantities and include notice provisions for changes in these quantities.

**New Large Load Customers.** This is a new customer class to Tacoma Power which was passed by the City in 2020. Tacoma Power currently serves only one New Large Load customer who manufactures liquid natural gas and began service in early 2021. These customers are served under contracts that must meet specific contract demand quantities.

**Other Customers.** Tacoma Power's other electricity customers primarily consist of street lighting and traffic signals. In 2020, this class had a consumption of 15,806 MWh and \$2.1 million in revenues.

**Largest Customers.** The following table lists Tacoma Power's 10 largest electric system customers based on revenue in descending order of percentage of revenues. In 2020, these 10 customers accounted for approximately

15% of revenues and 22% of retail energy sales. No single customer represents more than 5% of Tacoma Power's load. See "*High Voltage General Customers*" and "*Contract Industrial Customers*."

**TABLE 6**  
**TACOMA POWER'S 10 LARGEST ELECTRIC SYSTEM CUSTOMERS—2020**

<b>Customer</b>	<b>Business Description</b>	<b>Percent of Retail Revenue</b>
WestRock CP, LLC <sup>(1)(2)</sup>	Pulp and Paper	4.8%
Fort Lewis Army Post	Military Base	3.6
Linde Inc. <sup>(1)</sup>	Industrial Gases	1.6
McChord Air Force Base	Military Base	1.1
Multicare Health System	Healthcare	1.0
Tacoma School District	Education	0.9
U.S. Oil & Refining	Oil Refining	0.8
James Hardie Building Products, Inc.	Healthcare	0.6
St. Joseph Medical Center	Healthcare	0.5
Niagara Bottling, LLC	Beverage	0.4
Total		15.4%

<sup>(1)</sup> Contract Industrial customers.

<sup>(2)</sup> WestRock CP, LLC ("WestRock"), owns and operates a renewable combined heat and power generator that captures energy produced through WestRock's paper making processes. WestRock has historically sold energy it produces to a third-party under a power purchase agreement. In anticipation of the August 1, 2021 termination date of the agreement, WestRock requested, and the Board approved, to transition from its current service agreement with Tacoma Power to an amended agreement where WestRock will be able to use the output of its generator to offset energy requirements of its operations, therefore reducing the amount of power purchased from Tacoma Power. WestRock has subsequently reached a short term (approximately 15 months) agreement for the sale of its output with a third-party purchaser, and is not expected to revise its purchase agreement with Tacoma Power at this time. It is unknown if WestRock will request to implement the amendment with Tacoma Power in the future.

*Source: Tacoma Power*

### **Energy Sales and Revenues**

The following table shows Electric System customers, energy sales and revenues for the period 2016 through 2020. Historical annual total energy sales, excluding contractual sales for resale, in the period 2016 through 2020 averaged 4.66 million megawatt hours ("MWh"). The table does not include revenues from Click!, which is no longer operated by Tacoma Power.

As discussed under "THE DEPARTMENT OF PUBLIC UTILITIES-TACOMA POWER—Response to COVID-19," Tacoma Power, along with other City departments, has taken and continues to take a variety of steps to mitigate the impact of COVID-19 on its customers. Some of these measures, such as extending due dates for utility payments and waiving late fees, have had and are expected to continue to have a financial impact on the revenues of Tacoma Power.

**TABLE 7**  
**TACOMA POWER CUSTOMERS, ENERGY SALES AND REVENUES FROM ELECTRIC SALES<sup>(1)(2)</sup>**

	2016	2017	2018	2019	2020
<b>Average Number of Customer Accounts</b>					
Residential <sup>(3)</sup>	157,540	157,813	158,427	162,213	162,367
Small General <sup>(4)</sup>	15,688	15,859	15,841	16,503	16,666
General <sup>(5)</sup>	2,634	2,550	2,538	2,576	2,542
High Voltage General <sup>(6)</sup>	6	6	6	8	8
Contract Industrial <sup>(7)</sup>	2	2	2	2	2
Other <sup>(8)</sup>	914	923	909	923	941
Total Customers	176,784	177,153	177,723	182,225	182,526
<b>Energy Sales (MWh)</b>					
Residential <sup>(3)</sup>	1,810,757	1,931,900	1,857,386	1,889,361	1,909,650
Small General <sup>(4)</sup>	316,086	327,155	319,240	320,727	306,418
General <sup>(5)</sup>	1,541,704	1,531,310	1,505,858	1,495,470	1,404,599
High Voltage General <sup>(6)</sup>	411,578	416,452	416,035	454,201	474,743
Contract Industrial <sup>(7)</sup>	508,674	509,777	510,141	496,756	499,003
Other <sup>(8)</sup>	38,729	35,692	6,795	16,673	15,806
Subtotal	4,627,528	4,752,286	4,615,455	4,673,188	4,610,220
<b>Sales for Resale</b>	2,731,076	2,835,719	2,159,004	1,430,766	2,326,504
Total Energy Sales	7,358,604	7,588,005	6,774,459	6,103,954	6,936,723
<b>Revenue From Energy Sales</b>					
Retail Sales:					
Residential <sup>(3)</sup>	\$152,830,273	\$168,264,913	\$174,592,873	\$180,549,765	\$185,112,028
Small General <sup>(4)</sup>	27,703,400	29,133,553	29,248,620	29,724,195	28,587,971
General <sup>(5)</sup>	98,041,673	100,689,422	105,034,504	107,415,500	105,583,488
High Voltage General <sup>(6)</sup>	17,892,033	19,428,371	20,800,261	23,643,687	25,416,533
Contract Industrial <sup>(7)</sup>	21,462,712	22,278,802	23,494,502	23,730,505	23,962,855
Other <sup>(8)</sup>	2,653,140	2,660,068	2,706,312	2,765,056	2,788,230
Subtotal Retail Sales	\$320,583,231	\$342,455,128	\$355,877,070	\$367,828,709	\$371,451,106
Change in Unbilled <sup>(9)</sup>	\$(840,476)	\$2,114,131	\$29,353	\$1,816,954	\$(527,906)
Sales for Resale: <sup>(10)</sup>	\$54,506,535	\$57,062,247	\$55,486,697	\$47,420,681	\$59,615,216
Total Revenue From Energy Sales	\$374,249,290	\$401,631,506	\$411,393,120	\$417,066,344	\$430,538,416

(1) Years ending December 31. Totals may not add due to rounding.

(2) Customers, sales and revenues in this table may differ from Tacoma Power's audited financial statements attached as Appendix D which combines customers separated out in this table.

(3) Residential customers, (class A).

(4) Small commercial, (class B).

(5) Medium and large commercial and industrial, (class G).

(6) Industrial customers and military bases served at transmission level voltage, (class CP).

(7) Contract industrial customers served at transmission level voltage, (class HVG).

(8) Street Lighting and Traffic Signals and Private Off-Street Lighting, (class H-1 and H-2).

(9) Change from year-to-year in the amount of electric service consumed but not yet billed as of year-end. The unbilled revenue is an estimate based on the number of bills sent out in November and December. The number of bills sent out fluctuates due to inclement weather conditions, meter reading assignments, and information technology related items.

(10) See "POWER SUPPLY RESOURCES AND COST OF POWER—Wholesale Energy Market Purchases and Sales."

Source: Tacoma Power

## Electric Rates

Tacoma Power is a municipal utility that establishes rates only to recover costs. Tacoma Power establishes rates with the goal of minimizing rate impacts to customers while maintaining the safety and reliability of the power system. Tacoma Power has been able to maintain low rates in comparison to State and national averages, while at

the same time providing electric service revenues covering all operating and maintenance expenses, debt service and a portion of capital additions and improvements made to the Electric System. Rates are established by the Board and are subject to approval by the City Council.

Tacoma Power's rates and charges are free from the jurisdiction and control of the Washington Utilities and Transportation Commission and Federal Energy Regulatory Commission ("FERC"). Tacoma Power has formally adopted certain minimum thresholds as a guide to financial management and rate setting. These thresholds are included in the Electric Rate and Financial Policy and are periodically reviewed and approved by the Board and City Council after any modification. See "FINANCIAL INFORMATION—Financial Policies." Rates generally are set to meet certain policy-driven thresholds and to provide revenues sufficient to pay a 3.8734% tax levied on Tacoma Power's gross revenues by the State and a 7.5% tax levied on Tacoma Power's gross revenues by the City, the latter of which is payable on a basis subordinate to debt service on Parity Bonds. See "SECURITY FOR THE 2021 BONDS—Flow of Funds."

Tacoma Power's services, including rates for those services, are designed to meet customer needs and provide the flexibility needed to respond to changing conditions in the electric utility industry. The rate setting policy provides that rates for new non-traditional energy-related services may be set at times other than the general rate-setting process. In 2000, Tacoma Power launched Evergreen Options, a green power program that offers customers the opportunity to support renewable power. In 2002, the State began requiring all but very small utilities in the State to offer green pricing programs for retail customers. Tacoma Power's Evergreen Options program complies with this law. The program is currently supplied by renewable energy credit purchases from Bonneville Environmental Foundation and 3Degrees. Starting late in 2017, revenue from the Evergreen Options voluntary program began to fund financial grants to nonprofit entities for the construction of local renewable energy projects.

Costs that Tacoma Power incurs to provide services are recovered primarily through the rates it charges to its customers. Services or rates designed to meet the needs of one group of customers are required to be accomplished without negative impacts to other Tacoma Power customers.

Since 2012, Tacoma Power has had the rate and surcharge increases listed in the following table.

**TABLE 8**  
**RATE ADJUSTMENTS AND SURCHARGES**

<u>Effective Date</u>	<u>Average Rate Adjustmen</u>
April 1, 2012	5.8%
April 1, 2013	4.2%
April 1, 2014	4.2%
April 1, 2015	3.0%
April 1, 2016	0.0%
April 1, 2017	5.9%
April 1, 2018	5.9%
April 1, 2019	2.0%
April 1, 2020	2.0%
April 1, 2021	1.5%
April 1, 2022	2.0% <sup>(1)</sup>

<sup>(1)</sup> This system average rate adjustment has been approved by the City Council and will become effective April 1, 2022.

*Source: Tacoma Power*



The average revenue per kWh sold and average monthly bills at selected consumption levels for typical residential, commercial and industrial customers of Tacoma Power, based on rates presently in effect, are shown below. In addition, both revenue and bill information representing a typical load factor for a Contract Industrial customer is presented.

**TABLE 9**  
**TACOMA POWER**  
**TYPICAL REVENUE AND MONTHLY BILLS AT SELECTED USAGE LEVELS**  
**(FOR RATES EFFECTIVE DECEMBER 31, 2020)**

<b>Rate Class</b>	<b>Average Revenue (cents per kWh)<sup>(1)</sup></b>	<b>Average Monthly Bill<sup>(2)</sup></b>
Residential	9.6878¢	\$95
Small General	9.4491¢	\$145
General	7.5218¢	\$3,463
High Voltage General	5.3532¢	\$264,728
Contract Industrial	4.7994¢	\$997,891

<sup>(1)</sup> The average rate is calculated using the total revenue collected for each rate class divided by the total kWh consumed by each rate class in fiscal year 2020. These average rates may not reflect the rate schedule published by Tacoma Power effective April 1, 2021.

<sup>(2)</sup> The average monthly bill is calculated using total revenue collected for each rate class divided by the total number of billed customers for that rate class in fiscal year 2020.

Source: Tacoma Power

A table comparing monthly electric rates for residential customer classifications and total power systems of major public and private utilities to those of Tacoma Power is shown below. The amounts shown are based on revenues and power usage (kWh) for each utility.

**TABLE 10**  
**COMPARATIVE MONTHLY ELECTRIC BILLS<sup>(1)</sup>**  
**AS OF OCTOBER 31, 2020**

	<b>State</b>	<b>Residential Average Rates (cents/kWh)</b>	<b>Monthly Bill</b>	<b>Monthly Consumption (kWh)</b>	<b>System Average Rates (cents/kWh)</b>
<b>Tacoma Power</b>	<b>WA</b>	<b>9.60¢</b>	<b>\$93.45</b>	<b>974</b>	<b>7.86¢</b>
<b>Other Northwest Municipalities:</b>					
Seattle City Light	WA	11.37¢	\$69.49	611	10.14¢
<b>Public Utility Districts:</b>					
Clark Public Utilities	WA	9.26¢	\$96.34	1,040	8.14¢
Cowlitz County	WA	8.66¢	\$118.23	1,365	5.95¢
Grant County	WA	5.59¢	\$99.84	1,787	4.17¢
Lewis County	WA	8.92¢	\$125.86	1,411	7.85¢
Snohomish County	WA	10.18¢	\$94.86	932	9.43¢
<b>Private Companies:</b>					
Avista Corp	WA	9.86¢	\$90.27	915	9.66¢
PacifiCorp	WA	8.70¢	\$108.93	1,252	8.02¢
Puget Sound Energy	WA	10.59¢	\$92.63	875	9.23¢

<sup>(1)</sup> Computed from the revenues, customers, and kWh provided by the utilities listed. There are some variations in rate schedules and rate classification of the various utilities.

Source: EIA-861 data released October 2020.

## **POWER SUPPLY RESOURCES AND COST OF POWER**

### **Power Supply Overview**

Tacoma Power's power supply portfolio is made up of generating facilities owned by Tacoma Power and power supply contracts with BPA, Columbia Basin Hydro Power ("CBHP") and Grant County Public Utility District No. 2 ("Grant PUD"). See the "2020 Tacoma Power Resources" table below. Tacoma Power generating facilities do not include natural gas or coal fired facilities.

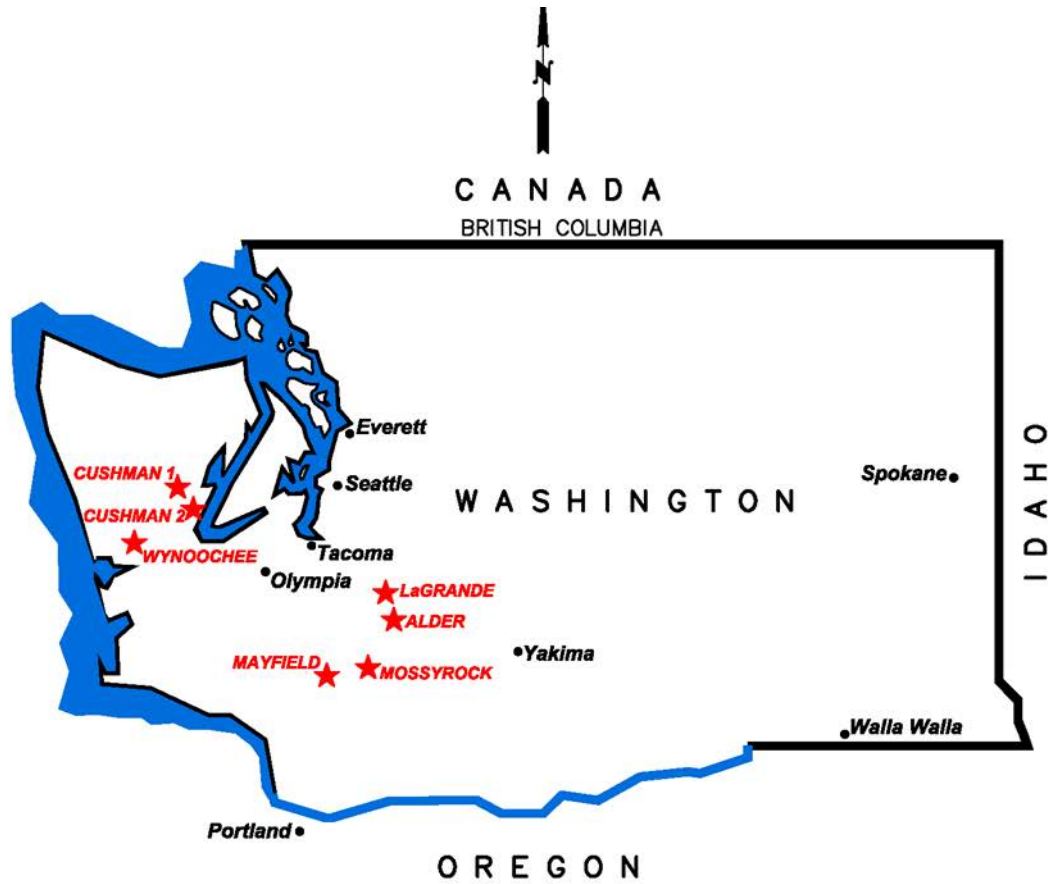
Tacoma Power's owned hydroelectric resources provided approximately 38% of the utility's total energy supply in 2020. These resources provide a stable, low-cost base for Tacoma Power's portfolio. The reservoirs at the hydroelectric projects have significant storage capacity, which enables Tacoma Power to manage flow releases to maximize the value of hydroelectric generation. Tacoma Power participates in the wholesale market to match resources to its customer loads. For 2020, the cost at which Tacoma Power's own hydroelectric resources and purchased resources provided energy averaged approximately 2.26 cents per kWh. See the "2020 Tacoma Power Resources" table below.

Tacoma Power's largest long-term contract is with BPA, which provided 3,697,665 MWh in 2020 (approximately 52% of the total portfolio). In December 2008, Tacoma Power signed a long-term contract with BPA beginning October 2011 and running through September 2028. The energy provided under this contract varies with river flows and can range from 400 annual average megawatts ("aMW") to 550 aMW per year (based on 80 years of historical inflow data). The cost of this energy can vary annually based upon the amount of energy received and as a result of BPA rate changes. If Tacoma Power's load forecast drops, the amount of purchases from BPA correspondingly declines. Other long-term contracts and short-term purchases provided the rest of Tacoma Power's supply resources in 2020.

The following map shows the locations of Tacoma Power's hydroelectric projects.

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## Hydroelectric Project Location Map



## **Project Location Map**



## **Integrated Resource Plan**

Every four years Tacoma Power prepares an Integrated Resource Plan (“IRP”), which is updated after two years. The IRP considers Tacoma Power’s current and projected balance of loads and resources based on a detailed assessment of demand forecasts; existing supply and transmission resources; market price forecasts; conservation and load management opportunities; and environmental considerations. The IRP identifies the portfolio of supply and demand-side resources that is designed to balance and minimize utility costs and risks. These risks include, for example, the regulatory risks imposed by the State’s renewable portfolio standard. See “CERTAIN FEDERAL AND STATE LAWS AND REGULATIONS AFFECTING TACOMA POWER.” Regular IRP updates allow Tacoma Power to account for changes in the electric power industry, shifting market conditions, the emergence of new technologies, new regulatory mandates and other factors that are likely to affect Tacoma Power’s resource strategies.

Tacoma Power’s current IRP was adopted by the Board in 2020 (the “2020 IRP”). The 2020 IRP determined that Tacoma Power has sufficient resources to serve retail load under all but the most extreme conditions and that a modest amount (10 MW) of industrial demand response is sufficient to mediate any shortfall risk. The IRP is a 20 year plan and a shortfall is considered to be any hour in that 20 year period when demand is expected to be higher than available resources. Tacoma Power is currently working on developing an industrial demand response rate in order to attract participants. Tacoma Power expects to complete an update to the 2020 IRP in 2022.

## **Wholesale Energy Market Purchases and Sales**

Tacoma Power sells power in the wholesale energy market when owned and contracted resources exceed load. Tacoma Power makes purchases from the wholesale energy market when required to meet load obligations. Due to its conservative planning assumptions, under most water conditions Tacoma Power expects to be a net seller into the wholesale electricity market. In 2020, a slightly above-average year in terms of both precipitation and streamflows in the watersheds where Tacoma Power’s owned resources are located, Tacoma Power sold 2,326,504 MWh of surplus power. This compares to wholesale purchases in that same year of 466,274 MWh.

Tacoma Power’s wholesale market 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, consistent with the utility’s forecast of reservoir water levels. Tacoma Power does not speculate in the wholesale power market. Actual revenues for any given year are a function of market prices, loads and water availability for generation, which are, in turn, dependent upon the weather.

## **Energy Risk Management**

Tacoma Power continues to enhance its Energy Risk Management processes and tools in order to achieve its strategic objectives in a changing wholesale energy market. Tacoma Power completed updating its energy risk policy and procedures in 2020 to meet industry standards and streamline processes. Staff are implementing a new Energy Trading Risk Management system to enable Tacoma Power’s entry into the Western Energy Imbalance Market (“EIM”) in 2022. See “—Western Energy Imbalance Market” below. The functionality in this new system provides enhanced trading and risk controls and automated credit tools, replacing manual legacy systems and processes. Additionally, staff have implemented a best-in-class portfolio risk model that quantifies Tacoma Power’s wholesale revenue risks using stochastic simulations that integrate load, generation, and regional power and natural gas prices. The risk model combines the stochastic simulations with a hydro simulation model and optimization engine to evaluate risk-reducing hedging strategies. Tacoma Power has recently enhanced this model to provide advanced decision support cross-functionally, including in the areas of financial planning, resource planning and evaluation, and resource operations.

The on-going focus of the Energy Risk Management function is to oversee risk control processes, to reduce the variance in the value of the wholesale power portfolio, to improve portfolio risk analytics and to promote a risk-reducing hedging strategy. The Energy Risk Management Policy and Procedures Manual authorizes the use of instruments for hedging, requires that Tacoma Power actively manage and review counterparty credit risk, specifies trading authority guidelines and restrictions, and contains other controls and tools to manage risk. Tacoma Power uses hedging to manage loads and resources and does not engage in market speculation.

Tacoma Power seeks to mitigate credit risk by entering into bilateral contracts with specified credit terms and protections against default along with pursuing performance assurance by utilizing collateral requirements such as letters of credit, parent company guarantees, and/or prepayment. Credit limits and duration criteria are applied to existing and prospective counterparties in company with active monitoring of credit exposures.

### **Western Energy Imbalance Market**

Tacoma Power is taking proactive steps to join the EIM on or around March 2, 2022. This centralized automated real-time wholesale energy trading market enables near term sales on a five and 15 minute energy transactions basis. The market provides efficient use of renewable generation and provides opportunity for Tacoma Power to enhance its position due to its flexible hydro units. To prepare for the market, Tacoma Power has invested in new Energy Trading and Risk Management tools, Outage Management tools and developed enhanced hydro generation optimization models. Tacoma Power has updated or enhanced these models to provide advanced decision support cross-functionally, including in the areas of financial planning, resource planning and resource operations. Tacoma Powers' T&D System Operations team is establishing a real time entity desk to support the generation and balancing authority responsibilities of operating within the EIM. The trend with the western interconnected utilities has been to move to the Western EIM so this change will also expand the pool of available utilities to trade with over the existing bilateral market.

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## Resource Mix

Tacoma Power primarily acquires its power from hydroelectric resources. The resource mix varies slightly from year to year depending upon available water resources and equipment maintenance schedules. During 2020, energy was obtained from the sources identified in the following table.

**TABLE 11**  
**2020 TACOMA POWER RESOURCES**

	<b>Available Energy (MWh)</b>	<b>Portion of Total</b>	<b>Cost (cents/kWh)</b>
City-Owned Generation			
Hydroelectric Projects <sup>(1)(2)</sup>			
Alder	212,078	3.0%	1.195
LaGrand	350,596	4.9	0.938
Cushman No 1	105,245	1.5	2.801
Cushman No.2	153,856	2.2	3.121
Mayfield	726,603	10.2	1.204
Mossyrock	1,111,716	15.6	1.069
Wynoochee <sup>(3)</sup>	29,756	0.4	(2.560)
Hood Street	3,617	0.1	1.513
Subtotal – City-Owned Hydro	2,693,467	37.7%	1.244
Portfolio Energy Purchases			
BPA <sup>(4)</sup>	3,697,665	51.8%	3.035
Grant PUD (Priest Rapids)	26,687	0.4	(1.683)
CBHP <sup>(5)</sup>	258,513	3.6	3.049
Portfolio Market Purchases	466,274	6.5	1.784
Subtotal Portfolio Purchases	4,449,139	62.3	2.876
Total All Energy Resources <sup>(6)</sup>	7,142,606	100.0%	2.261

<sup>(1)</sup> The Nisqually River Project consists of the Alder and LaGrande plants, the Cushman Hydroelectric Project consists of Cushman No. 1 and Cushman No. 2 and the Cowlitz River Project consists of the Mayfield and Mossyrock plants.

<sup>(2)</sup> Costs including direct production operation and maintenance costs.

<sup>(3)</sup> Wynoochee costs are offset by BPA's billing credits program. See "Tacoma Power-Owned Generating Resources-*Wynoochee River Project*."

<sup>(4)</sup> BPA's costs do not include transmission.

<sup>(5)</sup> Columbia Basin Hydro Power.

<sup>(6)</sup> Excludes Conservation Costs and Miscellaneous Power Costs. See the "Cost of Power—Cost of Power to Serve Tacoma Power's Retail Customers" table.

Source: Tacoma Power

## **2019 and 2020 Power Resources**

In 2019 and 2020, Tacoma Power's resource portfolio included the same power resources as in prior years. In 2019, Tacoma Power's owned hydroelectric resources produced 1,620,851 MWh as a result of stream flows that were 65% of average, or near-critical water levels. This was due to drier than normal weather in the beginning of the year, followed by unusually warm weather in April, 2019 that melted the snowpack early, followed by a very dry spring and summer at Tacoma Power's dam locations. As a result, Tacoma Power resorted to purchasing approximately five times more power than normal in the wholesale market. This resulted in a net revenue shortfall in 2019 of approximately \$26 million less than budgeted. See "FINANCIAL INFORMATION." As a buffer for this risk, Tacoma Power sets rates for the biennium based on adverse water conditions, or water conditions that are exceeded three out of every four years based on historical data. See "ELECTRIC SYSTEM CUSTOMERS, ENERGY SALES, REVENUES AND RATES—Electric Rates."

In 2020, Tacoma Power's resources produced 2,693,467 MWh as a result of stream flows that were 109% of average. The Slice component of the City's Power Sales Agreement with BPA provided Tacoma Power 3,551,373 MWh in 2019 and 3,697,665 MWh in 2020, as a result of BPA Federal System stream flows that were 88% and 99% of average, respectively. See "Long-Term Purchases of Power Supply and Related Transmission Services—BPA Power Sales Contract" below.

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## Power Resources

The table below shows Tacoma Power's resources to meet its power requirements from 2016 through 2020.

**TABLE 12**  
**PEAK DEMAND, ENERGY REQUIREMENTS AND RESOURCES**  
**(MWH UNLESS OTHERWISE INDICATED)**

	2016	2017	2018	2019	2020
Energy Requirements					
Energy Sales <sup>(1)</sup>	7,376,222	7,605,671	6,800,148	6,120,000	6,952,262
System Losses <sup>(2)</sup>	167,936	269,108	238,325	158,781	200,544
Total Energy Requirements	7,544,158	7,874,779	7,038,473	6,278,781	7,152,806
Peak Demand (kW) <sup>(3)</sup>	881,140	1,005,932	927,120	940,167	864,784
Energy Resources:					
Owned:					
Alder	251,585	232,472	206,673	143,036	212,078
LaGrande	378,898	399,263	332,001	244,931	350,596
Cushman No. 1	185,318	145,924	115,172	76,366	105,245
Cushman No. 2	322,300	231,474	177,381	104,569	153,856
Mayfield	785,807	872,118	647,040	449,893	726,603
Mossyrock	1,203,631	1,267,162	909,192	584,779	1,111,716
Wynoochee	37,209	34,102	26,071	13,734	29,756
Hood Street	2,942	3,282	2,892	3,543	3,617
Subtotal Owned Resources	3,167,690	3,185,797	2,416,422	1,620,851	2,693,467
Energy Purchases:					
Grant PUD (Priest Rapids)	26,975	27,440	26,974	21,172	26,687
BPA	3,807,370	4,023,330	3,980,124	3,551,373	3,697,665
CBHP	253,625	228,782	241,233	220,245	258,513
Subtotal Energy Purchases	4,087,970	4,279,552	4,248,331	3,792,790	3,982,865
Total Energy Resources	7,255,660	7,465,349	6,664,753	5,413,641	6,676,332
Portfolio Market Purchases	263,105	369,738	355,990	877,095	466,274
Plus Interchange In (Out)	25,393	39,692	17,730	(11,955)	10,200
Net Energy Resources <sup>(4)</sup>	7,544,158	7,874,779	7,038,473	6,278,781	7,152,806

<sup>(1)</sup> Includes sales of secondary energy, which varies from year-to-year based on availability of stream flows and market conditions.

<sup>(2)</sup> Excludes Tacoma Power's usage.

<sup>(3)</sup> Reflects sales to customers, Tacoma Power use and system losses. This table may differ from information presented in Tacoma Power's audited financial statements attached as Appendix D hereto, which illustrates the Tacoma Balancing Authority Area peak demand.

<sup>(4)</sup> Firm energy required to meet the load requirements of Tacoma Power.

Source: Tacoma Power



The table below shows a summary of the electric generating resources currently available to Tacoma Power during years with median and extremely low (critical) water inflows, including resources from electric generating facilities owned by Tacoma Power and resources available to Tacoma Power through long-term contractual arrangements.

**TABLE 13**  
**TACOMA POWER RESOURCE CAPABILITY**

Hydroelectric		Nameplate Capacity	Average Annual Energy Production	Critical Period Average Annual Energy Capability
Project	River	(kW)	(MWh) <sup>(1)</sup>	(MWh) <sup>(2)</sup>
Alder	Nisqually	50,000	243,485	161,102
LaGrande	Nisqually	64,000	368,530	234,230
Cushman No. 1	Skokomish	43,200	127,803	70,209
Cushman No. 2	Skokomish	81,000	201,373	92,281
Mayfield	Cowlitz	162,000	737,626	387,962
Mossyrock	Cowlitz	300,000	1,064,250	545,505
Wynoochee	Wynoochee	12,800	33,288	31,505
Hood Street <sup>(3)</sup>	(reservoir)	0	3,106	3,106
Subtotal		713,000	2,779,461	1,525,900
<hr/>				
Contractual Arrangements				
<hr/>				
Share of Priest Rapids Project <sup>(4)</sup>		5,400	21,450	21,526
Columbia Basin Hydro <sup>(5)</sup>		--	235,567	235,567
BPA <sup>(6)</sup>		356,000	3,678,916	3,213,613
Subtotal		361,400	3,935,933	3,470,706
Total		1,074,400	6,715,394	4,996,606

<sup>(1)</sup> All project generation except Wynoochee and Hood Street is based on the median inflows for the period October 1929 through September 2015. Wynoochee median generation is based on the inflows for the period 1957 through 2012. Annual 16-year average Hood Street generation is shown.

<sup>(2)</sup> Critical inflows are the lowest recorded annual inflows for Tacoma Power's system (Cowlitz, Nisqually, and Cushman) and Slice component of the City's Power Sales Agreement with BPA and are based on water year October 2000 through September 2001.

<sup>(3)</sup> Tacoma Water Hood Street Reservoir has a generator installed which feeds from McMillin Reservoir. Tacoma Power does not realize capacity from this generator.

<sup>(4)</sup> Tacoma Power's expected share of output based on the 76-year study period from January 1929 through December 2004. See "Long-Term Purchases of Power Supply and Related Transmission Services—*Priest Rapids Hydroelectric Project*."

<sup>(5)</sup> Output of five low-head hydroelectric plants located on irrigation canals in eastern Washington. These plants are available for operation during the March-through-October irrigation season each year.

<sup>(6)</sup> Tacoma Power's Power Sales Agreement with BPA is comprised of approximately 50% Block and 50% Slice. The Block portion remains relatively static each year, slowly increasing as Tacoma Power's loads increase. The Block contract energy shown is for calendar year 2013. The Slice portion represents a percentage share of BPA's Federal hydroelectric system ("Federal System") output and varies with the hydro conditions. Slice median values represent the Slice share during median conditions for Tacoma Power's resource portfolio (the combination of Tacoma Power's system plus the Slice component of the City's Power Sales Agreement with BPA. Slice critical conditions are for the lowest conditions for Tacoma Power's resource portfolio and are based on wateryear from October 2000 through September 2001. Slice capacity is 356 megawatts ("MW") (assuming 2.97% of the Federal System capacity of 12,000 MW).

Source: Tacoma Power

## Tacoma Power-Owned Generating Resources

Tacoma Power-owned generating resources include four hydroelectric projects: Nisqually, Cowlitz, Cushman and Wynoochee.

A 40-year FERC license was obtained for the Nisqually Project in 1997 and a new 35-year license was issued for the Cowlitz River Project in 2003. See “*Cowlitz River Project*.” A 40-year license was issued for the Cushman Project in 1998; however, Tacoma Power appealed the license. In January 2009 Tacoma Power entered into a multi-party settlement agreement and submitted it to FERC as the basis for an amendment to the 1998 license. On July 15, 2010, FERC issued an amended 50-year license for the Cushman Project that was back-dated to 1998 and will expire in 2048. See “*Cushman Hydroelectric Project*.”

***Cowlitz River Project.*** The largest of Tacoma Power’s hydroelectric projects, the Cowlitz River Project, consists of two coordinated hydroelectric plants, Mayfield and Mossyrock. Both are located on the Cowlitz River in Lewis County on the western slope of the Cascade Mountains, approximately 48 miles south of the City.

Mossyrock dam consists of a double curvature concrete arch dam structure, 365 feet high above riverbed and 1,648 feet in length, with a spillway section controlled by four tainter gates. The dam creates Riffe Lake, a reservoir with a nominal capacity of 1,685,100 acre-feet having 52 miles of shoreline. Water flows are conveyed to the Mossyrock powerhouse via three 20.5-foot diameter steel penstocks approximately 285 feet in length. The Mossyrock powerhouse contains two Francis turbine/generators with a total nameplate rating of 304 MW. The turbine/generator units were rebuilt between 2008 and 2010. As designed, provision was made at Mossyrock for the future addition of a third turbine/generator unit. No current plans exist for the installation of this unit.

Mayfield dam, located approximately 13.5 miles downstream of the Mossyrock dam, was initially placed into operation with three generating units in 1963. A fourth unit was added in 1983. The dam includes a concrete arch and gravity dam, 200 feet high and 850 feet long, with a controlled spillway having five tainter gates. The dam creates a reservoir with a nominal capacity of 133,700 acre-feet having 33.5 miles of shoreline. Project water is conveyed to the Mayfield powerhouse via a 37-foot diameter power tunnel, 854 feet long, and four 18-foot diameter power penstocks. The Mayfield powerhouse contains four Francis turbine/generator units with a total nameplate rating of 162 MW.

The output of both plants is transmitted to Tacoma Power via 230 kV transmission lines owned and operated by BPA under the terms of a fixed price transmission contract with BPA that expires on December 31, 2021. Subject to certain conditions, Tacoma Power can renew the contract for an additional 30 years (to December 31, 2051) and is actively engaged in those negotiations. See “TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE—Wholesale Transmission Service—*Cowlitz Exchange*.”

**FERC License.** The original license for the Cowlitz River Project was issued by FERC in 1951. In 2003, a 35-year license was issued by FERC. Tacoma Power filed an application for a new license in 1999 and filed a comprehensive agreement among Tacoma Power, federal and state agencies, tribes and conservation groups in 2000. The new license is based on that agreement, which was the result of more than five years of study and negotiation, and describes fisheries, recreation, cultural resources, wildlife and water quality programs that Tacoma Power will provide. Numerous implementation plans required in the license have been developed, reviewed by agencies and approved by FERC and implemented.

**Fisheries Issues.** The Cowlitz River Project, on a tributary of the Columbia River, is affected by the 1998 listing of Lower Columbia River steelhead and the 1999 listing of Lower Columbia River Chinook and Columbia River Chum salmon, the 2005 listing of Lower Columbia River Coho salmon and potentially by the 2010 listing of Pacific eulachon/smelt under the Endangered Species Act (“ESA”). A program to reintroduce Chinook, Coho and steelhead is occurring in the Upper Cowlitz Basin above Lewis County Public Utility District’s Cowlitz Falls dam. This is a trap and haul program that transports the fish around the Cowlitz dams.

Key issues in the Cowlitz River Project license implementation include collection of downstream migrating juvenile salmon and development of a Fisheries and Habitat Management Plan (“FHMP”). The downstream juvenile fish

collector was constructed and first operational for fish migration in 2017. A performance goal of 95% collection efficiency or 75% with best available technology is included in the license for downstream collection and as of the 2020 operating season the facility is on track to meet this goal. The implementation of the FHMP is being coordinated with resource agencies including strategies for restoring wild stocks, retaining a sport fishery and evaluating upstream passage triggers. Tacoma Power completed an ecological analysis of fish habitat in the basin in collaboration with regulatory agencies and relicensing stakeholders. As a part of relicensing, federal consultation has occurred under the ESA and a favorable biological opinion was issued for the project in 2004 and amended into the license in 2004.

***Cushman Hydroelectric Project.*** The Cushman Hydroelectric Project consists of two separate concrete arch dams. Both dams are located on the North Fork of the Skokomish River in Mason County, Washington, approximately 36 miles northwest of the City. Cushman No. 1, whose construction created the Lake Cushman Reservoir, was completed in 1926 with an installed generating capacity of 36 MW. The dam is 1,111 feet long and 235 feet high. Cushman No. 1 was upgraded in 1987 and 1988, increasing the total project nameplate rating to 50 MW.

Cushman No. 2 was constructed in 1930 with two identical Francis generating units, each rated at 27 MW. In 1952, a third 27 MW Francis turbine/generator unit was added at Cushman No. 2, resulting in a total installed nameplate rating of 81 MW. The concrete arch dam is 460 feet long and 175 feet high. The powerhouse is connected to the dam via a power tunnel 17 feet in diameter and 2.5 miles long.

The North Fork powerhouse at the base of Cushman No. 2 dam was completed in 2013 with two Francis generating units each rated at 1.8 MW. This powerhouse is used to pass the required minimum flows into the North Fork Skokomish River, and includes an upstream adult fish collector and a fish handling system and tram to provide for both upstream and downstream transportation of fish.

Project power is transmitted to Tacoma Power via two Tacoma Power-owned 115 kV transmission lines, known as the Potlatch lines. The Potlatch lines span the Tacoma Narrows strait of Puget Sound. The 6,200 foot Tacoma Narrows transmission span replacement was completed in 2006. See “TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE.”

FERC has indicated that certain seismic improvements may be necessary at the Cushman Project. The timing, magnitude and cost of the improvements is currently unknown. If such improvements are determined to be necessary, Tacoma Power expects to work with FERC in the regular course to develop an improvement plan and schedule.

FERC License. Cushman Nos. 1 and 2 are operated under a single FERC license. The Cushman Project’s initial FERC license, issued in 1924, expired in 1974. In 1974, the City applied for a new long-term project license. The project operated under the terms of an automatically renewed annual license granted by FERC until a 40-year license was issued by FERC in 1998. Certain terms of this license were challenged by the Skokomish Tribe and certain environmental agencies. A Settlement Agreement ultimately was negotiated and submitted to FERC in 2009. In 2010, FERC issued an amended 50-year license for the Cushman Project, which will expire in 2048, and that includes terms of the Settlement Agreement.

Fisheries Issues. Four fish species listed as threatened under the ESA, Hood Canal Summer Chum salmon, Bull trout, Puget Sound Chinook salmon and Puget Sound steelhead, occur in waters influenced by the Cushman Project. In the project Settlement Agreement, Tacoma Power agreed to build both up and downstream fish passage and two small fish hatcheries. The fish facilities are constructed and operational as of 2016.

***Nisqually River Project.*** The Nisqually River Project consists of two separate hydroelectric plants, Alder and LaGrande, located on the Nisqually River on the western slope of the Cascade Mountains, approximately 30 miles southeast of Tacoma. The Alder plant, constructed in 1945, includes a continuous concrete arch dam that is 285 feet high and 1,600 feet long, including a spillway section controlled by four tainter gates and a powerhouse containing two identical Francis turbine/generator units having a total installed nameplate rating of 50 MW. Alder dam creates a reservoir with a nominal capacity of 232,000 acre-feet having 28 miles of shoreline.

The LaGrande plant consists of a concrete gravity dam 192 feet high and 710 feet in length, which creates a small reservoir of 2,700 acre-feet and includes a gated spillway and powerhouse. Having been in operation since 1912, the LaGrande plant was not originally licensed, as it was constructed prior to the adoption of the Federal Water Power Act in 1920. The original plant included four identical Francis turbine/generator units with a total installed nameplate rating of 24 MW. The plant was upgraded in 1944 with the construction of a new dam and the addition of a Francis turbine/generator unit with a nameplate rating of 41 MW.

Project power is transmitted to Tacoma Power via two Tacoma Power-owned 115 kV transmission lines, known as the LaGrande lines. See “TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE.”

The original license for the Nisqually River Project was issued by FERC in 1944. In 1997, Tacoma Power received a new 40-year license from FERC. The plans for all license requirements have been approved by FERC and the majority have been implemented.

Hydroelectric projects on the Nisqually River were built at a recognized historic natural barrier to fish migration. Puget Sound Chinook salmon and steelhead trout use the river below the dams, but upstream passage was not an issue for the relicensing of the Nisqually River Project. Tacoma Power also manages 3,500 acres of forestland, including a 7.5 mile-long corridor of protected habitat along the Nisqually River below the dams.

In 2003, the Nisqually River Project received the first of three consecutive annual awards for Outstanding Stewardship of America’s Rivers from the National Hydropower Association for environmental activities associated with the project. The project has been certified since 2003 by the Low Impact Hydropower Institute as a low impact hydroelectric project. The Nisqually River Project was the eighth facility in the nation to earn this certification.

***Wynoochee River Project.*** The Wynoochee River Project consists of a concrete gravity dam, with earthen embankments, 175 feet high and 672 feet in length, which creates a reservoir of 70,000 acre-feet and includes two gated sluiceways, two gated spillways, and a powerhouse. The Wynoochee River Project supports a variety of purposes in addition to generation, including water supply, flood control, recreation, enhancement of fisheries and irrigation.

The powerhouse was constructed in 1993 and contains a single Kaplan turbine, which, with its associated generator, has a nameplate capacity of 12.8 MW. The project’s generation is transmitted to BPA’s grid over Grays Harbor County Public Utility District’s transmission system under a contractual arrangement that expires in September 2037, and the power then continues over BPA’s grid to Tacoma Power.

Tacoma Power entered into a billing credit agreement concerning the Wynoochee Project with BPA that extends until July 31, 2037. In 1993, all BPA wholesale customers who had firm power sales contracts were eligible to apply for billing credit for a qualified resource. With billing credits, BPA’s customers may obtain credits against the customer’s power bills, or cash, for developing and operating resources where the output of the resource will serve the customer’s load, thus reducing the customer’s purchase of BPA power. BPA benefits because its need to acquire new resources to meet load growth is reduced. The billing credit agreement facilitated Tacoma Power’s development of the Wynoochee Project and, therefore, reduced Tacoma Power’s BPA power purchases.

## Dam Safety

Tacoma Power's dam safety program requires an extensive inspection program with the inspections being performed by various groups. Once a day all of Tacoma Power's dams are inspected by project personnel with more in depth inspections occurring on a weekly and monthly basis. Additionally, approximately once per year each dam is inspected by engineers from FERC and every five years the dams are inspected by an independent engineering consultant following the requirements of the Code of Federal Regulations 18, Part 12, Subpart D ("Part 12D"). These independent consultants have specific engineering expertise and are preapproved by the FERC. The following table lists when the last annual FERC and Part 12D inspections were performed along with a column showing when the next Part 12D inspection report is scheduled for submittal:

**TABLE 14**  
**DAM INSPECTION SCHEDULE**

<b>FERC Project #</b>	<b>Project Name</b>	<b>Last Annual FERC Inspection</b>	<b>Last Part 12D Inspection Report</b>	<b>Next Part 12D Inspection Report</b>
460	Cushman Hydroelectric Project	August 30, 2016	June 1, 2017	June 1, 2022
1862	Nisqually Hydroelectric Project	October 17, 2017	June 1, 2018	June 1, 2022
2016	Cowlitz River Project	June 18, 2018	January 31, 2019	December 1, 2022
6842	Wynoochee Hydroelectric Project	May 2, 2017	December 1, 2017	December 1, 2021

*Source: Tacoma Power*

The FERC also requires that Tacoma Power maintains fully developed Emergency Action Plans ("EAPs") for each of Tacoma Power's hydro projects. These EAPs include the emergency contact information for the emergency management agencies ("EMAs") of the cities, counties, state and federal government located downstream of the projects that would be impacted by an uncontrolled release of the reservoir. The EAPs also contain inundation maps highlighting the impacts of a complete, nearly instantaneous failure of the dams for use by the EMAs in developing their evacuation plans. These EAPs are updated annually and are completely reissued every five years to the 45 outside agencies.

Tacoma Power has also recently taken additional actions at Mossyrock to lower the risk of having an uncontrolled release of the reservoir by proposing to keep Riffe Lake approximately 30 feet lower than the historic normal. This adjustment was necessary because of recent developments concerning the region's understanding of the seismic hazards and how these changes may adversely impact the spillway structure. By keeping the reservoir at a lower level, the risk of an uncontrolled release through the spillway structure is reduced. Tacoma Power is currently evaluating the latest seismicity ratings with FERC and developing plans to further mitigate this risk. It is anticipated that Riffe Lake will be kept at the lower operating level for several years while seismic analysis and mitigation options are developed.

## Long-Term Purchases of Power Supply and Related Transmission Services

**BPA Purchases.** The Bonneville Power Administration ("BPA") was created by the Bonneville Project Act of 1937, and is a revenue-financed federal agency under the United States Department of Energy (the "DOE"). BPA's central mission is to operate and maintain a reliable regional transmission grid and to market electricity at cost from federally owned and contracted facilities to Northwest utilities. BPA markets power from the Federal Columbia River Power System (the "Federal System") composed of 31 federal hydroelectric projects, one non-federal nuclear project, and several non-federally-owned hydroelectric and wind projects in the Pacific Northwest, and from various contractual rights. The federal projects are built and operated by the United States Bureau of Reclamation and the United States Army Corps of Engineers and are located primarily in the Columbia and Snake River Basins. The Federal System currently produces more than one-third of the region's energy requirements. BPA's transmission system includes over 15,000 circuit miles of transmission lines, provides about 75% of the Pacific Northwest's high-voltage bulk transmission capacity and serves as the main power grid for the Pacific Northwest.

BPA is required by law to meet certain energy requirements in the region and is authorized to acquire power resources and take other actions to enable it to carry out these purposes. This includes the requirement for

Bonneville to provide power to preference customers, like Tacoma Power, so the utility can meet its total customer load and load growth, less its owned or purchased resources from non-federal generators. In doing so, BPA must give preference and priority to public body and cooperative utilities before offering to serve non-preference entities. Since 1937, BPA has always met its power marketing obligations to supply federal power to serve the firm power needs of its regional power customers. This currently includes more than 125 publicly-owned and cooperatively-owned utilities (or “preference customers”) for resale to consumers in the Pacific Northwest. BPA also sells electric power to a small number of Federal agencies and has the authority, but not the obligation, to sell to Direct Service Industry customers. Its service area covers over 300,000 square miles.

***BPA Power Sales Contract.*** Tacoma Power and other municipally-owned utilities and cooperatives are “public preference” customers of BPA pursuant to federal legislation, which requires BPA to give preference and priority to public agencies and cooperatives in the distribution and marketing of federal power. In 2008 Tacoma Power executed a Power Sales Agreement with BPA, effective October 1, 2011, through September 30, 2028 (the “BPA Agreement”). Tacoma Power is engaged in BPA’s post-2028 “Provider of Choice” (“POC”) initiative and discussions. In the last couple years, Tacoma Power’s Power Management division has been developing new products and options to better meet Tacoma Power’s needs given load changes and developing resource adequacy requirements. Tacoma Power’s latest IRP has selected the Slice/Block product (see below) as the best option for Tacoma Power post-2028. However, Tacoma Power will continue to assess other product options with BPA as options are developed and the new contract term approaches. BPA initiated a series of workshops with its preference customers, including Tacoma Power, in the spring of 2021 to begin discussions on the POC methodology for allocation of the low cost Tier 1 power, product design, and product pricing. These discussions are expected to culminate into BPA’s release of a concept paper in late 2021, to be followed by a public comment period and subsequent release of final policy.

The current BPA Agreement is for a “Block-Slice” product. The Block component provides a set amount of energy delivered in flat monthly “blocks” based on Tacoma Power’s historical monthly load. The Slice component represents a percentage “slice” of the output of the Federal System. The monthly Block energy ranged from 131 aMW in August to 209 aMW in December of 2020. As a purchaser of the Slice product, Tacoma Power pays its percentage share of BPA’s actual operating costs. Tacoma Power’s Slice percentage is 2.97%, which is equivalent to approximately 210 aMW under critical water conditions. After the end of each fiscal year, BPA “true up” the difference between its actual costs and the budget for the year through an adjustment charge or credit. The total amount of energy provided under the BPA Agreement varies with river flows. Based upon 80 years of historical river flows, Tacoma Power’s annual energy from BPA (Block plus Slice) can range from a minimum of 400 aMW to a maximum of 550 aMW.

The cost of power under the BPA Agreement is established through the BPA long-term rate methodology (the “Tiered Rates Methodology”) for determining power rates bi-annually during the term of those contracts. The base amount of firm power that Tacoma Power and other preference customers may purchase under BPA’s lowest cost rate (“Tier 1” rate) is limited to a pro-rata share of the estimated output of the Federal System in a critical water year. Retail utility requirements in excess of the base amount is the retail utility’s responsibility and can be satisfied under separate market-based contracts with BPA or other non-federal providers. Any purchases by preference customers from BPA above the base amount of power would be sold at a higher rate (“Tier 2” rate) reflecting the market cost to BPA of obtaining additional power to meet such incremental loads. Tier 1 power is limited to the output and capacity of the existing Federal System. BPA established for each preference customer a contractually defined level of access to power available at the Tier 1 rate.

Under Tacoma Power’s BPA Agreement, Tacoma Power will receive a minimum of approximately 400 aMW at Tier 1 rates, which corresponds to the sum of Tacoma Power’s Block component plus its Slice Component in a critical water year. Tacoma Power has a right to purchase energy from BPA at Tier 2 rates under a future power sales contract. The quantity of Tier 2 energy Tacoma Power could purchase would increase as electric system load grows. At this time Tacoma Power does not expect to purchase Tier 2 power from BPA to serve any future load growth at least through 2028.

Under the BPA Agreement, BPA has the right to require that Tacoma Power post collateral if BPA determines it is necessary to secure Tacoma Power’s payments under that Agreement. Conditions that would require Tacoma Power to post collateral under the BPA Agreement include a downgrade of Tacoma Power’s unenhanced senior debt to

below investment grade, or any material changes to Tacoma Power's financial condition that may adversely impact its ability to make payments under the BPA Agreement. The collateral required is an amount equal to twelve times the greatest monthly amount billed or forecasted to be billed to Tacoma Power by BPA under the BPA Agreement. BPA has not required Tacoma Power to post collateral and Tacoma Power does not expect to be required to post collateral in the future.

For a discussion of Tacoma Power's transmission contracts with BPA, see "TRANSMISSION AND DISTRIBUTION."

**BPA Rates.** BPA is required by federal law to recover all of its costs through the rates it charges its customers. The U.S. Treasury provides a portion of BPA's capital funding, and BPA is required to make annual payments to the U.S. Treasury to repay such borrowings. BPA is committed to a rate design that builds and maintains financial reserves sufficient for the agency to achieve a 95% probability of making its U.S. Treasury payments in full and on time. The power sales contracts with preference customers contain Cost Recovery Adjustment Clauses ("CRAC") that permit rates to be adjusted if BPA's net reserves fall below a certain threshold and a Dividend Distribution Clause ("DDC") if reserves are above a certain threshold. Under its current power contracts, BPA conducts a rate case every two years. The first rate case under the "Tiered Rates Methodology" was conducted in 2010 with rates effective October 1, 2011. In 2020 Tacoma Power's average unit cost for BPA power was \$30.35/MWh. The current Block rate is \$33.42/MWh and the Slice cost \$28.44/MWh based upon the amount of Slice energy received. New BPA rates go into effect every October in odd years. In July 2019 BPA adopted a 1.5% average wholesale power rate increase and an average transmission rate increase of 3.6% for fiscal years 2020 and 2021. These rate adjustments took effect on October 1, 2019. For fiscal years 2022 and 2023 (beginning October 1, 2021), BPA has indicated that it will reduce Tacoma Power Slice and Block power rates by approximately 2.3%, and will increase transmission rates by approximately 4.3%. For budget purposes, as of July 2020, Tacoma Power had assumed a 2.5% power rate increase (as opposed to an approximate 2.3% decrease) and a 5% transmission rate increase (as opposed to an approximate 4.3% increase).

There are any number of factors that have impacted and could impact BPA's cost-of-service and rates, including federal legislation, BPA's obligations regarding its outstanding federal debt, BPA's other capital-related funding obligations, the number of customers, water conditions, fish and other environmental regulations, capital needs of the Federal System, and regional transmission issues.

**Bonneville Residential Exchange Program.** The Northwest Power Act of 1981 (the "Northwest Power Act") provides that a municipal or investor-owned utility may offer power to BPA, and BPA must purchase power from the utility, at the utility's average system cost. In exchange, BPA sells an equivalent amount of power to the utility for purchase by its residential and small farm customers at Bonneville's established Priority Firm ("PF") Exchange Rate. This is referred to as the "Residential Exchange Program." The PF Exchange Rate is established periodically by BPA as part of its rate case. Benefits are settled financially with no energy exchanged.

Over the years there have been numerous legal challenges to the Residential Exchange Program. In 2011, the parties reached a settlement agreement (the "2011 Settlement Agreement"), which provides an agreed basis and certainty for how the Residential Exchange Program is treated in BPA's rates through 2028.

**Bonneville and Columbia River Treaty.** The Columbia River Treaty (the "CRT") is an international treaty between Canada and the United States of America. Put into effect in 1964, the CRT named two "entities" to implement the CRT — a "U.S. Entity" and a "Canadian Entity." The U.S. Entity, created by the President, consists of the Administrator of BPA (chair) and the Northwestern Division Engineer (member) of the U.S. Army Corps of Engineers. The Canadian Entity, appointed by the Canadian Federal Cabinet, is the British Columbia Hydro and Power Authority (B.C. Hydro). Canada and the United States each have the option to terminate the commercial power provisions of the treaty at any time on or after September 16, 2024 by providing a 10-year advance written notice.

The CRT called for the construction and operation of three large dams in the upper Columbia River basin in British Columbia, Canada, and gave the U.S. an option to build a fourth dam in Montana with a reservoir that extends into Canada. The operation of CRT dams was designed to provide flood control and hydropower benefits to both

countries, which made other benefits possible. The CRT flood control operations will expire in September 2024. Terms and conditions for ongoing flood control will need to be renegotiated.

Leading up to 2014, the U.S. Entity engaged in a multi-year effort and collaborated and consulted with the region's sovereign states, federally recognized tribes, and a variety of stakeholders to evaluate the regional cost and benefits of the CRT after 2024. At the conclusion of this effort, the U.S. Entity issued a Regional Recommendation to the United States Department of State in December 2013. This recommendation identified potential modifications to the CRT post 2024, and outlined a general set of principles. To date, the U.S. has negotiated with the Canadian Federal Government. However, no resolution of the CRT has been publicly announced.

***Priest Rapids Hydroelectric Project.*** Tacoma Power purchases power from the Priest Rapids Hydroelectric Project under several long-term agreements with Grant PUD. The Priest Rapids Hydroelectric Project is composed of two dams, Priest Rapids and Wanapum, located on the Columbia River with an installed capacity of 1,893 MW. The terms of the current agreements are for the remaining term of the new 44-year FERC license, from April 1, 2008, to March 31, 2052. The agreements provide that each power purchaser has the right to purchase its proportionate share of Priest Rapids generation in excess of the actual and prospective needs of Grant PUD for the same proportionate share of project costs. Tacoma Power's future purchase quantity and costs will be affected by Grant PUD loads, water conditions, and FERC license operating requirements. Tacoma Power is obligated to pay its share of the costs of the facility whether or not it receives any power. Forecasted annual average generation available to Tacoma Power during the remaining term of the agreements is estimated to be approximately 2.5 aMW.

***Columbia Basin Hydro Power.*** The City and the City of Seattle have entered into power purchase agreements with three Columbia Basin Irrigation Districts (South, East and Quincy) for the acquisition of the output of five low-head hydroelectric projects that were constructed along irrigation canals in eastern Washington. Tacoma Power has five separate power purchase agreements for the output of these projects, each one lasting 40 years. The contracts were structured to assure that underlying debt service payments and operation and maintenance would be paid by purchasers plus additional incentive payments made only for delivered power. Power deliveries under the contracts began between 1982 and 1986 when the respective projects were placed in service, and will end on corresponding dates for each project between 2022 and 2026. These projects are operated by Columbia Basin Hydro Power ("CBHP") and utilize water released during the irrigation season and thus have no winter peak capability. The total installed capacity of all five projects is approximately 130 MW, with a total average annual energy production of approximately 480,000 MWh. Tacoma Power receives 50% of the actual output of the projects.

***Third AC Intertie Capacity.*** In 1994, Tacoma Power entered into a long-term capacity ownership agreement with BPA to annually purchase 41 MWs of transmission on BPA's Third AC Intertie. The Third AC Intertie is an expansion of the existing California-Oregon Intertie, and links the Northwest power grid with the Southwest power grid. Tacoma Power has currently assigned the 41 MWs of capacity to a third party through September 30, 2021. Tacoma Power maintains contract ownership of the 41 MWs of capacity through the life of the facilities.

***Point-to-Point Transmission Contract.*** Tacoma Power has a Service Agreement for Point-to-Point Transmission with BPA. It includes long-term service reservations to transmit the transfer of 851 MWs of power from BPA and Tacoma Power resources to Tacoma Power as well as transfer from Tacoma Power resources across the BPA transmission system. When the contracted transmission is not fully utilized due to reduced generation levels at Tacoma Power projects, the contract reservations can be redirected as permitted by the BPA Open Access Transmission Tariff and Transmission Business Practices to move power to and from other points of integration receipt and delivery on the BPA transmission system. The individual transmission contracts that comprise Tacoma Power's point-to-point agreement with BPA have varying expiration dates ranging from September 1, 2022 to September 10, 2037.

***Cowlitz Exchange.*** In 1966, Tacoma Power entered into a long-term transmission exchange agreement with BPA. The contract specifies that BPA must make available at the City's point of delivery, currently Cowlitz Substation in Tacoma, power generated by the Cowlitz Project. In 2001, Tacoma Power exercised its contractual right to extend this agreement through December 31, 2021 and has an option to extend the contract for an additional 30 years. Tacoma Power has notified BPA of its intent to extend the agreement for an additional 30 years, and negotiations with BPA around costs and terms of the renewal have commenced.



## Conservation

As in previous Tacoma Power's IRPs, the 2020 IRP indicates that energy conservation is Tacoma Power's best and least-cost energy resource. As a result, Tacoma Power continued an expansive energy conservation program for residential, commercial and industrial customers. The table below summarizes conservation program costs over the most recent five years. The program costs include all direct costs of acquiring conservation.

**TABLE 15**  
**TACOMA POWER CONSERVATION PROGRAM**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Energy Savings (MWh) <sup>(1)</sup>	48,989	44,074	71,795	45,767	40,940
Program Costs (\$000) <sup>(2)</sup>	\$17,468	\$13,198	\$18,719	\$11,428	\$9,932

<sup>(1)</sup> The numbers represent first year energy savings resulting from conservation acquisitions. Energy conservation measures during the 2016-2020 period on average last 13.6 years and have a levelized cost on average of \$32/MWh.

<sup>(2)</sup> The numbers include capital incentives, operating costs, and marketing costs.

Source: Washington State Department of Commerce

The majority of conservation is acquired through:

- *Site Specific Engineered Projects.* These are targeted for the more complex commercial and industrial programs. These projects require a rigorous measurement and verification protocol. Nameplate data from equipment manufacturers, energy usage, equipment run times, production and other data are recorded by engineers before and after installations.
- *Mass Market Programs.* These include residential lighting, fixtures, appliances, weatherization, and heating equipment.

## Net Metering-Distributed Generation

Washington state law (chapter 80.60 RCW) allows the "net metering" of customer owned generation units of up to 100 kW in size. This allowance ends by the earlier of either June 30, 2029 or the first date when the cumulative generating capacity of all net metering systems equals 4% of the utility's peak demand during 1996. Tacoma Power net metering at the end of 2020 was 0.58%. The majority of State incentives have expired, with approximately 200 customers receiving a declining production incentive until 2027 through Washington State University Energy Programs' Renewable Energy System Incentive Program ("RESIP"). Despite no State or utility incentives, the South Puget Sound market for roof top solar systems along with backup batteries has increasing interest by customers of Tacoma Power, as cost of solar has become more affordable and competitive. Tacoma Power's four 75kW community solar projects erected in 2016 on Tacoma Public Utilities campus continues to operate and generate renewable energy credits. The following table shows the number is installed systems and the production of electricity for 2016 through 2020.

**TABLE 16**  
**PRODUCTION COST TO SERVE TACOMA POWER'S RETAIL CUSTOMERS**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Customer Roof-Top Solar Systems (\$000)	337	444	577	674	815
Customer Roof-Top Solar Production (kWhs)	2,309,000	3,039,000	4,097,000	4,864,000	6,073,000
Community Solar Systems (\$000)	4	4	4	4	4
Community Solar Production (kWhs)	336,376	358,867	357,843	344,035	336,598

Source: Tacoma Power

## Cost of Power

The following table shows the production cost from resources Tacoma Power has used to meet its energy requirements for 2016 through 2020.

**TABLE 17**  
**PRODUCTION COST TO SERVE TACOMA POWER'S RETAIL CUSTOMERS**  
**(\$000 UNLESS OTHERWISE INDICATED)**

	2016	2017	2018	2019	2020
Cost of Energy from:					
City-Owned Resources <sup>(1)</sup>					
Alder	\$ 2,430	\$ 2,070	\$ 2,166	\$ 2,494	\$ 2,534
LaGrande	3,283	2,925	3,166	3,230	3,289
Cushman No. 1	2,531	3,557	2,957	3,614	2,948
Cushman No. 2	3,956	5,453	4,257	4,969	4,801
Mayfield	8,039	9,088	9,049	11,063	8,751
Mossyrock	11,651	11,835	9,547	21,296	11,889
Wynoochee <sup>(2)</sup>	92	(355)	(90)	(202)	(762)
Hood Street	126	59	67	59	55
Conservation (Net) <sup>(3)</sup>	13,202	14,192	14,991	18,680	18,361
Subtotal Division-Owned Resources	\$ 45,310	\$ 48,824	\$ 46,110	\$ 65,203	\$ 51,866
Purchased Energy <sup>(4)</sup>					
Priest Rapids	\$ (81)	\$ (481)	\$ (9)	\$ (42)	\$ (449)
BPA <sup>(5)</sup>	113,824	120,026	116,965	124,453	117,190
GCPHA Projects	6,413	6,830	6,723	6,012	7,882
Subtotal Purchased Energy	\$ 120,156	\$ 126,375	\$ 123,679	\$ 130,423	\$ 124,623
Total Cost of Principal Resources	\$ 165,466	\$ 175,199	\$ 169,789	\$ 195,626	\$ 176,489
Average Cost of Principal Resources (cents/kWh) <sup>(1)</sup>	2.28	2.35	2.55	3.61	2.64
Other Power Costs					
Portfolio Market Purchases	\$ 4,360	\$ 7,392	\$ 8,369	\$ 26,798	\$ 8,429
Renewable Energy Certificates	2,307	2,164	2,616	3,583	4,034
Miscellaneous Power Costs <sup>(6)</sup>	5,476	5,885	5,150	6,682	7,640
Subtotal Other Power Costs	\$ 12,143	\$ 15,441	\$ 16,135	\$ 37,063	\$ 20,103
Total Cost of Resources	\$ 177,609	\$ 190,640	\$ 185,924	\$ 232,689	\$ 196,592
Average Cost of Resources (cents/kWh) <sup>(1)</sup>	2.34	2.42	2.64	3.71	2.75
Less Revenues from Sales for Resale and Sales of Surplus Energy	\$ 54,507	\$ 57,062	\$ 55,487	\$ 37,421	\$ 58,036
Net Cost of Resources to Tacoma Power's Retail System	\$ 123,102	\$ 133,578	\$ 130,437	\$ 195,268	\$ 138,556
Average Net Cost of Resources to serve Tacoma Power's Retail System (cents/kWh) <sup>(1)</sup>	2.66	2.81	2.83	4.18	3.01

Footnotes to Table are on the next page.

- (1) Represents operating costs, excludes depreciation, debt service, capital expenditures, and transmission costs and overhead.
- (2) Historical costs of the Wynoochee Project were offset by the trust fund until the fund was exhausted, and by BPA's Billing Credit Program.
- (3) Historical costs do not include the Fort Lewis program.
- (4) Excludes transmission costs.
- (5) Includes Residential Exchange Credits received from BPA.
- (6) Miscellaneous costs associated with energy production and energy interchange.

*Source: Tacoma Power*

## **CERTAIN FEDERAL AND STATE LAWS AND REGULATIONS AFFECTING TACOMA POWER**

### **Washington State's Renewable Portfolio and Conservation Standards**

In the fall of 2006, voters in the State approved Initiative Measure 937 ("Initiative 937"), codified as the Energy Independence Act, chapter 19.285 RCW, requiring electric utilities with over 25,000 customers in the State to accomplish all cost-effective conservation and, by 2020, use certain eligible renewable resources to serve at least 15% of their retail loads. Specifically, Initiative 937 requires such utilities to: (i) estimate the cost-effectiveness of conservation programs using methodologies consistent with the approach of the Northwest Power and Conservation Council ("NWPPCC"); (ii) every two years, calculate and document 10-year conservation potential; (iii) produce detailed analyses of how energy will be conserved through end-user programs, production and distribution efficiencies, co-generation and/or distributed generation; (iv) use eligible renewable resources to serve 3%, 9% and 15% of the utility's retail loads by 2012, 2016 and 2020, respectively; and (v) report annual compliance with the law's requirements. Eligible renewable resource types include wind, solar energy, geothermal energy, landfill gas, wave, ocean or tidal power, gas from sewage treatment facilities, specific biodiesel fuels, biomass energy and incremental hydroelectric power (power produced as a result of efficiency improvements at existing hydroelectric facilities). Incremental hydropower is the only form of hydro-related energy designated as an approved renewable. The legislation imposes significant penalties for non-compliance—\$50 for every MWh the utility falls short of its conservation or renewable resource targets.

To satisfy the renewables target for a given compliance year, a qualifying utility may elect to serve an increasing percentage of its load with certain eligible renewable generation or Renewable Energy Credits ("RECs") ("target method"). A utility may also "bank" or "carryover" the RECs generated by the renewable resources in its portfolio the year prior to, the year of, and the year after, the compliance target year.

Tacoma Power is required to obtain "eligible" renewable resources equal to at least 15%. The types of resources that qualify as eligible renewable include wind, solar, geothermal, RECs and Incremental Hydro; but all other hydroelectric resources are excluded.

Tacoma Power's 2020 IRP determined that the Electric System will be fully compliant through 2025. Between 2026 and 2030, Tacoma Power will need to purchase additional RECs. Beginning in 2030, compliance with Initiative 937 is expected to be achieved by using renewable properties of Tacoma Power's surplus hydro. Tacoma Power has never failed to exceed its mandatory conservation targets.

In accordance with Initiative 937 reporting requirements, the City submits its annual filings with the Washington State Department of Commerce by June 1 each year. This report consists of: (i) total owned and acquired renewable resources as of January 1 of the target year; and (ii) the actual conservation achievements for the two-year period, compared to the adopted target.

### **Clean Energy Transformation Act**

On May 7, 2019, the State Governor signed into law the Clean Energy Transformation Act ("CETA") (E2SSB 5116), which commits the State to an electricity supply free of greenhouse gas emissions by 2045. The law imposes new clean energy mandates on investor-owned and consumer-owned electric utilities in Washington, subject to certain milestones, as well as planning and reporting requirements. By December 31, 2022, CETA requires each

utility to prepare and publish a clean energy implementation plan with its own targets for energy efficiency and renewable energy. Such plan must be updated every four years thereafter. Tacoma Power plans to complete its first clean energy implementation plan by December 2021 following public workshops. Further, by 2025, utilities must eliminate coal-fired electricity from their state portfolios. The first 100% clean standard applies in 2030. The 2030 standard is greenhouse gas neutral, which means utilities have flexibility to use limited amounts of electricity from natural gas if it is offset by other actions. By 2045, utilities must supply customers in the State with electricity that is 100% renewable or non-emitting, with no provision for offsets. CETA includes safeguards to protect consumers from excessive rates or unreliable service. Utilities may adopt a slower transition schedule if necessary to avoid certain spikes in rates. Assistance programs must be provided for low-income households. Waivers of the standards are available under some circumstances.

Stakeholders and State government officials from the departments of State Department of Commerce, State Department of Ecology (“Ecology”), State Department of Health, and the Washington Utilities and Transportation Commission are working together to establish the rules to implement the CETA. The rulemaking process is scheduled for completion by mid to late 2022. Tacoma Power is committed to achieving the requirements in CETA. Tacoma Power’s most recent IRP found that its resource portfolio, which is mostly carbon-free (see “—Climate Change Legislation” below), should be in compliance with CETA’s clean energy requirements through the next 20 years.

### **Climate Change Legislation**

Policy initiatives to address climate change have an uncertain future at the national and regional levels. The U.S. Supreme Court’s order that “stayed” the federal Clean Power Plan, enacted under the federal Clean Air Act to regulate greenhouse gases (“GHG”), has been largely dissolved. It is unknown whether this law will be revived or another law imposing additional carbon control measures will be pursued on the federal level.

In 2008, the Washington State Legislature passed, and the State Governor signed, legislation requiring reductions in GHGs, initiating GHG reporting requirements, and requiring Ecology to make recommendations for the development of a market-based cap and trade system (codified at chapter 70.235 RCW). In 2016, Ecology adopted the Clean Air Rule (codified at WAC Ch. 173-442), which addressed the major sources of GHGs, including certain electric generators and fuel suppliers in the State, and required businesses that are responsible for large amounts of GHG emissions to cap and reduce their carbon emissions. Tacoma Power is not a covered entity under the Clean Air Rule. However, implementation of the Clean Air Rule affects the electric sector and potential demand for clean electricity in the State.

In March 2018, Thurston County Superior Court ruled that parts of the Clean Air Rule were invalid. The Superior Court’s ruling prevented Ecology from implementing regulations under the Clean Air Rule. On January 16, 2020, the State Supreme Court ruled that the portions of the Clean Air Rule that applied to stationary sources were upheld, but that the portions that applied to indirect sources, such as natural gas distributors and fuel suppliers (representing the majority of emissions), were invalid. The State Supreme Court remanded the case to Thurston County Superior Court to determine how to separate the Clean Air Rule. As the Thurston County Superior Court deliberates, Ecology is considering whether and how to implement the much narrower Clean Air Rule.

The Supreme Court’s ruling has spurred legislative activity to give Ecology authority over indirect emissions and other GHG reduction strategies. For instance, in 2020, the State Legislature amended RCW 70A.45.020 to update statewide GHG emissions reduction limits (emissions limits) set in 2008 to: a 95 percent reduction below 1990 levels by 2050, with interim State-wide emissions limits of 45 percent below 1990 levels by 2030, and 70 percent below 1990 levels by 2040. The State must achieve net zero emissions by 2050.

In the 2021 legislative session, the State Legislature passed, and the State Governor signed the Washington Climate Commitment Act (SB 5126), creating a comprehensive program to cap carbon pollution and GHG emissions and sets specific limits for individual businesses. The Climate Commitment Act requires Ecology to establish a program to cap and reduce GHG emissions consistent with the emission limits noted in the prior paragraph, among other measures.

Also in the 2021 legislative session, the State Legislature passed, and the State Governor signed, legislation establishing a Clean Fuels Program (“CFP”) (HB 1091) designed to limit the carbon intensity of transportation fuel in the State. The CFP requires Ecology to adopt rules to implement a clean fuel standard by 2023 and requires certain fuel producers to reduce the carbon intensity of their fuels 20% below 2017 levels by 2038, among other requirements.

The City will continue to monitor all legislative activity related to GHG reductions and clean energy requirements for potential effects on operations and market position.

Tacoma Power’s power supply portfolio is mostly carbon-free (82% hydroelectric, 7% nuclear, 7% wind and 3% unspecified in 2019). Tacoma Power’s owned resources are exclusively hydro-generation facilities; similarly hydro-generation facilities produce nearly all the electricity Tacoma Power receives through the BPA and Grant PUD contracts, along with a small amount of nuclear. Because so little carbon is associated with the electricity that Tacoma Power delivers to retail customers, federal or state initiatives to reduce carbon emissions are expected to minimally impact Tacoma Power’s resource costs. Moreover, Tacoma Power could benefit if, as is reasonable to expect, these initiatives lead to higher wholesale market prices and, in turn, higher utility revenues from sales of carbon-free surplus energy.

### **Endangered Species Listings**

Environmental stewardship is identified in Tacoma Power’s mission statement as an important element of its responsibility. Tacoma Power implements intradepartmental programs to comply with existing regulations. Seven species of fish potentially affected by Tacoma Power facilities have been listed by National Marine Fisheries Service as threatened under the ESA. The ESA makes it illegal to harm a listed species. A species may be jeopardized or “taken” when actions occur that harm members of the species or elements of its essential habitat. Tacoma Power does not expect these listings to cause major changes to operations; however, the full outcome of the listings is impossible to predict. Both the federal government and private citizens can file legal actions to remedy or prevent perceived violations of the ESA. Section 10 of the ESA does allow permits to be issued for certain “take” actions that are being undertaken for the purposes of scientific research or to enhance survival of the species pursuant to an individually approved “Habitat Conservation Plan.” Section 7 of the ESA provides for consultation by the federal agencies charged with implementing the ESA on projects obtaining federal funds or federal licenses and covers “indirect take” attributed to Tacoma Power facilities. For a discussion of the impact of these listings on Tacoma Power’s projects, see “POWER SUPPLY RESOURCES AND COST OF POWER—Tacoma Power-Owned Generating Resources—Cowlitz River Project,” “—Nisqually River Project,” and “—Cushman Hydroelectric Project.” Finally, Section 4(d) of the ESA allows certain categories of activities defined by federal rule to be conducted without “take” liability. In 2001, Tacoma Power obtained coverage under this provision for a wide variety of its utility maintenance activities by adopting and implementing the federally approved Regional Road Maintenance Endangered Species Act Program Guidelines.

## **TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE**

### **Transmission Access**

**FERC Order 890.** FERC Order 890, first issued in 2006 and revised in 2007, affects the way transmission is planned by the electric utility industry. Its goal is to prevent discrimination by owners of transmission facilities against utilities and power producers desiring transmission service. Order 890 strengthens the open access transmission tariff (“OATT”) standards, reduces opportunities for the exercise of market power, makes it easier to detect abuses, facilitates enforcement efforts and increases transparency in the areas of planning and transmission system use.

**FERC Order 1000.** In 2011, FERC issued Order 1000, which amended the transmission planning and cost allocation requirements established in Order 890. FERC issued Order 1000A in 2012, to include clarifications in response to petitions for rehearing filed on the original Order 1000. FERC subsequently issued Order 1000B, affirming its basic determinations in Order 1000 and Order 1000A in response to petitions for rehearing filed on Order 1000A. Collectively, these Orders are referred to as “Order 1000.” With respect to transmission planning, Order 1000 (i) requires that each jurisdictional utility transmission provider participate in a regional transmission

planning process that produces a regional transmission plan; (ii) requires that each jurisdictional utility transmission provider amend its OATT to describe procedures that provide for the consideration of transmission needs driven by public policy requirements in the local and regional transmission planning process; (iii) removes from FERC-approved tariffs and agreements a federal right of first refusal for certain new transmission facilities; and (iv) improves coordination between neighboring transmission planning regions for new interregional transmission facilities.

Order 1000 also requires each jurisdictional utility transmission provider to participate in a regional transmission planning process that has (i) a regional cost allocation method for the cost of new transmission facilities selected in a regional transmission plan for purposes of cost allocation; and (ii) an interregional cost allocation method for the cost of certain new transmission facilities that are located in two or more neighboring transmission planning regions and are jointly evaluated by the regions in the interregional transmission coordination procedures required by Order 1000. Each cost allocation method must satisfy six cost allocation principles specified by FERC.

Participation in regional transmission planning efforts is voluntary for non-jurisdictional utility transmission providers. Tacoma Power is not a jurisdictional utility but it is a “transmission provider” for purposes of Order 890 and Order 1000.

## **Regional Transmission**

***Regional Transmission Planning.*** BPA owns and operates a high voltage transmission system comprising approximately 75% of the bulk transmission capacity in the Pacific Northwest. Tacoma Power depends on BPA for the vast majority of its regional transmission needs. While Tacoma Power is not FERC jurisdictional, it is nonetheless interested in the development of a robust transmission network throughout the Pacific Northwest.

Tacoma Power is a member of NorthernGrid, a non-profit membership corporation formed in 2019 for the start of the 2020/2021 study cycle to improve the operational efficiency, reliability, and planned expansion of the regional transmission grid. NorthernGrid is made up of members from the now defunct ColumbiaGrid and Northern Tier Transmission Group. NorthernGrid itself does not own transmission, however, the high-voltage transmission systems owned by the NorthernGrid members make up a substantial transmission network. It is one of three regional planning organizations within the Western Electricity Coordinating Council (“WECC”) Interconnection; the other two are WestConnect and the California ISO.

NorthernGrid provides grid expansion planning to its members based on a single-utility concept for the combined transmission grids of its planning parties. The goal of grid expansion planning is to determine reasonable solutions, or mitigations, of transmission grid issues pertaining to serving load and complying with reliability standards. The members look to NorthernGrid’s grid expansion planning process to coordinate and support the development of multi-party transmission projects within the NorthernGrid’s region.

NorthernGrid currently has thirteen members: Avista Corporation, Berkshire Hathaway Energy Canada, BPA, Chelan County Public Utility District No. 1, Grant PUD, Idaho Power, NorthWestern Energy, PacifiCorp, Portland General Electric, Puget Sound Energy, Seattle City Light, Snohomish County Public Utility District No. 1, and Tacoma Power.

***Puget Sound Area Transmission Initiatives.*** Changing generation patterns and loads within the metropolitan Puget Sound area, regional transmission outages, and BPA’s obligation to return energy to Canada under the Columbia River Treaty, have occasionally created transmission congestion which has impacted Tacoma Power. Coordinated actions to re-dispatch local generation and a memorandum of understanding citing investment and cost-sharing responsibilities was signed by BPA, Seattle City Light and Puget Sound Energy in December 2011. These actions have averted the need to drop customer load in the Puget Sound area. The City is not a party to this agreement.

## **Transmission Reliability**

In March 2007, FERC issued Order 693, which addresses mandatory reliability standards for utilities. NERC was tasked with developing reliability standards for the electric industry and for ensuring those standards are met. All

users, owners and operators of the bulk power system are required to identify functions they perform and register the information with the NERC or their regional reliability organization. In Tacoma Power's case, this is the WECC.

Tacoma Power's Internal Compliance Program ("ICP") has developed over the years and continues to evolve as the NERC's Reliability Standards continue to change. Tacoma Power actively monitors and participates in the balloting process for the NERC Reliability Standards. Tacoma Power is committed to a culture of compliance and strives for continuous improvement throughout its ICP. Tacoma Power's ICP outlines the roles and responsibilities for compliance, includes documented processes, and describes the steps taken to ensure compliance and the reliable operation of the Bulk Electric Power System as required by federal laws and regulations, and applicable NERC standards as approved by FERC.

Tacoma Power's Reliability & Compliance Office consists of five functional areas to carry out its responsibility to facilitate compliance with NERC Reliability Standards: 1) Operations and Planning, 2) Critical Infrastructure Protection, 3) Internal Controls, 4) Document and Records Management, and 5) Cyber Security Awareness and Training. A Governance Committee comprised of Tacoma Power senior managers, the Tacoma Power Superintendent, and a representative from the legal department provides oversight to Tacoma Power's Reliability & Compliance Program. This helps ensure a culture of compliance is reflective across the entire organization and there is engagement at all levels. The Utility Technology Services Manager is responsible for the Reliability & Compliance Program and is also designated the CIP Senior Manager for Tacoma Power reporting directly to the Tacoma Power Superintendent.

Tacoma Power utilizes internal auditors for on-going assessments. Tacoma Power also utilizes outside consultants in preparation for audits conducted by WECC. Tacoma Power audits its compliance with a large number of NERC Reliability Standards at least once every three years. The objective of the internal audits is to gather evidence to determine compliance with the Reliability Standards and identify where any potential risks may exist within the compliance program.

In 2016, WECC conducted a Reliability & Compliance Internal Controls Evaluation ("ICE") on Tacoma Power's Reliability & Compliance Program. This evaluation is used to assess whether the controls and measures Tacoma Power uses to ensure compliance with the NERC Reliability Standards are adequate. The results of the evaluation along with any findings identified during the WECC On-Site Audit are used to establish WECC's Compliance Oversight Plan ("COP") for Tacoma Power. WECC implemented Tacoma Power's COP in November of 2016 which has resulted in a significant reduction in the number of Reliability Standards and Requirements Tacoma Power will be required to self-certify on and the scope of future audits.

A significant revision to the CIP requirements (Version 5/6), and over 20 new or revised Operations and Procedures standards became effective on July 1, 2016. Tacoma Power personnel vetted each of these standards through the new Standard Change Organizational Review and Evaluation ("SCORE") process to ensure compliance. The SCORE process takes each new or revised standard and evaluates the impact (low, medium, or high) based on the risk and the resources necessary for implementation. This evaluation also assists in building a work schedule for completing any necessary work and assessing compliance prior to the enforcement date(s).

### **Tacoma Power-Owned Transmission**

Tacoma Power owns, operates, and maintains a total of 352 circuit miles of transmission facilities: 44 circuit miles of 230 kV facilities and 307 circuit miles of 115 kV facilities, which are used to integrate generation, serve retail loads and provide wholesale transmission service. Key facilities include:

- Cowlitz Lines: approximately 19 miles of 230 kV transmission integrate Tacoma Power's Mayfield and Mossyrock hydroelectric generation at the Cowlitz River Project into BPA's transmission grid. Tacoma Power takes delivery of this power at its Cowlitz and Northeast, Southwest, and Canyon Substations.
- Potlatch Lines: approximately 85 circuit miles of 115 kV transmission facilities integrate Tacoma Power's hydroelectric generation at the Cushman Project into Tacoma Power's transmission system.

- LaGrande Lines: approximately 56 circuit miles of 115 kV transmission facilities integrate Tacoma Power's Alder and LaGrande hydroelectric generation at the Nisqually River Project into Tacoma Power's transmission system.
- Four major transmission substations, eight hydroelectric facility switchyards, five transmission switching substations and 23 load-service points to other utilities.
- Starwood Line: a 115 kV transmission interconnection of the Tacoma transmission system to Puget Sound Energy's transmission system.

### **Wholesale Transmission Service**

Tacoma Power uses portions of its transmission system to provide wholesale transmission service to BPA for delivery of BPA power to nine municipally-owned Pierce County utilities and a portion of the Lewis County Public Utility District.

In 2000, Tacoma Power reaffirmed its policy to provide non-discriminatory access to its transmission system through the adoption by the Board of a new wholesale transmission tariff.

In 2012, Tacoma Power updated the terms and conditions of its transmission tariff to be more in alignment with the FERC *pro forma* Open Access Transmission Tariff. At this same time, the rates included in Tacoma Power's tariff were also updated. This tariff was approved and adopted by both the Board and the City Council. In September 2012, Tacoma Power and BPA executed a replacement one-year transmission service agreement for the continued provision of wholesale transmission service to BPA. Currently, the parties have in place under the tariff, a mixture of network integration transmission service agreements with a term through 2028, and point-to-point transmission service agreements that expired in 2018. The intent is to replace the point-to-point agreements with network agreements once all necessary arrangements are in place.

Tacoma Power and Morgan Stanley Capital Group ("Morgan Stanley") entered into umbrella Firm and Non-Firm Point-To-Point Transmission Service Agreements under Tacoma Power's Open Access Transmission in July 2021. Under these agreements, Morgan Stanley will use the transmission service to deliver power from WestRock's biomass generating unit to the BPA transmission system for ultimate delivery to markets in the Western Interconnection for at least a one year period.

In 2015, Tacoma Power entered into a firm and non-firm point-to-point transmission service agreements with Powerex Corporation ("Powerex"). The 2015 agreements expired in July 2021 and Powerex and Tacoma Power entered into new agreements for such services in July 2021.

Finally, Lewis County Public Utility District receives transmission service for delivery of its Cowlitz Falls generation over Tacoma Power's facilities to BPA. The agreement was entered into in 1993 (before the wholesale transmission tariff was developed), and has a term concurrent with Lewis County Public Utility District's FERC hydro licenses. The transmission rate charged to Lewis County Public Utility District under the agreement was updated under the terms of the agreement in July 2021.

### **Retail Power Distribution**

Tacoma Power owns, operates and maintains approximately 1,172 miles of overhead and 862 miles of underground distribution facilities to serve its customers. This includes both 12.5 kV and 13.8 kV distribution lines, which are fed from 49 distribution substations, and 14 dedicated-load substations.

### **System Planning**

Tacoma Power achieves its commitment to reliable energy delivery through system planning and reliability centered maintenance programs in its transmission and distribution system business.



Annually, Tacoma Power assesses the sufficiency of its transmission network over a range of generation and load scenarios to assure reliability and sufficiency of transmission service commitments. Every two years Tacoma Power conducts a collaborative facilities planning process. Additionally, every six years Tacoma Power examines the need for changes to the transmission and distribution system over a 16-year period and publishes the results in its Transmission and Distribution Horizon Plan. Tacoma Power published its most recent Horizon Plan in December 2016. Tacoma Power implements technology enhancements, capacity additions, and renewal and replacement projects, following the strategic priorities established through these planning processes.

### **Asset Management**

A formal Asset Management program was initiated in 2009 to evaluate and recommend the gradual replacement of aging system components including substation power transformers. An enhanced focus on asset management is currently underway with an increase in resources devoted to this effort. Tacoma Power has implemented several examples of reliability, renewal, or capacity projects. Transmission capacity is annually evaluated for reliability and capacity performance, with the results being optimized with incremental upgrades to the network. Distribution circuits are being improved to allow tighter regulation of the voltage and achieve the resulting energy conservation. Power quality improvements are in progress that will reduce momentary interruptions and reduce maintenance of interrupting equipment. The Feeder Sectionalizing program began in 1999 with the purpose of reducing restoration time and the number of impacted customers. The Underground Cable Replacement program began in 2003 to proactively replace direct-buried cable systems with conduit and cables to reduce outage impact and frequency. Other ongoing substation equipment replacement programs include high voltage oil circuit breakers, high voltage fuses, and battery systems. Additionally, Tacoma Power's Distribution Substation Modernization Project includes protective relay upgrades and communications to microprocessor-based substation devices, which will provide valuable system information directly to the power system dispatchers through Tacoma Power's Supervisory Control and Data Acquisition and Energy Management System.

### **Construction and Maintenance**

Tacoma Power has a number of established preventive and predictive maintenance programs and continues to develop more. For example, the substation predictive maintenance program can identify substation equipment requiring corrective action before a failure occurs through utilization of infrared, Doble testing, oil sample testing, and dissolved gas analysis. Tacoma Power owns and maintains approximately 49,000 power poles. Tacoma Power's Pole Replacement program strategy is to test and treat 9% of the poles annually maintaining an 11-year cycle. Tacoma Power also performs tree trimming around its distribution and transmission lines, maintaining two and four year trimming cycles along with programs to replace dangerous trees with utility friendly trees.

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## CAPITAL IMPROVEMENT PROGRAM

Tacoma Power has funded its past capital improvement programs from contributions in aid of construction, proceeds of Parity Bonds and subordinate lien revenue bonds, and Revenues of the Electric System. The actual amounts spent during the past five years, together with the sources of funds used, are displayed in the table below.

**TABLE 18**  
**HISTORICAL SOURCES OF CAPITAL IMPROVEMENT FUNDS**  
**(\$000)**

<u>Source of Funds</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Parity and Subordinate Lien Bond Proceeds	\$ 58,416	\$ 13,589	\$ 74,834	\$ 7,907	\$ 59,391
Contributions in Aid of Construction <sup>(1)</sup>	4,760	9,447	8,428	7,348	4,942
Revenues of the Electric System	27,613	43,996	13,411	38,579	3,865
Total	<u>\$ 90,789</u>	<u>\$ 67,032</u>	<u>\$ 96,673</u>	<u>\$ 53,834</u>	<u>\$ 68,198</u>

<sup>(1)</sup> Customer contributions to fund capital projects.

*Source: Tacoma Power*

Tacoma Power has a long-term goal to finance an average of 50% of its normal capital requirements from net operating revenues with the balance from contributions in aid of construction received from customers and borrowed funds. However, due to varying water conditions, the amount of the capital improvement program, and overall debt management, the amount actually financed from net operating revenues varies from year to year. From 2016 to 2020, Tacoma Power financed an average of 53% annually of its capital improvements from borrowed funds. Tacoma Power's policy is to fund major projects with borrowed funds.

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Tacoma Power has prepared a capital improvement program designed to meet its needs through 2025. The table below shows Tacoma Power's estimates of project expenditures and sources of funds. Major capital projects include the AMI project (see "ELECTRIC SYSTEM CUSTOMERS, ENERGY SALES, REVENUES AND RATES—Tacoma Power Customers"), fish facility improvements, dam maintenance, fleet replacement, replacement of aging transmission towers, energy management system upgrades and technology upgrades. Tacoma Power targets financing approximately 50% of capital projects with available Gross Revenues.

**TABLE 19**  
**PROJECTED CAPITAL IMPROVEMENT PROGRAM<sup>(1)</sup>**  
**(\$000)**

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Project Expenditures</b>					
Power Supply	\$15,159	\$15,159	\$24,834	\$24,834	\$27,274
Transmission and Distribution	23,574	23,575	27,367	27,368	27,973
Utilities Technology	18,290	18,291	12,348	12,349	9,855
Conservation	5,694	5,695	7,250	7,250	7,250
General Plant	12,230	12,231	6,742	6,742	6,498
Total Project Expenditures	<u>\$74,947</u>	<u>\$74,951</u>	<u>\$78,541</u>	<u>\$78,543</u>	<u>\$78,850</u>
<b>Sources of Funds</b>					
Gross Revenues	\$30,117	\$30,120	\$39,271	\$39,272	\$39,425
Parity and Subordinate Lien Bond Proceeds <sup>(2)</sup>	44,830	44,831	39,270	39,271	39,425
Total Sources of Funds	<u>\$74,947</u>	<u>\$74,951</u>	<u>\$78,541</u>	<u>\$78,543</u>	<u>\$78,850</u>

(1) Reflects nominal dollars.

(2) Includes estimated 2021 Note proceeds. See "DEBT INFORMATION—Subordinate Lien Obligations."

Source: Tacoma Power

## FINANCIAL INFORMATION

### Management Discussion of Historical Operating Results

The table below, entitled "Operating Results and Debt Service Coverage," presents a summary of Tacoma Power's revenues, expenses and income available for debt service and general utility purposes for the calendar years 2016 through 2020.

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2020 is 182,526 compared to 182,234 in 2019 and 177,723 in 2018. Energy sales billed to residential and other customers increased 1.0% in 2020 and commercial/general/industrial billings decreased 3.0%. Residential customers revenues increased by \$4.6 million, or 2.5%, compared to 2019. Wholesale power billed in 2020 was 2,326,504 MWh compared to 1,430,766 MWh in 2019, an increase of 895,738 MWh or 62.6%.

Operating revenues totaled \$461.0 million in 2020 compared to \$461.4 million in 2019, a decrease of \$413,000 or 0.1%. The decrease in operating revenues was primarily due to a decrease in Click! operating revenue of \$19.3 million due to Tacoma Power transferring operations of Click! to a third party (see "THE DEPARTMENT OF PUBLIC UTILITIES-TACOMA POWER—Tacoma Power – General"). Although operating revenues decreased in 2020, compared to 2019, operating expenses also decreased by \$51.8 million.

There was an approximate overall rate increase of 2% effective July 1, 2020 coupled with an increase in consumption of 13,000 in MWh billed. Wholesale power sales increased \$12.2 million or 25.7% mainly due to an increase in consumption of 896,000 in MWh billed from above-average water conditions.

In 2020, residential sales accounted for 43.7% of electric revenues, commercial and industrial revenues accounted for 42.5% and wholesale power revenues accounted for 13.8%. Other operating revenues increased \$5.4 million or 28.8%. The increase was primarily due to reimbursement of qualified conservation expenses due to a change in legislation.

Tacoma Power experienced near-critical water conditions in 2019, resulting in reduced wholesale revenue and increased purchased power expenses. While the utility began the year with 206 days of liquidity (\$193 million), it ended 2019 with 157 days of liquidity (\$170 million). Debt service coverage was also lower, and Tacoma Power transferred \$10 million from the Rate Stabilization Fund to apply to 2019 revenues.

Tacoma Power had the following number of days' cash on hand: 236 in 2016, 210 in 2017, 205 in 2018, 157 in 2019 and 231 in 2020.

The table on the following page presents a summary of Tacoma Power's revenues, expenses and income available for debt service and general utility purposes for the calendar years 2016 through 2020. Tacoma Power has been in compliance with its rate covenant for the period shown.

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**TABLE 20**  
**TACOMA POWER OPERATING RESULTS AND DEBT SERVICE COVERAGE**

	2016	2017	2018	2019 <sup>(9)</sup>	2020
<b>Operating Revenues</b>					
Sales of Electric Energy <sup>(1)</sup>	\$374,249,290	\$401,631,506	\$411,393,120	\$417,066,344	\$430,538,416
Other Operating Revenue <sup>(2)</sup>	17,690,192	18,192,038	18,539,960	18,801,890	24,211,850
Click! Revenue <sup>(3)</sup>	26,674,906	26,519,861	25,358,403	25,498,262	6,202,935
<b>Total Operating Revenue</b>	<b>418,614,388</b>	<b>446,343,405</b>	<b>455,291,483</b>	<b>461,366,496</b>	<b>460,953,201</b>
<b>Operating Expenses</b>					
Purchased/Interchanged Power <sup>(4)</sup>	126,835,928	135,822,340	134,618,445	161,088,947	137,081,542
Generation	19,270,201	23,118,677	16,241,304	28,362,445	21,720,288
Transmission	28,075,318	27,562,757	29,394,316	33,183,358	35,020,729
Distribution	20,477,257	19,675,524	15,781,781	22,584,269	21,446,075
Other	18,677,827	20,077,132	20,140,445	25,362,190	26,271,964
Maintenance	32,342,896	30,074,370	31,200,935	38,979,938	31,339,603
Telecommunications <sup>(3)</sup>	26,059,166	25,309,470	22,791,699	22,264,464	5,134,281
Operating Taxes <sup>(5)</sup>	19,727,313	20,755,847	21,486,970	22,139,736	21,530,739
Administrative & General <sup>(6)</sup>	41,051,795	43,377,927	43,716,689	56,899,927	60,067,993
<b>Operating Expenses</b>	<b>332,517,701</b>	<b>345,774,044</b>	<b>335,372,584</b>	<b>410,865,274</b>	<b>359,613,214</b>
Depreciation <sup>(7)</sup>	55,702,297	57,231,313	53,869,012	48,700,270	48,123,728
<b>Non-operating Revenues(expenses)</b>					
Interest Income	2,405,144	2,251,477	3,719,705	7,607,143	6,064,525
CARES grant	-	-	-	-	463,718
Contribution to Family Need	(480,000)	(100,000)	(100,000)	(500,000)	(500,000)
Other	1,555,659	(1,534,389)	1,776,333	1,795,633	775,093
Interest on Long-term Debt	(15,893,207)	(18,209,650)	(18,834,946)	(21,072,882)	(20,239,404)
Amort. of Debt Premium	(303,527)	4,132,856	1,615,670	1,549,892	1,482,160
Gain on Sale/Disposal assets					5,841,184
<b>Total Non-operating expense</b>	<b>(12,715,931)</b>	<b>(13,459,706)</b>	<b>(11,823,238)</b>	<b>(10,620,214)</b>	<b>(6,112,724)</b>
<b>Net Income before Capital Contributions and Transfers</b>	<b>17,678,459</b>	<b>29,878,342</b>	<b>54,226,649</b>	<b>(8,819,262)</b>	<b>47,103,535</b>
Capital Contribution					
Cash	4,741,136	8,806,311	8,771,749	7,450,252	4,796,109
Donated Fixed Assets	421,334	149,323	618,713	356,918	219,271
Interest subsidies	3,683,746	3,687,700	3,824,135	3,592,789	3,725,269
Transfers- City of Tacoma					
Gross Earnings Tax	(30,460,098)	(34,141,875)	(34,384,956)	(33,985,153)	(36,809,285)
Transfers to/from Other funds	(2,181)	-	-	-	25,937,720
Current Fund Interest <sup>(8)</sup>	\$2,382,116	2,231,113	3,675,478	7,521,661	5,996,486
Other Non-Operating Revenue (Expense)	4,759,405	2,053,311	5,500,468	4,888,422	9,841,546
Total Other Income	7,141,521	4,284,424	9,175,946	12,410,083	15,838,032
Transfers (to)/from the Rate Stabilization Fund <sup>(9)</sup>	-	-	-	10,000,000	-
<b>Net Revenue</b>	<b>\$93,238,208</b>	<b>\$104,853,785</b>	<b>\$129,094,845</b>	<b>\$62,911,305</b>	<b>\$117,178,019</b>
Net Debt Service <sup>(10)</sup>	\$31,755,810	30,524,910	30,238,110	29,053,360	26,690,110
<b>Parity Bond Coverage</b>	<b>2.94</b>	<b>3.44</b>	<b>4.27</b>	<b>2.17</b>	<b>4.39</b>
Income Available for General Utility Purposes	\$61,482,398	\$74,328,875	\$98,856,735	\$33,857,945	\$90,487,909

Footnotes on the following page.

## Footnotes to Table 20

- (1) Includes unbilled revenues.
- (2) Includes rentals and leases from electrical properties, wheeling and service fees, and telecommunications revenues.
- (3) On April 1, 2020, operational control of Click! was transferred from Tacoma Power to a private operator. See “THE DEPARTMENT OF PUBLIC UTILITIES – TACOMA POWER—Tacoma Power – General.”
- (4) Includes electric power production costs as well as purchased power costs and interchange power costs. Excludes net conservation costs.
- (5) Primarily Washington utility and business operations tax, but also includes some county in lieu of taxes as well as some school support and some fire protection district payments.
- (6) Administrative and general expenses increased in 2019 mostly due to an increase in pension expenses, salaries and wages.
- (7) For purposes of the debt service coverage calculation, depreciation and City gross earnings taxes are excluded from Tacoma Power’s operating expenses, although these costs appear as operating expenses on Tacoma Power’s audited financial statements attached as Appendix D.
- (8) Includes interest earnings from current funds and customer and contractor deposits.
- (9) The City transferred \$10 million from its Rate Stabilization Fund to offset reduced wholesale revenue and increased purchased power expenses due to near-critical water conditions in 2019.
- (10) January 1 payment included in the prior year. Net Debt Service based on accrued interest and principal payments in that year, consistent with City of Tacoma Annual Financial Statements.

*Source: City of Tacoma*

## Debt Service Coverage

Tacoma Power is required by its Parity Bond covenants to maintain debt service coverage of 1.25 times actual Annual Debt Service. As shown above, debt service coverage over the past five years has exceeded the 1.25 times requirement. See “SECURITY FOR THE 2021 BONDS—Rate Covenant and Debt Service Coverage Covenant.”

The Board has adopted a policy of minimum debt service coverage of 1.50 assuming water conditions that have historically been exceeded 75% of the time (adverse water). See “Financial Policies” below. Over the period from 2016 to 2020, debt service coverage has ranged from a low of 2.17 times in 2019 to a high of 4.39 times in 2020.

## Liquidity

As of December 31, 2020, Tacoma Power’s cash and equity in pooled investments totaled \$232 million, and special funds totaled \$60 million. Tacoma Power’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 Tacoma Power, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents. Special funds have been established in accordance with bond resolutions, agreements and laws. 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.

Cash and equity in pooled investments and special funds for each of the years 2016 through 2020 are summarized in the table below.

**TABLE 21**  
**ELECTRIC SYSTEM**  
**CASH, TEMPORARY INVESTMENTS AND SPECIAL FUNDS**

<b>Year (as of December 31)</b>	<b>Cash and Equity in Pooled Investments<sup>(1)</sup></b>	<b>Special Funds</b>
2020	\$ 232,705,864	\$ 59,773,857
2019	177,470,619	63,664,739
2018	198,826,677	51,296,211
2017	195,175,918	28,760,784
2016	214,474,287	43,107,806

*Source: City of Tacoma*

### Investments

The City's Investment Committee is composed of the Mayor, the Finance Director and the City Treasurer. The City Treasurer invests City funds, including Tacoma Power's funds. Among the investments permitted by State law and the Investment Committee's policy are banker's acceptances of the top 50 world banks as published by American Banker, U.S. Treasury bills, certificates, notes and bonds, certain U.S. Government agency securities, commercial paper with the highest rating by at least two nationally recognized rating agencies, repurchase agreements with the market value of collateral exceeding the dollar amount of the repurchase agreement by 2% over the term of the agreement, reverse repurchase agreements, the State Local Investment Pool (described below), municipal securities, certificates of deposit, corporate notes and supranational agency bonds.

As of December 31, 2020, the City's cash and investments on a fair value basis, totaled approximately \$1.1 billion, not including City pension funds. The portfolio was distributed in various types of investment instruments in the following percentages:

**TABLE 22**  
**CITY INVESTMENTS**  
**(AS OF DECEMBER 31, 2020) <sup>(1)</sup>**

Bank Interest-Bearing Accounts	7.07%
Local Government Investment Pool	6.82
U.S. Treasuries	33.75
Municipal Securities	1.06
Federal Home Loan Mortgage Assn (Freddie Mac)	11.74
Federal Farm Credit Bank (Farm Credit)	10.98
Federal Home Loan Bank (Home Loan)	11.76
Federal National Mortgage Assn (Fannie Mae)	10.20
Corporate	5.70
Supernational	0.91
Total	100.00%

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

*Source: City of Tacoma*

**State Local Investment Pool.** The State Treasurer's Office administers the Local Government Investment Pool (the "LGIP"), an optional investment tool that in fiscal year 2020 held an average balance of \$17.7 billion on behalf of 630 participants. In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to attain the highest possible

yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

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

***Authorized Investments.*** Chapter 35.39 RCW authorizes the investment of funds of local governments in the following instruments: (i) bonds of the State or any local government in the State, (ii) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (iii) registered warrants of a local government in the same county as the local government making the investment, (iv) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided, that at the time of investment, the United States government is the largest shareholder of such institution, (v) obligations of the Federal Home Loan Bank, Federal Land Bank and Fannie Mae, and obligations of other government-sponsored corporations whose obligations are or may become eligible as collateral for advances to member banks of the Federal Reserve System, (vi) bankers’ acceptances purchased on the secondary market, (vii) commercial paper purchased on the secondary market, subject to State Investment Board policies, and (viii) corporate notes purchased on the secondary market, subject to State Investment Board policies.

## **Financial Policies**

Tacoma Power has formally adopted certain minimum thresholds as a guide to financial management and rate setting. These thresholds are included in the Electric Rate and Financial Policy and are periodically reviewed and approved by the Board and City Council after any modification. These thresholds include setting rates at levels to provide projected cash balances equivalent to at least 90 days of current budgeted expenditures inclusive of current revenue-funded capital expenditures and the gross earnings tax, assuming water conditions that have historically been exceeded 75% of the time (adverse water). In addition, Tacoma Power has a policy of setting retail rates to maintain a debt service coverage ratio of at least 1.50 times based on Net Revenues, including surplus power sales, under adverse water conditions and 1.80 times based on Net Revenues under average water conditions.

The Board and City Council approved an amended Electric Rate and Financial Policy (“ERFP”) in 2015 to provide guidance in the use of long- and short-term debt to finance capital projects; provide clarification pertaining to the use of financial metrics; and provide additional requirements pertaining to the funding of the Rate Stabilization Fund. The ERFP was also amended in 2017 to modify a New Large Load policy, and in 2018 to modify the description of low-income customers, add a rate-setting objective to maintain rate stability, and add a description of a phased-in approach for rate adjustments.

The current Electric Rate and Financial Policy also specifies that rates will be based on cost-of-service within a customer class, restrictions on the term of debt, financing of approximately 50% of non-major capital projects with current revenue and financing of long term major projects primarily through debt. See “CAPITAL IMPROVEMENT PROGRAM.”

## **Budgetary Process**

The Tacoma Power biennial operating and capital budgets are proposed by the Board and subject to approval by the City Council. Under the City Charter, the City Council has budgetary control at the fund level. Expenditures may



not exceed budgeted appropriations at the fund level. Tacoma Power is a “fund” for accounting purposes. The City Manager and Director of Utilities, as appropriate, may authorize transfers within funds. The City Council, however, must approve any amendments that increase the total expenditures for a given fund.

## **Auditing**

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and RCW 43.09.230. State statutes require annual accounting audits for cities to be conducted by the Office of the State Auditor. The City complies with the systems and controls prescribed by the Office of the State Auditor and establishes procedures and records which are intended to assure the reliability of the City’s financial reporting.

The State Auditor is required by law to examine the affairs of cities at least once every two years. The City, including Tacoma Power and other City utilities, is audited annually. The examination includes, among other things, the financial condition and resources of the City, whether the relevant laws and Constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor’s examinations are required to be filed in the office of the State Auditor and in the finance department of the City.

Tacoma Power’s financial statements are audited by an independent accounting firm. The financial statements of Tacoma Power for fiscal years 2019 and 2020 were prepared by the City of Tacoma Finance Office and audited by Moss Adams LLP, Tacoma Power’s independent auditor. Tacoma Power’s audited financial statements for such years, including the audit letter, have been included in Tacoma Power’s 2020 Annual Financial Report. The audited financial statement and unaudited supplemental information has been extracted from such report for inclusion in this Official Statement. See Appendix D.

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

## **Taxes Imposed on Tacoma Power**

State law and the City Charter allow the City to impose a gross earnings tax not exceeding 8% upon the revenues of Tacoma Power, unless approved by a vote of the citizens. Pursuant to RCW 35.21.870, the City voters approved an additional 1.5% increase to the earnings tax applicable to investor and city utilities related to telephone, electric, and natural gas services for a period of 10 years beginning in 2016 to fund various street improvements. As a result, the gross earnings tax applicable to Tacoma Power revenue is 7.5% until 2025. Payment of the gross earnings tax to the City is subordinate to the payments required to be made by Tacoma Power into any fund or funds previously or subsequently created for the payment of the principal of, and interest on, Tacoma Power’s electric revenue bonds. The City Charter provides that the tax on City-operated utilities shall not be disproportionate to the taxes the utility would pay if it were privately owned.

Tacoma Power also pays an excise tax imposed by the State, generally at the rate of 3.8734% of gross revenues, with certain exceptions. Tacoma Power further makes certain payments-in-lieu-of-taxes on property owned by Tacoma Power that is outside the City limits, and pays miscellaneous fees, licenses, and sales and use taxes to the State and other municipalities. Most of these taxes and payments (other than to the City) are Operating Expenses of the Electric System.

## **Retirement System**

***Tacoma Employee Retirement System.*** Substantially all City employees, are covered by a contributory retirement plan administered by the City’s Employee Retirement System (“TERS”), an actuarially funded system administered by the City. Law enforcement officers and firefighters are covered by the Law Enforcement Officer and Firefighter Retirement System (“LEOFF”), which is operated by the State for law enforcement officers and firefighters

throughout the State. Additionally, the City administers two single-employer pension funds as required by State Statute: a Police Relief and Pension Fund and a Firemen's Relief and Pension Fund. The following information regarding TERS is provided on a City-wide basis. The most recent actuarial valuation of TERS was completed as of January 1, 2020 by Milliman (the "Milliman Report"). Additional information, including the Milliman Report, is available on the TERS website (which website is not incorporated herein by this reference) at: [www.cityoftacoma.org/retirement](http://www.cityoftacoma.org/retirement).

TERS is a cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City, with the exception of police officers, firefighters, Tacoma Rail employees who are covered by other retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in TERS when these agencies were still City departments, are also members. The Board of Administration of TERS (the "Board") administers the plan, and benefit provisions are established in accordance with chapter 41.28 RCW and Chapter 1.30 of the Tacoma Municipal Code. The Board consists of nine members, including the City Mayor, who serves as chair, Finance Director, City Manager (or designee), Public Utilities Director (or designee), three employees one retiree and one City resident (not employed by the City) elected by the other eight members. The Board is required by the City's municipal code to make annual reports to the City Council on the financial condition of TERS. The Board, subject to City council approval, appoints the Director who is responsible for managing the daily operations of TERS. As of January 1, 2021, there were 2,654 retirees and beneficiaries currently receiving benefits, 582 vested terminated members entitled to future benefits and 3,037 active members in TERS.

Contributions City-wide totaled \$53.0 million in 2020 (\$28.6 million in employer contributions and \$24.4 million in employee contributions) and totaled \$51.7 million in 2019 (\$27.9 million in employer contributions and \$23.8 million in employee contributions). Tacoma Power contributed \$11.1 million in 2020 (2.7% of Operating Expenses) and \$11.0 million in 2019 (2.4% of Operating Expenses). The contribution rate for Tacoma Power's covered payroll is currently set at 21% of gross wages for 2020 (11.34% paid by Tacoma Power and 9.66% paid by employees).

Tacoma Power is current in all payments to TERS. Further details about the plan are included in Note 10 in Appendix D.

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

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

For the years ending December 31, 2019 and December 31, 2020, the City contributed approximately \$4.8 million and \$4.9 million, respectively, to LEOFF Plan 2.

Information regarding LEOFF is presented in annual financial report of the State Department of Retirement Systems ("DRS"), which may be obtained from:

Department of Retirement Systems  
1025 East Union Street  
P.O. Box 48380  
Olympia, WA 98504-8380  
Internet Address: [www.drs.wa.gov](http://www.drs.wa.gov) (which website is not incorporated herein by reference)

While the City's contributions in 2019 represented its full statutorily required contribution to LEOFF, any unfunded pension benefit obligations within the systems could be reflected in future years as higher contribution rates. The website of the Office of the State Actuary (which is not incorporated into this Official Statement by reference) includes information regarding the values and funding levels of LEOFF and other State-administered pension plans. The DRS Comprehensive Annual Financial Report for the year ended June 30, 2020 reported that LEOFF Plan 1 and Plan 2 each has a funded ratio in excess of 100% and a net pension asset.

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

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

In 2020, the City reported a pension asset of \$18,606,284 and Tacoma Power's proportionate share was 38.64% of that asset, or \$7,189,022, which was based on total actual contributions for the year.

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

In addition to pensions, many state and local governmental employers provide other post-employment benefits ("OPEB") as part of total compensation to attract and retain the services of qualified employees. OPEB includes post-employment health care as well as other forms of post-employment benefits that are provided separately from pension plan benefits. GASB issued a standard concerning Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions. The standard provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports.

The City allows retirees to participate in medical, dental and vision programs from the time retirement begins until they qualify for Federal funded programs. The City uses pay as you go funding, and upon retirement the retiree is responsible for paying a blended premium, which prior to retirement was paid by the City. The benefit is an implicit subsidy to the retiree. As of December 31, 2020, the City's net other post-employment benefits ("OPEB") obligation was \$208,422,031, of which \$10,972,398 was related to Tacoma Power. Further details about OPEB are provided in Note 11 in Appendix D.

### **Deferred Compensation**

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

## **Program of Insurance**

The Department currently maintains a combination of commercial insurance policies and a self-insurance program.

The Department 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 2020 and 2019 were \$6,887,880 and \$7,569,589, 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 2020 and 2019, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$105,540 and \$152,101 for 2020 and 2019, respectively, which was used to offset the corresponding year's fleet expenses.

Per City ordinance, in 2020 Fleet Services Fund transferred operating division fleet assets to Power, Rail, and Water for funding flexibility. \$7.1 million of unspent capital fund contributed to Fleet from Power and \$18.8 million of net book value in assets (net between cost of \$46.3 million and accumulated depreciation of \$27.5 million) were transferred to Power in 2020. Fleet Services Fund maintains the purchasing and maintenance responsibilities.

The Department 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 were \$1.0 million in 2020 and 2019. As of December 31, 2020, assets in the Self-Insurance Fund total \$10.2 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 Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee retirement plans. The coverage also provides a Government Crime policy with a \$1.0 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest acts by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.0 million per occurrence and an additional \$250,000 of total loss in excess of the self-insured retention. Such additional \$250,000 deductible may be satisfied by loss from one or more occurrences. Coverage also includes a Cybersecurity policy.

Separate from General Government, the Department of Public Utilities maintains Property insurance and Excess Liability insurance. The Property insurance policy has a deductible of \$250,000 per occurrence that applies to the buildings and contents while a deductible of \$10,000 per vehicle applies to motor vehicles. Coverage also provides a Wrongful Acts Liability policy with a limit of \$1.25 million for each wrongful act and a \$2.5 million aggregate. Excess Liability policies provide coverage in excess of the previously noted Wrongful Acts liability policy and include General liability and Automobile liability coverage with a \$1.5 million retention. Coverage also includes Aviation Liability - Unmanned aircraft liability for drones with a limit of \$1.0 million.

Tacoma Power hydroelectric generation, transmission and distribution and other similar systems and infrastructure are not covered by property insurance policies. Tacoma Power purchases specific flood insurance for two powerhouses.

## CERTAIN INVESTMENT CONSIDERATIONS

*Prospective purchasers of the 2021 Bonds should consider the matters set forth below as well as other information contained in this Official Statement in evaluating an investment in the 2021 Bonds. This section does not purport to be a comprehensive list or description of all potential risks which, if realized, could adversely affect the payment or the value of the 2021 Bonds. The order of presentation of these factors below is not intended to create any implication as to the relative importance of any one risk factor over another.*

### **Various Factors Affecting the Electric Utility Industry**

The electric utility industry has been and continues to be affected by numerous factors that impact the business operations and financial condition of the electric utilities, including Tacoma Power. Such factors include, among others, (a) environmental, safety, licensing, and other regulatory requirements, including the imposition of renewable energy portfolio requirements and reliability standards, as well as carbon production greenhouse gas emission limitations, by federal and state governmental authorities; (b) new federal and state energy policies and legislation; (c) competition from other electric utilities, independent power producers and marketers, brokers and federal power marketing agencies; (d) the rapid growth of non-dispatchable and zero marginal cost resources (such as wind and solar) coupled with the limited availability of highly flexible resources (such as natural gas-powered turbines) (e) self-generation (such as cogeneration and biomass facilities and natural gas-fired turbines) and distributed generation (such as distributed photovoltaic installations, micro turbines and fuel cells) by industrial, commercial and residential customers, (f) new methods of, and technology and facilities for, producing and storing energy for electric use; (g) increases in operating costs and the cost and availability of capital; (h) the availability and relative costs of different fuels and hydrological conditions such as drought; (i) volatility of energy prices, including sudden and/or substantial increases or decreases in the price of energy in the wholesale energy markets; (j) voter initiatives and other state and local propositions; and (k) changes in the availability of and demand for power as a result of economic, demographic, weather and other factors. See “POWER SUPPLY RESOURCES AND COST OF POWER—Long-Term Purchases of Power Supply and Related Transmission Services—*BPA Purchases*”, “CERTAIN FEDERAL AND STATE LAWS AND REGULATIONS AFFECTING TACOMA POWER—Climate Change Legislation,” and “TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE”.

Significant, ongoing uncertainty relating to the above factors, particularly those involving political, regulatory, and technological issues, creates continuing difficulty for the industry with respect to long-term planning and decision making. Tacoma Power is unable to predict what impacts such factors will have on its business operations and financial condition, but such impact may be significant. This Official Statement includes a brief discussion of certain of these factors. Those discussions do not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain.

### **Initiative and Referendum**

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

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

ordinances take effect only after the expiration of 10 days from publication and are subject to the provisions of the City Charter concerning referendum.

### **Limitations on Remedies**

Any remedies available to the owners of the 2021 Bonds upon the occurrence of an Event of Default under the Bond Ordinance are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time consuming to obtain. If the City fails to comply with its covenants under the Bond Ordinance or to pay principal of or interest on the 2021 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2021 Bonds.

In addition to the limitations on remedies contained in the Bond Ordinance, the rights and obligations under the 2021 Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Pacifica Law Group LLP, as Bond Counsel, concurrently with the issuance of the 2021 Bonds, will be subject to limitations regarding bankruptcy, insolvency, and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the 2021 Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

### **No Acceleration**

Under the Bond Ordinance, an owner of the 2021 Bonds cannot require acceleration of debt service on the 2021 Bonds upon the occurrence of an Event of Default under the Bond Ordinance. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of or interest on the 2021 Bonds, the bond owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between owners of earlier and later maturing 2021 Bonds.

### **Municipal Bankruptcies**

A municipality such as the City must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Chapter 39.64 RCW, entitled the "Taxing District Relief Act," permits any "taxing district" (defined to include cities) to petition for relief under the Bankruptcy Code. Tacoma Power, being a division of the City, cannot file separately for bankruptcy protection. A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the City. While an involuntary bankruptcy petition cannot be filed against the City, the City is authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the holders of the 2021 Bonds.

To the extent that the Revenues are determined to be "special revenues" under the Bankruptcy Code, then Revenues collected after the date of a bankruptcy filing should continue to secure the City's obligations under the Bond Ordinance. "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. No assurance can be given that a court would hold that the Revenues are special revenues. If any of the Revenues are determined not to be special revenues, then any such amounts collected after the commencement of the bankruptcy case will likely not secure the City's obligations under the Bond Ordinance or the 2021 Bonds. The holders of the 2021 Bonds may not be able to assert a claim against any property of the City other than the Revenues, and if any or all of the Revenues no longer secure the Bond Ordinance and 2021 Bonds, then there may be limited, if any, funds from which the holders of the 2021 Bonds would be entitled to be paid.

The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the transaction documents may not be applicable.

If the City is in bankruptcy, the parties (including the Bondowners' Trustee and the holders of the 2021 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. The rate covenant may not be enforceable in bankruptcy by the holders of the 2021 Bonds. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and reductions in payments could result.

The legal opinion of Bond Counsel regarding the validity of the 2021 Bonds will be qualified by reference to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws affecting the rights of creditors generally, and by general principles of equity. See Appendix C.

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

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

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

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

### **COVID-19 Pandemic; Public Health**

As discussed herein, the COVID-19 pandemic is affecting many parts of the world, including the State and local region. The COVID-19 outbreak is ongoing, and its dynamic nature leads to uncertainties, including (i) the geographic spread of the virus and its variants and the emergence of new variants; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that governmental authorities may take to contain or mitigate the outbreak; (v) the development, efficacy and distribution of medical therapeutics and vaccinations, vaccination rates, and the efficacy of therapeutics and vaccines to emerged and new variants; (vi) the impact of the outbreak on the local or global economy; (vii) whether and to what extent the Governor may order additional public health measures; and (viii) the impact of the outbreak and actions taken in response to the outbreak on City and Tacoma Power revenues, expenses and financial condition.

The City cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the State and regional economy. Prospective investors should assume that the restrictions and limitations instituted related to COVID-19 may continue, that the current upheaval to the national and global economies and financial markets may continue and/or be exacerbated, at least over the near term, and that the recovery may be prolonged. Additional pandemics, and other public health emergencies, may occur and may occur with greater frequency and intensity given trends in globalization.

## **Climate Change**

There are potential risks to the City, including Tacoma Power, associated with long-term changes in climate and associated changes in the frequency, timing, and severity of extreme weather events. Expected impacts include sea level rise, more intense heavy rain events, more intense summer heat events, lower and warmer summer streamflows, ocean acidification, and an increased risk of flooding, drought, landslides, and wildfires. The City considers the environmental impacts associated with climate change in its decision making. In 2016, the City adopted an Environmental Action Plan (“EAP”), a list of meaningful, high-priority actions that the City and Tacoma Public Utilities will take between 2016 and 2020 to meet the environmental goals outlined in the Tacoma 2025 Strategic Plan. The 2016 EAP replaced the 2008 Climate Action Plan and builds on the 2016 Climate Change Risk Assessment to present near-term sustainability targets and actions in six different categories. The City releases a report annually detailing progress made on each target and action. While the City cannot predict precisely how, when, and where specific climate impacts will occur, there have been and will be climate impacts on the City, including Tacoma Power, and the surrounding region, which may have a material impact on the City, including Tacoma Power, and its operations and finances.

See also “CERTAIN FEDERAL AND STATE LAWS AND REGULATIONS AFFECTING TACOMA POWER.”

## **Cybersecurity**

In addition to security as mandated by NERC Critical Infrastructure Protection standards (see “TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE—Transmission Reliability”), Tacoma Power seeks to utilize best practices for securing utility operational networks and systems. These practices include isolating command and control systems from the Internet; network surveillance; and overseeing physical access. Tacoma Power has defined processes, measures and controls that guard the reliability of its systems and protect it from cyber threats.

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

## **Lack of Secondary Market**

The Underwriters have advised the City that they intend initially to make markets in the 2021 Bonds; however, the Underwriters are not obligated to make such markets, such markets may be discontinued at any time without notice, and no assurance can be given that secondary markets therefor will develop.

## **LITIGATION**

### **No Litigation Concerning the 2021 Bonds**

There is no litigation pending or threatened in any court (local, state, or federal) to restrain or enjoin the issuance or delivery of the 2021 Bonds, or questioning the creation, organization, existence, or title to office of the officers of the Department, Tacoma Power or the City, the validity or enforceability of the Bond Ordinance, or the proceedings for the authorization, execution, sale, and delivery of the 2021 Bonds.

### **Other Litigation**

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



**Ted Coates, et al. v. Tacoma.** On June 22, 2017, a lawsuit was filed with the City alleging Tacoma Power has been unlawfully subsidizing the capital, operation and maintenance expenses of its commercial telecommunications business line, Click! (see “THE DEPARTMENT OF PUBLIC UTILITIES-TACOMA POWER—Tacoma Power – General”). The customers of Click! are a subset of Tacoma Power’s electric utility customers. The claimants have requested an immediate cessation of all illegal subsidies and to return funds allegedly used to unlawfully subsidize Click! operations for the three years preceding the filing of the case for the benefit of the electric utility customers. The Washington State Court of Appeals, in *Coates v. City of Tacoma*, 11 Wash.App.2d 688 (2019), overruled a partial summary judgment that had been issued in favor of plaintiffs and held that Click! and Tacoma Power are one undertaking and that Click! is a betterment of Tacoma Power. Plaintiffs filed a petition for review with the Washington State Supreme Court. The petition was denied on July 8, 2020. The matter has been remanded back to Superior Court and the Claimants and the City have scheduled motions for summary judgment for September 17, 2021.

**Miscellaneous.** Tacoma Power has received several other miscellaneous claims that either do not allege significant damage amounts or that the City Attorney’s Office has determined should not materially impact the finances of Tacoma Power or the City.

### **Environmental Issues**

A substantial number of federal, state and local laws and regulations regarding various types of waste management have been enacted. These laws and regulations are set forth in acts such as the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, and the Washington State Model Toxics Control Act, which impose strict liability, regardless of time or location, on generators, transporters, storers and disposers of hazardous waste for cleanup costs or damages resulting from releases or contamination. Many normal activities in connection with the generation and transmission of electricity generate both non-hazardous and hazardous wastes. Tacoma Power has established a waste management plan to ensure compliance with environmental laws and regulations and is assessing its properties for potential liability from latent contamination resulting from disposal activities prior to implementation of the various regulations.

Tacoma Power has been a voluntary Potentially Responsible Party (“PRP”) on several Environmental Protection Agency (“EPA”) clean-up sites. Tacoma Power was a participant on eight sites that have been cleaned up or otherwise resolved with the EPA.

On April 26, 2019, oily material was discovered seeping into the Riffe Lake reservoir, which is currently a part of the power generating system at Mossyrock dam operated by Tacoma Power at the Cowlitz River Project. The oily liquid was sampled and Hydrocarbon Identification analysis indicated the liquid contained bunker C-ranged petroleum hydrocarbons. Tacoma Power performed an emergency response by excavating soil around the seeps and placing a protective cap over the exposed seeps before the water levels in Riffe Lake inundated the site. As part of the emergency remedial action, approximately 11,000 tons of impacted soil was removed and disposed of off-site. The independent emergency remedial action was completed on February 7, 2020 at an approximate cost of \$5,000,000. Tacoma Power and Ecology have entered into an Agreed Order for the final characterization and remediation of the site. The cost of the remediation is unknown at this time and the investigation at the site will progress in partnership with Ecology in the fall of 2021.

In October of 2020, the Port of Tacoma and the City agreed to a Settlement and Cost Sharing Agreement concerning the potential costs of remediating “hazardous materials” at the Tacoma Steam Plant No. 2 site, which was sold by Tacoma Power to the Port on August 27, 2007. The settlement resolved issues regarding prior expenditures of the Port of Tacoma in the amount of \$661,263. The parties also agreed to an allocation of future costs in which the City will be responsible for 84% of the costs and the Port will be responsible for 16%. This matter may lead to additional financial obligations which are unknown at this time.

Potential liability at all other currently known existing sites has been negotiated and resolved.

Tacoma Power expects that State and Federal legislation may be enacted, and lawsuits could be filed, to address global warming issues, which could impact electric utilities.

## TAX MATTERS

**General.** In the opinion of Bond Counsel, under existing law and subject to certain qualifications described below, interest on the 2021 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the 2021 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The proposed form of opinion of Bond Counsel with respect to the 2021 Bonds to be delivered on the date of issuance of the 2021 Bonds is set forth in Appendix C.

The Code contains a number of requirements that apply to the 2021 Bonds, and the City has made certain representations and has covenanted to comply with each such requirement. Bond Counsel’s opinion assumes the accuracy of the representations made by the City and is subject to the condition that the City comply with the above-referenced covenants. If the City fails to comply with such covenants or if the City’s representations are inaccurate or incomplete, interest on the 2021 Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the 2021 Bonds.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any tax consequences related to the ownership, sale or disposition of the 2021 Bonds, or the amount, accrual or receipt of interest on, the 2021 Bonds. Owners of the 2021 Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the 2021 Bonds.

**Original Issue Premium and Discount.** If the initial offering price to the public at which a 2021 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes. If the initial offering price to the public at which a 2021 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2021 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2021 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2021 Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2021 Bonds who purchase the 2021 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2021 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2021 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2021 Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the 2021 Bond (said term being the shorter of the 2021 Bond’s maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2021 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2021 Bond is amortized each year over the term to maturity of the 2021 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2021 Bond premium is not deductible for federal income tax purposes. Owners of premium 2021 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax consequences of owning such 2021 Bonds.

**Post Issuance Matters.** The opinions of Bond Counsel are based on current legal authority, covers certain matters not directly addressed by such authorities, and represent Bond Counsel’s judgment as to the proper treatment of the 2021 Bonds for federal income tax purposes. The opinions are not binding on the Internal Revenue Service (“IRS”).

or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

Bond Counsel's engagement with respect to the 2021 Bonds ends with the issuance of the 2021 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Owners regarding the tax-exempt status of the 2021 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of 2021 Bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2021 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2021 Bonds, and may cause the City or the Owners to incur significant expense.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2021 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2021 Bonds. Prospective purchasers of the 2021 Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

***Not Bank Qualified.*** The City has not designated the 2021 Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

## DESCRIPTION OF RATINGS

Fitch Ratings and S&P have assigned ratings of "AA-" and "AA," respectively, to the 2021 Bonds. Ratings were applied for by the City and certain information was supplied by the City to the rating agencies to be considered in evaluating the 2021 Bonds.

The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision, suspension, or withdrawal of the ratings would be likely to have an adverse effect on the market price of the 2021 Bonds. A securities rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time. Neither the City nor the Underwriters have the obligation to contest any revision or withdrawal by the rating agencies of any such ratings.

## UNDERWRITING

Citigroup Global Markets, Inc. ("CGMI"), KeyBanc Capital Markets, Inc., Goldman, Sachs and Co. LLC, and Siebert Williams Shank & Co., LLC, as underwriters of the 2021 Bonds (the "Underwriters") have agreed, subject to certain conditions, to purchase the 2021 Bonds from the City at an aggregate purchase price of \$145,374,733.30 (representing the aggregate principal amount of the 2021 Bonds, plus original issue premium of \$23,872,488.80 and less an Underwriters' discount of \$352,755.50). The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all 2021 Bonds, if any 2021 Bonds are purchased. The 2021 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriters.

CGMI has entered into a distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity") for the distribution to retail investors of certain municipal securities offerings. CGMI will share a portion of its underwriting compensation with Fidelity with respect to any

2021 Bonds that are allocated to retail orders submitted by it. Any such sharing will not affect the aggregate underwriting compensation or CGMI's share of such compensation.

### **MUNICIPAL ADVISOR**

Montague DeRose and Associates, LLC, Walnut Creek, California, has acted as municipal advisor to Tacoma Power in connection with the issuance of the 2021 Bonds (the "Municipal Advisor"). The Municipal Advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or the other information available from Tacoma Power with respect to the appropriateness, accuracy, and completeness of the disclosure of such information, and the Municipal Advisor makes no guarantee, warranty, or other representation on any matter related to such information. Montague DeRose and Associates, LLC is an independent financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading of municipal securities or any other negotiable instruments.

### **APPROVAL OF LEGAL PROCEEDINGS**

The validity of the 2021 Bonds and certain other legal matters are subject to the approving opinion of Pacifica Law Group LLP, Seattle, Washington. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C hereto. Pacifica Law Group LLP is also serving as Disclosure Counsel to the City in connection with the issuance of the 2021 Bonds.

Certain legal matters will be passed on for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Counsel to the Underwriters. Any opinion of such firm will be addressed solely to the Underwriters, will be limited in scope, and cannot be relied upon by investors.

### **POTENTIAL CONFLICTS OF INTEREST**

Some or all of the fees of the Underwriters, Underwriters' Counsel, the Municipal Advisor, and Bond and Disclosure Counsel are contingent upon the issuance and sale of the 2021 Bonds. From time to time, Bond Counsel and Underwriters' Counsel serve as counsel to other parties involved in the issuance of the 2021 Bonds on matters unrelated to the issuance of the 2021 Bonds. None of the members of the City Council, the Board or other officers of the City have any conflict of interest in the issuance of the 2021 Bonds that is prohibited by applicable law.

### **CONTINUING DISCLOSURE UNDERTAKINGS**

Pursuant to a certificate to be executed by the City on or prior to the date of issuance and delivery of the 2021 Bonds (a "Continuing Disclosure Certificate"), the City will covenant for the benefit of the owners and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the 2021 Bonds pursuant to Securities and Exchange Commission Rule 15c2-12 to provide certain financial information and operating data not later than the end of nine months after the end of each of the City's fiscal years (presently, December 31), commencing in 2022 with the report for the fiscal year ended December 31, 2021, and to provide notices of the occurrence of certain enumerated events with respect to the 2021 Bonds. The information will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. See Appendix F for a form of the Continuing Disclosure Certificate.

*Other Ongoing Disclosure Undertakings of the City.* The City has previously entered into continuing disclosure undertakings in connection with various City financings under Rule 15c2-12 (the "Prior Undertakings"). With respect to its Prior Undertakings, the City failed to link to the related CUSIPs certain lodging tax rate information for the fiscal year ended December 31, 2017 and failed to timely file (i) certain financial and operating information in connection with the City's Consolidated Local Improvement District No. 65 Bonds for fiscal year ended December 31, 2016; (ii) taxable sales information and solid waste tonnage percentage calculations for fiscal year ended December 31, 2016 through 2018, and (iii) related notices of failure to file. As of the date of this Official Statement, the foregoing financial and operating information has been filed and/or linked to the respective issues on EMMA.

## MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and are not a representation of fact. The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF TACOMA, WASHINGTON

By /s/ Chris Robinson  
Superintendent/Chief Operating Officer,  
Department of Public Utilities, Light Division

By /s/ Andy Cherullo  
Finance Director

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## APPENDIX A

### SUMMARY OF THE BOND ORDINANCE

The following is a summary of certain provisions of the Bond Ordinance not otherwise described in this Official Statement. Such summaries do not purport to be complete, and reference is made to the complete Bond Ordinance, a copy of which is on file and available for examination at the office of the City Clerk.

#### Certain Definitions

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

“Accreted Value” means, with respect to any Capital Appreciation Bonds, (A) as of any Valuation Date, the amount set forth for such date in any Parity Bond Ordinance authorizing such Capital Appreciation Bonds; and (B) as of any date other than a Valuation Date, the sum of (1) the Accreted Value on the preceding Valuation Date and (2) the product of (a) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, times (b) the difference between the Accreted Values for such Valuation Dates.

“Annual Debt Service” for any Fiscal Year means the amount equal to:

- A. the interest accruing during such Fiscal Year on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of sale of Parity Bonds and less any federal credit for a portion of interest on Parity Bonds if permitted to be deducted as provided in the Bond Ordinance; and
- B. the principal of all outstanding Serial Bonds due in such Fiscal Year; and
- C. the Sinking Fund Requirement, if any, for such Fiscal Year.

For purposes of this definition, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of a Sinking Fund Requirement shall be included in the calculations of accrued and unpaid and accruing interest or principal in such manner and during such period of time as is specified in any Parity Bond Ordinance authorizing such Capital Appreciation Bonds or Deferred Income Bonds. For the purpose of calculating the principal and interest on Option Bonds in any Fiscal Year, such Option Bonds shall be assumed to mature on the stated maturity date or mandatory redemption date thereof.

Upon receipt of consents, including the consent of not less than 51% in aggregate principal amount of the Parity Bonds at the time outstanding, and without the need for any further action by the City Council, the following shall be taken into account in the calculation of “Annual Debt Service”:

For purposes of computing Annual Debt Service on any Parity Bonds which constitute Balloon Indebtedness, it shall be assumed that the principal of such Balloon Indebtedness, together with interest thereon at the then-current rate applicable to such Balloon Indebtedness or, at the option of the City, on a fixed rate equal to the rate at which the City could borrow for such period, as certified by the Municipal Advisor, shall be amortized for a period specified by the City at the time of issuance of the Balloon Indebtedness (but no longer than thirty (30) years from the Issue Date of the Parity Bonds to which such Balloon Indebtedness relates) on a substantially level debt service basis or other amortization basis designated by the City.

***By purchase of the 2021 Bonds, the owners of the 2021 Bonds shall be deemed to have consented to these springing amendments. As a result, owners of the 2021 Bonds should expect that the springing amendments will become effective while the 2021 Bonds are outstanding.***

“Appreciated Value” means, with respect to any Deferred Income Bonds, (A)(1) as of any Valuation Date, the amount set forth for such date in any Parity Bond Ordinance authorizing such Deferred Income Bonds and (2) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (i) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date calculated based on the assumption that Appreciated Value accrues during any semiannual period in equal daily amounts on the basis of a year of twelve 30-day months, times (ii) the difference between the Appreciated Values for such Valuation Dates, and (B) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

“Balloon Indebtedness” shall mean any series of Parity Bonds (a) more than 25 percent of the principal of which, in accordance with the terms of such Parity Bonds, is due and payable in any one Fiscal Year either by reason of the stated maturity date of such Parity Bonds or pursuant to a Sinking Fund Requirement, and (b) are designated by the City as “Balloon Indebtedness” at or prior to the Issue Date of such bonds; provided, that with respect to any Parity Bonds issued as Term Bonds, such Bonds shall only be treated as Balloon Indebtedness if more than 25 percent of the principal thereof is due in any one Fiscal Year pursuant to the applicable Sinking Fund Requirement or upon the stated maturity date thereof (assuming that the only principal due on the stated maturity date thereof will be the principal remaining outstanding after all redemptions have been made pursuant to the applicable Sinking Fund Requirement).

“Beneficial Owner” means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2021 Bonds (including persons holding 2021 Bonds through nominees, depositories or other intermediaries).

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

“Bond Counsel” means an attorney at law or a firm of attorneys, selected by the City, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Bond Fund” means “Electric System Revenue Bond Fund” created by Ordinance No. 23514.

“Bond Registrar” means, initially, the fiscal agent of the State, whose duties include registering and authenticating the 2021 Bonds, maintaining the Bond Register, effecting transfer of ownership of the 2021 Bonds and paying interest on and principal of the 2021 Bonds.

“Bondowners’ Trustee” means a trustee appointed pursuant to the Bond Ordinance.

“Capital Appreciation Bonds” means any Parity Bonds as to which interest is payable only at the maturity or prior redemption of such Parity Bonds. For the purposes of (i) receiving payment of the redemption price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, or (ii) computing the principal amount of Parity Bonds held by the holder of a Capital Appreciation Bond in giving to the City or the paying agent any notice, consent, request, or demand pursuant to the related Parity Bond Ordinance for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

“Certified Public Accountant” means an independent certified public accountant (or firm of certified public accountants) selected by the City and having a favorable national reputation.

“City Payment” means any payment (designated as such by a Parity Bond Ordinance) required to be made by or on behalf of the City under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.



“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the 2021 Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the 2021 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Construction Fund” means the “City of Tacoma Electric System Construction Fund” created by Ordinance No. 23663 of the City.

“Council” means the City Council of the City as the same shall be duly and regularly constituted from time to time.

“Deferred Income Bonds” means any Parity Bonds issued under any Parity Bond Ordinance as to which accruing interest is not paid prior to the Interest Commencement Date specified in such ordinance and the Appreciated Value for such Parity Bonds is compounded semiannually on the Valuation Date for such Deferred Income Bonds.

“Derivative Payment Date” means any date specified in the Derivative Product on which a City Payment is due and payable under the Derivative Product.

“Derivative Product” means a written contract or agreement between the City and a third party (the “Reciprocal Payor”) that has or whose obligations are unconditionally guaranteed by a party that has (as of the date of the Derivative Product) at least an investment grade rating from a rating agency (who, if the City’s Parity Bonds are rated by Moody’s Investors Service, must have a rating of at least “A”), which provides that the City’s obligations thereunder will be conditioned on the performance by the Reciprocal Payor of its obligations under the agreement, and

- A. under which the City is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the City Payments in exchange for the Reciprocal Payor’s obligation to payor cause to be paid to the City, on scheduled and specified Derivative Payment Dates, the Reciprocal Payments;
- B. for which the City’s obligations to make City Payments may be secured by a pledge of and lien on the Revenues on an equal and ratable basis with the Parity Bonds;
- C. under which Reciprocal Payments are to be made directly into the Bond Fund;
- D. for which the City Payments are either specified to be one or more fixed amounts or are determined as provided by the Derivative Product;
- E. for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined as set forth in the Derivative Product; and
- F. which provides, on either a current or forward basis, for an exchange of payments determined in accordance with a formula specified therein.

“Electric System” means the electric utility properties, rights and assets, real and personal, tangible and intangible, now owned and operated by the City and used or useful in the generation, transmission, distribution and sale of electric energy and the business incidental thereto, and all properties, rights and assets, real and personal, tangible and intangible, hereafter constructed or acquired by the City as additions, betterments, improvements or extensions to said electric utility properties, rights and assets, but shall not include any generation, transmission and distribution facilities that may hereafter be purchased, constructed or otherwise acquired by the City and declared by the City Council to be a separate utility system not financed from the Revenues (except as a Contract Resource Obligation (i) included in Operating Expenses of the Electric System upon compliance with the Bond Ordinance or (ii) on a basis junior and inferior to the lien on Revenues pledged to secure Parity Bonds), the revenue of which separate utility system may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand such separate utility system. The Council may, by ordinance, elect to combine with and include as a part of the Electric System any other separate utility system of the City, provided that full provision for

the payment of any outstanding indebtedness of such separate system shall first be made in the manner substantially similar to that set forth in the Bond Ordinance.

“Engineer” means an independent licensed professional engineer (or firm of licensed professional engineers) selected by the City and having a favorable national reputation for skill and experience with electric systems of comparable size and character to the Electric System in such of the following as are relevant to the purposes for which they are retained: (a) engineering and operations and (b) the design of rates.

“Event of Default” means those events described as Events of Default in the Bond Ordinance. See “Defaults and Remedies” below.

“Fair Market Value” means the price at which a willing buyer would purchase an investment from a willing seller in a bona fide, arm’s-length transaction, except for specified investments as described in Treasury Regulation §1.148-5(d)(6), including United States Treasury obligations, certificates of deposit, guaranteed investment contracts, and investments for yield restricted defeasance escrows. Fair Market Value is generally determined on the date on which a contract to purchase or sell an investment becomes binding, and, to the extent required by the applicable regulations under the Code, the term “investment” will include a hedge.

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

“Future Parity Bonds” means any electric revenue bonds of the City issued after the date of issuance of the 2021 Bonds that will have a lien upon the Net Revenues of the Electric System for the payment of the principal thereof and interest thereon equal to the lien upon the Net Revenues of the Electric System for the payment of the principal of and interest on the Outstanding Parity Bonds and the 2021 Bonds.

“Interest Commencement Date” means, with respect to any particular Deferred Income Bonds, the date specified in any Parity Bond Ordinance authorizing such Bonds (which date must be prior to the maturity date for such Bonds) after which interest accruing on such Bonds shall be payable semiannually, with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

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

“Minimum Interest Rate” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest which may include a zero interest rate and may (but need not) be set forth in any Parity Bond Ordinance authorizing such Bond, that shall be the minimum rate of interest such Bond may at any time bear.

“Option Bonds” means Parity Bonds that the owner or holder thereof may at its option demand payment of the principal and accrued interest thereof or the purchase of such Parity Bonds by or on behalf of the City in advance of the otherwise scheduled dates for the payment of principal and interest thereon.

“Parity Bond Ordinance” means any ordinance authorizing the issuance of Parity Bonds.

“Paying Agent” for purposes of the 2021 Bonds means the Bond Registrar.

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

“Qualified Insurance” means any non-cancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), and if such Qualified Insurance is being used to fund the Reserve Account, which insurance company or companies as of the time of issuance of such policy

or surety bond, are currently rated in one of the two highest rating categories by both Moody's and S&P or their comparably recognized business successors.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of the owners of the Parity Bonds, which institution maintains an office, agency or branch in the United States, and as of the time of issuance of such letter of credit, and if such Qualified Insurance is being used to fund the Reserve Account, is currently rated in one of the two highest rating categories by either Moody's or S&P or their comparably recognized business successors.

"Rate Stabilization Fund" means the "Cumulative Reserve Fund for Supplemental Purchase of Electric Energy," created by Ordinance No. 21862 of the City, as now or hereafter amended, and renamed the Rate Stabilization Fund.

"Registered Owner" means the person named as the registered owner of a 2021 Bond in the Bond Register. For so long as the 2021 Bonds are held in book-entry only form, DTC or its nominee shall be deemed to be the sole Registered Owner.

"Reserve Account Requirement" means with respect to the 2021 Bonds and the 2017 Bonds, zero, and with respect to the other Outstanding Parity Bonds an amount equal to the lesser of maximum Annual Debt Service in any Fiscal Year following the date of computation or 125% of average Annual Debt Service and with respect to a series of Future Parity Bonds, an amount set forth in the Parity Bond Ordinance authorizing such bonds. A Parity Bond Ordinance authorizing Future Parity Bonds may establish a separate Reserve Account for such Future Parity Bonds or provide that such Future Parity Bonds be secured by a common Reserve Account. In calculating the Reserve Account Requirement, in the case of Variable Rate Interest Bonds the interest rate calculated thereon shall be calculated on the assumption that such Bonds will bear interest during such period at the Maximum Interest Rate for such bonds; provided that, if on such date of calculation the interest rate on such bonds shall then be fixed for a specified period, the interest rate used for such specified period for the purposes of the foregoing calculation shall be such actual interest rate.

"Reciprocal Payment" means any payment (designated as such by a Parity Bond Ordinance) to be made to, or for the benefit of, the City under a Derivative Product by the Reciprocal Payor.

"Reciprocal Payor" means a party to a Derivative Product that is obligated to make one or more Reciprocal Payments thereunder.

"Revenue Fund" means the "City of Tacoma Electric System Revenue Fund," continued and redesignated by Ordinance No. 23514.

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

"Serial Bonds" means Bonds other than Term Bonds.

"Sinking Fund Requirement" means, for any Fiscal Year, the amount required on account of Term Bonds to be deposited into the Bond Retirement Account in such Fiscal Year as established by the ordinance or resolution of the City authorizing the issuance of such Term Bonds.

"Supplemental Ordinance" means any ordinance amending, modifying or supplementing the provisions of the Bond Ordinance or any Parity Bond Ordinance.

"Term Bonds" means Parity Bonds of any principal maturity which are subject to mandatory redemption or for which mandatory sinking fund payments are required.

"Uniform System of Accounts" means the Federal Energy Regulatory Commission (or its successor in function) Uniform System of Accounts prescribed for Class A and Class B Public Utilities and Licenses, as the same may be modified, amended, or supplemented from time to time.

“Valuation Date” means (i) with respect to any Capital Appreciation Bonds the date or dates set forth in any Parity Bond Ordinance authorizing such bonds on which specific Accreted Values are assigned to the Capital Appreciation Bonds, and (ii) with respect to any Deferred Income Bonds the date or dates prior to the Interest Commencement Date set forth in any Parity Bond Ordinance authorizing such bonds on which specific Appreciated Values are assigned to the Deferred Income Bonds.

“Variable Interest Rate” means a variable interest rate or rates to be borne by a series of Parity Bonds or any one or more maturities within a series of Parity Bonds. The method of computing such variable interest rate shall be specified in the Parity Bond Ordinance authorizing such series of Parity Bonds and shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) or a function of such objectively determinable interest rate or rates which may be in effect from time to time or at a particular time or times; provided that, such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate, and that there may be an initial rate specified in each case as provided in such Parity Bond Ordinance; or (ii) a stated interest rate that may be changed from time to time as provided in the Parity Bond Ordinance authorizing such bonds, provided that, such interest rate shall be subject to a Maximum Interest Rate. Such Parity Bond Ordinance shall also specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

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

### **Bond Fund**

The “Electric System Revenue Bond Fund” shall be used solely for the purposes of paying the principal of, premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to maturity in the manner provided in the Bond Ordinance or in any Parity Bond Ordinance. Money set aside from time to time with the paying agent for such payment shall be held in trust for the owners of the Parity Bonds in respect of which the same shall have been so set aside. Until so set aside, all money in the Bond Fund shall be held in trust for the benefit of the owners of all Parity Bonds at the time outstanding equally and ratably. The Bond Fund shall contain four accounts: Interest Account, the Principal Account, the Bond Retirement Account and the Reserve Account. At the option of the City, separate accounts may be created in the Bond Fund for the purpose of paying or securing the payment of principal, premium, if any, and interest on any Parity Bonds.

***Debt Service Accounts.*** The City has obligated and bound itself irrevocably to set aside and pay into the Bond Fund out of the Net Revenues certain fixed amounts, without regard to any fixed proportion of such Net Revenues, sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on all Parity Bonds from time to time outstanding as the same respectively become due and payable, either at their maturity or in accordance with any Sinking Fund Requirement established for the retirement of Term Bonds.

The fixed amounts to be paid into the Bond Fund, to the extent that such payments are not made from bond proceeds or from other money, that may legally be available therefor, shall be as follows and in the following order of priority: (A) No later than the date on which an installment of interest falls due on any Parity Bonds, the City shall pay into the Interest Account in the Bond Fund (together with such other money as is on hand and available in such account) an amount equal to the installment of interest then falling due on all outstanding Parity Bonds; (B) No later than the date upon which an installment of principal on Parity Bonds that are Serial Bonds falls due, the City shall pay into the Principal Account in the Bond Fund an amount (together with such other money as is on hand and available in such account) equal to the installment of principal then falling due on all outstanding Parity Bonds that are Serial Bonds; and (C) No later than the date upon which a sinking fund installment on Term Bonds falls due, the City shall pay into the Bond Retirement Account in the Bond Fund an amount (together with such other money as is on hand and available in such account) equal to the Sinking Fund Requirement for such date.

The City shall apply all the money paid into the Bond Retirement Account to the redemption of Term Bonds prior to or on the next ensuing Sinking Fund Requirement due date (or may so apply such money prior to such Sinking Fund

Requirement due date) pursuant to the terms of the applicable Parity Bond Ordinance. The City may also apply the money paid into the Bond Retirement Account for the purpose of retiring Term Bonds by the purchase of such Bonds at a purchase price (including any brokerage charge) not in excess of the principal amount thereof, in which event the principal amount of such bonds so purchased shall be credited against any Sinking Fund Requirement chosen by the City. If as of any January 1 the principal amount of Term Bonds retired by purchase or redemption exceeds the cumulative amount required to have been redeemed by sinking fund installments on or before such January 1, then such excess may be credited against the Sinking Fund Requirement for Term Bonds for the following Fiscal Year.

Any such purchase of Term Bonds by the City may be made with or without tenders of bonds in such manner as the City shall, in its discretion, deem to be in its best interest.

Money in the Bond Fund shall be transmitted to the paying agent in amounts sufficient to meet the maturing installments of principal of, premium, if any, and interest on the Parity Bonds when due. All money remaining in the Bond Fund after provision for the payment in full of the principal of, premium, if any, and interest on all outstanding Parity Bonds shall be returned to the Revenue Fund.

In making the payments and credits to the Principal Account, Interest Account, Bond Retirement Account and Reserve Account required by the Bond Ordinance, to the extent that such payments are made from bond proceeds, from money in any capitalized interest account, or from other money that may legally be available, such payments are not required to be made from the Revenue Fund.

Notwithstanding any provision of the Bond Ordinance requiring the deposit of any earnings or other money in the Bond Fund, any such earnings that are subject to any rebate or other payment requirement pursuant to applicable provisions of the Code may be withdrawn from the Bond Fund for deposit into a separate fund or account created for that purpose. Any amounts required at any time to be withdrawn from the Reserve Account or other accounts in the Bond Fund in order to preserve the tax-exempt or tax-advantaged status of Parity Bonds shall be withdrawn and deposited in the General Account in the Revenue Fund.

***Reserve Account.*** In the event of the issuance of any Future Parity Bonds, the ordinance authorizing the issuance of such Future Parity Bonds shall provide for further and additional approximately equal monthly payments into the Bond Fund for credit to the Reserve Account from the money in the Revenue Fund in such amounts and at such times, so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Account an amount equal to the Reserve Account Requirement; provided, however, that the proceedings authorizing the issuance of Future Parity Bonds may provide for payments into the Bond Fund for credit to the Reserve Account from the proceeds of such Future Parity Bonds or from any other money lawfully available therefor, in which event, in providing for deposits and credits required by the foregoing provisions of this paragraph, allowance shall be made for any such amounts so paid into such Account.

For the purpose of determining the amount credited to the Reserve Account, obligations in which money in the Reserve Account shall have been invested shall be valued at the market value thereof. The term "market value" shall mean, in the case of securities that are not then currently redeemable at the option of the holder, the current bid quotation for such securities, as reported in any nationally circulated financial journal, and the current redemption value in the case of securities that are then redeemable at the option of the holder. For obligations that mature within six months, the market value shall be the par value thereof. The valuation of the amount in the Reserve Account shall be made by the City as of the close of business on each December 31 (or on the next preceding business day if December 31 does not fall on a business day) and may be made on each June 30 (or on the next preceding business day if June 30 does not fall on a business day).

If the valuation of the amount in the Reserve Account is less than the Reserve Account Requirement the City shall immediately transfer from the General Account an amount necessary to make the valuation of the amount in the Reserve Account equal to 100% of the Reserve Account Requirement. If the amounts available in the General Account for such transfer are insufficient to make the valuation of the amount in the Reserve Account equal to 100% of the Reserve Account Requirement, the City shall then transfer to the Reserve Account on or before the 25th day

of each of the six succeeding calendar months no less than one-sixth of the amount necessary to make the valuation of the amount in the Reserve Account equal to 100% of the Reserve Account Requirement.

In making the payments and credits to the Reserve Account required by the Bond Ordinance, to the extent that the City has obtained Qualified Insurance or a Qualified Letter of Credit for specific amounts required to be paid out of the Reserve Account, such amounts so covered by Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Reserve Account by the Bond Ordinance to the extent that such payments and credits to be made are insured by an insurance company, or guaranteed by a letter of credit from a financial institution. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on fewer than five years' notice. In the event of any cancellation, the Reserve Account shall be funded in accordance with the Bond Ordinance, as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

If there is a deficiency in the Interest Account, Principal Account or Bond Retirement Account, in the Bond Fund, the City shall promptly make up such deficiency from the Reserve Account by the withdrawal of cash and by the sale or redemption of obligations held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency, and if a deficiency still exists immediately prior to an interest payment date, the City shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility, in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. The City covenants and agrees that any deficiency created in the Reserve Account by reason of any withdrawal therefrom for payment into such Interest, Principal, and Bond Retirement Account shall be made up from money in the Revenue Fund first available after providing for the required payments into such Interest, Principal, and Bond Retirement Accounts and after providing for payments under a reimbursement agreement entered into by the City pursuant to the Bond Ordinance.

### **Investment of Funds**

Money held for the credit of the Revenue Fund, Construction Fund, Rate Stabilization Fund and the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund shall, to the fullest extent practicable, be invested at the direction of the City solely in, and obligations deposited in such accounts shall consist of Permitted Investments which shall mature on or prior to the respective dates when the money held for the credit of such Accounts will be required for the purposes intended. Money in the Reserve Account in the Bond Fund not required for immediate disbursement for the purposes for which such Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested at the direction of the City solely in, and obligations deposited in the Reserve Account shall consist of, Permitted Investments maturing or subject to redemption at the option of the owner within 10 years from the date of such investment (but maturing prior to the final maturity date of the Parity Bonds then outstanding). Except to the extent there are deficiencies in any account in the Bond Fund, all income received from the investment of money in any account in the Bond Fund, shall be from time to time deposited in the Revenue Fund, or credited against the monthly amount required to be deposited in such account. All such investments shall be acquired, valued and disposed of at Fair Market Value

### **Bond Covenants**

***Rate Covenant.*** The City shall establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System that shall be fair and adequate to provide Revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on the Parity Bonds for which the payment has not otherwise been provided, for all payments which the City is obligated to make into the Bond Fund, and for the proper operation and maintenance of the Electric System, including payment of all Contract Resource Obligations included in the Electric System's Operating Expenses, and all necessary repairs, replacements and renewals thereof, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the Electric System or the Revenues therefrom, or payments in lieu thereof, and the payment of all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract.

***Debt Service Coverage.*** The City shall also establish, maintain and collect rates and charges which shall be adequate to provide, in each Fiscal Year, Net Revenues in an amount equal to at least 1.25 times the actual Annual Debt Service for such year.

Upon receipt of certain consents, including consent of not less than 51% in aggregate principal amount of the Parity Bonds at the time outstanding, and without the need for any further action by the City Council, the City's debt service coverage covenant shall read as follows:

The City shall establish, fix and prescribe rates and charges which are reasonably expected to be at least sufficient to provide, in each Fiscal Year, Net Revenues in an amount equal to at least 1.25 times the actual Annual Debt Service for such year. In connection with establishing, fixing and prescribing rates and charges for the upcoming Fiscal Year, the City shall take into account the collection experience in the then-current Fiscal Year.

So long as the City has complied with its general rate covenant and debt service coverage covenant, after the effective date of this amendment, the failure to collect Net Revenues in an amount equal to at least 1.25 times Annual Debt Service at the end of a Fiscal Year shall not constitute a default or an Event of Default under the Bond Ordinance so long as the City has complied with its debt service coverage covenant as of the commencement of such Fiscal Year.

***By purchase of the 2021 Bonds, the owners of the 2021 Bonds shall be deemed to have consented to these springing amendments. As a result, owners of the 2021 Bonds should expect that the springing amendments will become effective while the 2021 Bonds are outstanding.***

Solely for purposes of this calculation, there is added to Revenues in any Fiscal Year any amount withdrawn from the Rate Stabilization Fund in such Fiscal Year and deposited in the Revenue Fund, and there shall be subtracted from Revenues in any Fiscal Year any amount withdrawn from the General Account in the Revenue Fund and deposited in the Rate Stabilization Fund. See "Rate Stabilization Fund" below.

The calculation of the coverage requirement set forth above, and in connection with the issuance of Future Parity Bonds, and the City's compliance therewith, may be made solely with reference to the Bond Ordinance without regard to future changes in generally accepted accounting principles. If the City has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise, then an event of default relating to the coverage requirement shall not be considered an Event of Default if the coverage requirement ratio would have been complied with had the City continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of the Bond Ordinance.

See "SECURITY FOR THE 2021 BONDS—Rate Covenant and Debt Service Coverage Covenant."

***Restrictions on Contracting of Obligations Secured by Revenues.*** Except as otherwise provided in the Bond Ordinance (regarding Contract Resource Obligations), the City will not hereafter create any other special fund or funds for the payment of revenue bonds, warrants or other revenue obligations, or issue any bonds, warrants or other obligations or create any additional indebtedness that will (a) rank prior to the lien on the Revenues or properties of the Electric System created in the Bond Ordinance to secure the payment of the principal and interest on the Parity Bonds or (b) rank on a parity with the lien on the Revenues or properties of the Electric System for the payments into the Bond Fund, except as provided under the Bond Ordinance in connection with the issuance of Future Parity Bonds or with respect to a reimbursement obligation made pursuant to the Bond Ordinance in connection with such Future Parity Bonds and ranking on a parity of lien with the Parity Bonds.

The City may issue bonds, notes, warrants, or other obligations payable from and secured by a lien on the Revenues of the Electric System that is subordinate to the lien on such Revenues securing the Parity Bonds and may create a special fund for payment of such subordinate obligations.

***Maintenance and Operation.*** The City shall at all times maintain, preserve, and keep, or cause to be maintained, preserved, and kept, the properties of the Electric System and all additions and betterments thereto and extensions

thereof and every part and parcel thereof, in good repair, working order and condition, and will from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, extensions and betterments thereto so that at all times the business carried on in connection therewith shall be properly and advantageously conducted. The City will at all times operate such properties and the business in connection therewith or cause such properties and business to be operated in an efficient manner and at a reasonable cost.

***Disposal of Properties of Electric System.*** The City shall not sell, mortgage, lease or otherwise dispose of the properties of the Electric System except as may be provided by law and subject to such additional restrictions as are provided below.

The City will not sell or otherwise dispose of the Electric System, in its entirety unless simultaneously with such sale or other disposition, provision is made for the payment, redemption or other retirement of all Parity Bonds then outstanding. The City will not sell or otherwise dispose of any part of the Electric System with a book value in excess of 5% of the value of the net utility plant of the Electric System unless provision is made for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts: (i) an amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding (defined as the total principal amount of such Bonds outstanding less the amount of cash and investments in the Principal Account and Bond Retirement Account in the Bond Fund) that the revenues attributable to the part of the Electric System sold or disposed of for the 12 preceding months bears to the total revenues for such period; or (ii) an amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the Electric System sold or disposed of bears to the book value of the entire Electric System immediately prior to such sale or disposition. No sale of any part of the Electric System, valued in excess of 10% of the book value of the physical assets of the Electric System shall be made unless in the opinion of an Engineer, based on financial statements of the Electric System for the most recent Fiscal Year available, such sale would prevent the City from meeting the requirements of the rate covenants in the Bond Ordinance.

The City may sell or otherwise dispose of any part of the Electric System which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Electric System, or no longer necessary, material to or useful in such operation.

The proceeds of sale of any part of the Electric System shall be deposited in the Revenue Fund.

***Insurance.*** The City will either self-insure in such manner and to such extent as the City shall determine to be necessary and appropriate or, as needed, and to the extent insurance coverage is available at reasonable cost with responsible insurers, keep or cause to be kept, the Electric System and the operation thereof insured, with policies payable to the City, against the risks of direct physical loss, damage to or destruction of the Electric System, or any part thereof, and against accidents, casualties or negligence, including liability insurance and employer's liability, at least to the extent that similar insurance is usually carried by utilities operating like properties.

In the event of any loss or damage, the City will promptly repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy for that purpose; or in the event the City should determine not to repair or reconstruct such damaged portion of the properties of the Electric System, the proceeds of such insurance shall be paid into the Reserve Account to the extent that such transfer shall be necessary to make up any deficiency in said Reserve Account and the balance, if any, shall at the option of the City, be used either for repairs, renewals, replacements, or capital additions to the Electric System or for the purchase, payment, or redemption of Parity Bonds.

***Condemnation.*** In the event of any loss or damage to the properties of the Electric System by reason of condemnation, the City will (i) with respect to each such loss, promptly replace, repair and reconstruct to the extent necessary to the proper conduct of the operations of the Electric System the condemned portion thereof and shall apply the proceeds of any condemnation award for that purpose to the extent required therefor, and (ii) if the City shall not use the entire proceeds of such condemnation award to repair, replace or reconstruct such lost or damaged property, such award not so used shall be paid into the Revenue Fund.

***Books of Account.*** The City will keep proper books of account in accordance with the rules and regulations prescribed by the State Auditor's office of the State, or other State department or agency succeeding to such duties



of the State Auditor's office, and if no such rules or regulations are prescribed, then in substantial accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission or other federal agency having jurisdiction over electric public utility companies owning and operating properties similar to the Electric System, whether or not the City is at the time required by law to use such system of accounts. The City shall cause its books of account to be audited annually by the State Auditor's office or other State department or agency as may be authorized and directed by law to make such audits, or if such an audit shall not be made for 12 months after the close of any Fiscal Year of the City, by Certified Public Accountants. In keeping said books of account, the City shall accrue depreciation monthly thereon on its depreciable properties in accordance with the accounting practice prescribed by the public departments or agencies above. The City will furnish to any owner of Parity Bonds upon a written request therefor copies of the balance sheet and statement of income and retained earnings showing in reasonable detail the financial condition of the Electric System as of the close of each Fiscal Year, and the income and expenses of such year, including the amounts paid into the Revenue Fund, the Bond Fund, and in any and all special funds created or continued pursuant to the provisions of the Bond Ordinance, and the amounts expended for maintenance, renewals, replacements, and gross capital additions to the Electric System.

***No Free Service.*** The City shall not furnish or supply or permit the furnishing or supplying of any commodity, service or facility furnished by or in connection with the operation of the Electric System free of charge to any person, firm or corporation, public or private, and the City will maintain and enforce reasonable procedures for the payment of all accounts owing to the City and delinquent, by discontinuing service or by filing suits, actions or proceedings, or by both discontinuance of service and filing suit.

***Additions and Improvements.*** The City shall not expend any money in the Revenue Fund or the proceeds of Parity Bonds or other obligations for any renewals, replacements, extensions, betterments and improvements to the Electric System that are not economically sound and that will not properly and advantageously contribute to the conduct of the business of the Electric System in an efficient and economical manner or that are not mandated by law or regulation. The foregoing shall not preclude the City from paying any legal or contractual obligations.

***Punctual Payment of Bond Principal and Interest.*** The City shall duly and punctually pay or cause to be paid, but only from Revenues and other money pledged therefor, the principal of, premium, if any, and interest on every Parity Bond on the dates and at the places and in the manner provided in such Parity Bonds, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Parity Bonds and in the Bond Ordinance.

***Payment of Taxes, Assessments and Other Claims.*** The City shall from time to time pay and discharge, or cause to be paid and discharged, when the same shall become due, all taxes, assessments and other governmental charges, or payments in lieu thereof, lawfully imposed upon the Electric System or the Revenues, and all claims for labor and materials and supplies that, if not paid, might become a lien or charge upon the Electric System or upon the Revenues (prior to the lien thereon for the payment of the Parity Bonds), or that might in any way impair the security of the Parity Bonds, except taxes, assessments, charges or claims that the City shall in good faith contest by proper legal proceedings.

***Compliance with Licenses.*** The City shall at all times comply with the terms and conditions of any permits or licenses for the Electric System, or any property or facilities constituting a part thereof, issued by any federal or state governmental agency or body having jurisdiction thereof and with the power to issue orders with respect thereto and enforce the same, and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Electric System. The City shall use its best efforts to obtain renewals of such permits or licenses or obtain new permits or licenses unless such renewals or new permits or licenses are not, in the judgment of the Board, in the best interests of the City.

***Protection of Security.*** The City shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and the rights of the owners of the Parity Bonds under the Bond Ordinance against all claims and demands of all persons whatsoever.

***Tax Covenants.*** The City covenants that it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on any Parity Bonds the interest on which is tax-exempt under Section 103 of the Code (the "Tax-Exempt Bonds").

**Further Assurances.** The City shall at any and all times, insofar as it may be authorized to do so by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, assignments, instruments and assurances as may be necessary or desirable for the better assuring, granting, pledging, assigning and confirming any and all of the rights, revenues, funds and other property granted, pledged or assigned by the Bond Ordinance to pay or secure the payment of the Parity Bonds, in the manner and to the extent provided in the Bond Ordinance.

### **Derivative Products**

A City Payment under a Derivative Product may be on a parity with the Parity Bonds if the Derivative Product satisfies the requirements for additional Parity Bonds described in the Bond Ordinance, taking into consideration regularly scheduled City Payments and regularly scheduled Reciprocal Payments under the Derivative Product.

The following shall be conditions precedent to the use of any Derivative Product on a parity with any Parity Bonds under the Bond Ordinance:

- A. Opinion of Bond Counsel. The City shall obtain an opinion of Bond Counsel on the due authorization and execution of such Derivative Product, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Bond Ordinance or the applicable provisions of any Parity Bond Ordinance and will not adversely affect the excludability for federal income tax purposes of the interest on any tax-exempt outstanding Parity Bonds.
- B. Supplemental Ordinance to Govern Derivative Products. Prior to entering into a Derivative Product, the City must adopt a Supplemental Ordinance which shall:
  - (i) set forth the manner in which the City Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Dates;
  - (ii) establish general provisions for the rights of providers of Derivative Products; and
  - (iii) set forth such other matters as the City deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Bond Ordinance.

If the City enters into a Derivative Product on a parity with the Parity Bonds, City Payments shall be made from the Interest Account and Annual Debt Service shall include any regularly scheduled City Payments adjusted by any regularly scheduled Reciprocal Payments during a Fiscal Year. Unscheduled payments, such as termination payments, may not be entered into on a parity with the Parity Bonds.

Nothing in the Bond Ordinance precludes the City from entering into Derivative Products with a claim on the Revenues junior to that of the Parity Bonds. Furthermore, nothing in the Bond Ordinance precludes the City from entering into obligations on a parity with the Parity Bonds in connection with the use of derivative products or similar instruments if the City obtains an opinion of Bond Counsel that the obligations or products the City is issuing or entering into are consistent with the provisions of the Bond Ordinance for the issuance of Future Parity Bonds.

### **Defaults and Remedies**

The following shall constitute “Events of Default” under the Bond Ordinance:

- 1. If default shall be made in the due and punctual payment of the principal of and premium, if any, on any of the Parity Bonds, either at maturity or by proceedings for redemption or otherwise;
- 2. If default shall be made in the due and punctual payment of any installment of interest on any Parity Bond;

3. If the City shall fail to purchase or redeem Term Bonds in an aggregate principal amount at least equal to the Sinking Fund Requirement for the applicable Fiscal Year; or
4. If the City shall default in the observance and performance of any other of the covenants, conditions and agreements on the part of the City contained in the Bond Ordinance or any covenants, conditions, or agreements contained in any ordinance of the City authorizing Future Parity Bonds and such default or defaults shall have continued for a period of 90 days after the City shall have received from the Bondowners' Trustee or from the owners of not less than 20% in principal amount of the Parity Bonds outstanding a written notice specifying and demanding the cure of such default; provided if the default in the observance and performance of any of the covenants, conditions and agreements is one that cannot be completely remedied within 90 days after written notice, it shall not be an Event of Default as long as the City has taken active steps within the 90 days after written notice to remedy the default and is diligently pursuing such remedy.

### **Suits at Law or in Equity**

The Bondowners' Trustee may upon the happening of an Event of Default, and during the continuance thereof, take such steps and institute such suits, actions, or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of bondowners to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance, or in any of the Parity Bonds.

Any action, suit, or other proceeding instituted by the Bondowners' Trustee under the Bond Ordinance shall be brought in its name as trustee for the bondowners and all such rights of action upon or under any of the Parity Bonds or the provisions of the Bond Ordinance may be enforced by the Bondowners' Trustee without the possession of any of the Parity Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the respective holders of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective owners of the Parity Bonds, with authority to institute any such action, suit, or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of the Parity Bonds; to execute any paper or documents for the receipt of such money, and to do all acts with respect thereto that the bond owner himself might have done in person. Nothing contained in the Bond Ordinance shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any holder of the Parity Bonds, any plan or reorganization or adjustment affecting the Parity Bonds of the City or any right of any holder thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the holders thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization, or other proceeding to which the City shall be a party.

### **Suits by Individual Bondowners**

No owner of any one or more of the Parity Bond shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of same, unless an Event of Default shall have happened and is continuing, and unless the Bondowners' Trustee shall have failed or refused to act. In the event the Bondowners' Trustee has failed or refused to act, or with the consent of the Bondowners' Trustee, any remedy authorized in the Bond Ordinance to be exercised by the Bondowners' Trustee may be exercised individually by any a bond owner in his own name and on his own behalf or for the benefit of all bondowners; provided, however, that nothing in the Bond Ordinance or in any Parity Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay from Net Revenues the principal of and interest on the Parity Bonds to the respective holders thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such holders to enforce such payment.

### **Amendments to Bond Ordinance**

***Amendments without Consent of Bondowners.*** The City may adopt without the consent of the owners of any Parity Bonds an ordinance or ordinances or any Supplemental Ordinance for any one or more of the following purposes: (a) to provide for the issuance of Future Parity Bonds and to prescribe the terms and conditions pursuant to which such bonds may be issued, paid or redeemed; (b) to add additional covenants and agreements of the City for the

purpose of further securing the payment of Parity Bonds provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the City contained in the Bond Ordinance or any Supplemental Ordinance; (c) to prescribe further limitations and restrictions upon the City's ability to issue bonds and incur indebtedness payable from the Revenues, provided that such further limitations and restrictions are not contrary to or inconsistent with those heretofore in effect; (d) to surrender any right, power or privilege reserved to or conferred upon the City by the terms of the Bond Ordinance; (e) to confirm as further assurance any pledge under, and the subjection to any lien, claim or pledge created or to be created by, the provisions of the Bond Ordinance of the Revenues or of any other money, securities or funds; (f) to cure any ambiguity or defect or inconsistent provision of the Bond Ordinance or any Supplemental Ordinance or to insert such provisions clarifying matters or questions arising under the Bond Ordinance or any Supplemental Ordinance as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Bond Ordinance or any Parity Bond Ordinance as theretofore in effect; and (g) to add such provisions as the City Council, with advice of Bond Counsel, deems necessary to preserve the tax-exempt status of the Parity Bonds.

***Amendments with Consent of Bondowners.*** With the consent of the owners of not less than 51% in aggregate principal amount of the Parity Bonds at the time outstanding, the Council may pass an ordinance or ordinances supplemental to the Bond Ordinance or to any Future Parity Bond Ordinance for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Ordinance or of any Future Parity Bond Ordinance, but no such Supplemental Ordinance shall: (a) extend the fixed maturity of any Parity Bonds or the time of payment of interest thereon from the established due date, or reduce the rate of interest thereon or the amount of the principal thereof, or reduce any premium payable on the redemption thereof, or accelerate any redemption provision, without the written consent of the owner of each Parity Bond so affected; (b) reduce the aforesaid percentage of bondowners required to approve any such Supplemental Ordinance, without the written consent of the owners of all of the Parity Bonds then outstanding; (c) give to any Parity Bond any preference over any other Parity Bond; or (d) authorize the creation of any pledge prior to or, except as provided in the Bond Ordinance for the issuance of Future Parity Bonds, on a parity with the pledge afforded by the Bond Ordinance, without the consent of the owner of each such Parity Bond affected thereby. It shall not be necessary for bondowners to approve the particular form of any proposed Supplemental Ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

***Consent of Bond Owners and Opinions.*** Each Supplemental Ordinance enacted pursuant to the provisions above shall take effect only when and as provided in this section. A copy of such Supplemental Ordinance (or brief summary thereof or reference thereto in form approved by the Bondowners' Trustee), together with a request to Parity Bond owners for their consent thereto in form satisfactory to the Bondowners' Trustee, shall be sent by the Bondowners' Trustee to the Parity Bond owners, at the expense of the City, by first class mail, postage prepaid; provided, that a failure to mail such request shall not affect the validity of the Supplemental Ordinance when consented to as provided below. Such Supplemental Ordinance shall not be effective unless and until there shall have been filed with the Bondowners' Trustee the written consents of Parity Bond owners of the percentage of Bonds specified above. Any such consent shall be binding upon the Parity Bond owner giving such consent and upon any subsequent owner of such Parity Bonds and of any Parity Bonds issued in exchange therefor or in lieu thereof (whether or not such subsequent Parity Bond owner has notice thereof), unless such consent is revoked in writing by the Parity Bond owner giving such consent or a subsequent owner of such Parity Bonds by filing such revocation with the Bondowners' Trustee prior to the date the Bondowners' Trustee receives the required percentage of consents.

#### **Bondowners' Trustee**

***Duties and Responsibilities.*** Prior to the occurrence of an Event of Default of which it has or is deemed to have notice under the Bond Ordinance, and after the curing or waiver of any Event of Default that may have occurred: (i) the Bondowners' Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Bond Ordinance, and no implied covenants or obligations shall be read into the Bond Ordinance against the Bondowners' Trustee; and (ii) in the absence of bad faith on its part, the Bondowners' Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Bondowners' Trustee that conform to the requirements of the Bond Ordinance; but the Bondowners' Trustee is under a duty to examine such certificates and opinions to determine whether they conform to the requirements of the Bond Ordinance.

In case an Event of Default of which the Bondowners' Trustee has or is deemed to have notice has occurred and is continuing, the Bondowners' Trustee shall exercise such of the rights and powers vested in it by the Bond Ordinance, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person's own affairs.

No provision of the Bond Ordinance shall be construed to relieve the Bondowners' Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (i) this subsection shall not be construed to limit the effect of the first paragraph of this section; (ii) the Bondowners' Trustee is not liable for any error of judgment made in good faith by an authorized officer of the Bondowners' Trustee, unless it is proven that the Bondowners' Trustee was negligent in ascertaining the pertinent facts; (iii) the Bondowners' Trustee is not liable with respect to any action it takes or omits to be taken by it in good faith in accordance with the direction of the Parity Bond owners under any provision of the Bond Ordinance relating to the time, method and place of conducting any proceeding for any remedy available to the Bondowners' Trustee, or exercising any trust or power conferred upon the Bondowners' Trustee under the Bond Ordinance; and (iv) no provision of the Bond Ordinance shall require the Bondowners' Trustee to expend or risk its own funds or otherwise incur any liability in the performance of any of its duties under the Bond Ordinance, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

***Qualifications of the Bondowners' Trustee.*** There shall at all times be a Bondowners' Trustee under the Bond Ordinance which shall be a corporation or banking association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least \$100,000,000, or is an affiliate of a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed Bondowners' Trustee, and which is subject to supervision or examination by federal or state banking authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of any supervising or examining authority above referred to, then for purposes of this section, the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Bondowners' Trustee shall cease to be eligible in accordance with the provisions of this section, it shall resign promptly in the manner and with the effect specified in the Bond Ordinance.

***Resignation or Removal of the Bondowners' Trustee; Appointment of Successor Bondowners' Trustee.*** No resignation or removal of the Bondowners' Trustee and no appointment of a successor Bondowners' Trustee pursuant to the Bond Ordinance shall become effective until the acceptance of appointment by the successor Bondowners' Trustee under the Bond Ordinance.

The Bondowners' Trustee may resign at any time by giving written notice to the City. Upon receiving such notice of resignation, the City shall promptly appoint a successor Bondowners' Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Bondowners' Trustee within 30 days after the giving of such notice of resignation, the resigning Bondowners' Trustee or any owner of a Parity Bond then Outstanding may petition a court of competent jurisdiction for the appointment of a successor Bondowners' Trustee.

Prior to the occurrence and continuance of an Event of Default, or after the curing or waiver of any such Event of Default, the City or the owners of a majority in aggregate principal amount of the Outstanding Parity Bonds may remove the Bondowners' Trustee and shall appoint a successor Bondowners' Trustee. In the event there shall have occurred and be continuing an Event of Default, the owners of a majority in aggregate principal amount of the Outstanding Parity Bonds may remove the Bondowners' Trustee and shall appoint a successor Bondowners' Trustee. In each instance such removal and appointment shall be accomplished by an instrument or concurrent instruments in writing signed by the City or such Parity Bond owners, as the case may be, and delivered to the Bondowners' Trustee, the City and owners of the Parity Bonds.

If at any time: (i) the Bondowners' Trustee shall cease to be eligible and qualified under the Bond Ordinance and shall fail or refuse to resign after written request to do so by the City or the owner of any Parity Bond, or (ii) the Bondowners' Trustee shall become incapable of acting or shall be adjudged insolvent, or a receiver of the Bondowners' Trustee or its property shall be appointed, or any public officer shall take charge or control of the

Bondowners' Trustee, its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in either such case (A) the City may remove the Bondowners' Trustee and appoint a successor Bondowners' Trustee in accordance with the provisions of the Bond Ordinance; or (B) any owner of a Parity Bond then Outstanding may, on behalf of the owners of all Outstanding Parity Bonds, petition a court of competent jurisdiction for removal of the Bondowners' Trustee and appointment of a successor Bondowners' Trustee.

The City shall give written notice of each resignation or removal of the Bondowners' Trustee and each appointment of a successor Bondowners' Trustee to each owner of Parity Bonds then Outstanding as listed in the Bond Register. Each such notice shall include the name and address of the applicable corporate trust office of the successor Bondowners' Trustee.

***Acceptance of Appointment by Successor Bondowners' Trustee.*** Every successor Bondowners' Trustee appointed under the Bond Ordinance shall execute, acknowledge and deliver to the City and the predecessor Bondowners' Trustee an instrument accepting its appointment. The resignation or removal of the retiring Bondowners' Trustee shall thereupon become effective, and the successor Bondowners' Trustee shall, without further act, deed or conveyance, become vested with all the estates, properties, rights, powers and duties of the predecessor Bondowners' Trustee. Upon the request of the City or the successor Bondowners' Trustee, the predecessor Bondowners' Trustee shall execute and deliver an instrument transferring to the successor Bondowners' Trustee all the estates, properties, rights, powers and duties of the predecessor Bondowners' Trustee under the Bond Ordinance, shall duly assign, transfer, deliver and pay over to the successor Bondowners' Trustee all money and other property then held under the Bond Ordinance, subject, however, to the lien provided for in the Bond Ordinance, and shall deliver to the successor Bondowners' Trustee, all records maintained by the predecessor Bondowners' Trustee with respect to the Funds and the Parity Bonds and such records shall be proper books of record and accounts containing complete and correct entries. The successor Bondowners' Trustee shall promptly give written notice of its appointment to the owners of all Parity Bonds Outstanding in the manner prescribed in the Bond Ordinance, unless such notice has previously been given.

No successor Bondowners' Trustee shall accept appointment as provided in this section unless, as of the date of such acceptance, it is eligible and qualified under the provisions of the Bond Ordinance.

***Merger, Succession or Consolidation of Bondowners' Trustee.*** Any corporation or association: (i) into which the Bondowners' Trustee is merged or with which it is consolidated; (ii) resulting from any merger or consolidation to which the Bondowners' Trustee is a party; or (iii) succeeding to all or substantially all of the corporate trust business of the Bondowners' Trustee, shall be the successor Bondowners' Trustee without the execution or filing of any document or the taking of any further action. Any such successor must nevertheless be eligible and qualified under the provisions of the Bond Ordinance.

***Notices to Bond Owners; Waiver.*** Where the Bond Ordinance provides for notice to Parity Bond owners of any event, such notice shall be sufficiently given (unless otherwise expressly provided in the Bond Ordinance) if in writing and mailed, first-class postage prepaid, to each Parity Bond owner affected by each event, at such Parity Bond owner's address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Parity Bond owners is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Parity Bond owner shall affect the sufficiency of such notice with respect to other Parity Bond owners. Where the Bond Ordinance provides for notice in any manner, such notice may be waived in writing by the person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Parity Bond owners shall be filed with the Bondowners' Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

With respect to book-entry bonds, where the Bond Ordinance provides for notice to the Parity Bond owners of the existence of, or during the continuance of, any Event of Default, or at any time upon the written request of the City, the Bondowners' Trustee, at the expense of the City, shall: (i) establish a record date for determination of the persons entitled to receive such notice; (ii) request a securities position listing from the securities depository showing the participants holding positions in the book-entry bonds affected by such notice as of the record date for such notice; (iii) mail, first class postage prepaid, copies of the notice as provided above to each participant identified in the securities position listing as holding a position in the book-entry bonds as of the record date for the

notice, to each nationally recognized municipal securities information repository and state information depository for the State, if any, and to any person identified to the Bondowners' Trustee as a non-objecting Beneficial Owner pursuant to the immediately following clause; (iv) request that the participant retransmit the notice to all persons for which it served as nominee on the record date, including non-objecting Beneficial Owners, or retransmit the notice to objecting Beneficial Owners and provide a listing of non-objecting Beneficial Owners for whom the participant served as nominee on the record date to the Bondowners' Trustee, (v) provide on behalf of the City and not as its agent, an undertaking of the City to pay to any participant or other nominee (other than the securities depository) the reasonable costs of transmitting the notice to persons for whom the participant acts as nominee; and (vi) provide as many copies of the notice as may be requested by any nominee owner of the Parity Bonds. Any default in performance of the duties required by this subsection shall not affect the sufficiency of notice to the Parity Bond owners given in accordance with the provisions of the Bond Ordinance, or the validity of any action taken under the Bond Ordinance in reliance on such notice to Parity Bond owners.

Where the Bond Ordinance provides for notice to the Parity Bond owners of any event, the form of the notice shall prominently include a title block, separate from the body of the notice, which shall include the following information: (i) the complete title of the Parity Bonds; (ii) the CUSIP number of each affected Parity Bond; (iii) the record date for the notice; and (iv) a summary of the notice.

Any notice required or permitted by the Bond Ordinance to be given to the securities depository shall be given to it in the manner provided by this section for giving notice to Parity Bond owners, and also shall be given in the format requested by the securities depository to such address as may be specified by the securities depository in writing to the Bondowners' Trustee.

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## APPENDIX B

### BOOK-ENTRY SYSTEM

*The following information has been provided by DTC. The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike-through~~ has been deleted as permitted by DTC as it does not pertain to the 2021 Bonds.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for ~~[each issue of]~~ the Securities, ~~[each]~~ in the aggregate principal amount of such issue, and will be deposited with DTC. ~~[If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]~~

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

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to

whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

~~[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]~~

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

## APPENDIX C

### FORM OF OPINION OF BOND COUNSEL

September 14, 2021

City of Tacoma, Washington

Re: City of Tacoma, Washington  
Electric System Revenue Bonds, Series 2021 (Green Bonds)

To Addressee:

We have acted as bond counsel to the City of Tacoma, Washington (the “City”), and have examined a certified transcript of all of the proceedings taken with respect to the issuance by the City of its Electric System Revenue Bonds, Series 2021 (Green Bonds) (the “Bonds”). The Bonds are issued pursuant to Ordinance No. 28146, passed by the City Council on April 30, 2013, as supplemented and amended (the “Master Ordinance”), including as supplemented and amended by Supplemental Ordinance No. 28773 passed by the City Council on August 3, 2021 (the “Supplemental Ordinance,” and collectively with the Master Ordinance, the “Bond Ordinance”) for the purpose of providing funds to refinance certain capital improvements to the Electric System and to pay costs of issuance. Capitalized terms used in this opinion not otherwise defined shall have the meanings given such terms in the Bond Ordinance.

The Bonds are subject to redemption prior to their stated maturities as provided in the Bond Ordinance and Bond Purchase Agreement. The City has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”).

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Bond Ordinance, the Tax Certificate executed by the City in connection with the issuance of the Bonds and the exhibits attached thereto, and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the City, payable from and secured solely by the sources identified in the Bond Ordinance, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bond Ordinance is a legal, valid and binding obligation of the City, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The City has pledged as security for the payment of the principal of, premium, if any, and interest on the Bonds in accordance with the provisions of the Bond Ordinance, subject only to the provisions of the Bond Ordinance restricting or permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Ordinance: (i) the proceeds of the sale of the Bonds to the extent held in funds established by the Bond Ordinance, (ii) Net Revenues, and (iii) the money and investments, if any, credited to the Revenue Fund and the Bond Fund, and the income therefrom. Except as provided in the Bond Ordinance, the pledge of the Net Revenues

and of the amounts to be paid into and maintained in the funds and accounts described in the Bond Ordinance to pay and secure the payment of the Bonds has been declared to be a prior lien and charge on the Net Revenues and the money and investments in such funds and accounts superior to all other liens and charges of any kind or nature, and equal in rank to the lien and charge on such sources as the Outstanding Parity Bonds and any Future Parity Bonds. The City has reserved the right to issue Future Parity Bonds on the terms and conditions set forth in the Bond Ordinance.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinion set forth in the preceding sentence is subject to the condition that the City must comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such requirements with respect to the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

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

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PACIFICA LAW GROUP LLP

## **APPENDIX D**

### **2019 AND 2020 AUDITED FINANCIAL STATEMENTS**

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## **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, 2020 and 2019, 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, Power Division as of December 31, 2020 and 2019, 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 15 to the financial statements, the December 31, 2020, financial statements have been restated to correct an omitted disclosure. Our conclusion 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 Last 10 Years, Schedule of Contributions Last 10 Fiscal Years, and Schedule of Proportionate Share of the Collective OPEB Liability Last 10 Years, 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, graphs and the superintendent's report 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 14, 2021, except for Note 15, as to which the date is August 12, 2021, 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 14, 2021, except for Note 15, as to which the date is August 12, 2021



# Management Discussion and Analysis

The following discussion and analysis of Tacoma Power's (Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2020, 2019, and 2018. 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 the accompanying notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2020 and 2019, 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 net position of \$45.0 million or 5.4% in 2020, compared to a decrease of \$31.4 million or 3.6% in 2019.
- Operating revenues decreased \$413,000 or 0.1% in 2020. Operating revenues in 2019 increased \$6.1 million or 1.3% after recording \$10.0 million of wholesale revenues from the rate stabilization account.
- Utility Plant in Service increased \$39.9 million or 1.8% in 2020 and \$49.7 million or 2.3% in 2019.
- Construction work in progress increased \$4.7 million or 12.0% in 2020 and \$5.5 million or 12.4% in 2019.

## Overview of Financial Statements

Tacoma Power reported net operating income of \$53.2, \$1.8, and \$66.0 million in 2020, 2019, and 2018, respectively. Operating revenues decreased \$413,000 during 2020 and operating expenses decreased \$51.8 million. For 2019, operating revenues increased \$6.1 million and operating expenses increased \$70.3 million compared to 2018. Tacoma Power reported an increase in net position of \$45.0 million in 2020 compared to a decrease of \$31.4 million in 2019 and an increase of \$33.1 million in 2018.

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

### OPERATING RESULTS

(in thousands)

<b>Category</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>20/19 Increase (Decrease)</b>	<b>19/18 Increase (Decrease)</b>
Operating Revenues	\$ 460,953	\$ 461,366	\$ 455,291	\$ (413)	\$ 6,075
Operating Expenses	407,737	459,565	389,241	(51,828)	70,324
Net Operating Income	53,216	1,801	66,050	51,415	(64,249)
Net Non-Operating Expenses	(6,113)	(10,620)	(11,823)	4,507	1,203
Capital Contributions	5,016	7,807	9,390	(2,791)	(1,583)
BABs and CREBs subsidies	3,725	3,593	3,824	132	(231)
Transfers Out	(36,809)	(33,985)	(34,385)	(2,824)	400
Transfers In	25,938	-	-	25,938	-
Change in Net Position					
Increase (decrease)	\$ 44,973	\$ (31,404)	\$ 33,056	\$ 76,377	\$ (64,460)

### MEGAWATT-HOURS BILLED

(in thousands)

<b>Type of Customer</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>20/19 Increase (Decrease)</b>	<b>19/18 Increase (Decrease)</b>
Residential	1,923	1,903	1,871	20	32
Commercial/General/Industrial	2,687	2,770	2,744	(83)	26
Wholesale	2,327	1,431	2,159	896	(728)
Total	6,937	6,104	6,774	833	(670)

## 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.

<b>NET POSITION</b> (in thousands)					
<u>Description</u>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>20/19 Increase (Decrease)</b>	<b>19/18 Increase (Decrease)</b>
Net Utility and Non-Utility Plant Special Funds, Current Assets, and Other Assets	\$ 1,098,761	\$ 1,069,914	\$ 1,068,472	\$ 28,847	\$ 1,442
	427,875	368,006	402,793	59,869	(34,787)
<b>Total Assets</b>	<b>1,526,636</b>	<b>1,437,920</b>	<b>1,471,265</b>	<b>88,716</b>	<b>(33,345)</b>
Deferred Outflows	22,628	55,281	20,843	(32,653)	34,438
<b>Total Assets and Deferred Outflows</b>	<b>\$ 1,549,264</b>	<b>\$ 1,493,201</b>	<b>\$ 1,492,108</b>	<b>\$ 56,063</b>	<b>\$ 1,093</b>
Net Position:					
Net Investment in Capital					
Assets	\$ 587,891	\$ 607,518	\$ 602,011	\$ (19,627)	\$ 5,507
Restricted	43,281	36,426	51,758	6,855	(15,332)
Unrestricted	245,828	188,083	209,663	57,745	(21,580)
<b>Total Net Position</b>	<b>877,000</b>	<b>832,027</b>	<b>863,432</b>	<b>44,973</b>	<b>(31,405)</b>
Long-Term Debt	386,222	470,424	461,339	(84,202)	9,085
Other Liabilities	219,201	145,132	92,883	74,069	52,249
<b>Total Liabilities</b>	<b>605,423</b>	<b>615,556</b>	<b>554,222</b>	<b>(10,133)</b>	<b>61,334</b>
Deferred Inflows	66,841	45,618	74,454	21,223	(28,836)
<b>Total Net Position, Liabilities and Deferred Inflows</b>	<b>\$ 1,549,264</b>	<b>\$ 1,493,201</b>	<b>\$ 1,492,108</b>	<b>\$ 56,063</b>	<b>\$ 1,093</b>

## Revenues

### 2020 Compared to 2019

Operating revenues totaled \$461.0 million in 2020 compared to \$461.4 million in 2019, a decrease of \$413,000 or 0.1%. The decrease in operating revenues was primarily due to a decrease in Click! Network Operating Revenue of \$19.3 million. On April 1, 2020, Rainier Connect North, LLC ("Rainier Connect") entered into an Indefeasible Right of Use Agreement and took operational control of the Click! commercial network.

This decrease was offset with an increase in revenues from residential customers of \$4.6 million or 2.5%. There was an approximate overall rate increase of 2% effective July 1, 2020 coupled with an increase in consumption of 13,000 in MWh billed. Wholesale power sales increased \$12.2 million or 25.7% mainly due to an increase in consumption of 896,000 in MWh billed.

In 2020, residential sales accounted for 43.7% of electric revenues, commercial and industrial revenues accounted for 42.5% and wholesale power revenues accounted for 13.8%.

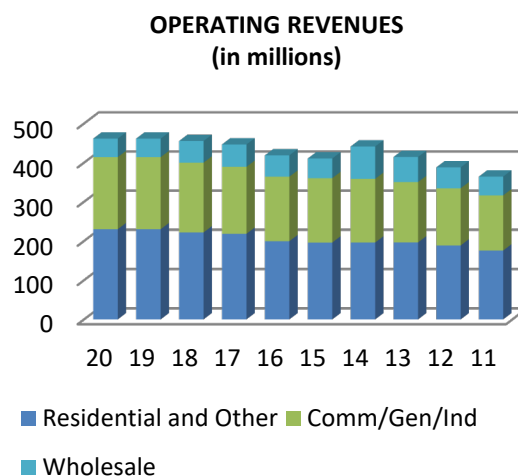
Other Operating Revenues increased \$5.4 million or 28.8%. The increase was primarily due to reimbursement of qualified conservation expenses due to a change in legislation.

### 2019 Compared to 2018

Operating revenues totaled \$461.4 million in 2019 compared to \$455.3 million in 2018, an increase of \$6.1 million or 1.3%. This was primarily due to an increase in revenues from residential, commercial, general, and industrial customers of \$11.9 million or 3.4%. There was a 2.0% rate increase effective April 1, 2019.

This increase was off-set with a decrease in revenues from wholesale of \$8.1 million or 14.5%. This was due to a decrease in consumption of 728,000 in MWh billed, offset with an increase of \$10.0 million from a transfer from the rate stabilization fund.

In 2019, residential sales accounted for 44.5% of electric revenues, commercial and industrial revenues accounted for 44.1% and wholesale power revenues accounted for 11.4%.



## Expenses

### 2020 Compared to 2019

Total operating expenses decreased \$51.8 million or 11.3% compared to 2019.

Purchased Power decreased \$24.0 million or 14.9%. Purchased Power is the net amount between outside power purchases and outside power generation resales. Compared to 2019, purchased volume and prices have decreased, also the outside power generation resale have increased. The increase in the Division's generation by 57% has contributed to the decrease in purchases and increase in power generation resales. In addition, streamflows into Tacoma Power's system were 110% of average in 2020 compared to 66% of average in 2019.

Generation expenses decreased \$6.6 million or 23.4%. The decrease was primarily due to \$4.1 million decrease in services provided by Washington Department of Fish and Wildlife, and \$622,000 decrease of Pension expense. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Maintenance expenses decreased \$7.6 million or 19.6%. External contract services, primarily includes Kosmos oil seep cleanup accruals, accounted for \$5.9 million of the decrease. Additional information regarding Kosmos oil seep can be found in Note 12. Salaries, Wages, and Pension expense attributed to \$1.6 million of the decrease. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Telecommunications expense decreased \$17.1 million or 76.9% due to the entering into an Indefeasible Right of Use Agreement on April 1, 2020 with Rainier Connect.

Administrative and General expense increased \$3.2 million or 5.6% primarily due to an increase in bad debt expense in relation to aging accounts receivable.

### **2019 Compared to 2018**

Total operating expenses increased \$70.3 million or 18.1% compared to 2018.

Purchased Power increased \$26.5 million or 19.7%. Overall, prices have increased compared to 2018. The regional industry price index shows prices have increased an average of \$4.0/mWh or 13%. Purchase volume was also up because stream flows were down. Other portfolio purchases increased \$17.4 million, Bonneville Power Administration (BPA) slice contract and other portfolio purchases increased \$2.2 million, and renewable energy certificates increased \$1.0 million. The reduction in Energy Conservation Agreement (ECA) credits received were \$7.8 million in 2018 down to \$81,000 in 2019 attributed to the increase of purchased power expenses an amount of \$7.7 million. The ECA credits are available in 2 year allotments beginning October 1 of odd years. In even years, more credits are received than in odd years. These increases were off-set with the decrease of \$1.8 million from BPA contract purchases.

Generation expenses increased \$12.1 million or 74.6%. Services provided by Washington Department of Fish and Wildlife represented \$7.2 million of the increase. Pension expense attributed to \$2.5 million of the increase. Contributions to the Fleet fund for vehicle replacements increased \$850,000 in 2019 while there were no contributions in 2018 based on an analysis of future purchases. Professional services increased \$700,000 due to fish programs. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Transmission expense increased \$3.8 million or 12.9%. Of the total increase, \$2.6 million was due to increases in power purchases, which correlates to increases of transmission of electricity. Pension expense attributed to \$890,000 of the increase. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Distribution expenses increased \$6.8 million or 43.1%. Pension expense attributed to \$6.5 million of the increase. The remaining variance of an increase of \$300,000 was spread across multiple functional accounts and not attributed to a specific event.

Other expenses increased \$5.2 million or 25.9%. Pension expense attributed to \$1.8 million. Assessments from TPU communications accounted for \$1.4 million of the change while \$971,000 is due to an increase of the amortization of deferred conservation costs. Salaries and wages increased \$763,000 and professional services increased \$447,000 primarily due to studies and research projects. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Maintenance expenses increased \$7.8 million or 24.9%. External contract services accounted for \$3.5 million due to the Kosmos oil seep cleanup efforts. Additional information regarding this can be found in Note 12. Pension expense attributed to \$3.1 million of the increase. Fleet vehicle replacement and maintenance costs increased \$498,000. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Administrative and General expenses increased \$13.2 million or 30.2%. Pension expense attributed to \$5.5 million of the increase. Salaries and Wages increased \$6.5 million. There was a \$2.4 million decrease in the amount of administrative and capital costs capitalized in 2019.

Professional services increased \$863,000 and support activities for the advanced metering project increased \$664,000. These increases were off-set with an IBNR claims credit adjustment of \$1.7 million and a decrease in contributions to Self-Insurance Claim Fund of \$1.4 million. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

### Non-Operating Revenues (Expenses)

Interest income decreased \$1.5 million in 2020 compared to an increase of \$3.9 million in 2019. The decrease is attributed to market interest rates in 2020 compared to 2019.

CARES grant of \$464,000 from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was received in 2020.

Other revenues decreased \$1.0 million in 2020 primarily due to a reduction in billable services as well as the expenses to support commercial businesses related to CARES Act in 2020.

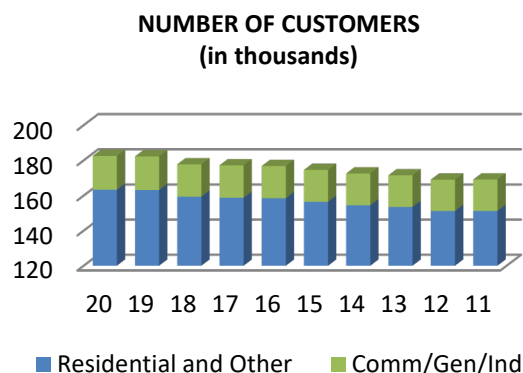
Gain on Sale/Disposal of Capital Assets increased by \$5.8 million in 2020 primarily due to the disposal of the property located in the Frederickson vicinity of unincorporated Pierce County.

### Transfers

In 2020, Transfers increased \$23.1 million due to an increase of \$25.9 million in Transfer from/ (to) Other Funds, offset by an increase of \$2.8 million in Gross Earning tax. Transfer from/ (to) Other Funds increased due to the transfers from the Fleet Services Fund. See Note 7 Fleet Services Fund for further discussion.

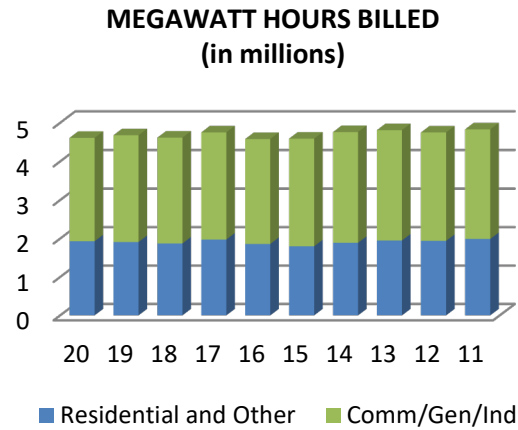
### Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2020 is 182,526 compared to 182,234 in 2019 and 177,723 in 2018.



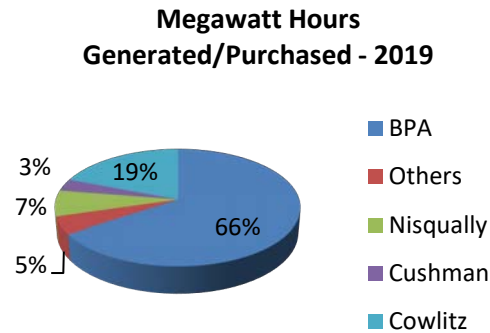
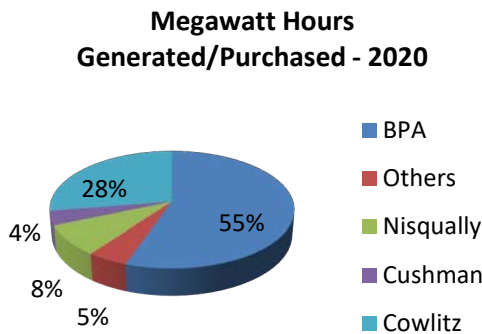
### Megawatt-hours Billed

Megawatt-hours billed to residential and other customers increased 1.0% in 2020 and commercial / general / industrial billings decreased 3.0%. Wholesale power billed in 2020 was 2,326,504 megawatt-hours compared to 1,430,766 in 2019, an increase of 895,738 megawatt-hours or 62.6%.



### Sources of Power

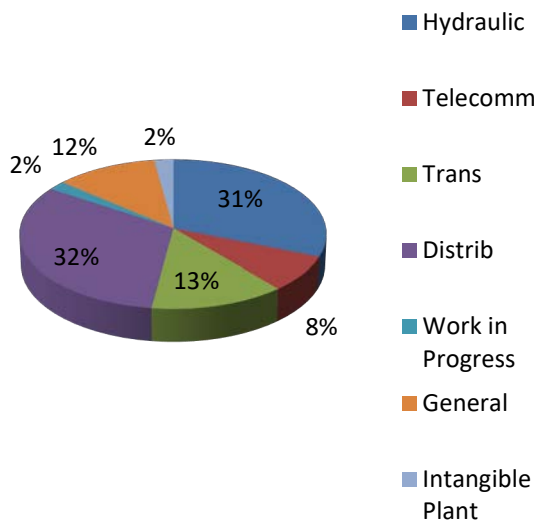
Tacoma Power's total resources for power supply to serve its retail and wholesale customers for the last two years are shown in the following graphs.



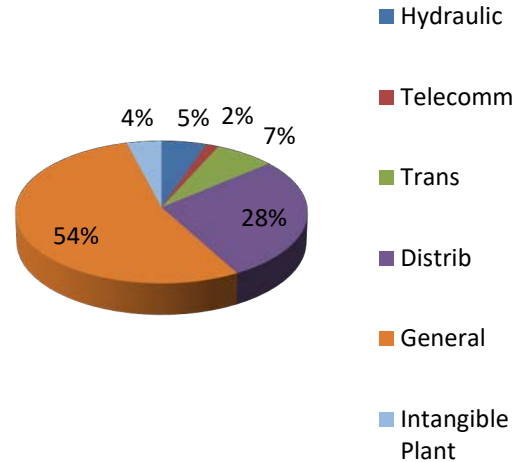
### Utility Plant and Plant Additions

Tacoma Power has \$2.2 billion invested in its utility plant assets on a cost basis. The largest portion is for the combined distribution and transmission business unit followed by the generation (hydroelectric) business unit. The following graphs show the total investment in plant and allocation of plant additions.

## 2020 UTILITY PLANT



## 2020 PLANT ADDITIONS



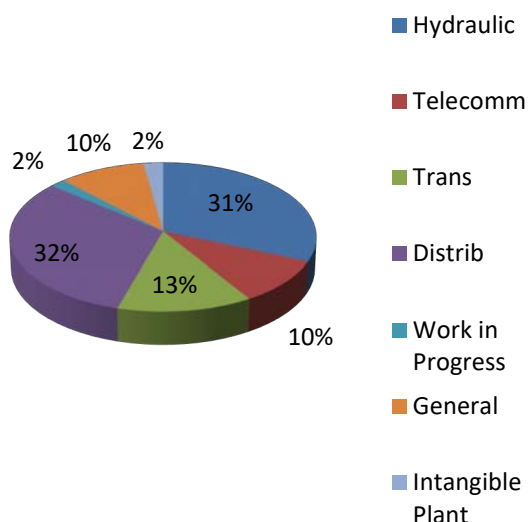
Additions to Intangible Plant in 2020 were \$4.2 million, which primarily included Multi Protocol Label Switching software and Outage communication software. Additions to Hydraulic Plant in 2020 were \$5.5 million, which mainly included the Cowlitz Trout Hatchery Water Treatment Modernization, Cushman Number 2 Spillway Gate Remote Operation and Cowlitz Fish Release Site Development.

Transmission additions were \$7.2 million, which included addition and replacement programs for overhead, substations, transmission, protection and controls, and transmission line uprating. Distribution additions were \$29.0 million, which included addition and replacement programs for overhead distribution, new services, distribution transformers, underground distribution, road related additions and replacements, distribution substation, East F Street feeder and the Advanced meter project.

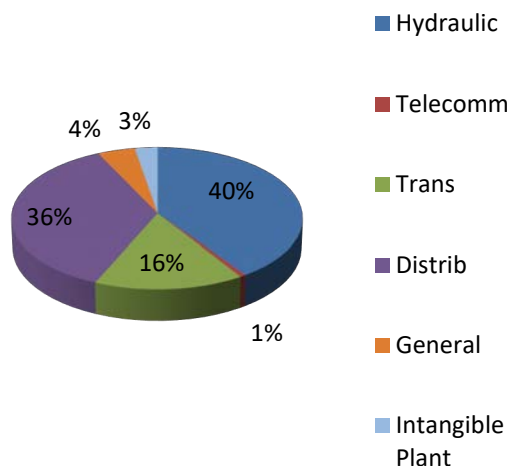
Regional Transmission additions were \$162,000, which included Energy Management System software. Additions to General Plant were \$56.0 million, of which \$46.3 million were fleet assets transferred from Fleet Services Fund, the remaining additions were mainly Land Mobile Radio for the Lacamas Site, and Multi Protocol Label Switching hardware. Click! additions were \$1.5 million, which included hybrid fiber coax plant extensions.



## 2019 UTILITY PLANT



## 2019 PLANT ADDITIONS



Additions to Intangible Plant in 2019 were \$1.5 million, which primarily included an Operational Analytics platform and land easements. Additions to Hydraulic Plant in 2019 were \$22.0 million, which mainly included the Cowlitz Falls fish passage - North shore collector and fish facility.

Transmission additions were \$7.8 million, which included the Henderson Bay tower replacement, addition and replacement programs for overhead, substations, and road related additions and replacements. Distribution additions were \$19.8 million, which included addition and replacement programs for new services, overhead distribution, distribution transformers, pole and cable, road related additions and replacements, and meters and devices.

Regional Transmission additions were \$737,000, which included a capital lease for Mason County dark fiber. Additions to General Plant were \$2.4 million, which included the main campus data center and voice solutions system. Click! additions were \$343,000, which included hybrid fiber coax plant extensions.

<b>Net Utility Plant</b> (in thousands)				<b>20/19 Increase (Decrease)</b>	<b>19/18 Increase (Decrease)</b>
	<b>2020</b>	<b>2019</b>	<b>2018</b>		
Intangible Plant	\$ 29,919	\$ 31,529	\$ 31,705	\$ (1,610)	\$ (176)
Hydraulic Plant	458,433	463,126	450,965	(4,693)	12,161
Transmission Facilities	139,384	140,702	140,163	(1,318)	539
Distribution Facilities	317,037	303,253	298,738	13,784	4,515
General Plant	90,498	68,890	73,329	21,608	(4,439)
Telecommunications Plant	19,599	23,207	28,862	(3,608)	(5,655)
Construction Work in Progress	43,709	39,025	44,528	4,684	(5,503)
<b>Total Net Utility Plant</b>	<b>\$ 1,098,579</b>	<b>\$ 1,069,732</b>	<b>\$ 1,068,290</b>	<b>\$ 28,847</b>	<b>\$ 1,442</b>

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

## **Debt Administration**

At December 31, 2020 Tacoma Power had outstanding revenue bonds of \$373.6 million, a reduction of \$9.4 million compared to 2019. In September and December 2020 Tacoma Power took a draw of \$26.0 million and \$30.0 million, respectively, on the line of credit agreement with Wells Fargo.

At December 31, 2019 Tacoma Power had outstanding revenue bonds of \$382.9 million, a reduction of \$10.1 million compared to 2018. In December 2019 Tacoma Power took a draw of \$20.0 million on the line of credit agreement with Wells Fargo.

On May 21, 2020, Tacoma Power entered into a 2-year Note Purchase Agreement with KeyBank in the amount of \$100 million, of which no draws were outstanding as of December 31, 2020.

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 2020, principal and interest were covered 4.39 times compared to 2.17 times in 2019 and 4.27 times in 2018.

## **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.

## **Request for Information**

Power financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

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# Financial Statements

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Statements of Net Position

	DECEMBER 31,	
	2020	2019
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>UTILITY PLANT</b>		
In Service, at Original Cost	\$2,209,267,388	\$2,169,402,278
Less - Accumulated Depreciation	(1,154,396,863)	(1,138,696,062)
Total	1,054,870,525	1,030,706,216
Construction Work in Progress	43,708,641	39,025,402
Net Utility Plant	1,098,579,166	1,069,731,618
<b>NON-UTILITY PROPERTY</b>	182,051	182,051
<b>SPECIAL FUNDS</b>		
Construction Funds	9,074,413	12,396,513
Debt Service Funds	17,080,055	19,209,180
Special Bond Reserve Funds	4,997,639	4,997,639
Wynoochee Reserve Funds	2,776,056	2,708,016
Fish and Wildlife Reserves	25,845,694	24,353,391
Total Special Funds	59,773,857	63,664,739
<b>CURRENT ASSETS</b>		
Operating Funds Cash and Equity in		
Pooled Investments	232,705,864	177,470,619
Accounts Receivable	30,952,991	25,039,956
(Net of Allowance for Doubtful Accounts of \$7,999,444 in 2020 and \$2,129,304 in 2019)		
Accrued Unbilled Revenue	32,019,820	32,547,727
Materials and Supplies	7,311,448	6,741,527
Prepayments and Other	13,718,562	12,722,559
Total Current Assets	316,708,685	254,522,388
<b>OTHER ASSETS</b>		
Regulatory Asset - Conservation		
(Net of Amortization of \$59,307,098 in 2020 and \$50,078,665 in 2019)	42,020,106	47,422,185
Net Pension Asset	7,189,022	-
Conservation Loans Receivable	2,182,253	2,396,282
Total Other Assets	51,391,381	49,818,467
Total Assets	1,526,635,140	1,437,919,263
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflow for Pensions	21,328,424	54,329,250
Deferred Outflow for OPEB	1,299,989	952,121
Total Deferred Outflows	22,628,413	55,281,371
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$1,549,263,553</b>	<b>\$1,493,200,634</b>

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

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	DECEMBER 31,	
	2020	2019
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$587,890,855	\$607,518,246
Restricted for:		
Wynoochee Reserve Funds	2,776,056	2,708,016
Fish and Wildlife Reserves	25,845,694	24,353,391
Debt Service Funds	7,470,000	9,365,000
Net Pension Asset	7,189,022	-
Unrestricted	245,828,320	188,082,675
Total Net Position	876,999,947	832,027,328
<b>LONG-TERM DEBT</b>		
Revenue Bonds	386,222,415	395,174,575
Revolving Line of Credit	-	75,250,000
Total Long-Term Debt	386,222,415	470,424,575
<b>CURRENT LIABILITIES</b>		
Current Portion of Revenue Bonds and Revolving Line of Credit	138,720,000	9,365,000
Taxes and Other Payables	20,189,963	22,498,931
Purchased Power Payable	11,079,413	16,945,864
Salaries, Wages and Compensated Absences Payable	5,121,187	4,032,111
Interest Payable	9,610,055	9,844,180
Unearned Revenue	1,423,374	2,517,742
Customers' Deposits	6,285,819	2,801,939
Accrued Environmental Liability	400,000	5,258,322
Total Current Liabilities	192,829,811	73,264,089
<b>LONG-TERM LIABILITIES</b>		
Long Term Accrued Compensated Absences	12,104,741	10,242,961
Net Pension Liability	-	45,902,976
Net OPEB Liability	10,972,398	10,562,836
Pension Withdrawal Liability	256,560	256,560
Other Long Term Liabilities	3,036,730	4,901,456
Total Long Term Liabilities	26,370,429	71,866,789
 Total Liabilities	 605,422,655	 615,555,453
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflow for Pensions	27,395,943	6,031,613
Deferred Inflow for OPEB	1,445,008	1,586,240
Rate Stabilization	38,000,000	38,000,000
Total Deferred Inflows	66,840,951	45,617,853
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS</b>	<b>\$1,549,263,553</b>	<b>\$1,493,200,634</b>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Statements of Revenues, Expenses and Changes in Net Position

	YEAR ENDED DECEMBER 31,	
	2020	2019
<b>OPERATING REVENUES</b>		
Sales of Electric Energy	\$430,538,416	\$417,066,344
Other Operating Revenue	24,211,850	18,801,890
Click! Network Operating Revenue	6,202,935	25,498,262
Total Operating Revenue	460,953,201	461,366,496
<b>OPERATING EXPENSES</b>		
Operations		
Purchased and Interchanged Power	137,081,542	161,088,947
Generation	21,720,288	28,362,445
Transmission	35,020,729	33,183,358
Distribution	21,446,075	22,584,269
Other	26,271,964	25,362,190
Maintenance	31,339,603	38,979,938
Telecommunications Expense	5,134,281	22,264,464
Administrative and General	60,067,993	56,899,927
Depreciation	48,123,728	48,700,270
Taxes	21,530,739	22,139,736
Total Operating Expenses	407,736,942	459,565,544
Net Operating Income	53,216,259	1,800,952
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income	6,064,525	7,607,143
CARES Grant	463,718	-
Contribution to Family Need	(500,000)	(500,000)
Other	775,093	1,795,633
Gain on Sale/Disposal of Capital Assets	5,841,184	-
Interest on Long-Term Debt	(20,239,404)	(21,072,882)
Amortization of Debt Premium	1,482,160	1,549,892
Total Non-Operating Expenses	(6,112,724)	(10,620,214)
Net Income (Loss) Before Capital Contributions and Transfers	47,103,535	(8,819,262)
Capital Contributions		
Cash	4,796,109	7,450,252
Donated Capital Assets	219,271	356,918
BABs and CREBs Interest Subsidies	3,725,269	3,592,789
Transfers		
City of Tacoma Gross Earnings Tax	(36,809,285)	(33,985,153)
Transfers from/(to) Other Funds	25,937,720	-
<b>CHANGE IN NET POSITION</b>	44,972,619	(31,404,456)
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	832,027,328	863,431,784
<b>TOTAL NET POSITION - END OF YEAR</b>	\$876,999,947	\$832,027,328

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

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City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers	\$ 455,443,608	\$ 458,060,153
Cash Paid to Suppliers	(218,162,178)	(245,373,795)
Cash Paid to Employees	(123,592,523)	(123,866,405)
Taxes Paid	(20,367,518)	(22,398,667)
Cash from Conservation Loans	214,029	237,136
Net Cash from Operating Activities	93,535,418	66,658,422
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer Out for Gross Earnings Tax	(36,809,285)	(33,985,153)
Transfer to/from Other Funds	7,186,764	-
Cares Grant Received	463,718	-
Transfer to Family Need Fund	(500,000)	(500,000)
Net Cash from Non-Capital Financing Activities	(29,658,803)	(34,485,153)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures	(62,840,400)	(49,346,998)
Proceeds from sales of capital assets	10,376,384	-
Proceeds from Issuance of Long-Term Debt and LOC	56,000,000	20,000,000
Principal Payments on Long-Term Debt and LOC	(9,365,000)	(10,095,000)
Interest Paid	(20,473,529)	(21,294,291)
BABs and CREBs Interest Subsidies	3,725,269	3,592,789
Contributions in Aid of Construction (Cash)	4,796,109	7,450,252
Other Long-Term Liabilities	(1,864,727)	(870,327)
Net Cash from Capital and Related Financing Activities	(19,645,894)	(50,563,575)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	6,064,525	7,607,143
Other Non-Op Revenues and Deductions	1,049,117	1,795,633
Net Cash from Investing Activities	7,113,642	9,402,776
Net Change in Cash and Equity in Pooled Investments	51,344,363	(8,987,530)
Cash and Equity in Pooled Investments at January 1	241,135,358	250,122,888
Cash and Equity in Pooled Investments at December 31	\$292,479,721	\$241,135,358

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2020	2019
<b>Reconciliation of Net Operating Income to Net Cash From Operating Activities:</b>		
Net Operating Income	\$53,216,259	\$1,800,952
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	48,123,728	48,700,270
Amortization of Regulatory Assets	9,228,433	9,204,526
Pension Expenses (Credits)	1,273,158	6,601,898
Net OPEB Expenses (Credits)	(79,538)	(176,822)
Pension Withdrawal Expense	-	256,560
Accrued Environmental Expense	(4,858,322)	5,258,322
Estimated Employee Payout	-	1,136,386
Rate Stabilization	-	(10,000,000)
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue	(5,385,128)	6,693,657
Conservation Loans Receivable	214,029	237,136
Interfund Receivables	-	1,845,652
Materials and Supplies, and Other	(1,536,525)	(2,231,681)
Taxes and Other Payables	(3,402,608)	(2,516,246)
Purchased Power Payable	(5,866,451)	4,423,355
Salaries, Wages and Compensated Absences Payable	1,089,076	572,389
Long Term Accrued Compensated Absences	1,861,780	421,006
Customers' Deposits	3,483,880	93,931
Regulatory Asset - Conservation	(3,826,353)	(5,455,596)
Interfund Payables	-	(207,273)
Total Adjustments	40,319,159	64,857,470
Net Cash from Operating Activities	\$93,535,418	\$66,658,422
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$59,773,857	\$63,664,739
Cash and Equity in Pooled Investments in Operating Funds	232,705,864	177,470,619
Cash and Equity in Pooled Investments at December 31	\$292,479,721	\$241,135,358
Noncash Investing, Capital, and Financing activities		
Donated fixed assets	\$219,271	\$356,918
Fixed assets transferred from/(to) Other Funds	\$18,750,956	-

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power

Notes to Financial Statements  
Years Ended December 31, 2020 and 2019

**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 Annual Financial Report (Annual Report) 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 183,000 retail customers and has 918 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. On April 1, 2020, Rainier Connect North, LLC ("Rainier Connect") entered into an Indefeasible Right of Use Agreement and took operational control of the Click! commercial network.

**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 Washington State Auditor's Office.

**ACCOUNTING CHANGES** - Effective for the fiscal year 2020, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective for reporting periods beginning after June 15, 2018, and later. Where applicable the Division has applied the effective accounting and financial reporting provisions as prescribed by GASB Statement No. 95.

**CASH, SPECIAL FUNDS 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 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.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2020 and 2019, 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 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.

**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 and customer deposits. In 2018, four sub-funds for each fish and wildlife FERC license requirement were established. In 2019, a new construction sub-fund was established related to the Wells Fargo line of credit.

**ACCOUNTS RECEIVABLES 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, which is included in accounts receivable as of December 31, 2020, and 2019.

**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 AND INTERGOVERNMENTAL TRANSACTIONS** - Unsettled transactions between entities at year end are recorded as due to or due from other funds or other governmental units as appropriate.

**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, are presented as an offset to the long-term debt balance in the statement of net position. Losses on refunding are amortized on a straight-line basis over the applicable bond period and are presented as deferred outflows in the statement of net position.

**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.

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

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

**CAPITAL CONTRIBUTIONS** - In accordance with 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 <sup>(\*)</sup>, 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.

(\*) When the federal Families First Coronavirus Response Act (FFCRA) legislation was enacted on April 1, 2020, and communicated to employees, an updated Emergency Leave Guidance Document was also provided. One of the changes made was in the “Other City Leave” section relating to employees being able to exceed the Personal Time Off (PTO) and Vacation maximum accrual caps by up to 20% through December 31, 2020. Thereafter, employees have 90 calendar days to use the excess leave accruals or they will be forfeited. 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.

**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 1.75% 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 deferred outflows, and liabilities and deferred inflows is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, loans or other borrowings, less outstanding construction funds, which 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.

**ENVIRONMENTAL REMEDIATION COSTS** - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

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

**USE OF ESTIMATES** - The preparation of the financial statements in conformity with 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 12/31/2020	Level 1	Level 2	Level 3
Securities				
U.S. Treasury Securities	\$ 371,578,276	\$ -	\$ 371,578,276	\$ -
U.S. Agency Securities	491,827,203	-	491,827,203	-
Supranational Securities	10,065,910	-	10,065,910	-
Municipal Bonds	11,664,518	-	11,664,518	-
Corporate Securities	62,803,670	-	62,803,670	-
	<u>\$ 947,939,577</u>	<u>\$ -</u>	<u>\$ 947,939,577</u>	<u>\$ -</u>

	As of 12/31/2019	Level 1	Level 2	Level 3
Securities				
U.S. Treasury Securities	\$ 394,034,439	\$ -	\$ 394,034,439	\$ -
U.S. Agency Securities	449,502,580	-	449,502,580	-
Supranational Securities	20,035,790	-	20,035,790	-
Municipal Bonds	17,764,606	-	17,764,606	-
Corporate Securities	63,736,264	-	63,736,264	-
	<u>\$ 945,073,679</u>	<u>\$ -</u>	<u>\$ 945,073,679</u>	<u>\$ -</u>

Tacoma Power's share of the City investments shown in the table above is 25.05% and 22.33% for 2020 and 2019, respectively.

Notes to the Financial Statements (continued)

**NOTE 4 UTILITY PLANT**

A summary of the balances and changes in utility plant for 2020 and 2019 follows:

	Balance December 31, 2019	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2020
Intangible Plant	\$ 48,897,147	\$ 155,329	\$ (4,200,000)	\$ 4,087,669	\$ 48,940,145
Hydraulic Production Plant	694,909,088	-	-	5,515,005	700,424,093
Transmission Plant	256,357,176	-	(2,327,604)	7,189,129	261,218,701
Distribution Plant	700,514,016	63,942	(3,188,120)	28,944,026	726,333,864
Regional Transmission	37,418,930	-	-	161,936	37,580,866
General Plant	217,102,411	-	(13,079,312)	55,967,441	259,990,540
Telecommunications Plant	214,203,510	-	(40,955,531)	1,531,200	174,779,179
Total Utility Plant in Service	2,169,402,278	219,271	(63,750,567)	103,396,406	2,209,267,388
Less Accumulated Depreciation	(1,138,696,062)	(48,123,728)	58,941,343	(26,518,416)	(1,154,396,863)
	1,030,706,216	(47,904,457)	(4,809,224)	76,877,990	1,054,870,525
Construction Work In Progress	39,025,402	70,323,662	-	(65,640,423)	43,708,641
Net Utility Plant	<u>\$ 1,069,731,618</u>	<u>\$ 22,419,205</u>	<u>\$ (4,809,224)</u>	<u>\$ 11,237,567</u>	<u>\$ 1,098,579,166</u>

	December 31, 2018	Additions	Retirements	Transfers & Adjustments	December 31, 2019
Intangible Plant	\$ 47,603,690	\$ 264,098	\$ (167,771)	\$ 1,197,130	\$ 48,897,147
Hydraulic Production Plant	672,886,997	-	-	22,022,091	694,909,088
Transmission Plant	249,226,983	-	(652,550)	7,782,743	256,357,176
Distribution Plant	684,450,628	92,820	(3,779,137)	19,749,705	700,514,016
Regional Transmissio	36,681,877	-	-	737,053	37,418,930
General Plant	214,684,012	-	-	2,418,399	217,102,411
Telecommunications Plant	214,207,985	-	(347,332)	342,857	214,203,510
Total Utility Plant in Service	2,119,742,172	356,918	(4,946,790)	54,249,978	2,169,402,278
Less Accumulated Depreciation	(1,095,980,097)	(48,700,270)	4,779,019	1,205,286	(1,138,696,062)
	1,023,762,075	(48,343,352)	(167,771)	55,455,264	1,030,706,216
Construction Work In Progress	44,527,965	52,529,779	-	(58,032,342)	39,025,402
Net Utility Plant	<u>\$ 1,068,290,040</u>	<u>\$ 4,186,427</u>	<u>\$ (167,771)</u>	<u>\$ (2,577,078)</u>	<u>\$ 1,069,731,618</u>

Total Utility Plant in Service includes non-depreciable assets of \$73,452,865 for 2020 and \$77,433,718 for 2019.

Per Ordinance No. 28688, in 2020 Fleet Services Fund transferred operating division fleet assets to Power, Rail, and Water for funding flexibility. \$18.8 million of net book value in assets (net between cost of \$46.3 million and accumulated depreciation of \$27.5 million) was transferred to the Division in 2020.

**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, 2020 and December 31, 2019, was as follows:

	<b>Balance December 31, 2019</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2020</b>	<b>Due Within One Year</b>
Revenue Bonds	\$ 382,940,000	\$ -	\$ (9,365,000)	\$ 373,575,000	\$ 7,470,000
Plus: Unamortized Premium	21,599,575	-	(1,482,160)	20,117,415	-
Net Revenue Bonds	404,539,575	-	(10,847,160)	393,692,415	7,470,000
Line of Credit	75,250,000	56,000,000	-	131,250,000	131,250,000
Total Long-Term Debt	<u>\$ 479,789,575</u>	<u>\$ 56,000,000</u>	<u>\$ (10,847,160)</u>	<u>\$ 524,942,415</u>	<u>\$ 138,720,000</u>
	<b>Balance December 31, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2019</b>	<b>Due Within One Year</b>
Revenue Bonds	\$ 393,035,000	\$ -	\$ (10,095,000)	\$ 382,940,000	\$ 9,365,000
Plus: Unamortized Premium	23,149,467	-	(1,549,892)	21,599,575	-
Net Revenue Bonds	416,184,467	-	(11,644,892)	404,539,575	9,365,000
Line of Credit	55,250,000	20,000,000	-	75,250,000	-
Total Long-Term Debt	<u>\$ 471,434,467</u>	<u>\$ 20,000,000</u>	<u>\$ (11,644,892)</u>	<u>\$ 479,789,575</u>	<u>\$ 9,365,000</u>

## Notes to the Financial Statements (continued)

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

	<u>2020</u>	<u>2019</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 Current Portion: \$0	\$ 147,070,000	\$ 147,070,000
2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate at 67% of interest, due in one payment of \$24,185,000 in 2027. Original Issue: \$24,185,000 Current Portion: \$0	24,185,000	24,185,000
2013A Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$7,470,000 to \$14,310,000 from 2021 to 2042. Original Issue: \$181,610,000 Current Portion: \$7,470,000	96,125,000	105,490,000
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 Current Portion: \$0	35,620,000	35,620,000
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 Current Portion: \$0	<u>70,575,000</u>	<u>70,575,000</u>
	373,575,000	382,940,000
Unamortized premium	20,117,415	21,599,575
Current Portion of Revenue Bond Debt	<u>(7,470,000)</u>	<u>(9,365,000)</u>
Long-term Portion of Revenue Bond Debt	386,222,415	395,174,575
Revolving Line of Credit	-	75,250,000
Total Long Term Debt	<u>\$ 386,222,415</u>	<u>\$ 470,424,575</u>

In 2015 Tacoma Power entered into a \$100.0 million line-of-credit agreement with Wells Fargo for working capital. A second amendment was executed in December 2019 to increase the line-of-credit to \$150.0 million and to extend the line of credit, which will mature in December 2021. Each advance will bear interest based on the one month London Interbank Offered Rate (LIBOR). On December 31, 2020, LIBOR was 0.14388%. Each advance is secured by Revenues as set forth in the Note Ordinance.

As of December 31, 2020, scheduled principal maturities on the bonds and interest payments are as follows:

## Notes to the Financial Statements (continued)

	Principal	Interest
2021	\$ 7,470,000	\$ 19,035,860
2022	5,945,000	18,702,985
2023	6,240,000	18,398,360
2024	6,555,000	18,078,485
2025	6,885,000	17,785,336
2026-2030	54,705,000	80,540,438
2031-2035	147,070,000	53,267,713
2036-2040	78,135,000	21,624,575
2041-2045	50,320,000	5,570,900
2046-2047	10,250,000	414,000
	\$ 373,575,000	\$ 253,418,652

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. Management believes that the Division was in compliance with all loan covenants at December 31, 2020 and 2019.

As of December 31, 2020, the following outstanding bonds were considered defeased in substance:

<u>Issue</u>	<u>Amount</u>
2013 Electric System Revenue Refunding Bonds, Series A	\$4,551,313

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.

The power received under this contract averaged 420,955 and 405,408 kilowatts per hour for 2020 and 2019, respectively. Charges for the BPA purchased power were approximately \$117.2 million and \$125.2 million for 2020 and 2019, 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. In 2019, Tacoma Power recovered \$80,699 through the ECA which was included in Purchased and Interchanged Power expense. In 2020, Tacoma Power recovered \$5.0 million through the ECA and updated its classification to include ECA reimbursement in Other Operating Revenues. 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, 2020, pertaining to these contracts is summarized as follows:

Tacoma Power's Current Share of	Columbia Basin Hydropower	Grant County PUD - Priest Rapids Project
Energy Output .....	258,513 mWh	26,687 mWh
Megawatt Capacity .....	-	5 mW
Operating Costs .....	\$ 4,055,575	\$449,192
Incentive Payments .....	\$ 3,663,336	-
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 2020 and 2019 were \$7,881,973 and \$6,011,912, respectively, for Columbia Basin Hydropower, however, proceeds under the contract exceeded expenses in 2020 and 2019 for Grant County PUD - Priest Rapids resulting in a gain of \$449,192 and \$41,537, 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 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, 2020, Tacoma Power had forward sales contracts totaling \$8.8 million dollars extending out to March 2021 with a fair market value of \$6.6 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>2020</u> (in kWh)	<u>2019</u> (in kWh)
Secondary Sales	(2,322,146,000)	(1,427,974,000)
Portfolio Purchases	466,274,000	876,792,000
Miscellaneous Exchanges	(1,536,000)	(671,000)
Other	(13,825,000)	(7,248,000)
Net Interchange	<u>(1,871,233,000)</u>	<u>(559,101,000)</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 2020 and 2019 were \$6,887,880 and \$7,569,589, 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 2020 and 2019, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$105,540 and \$152,101 for 2020 and 2019, respectively, which was used to offset the corresponding year's fleet expenses.

Per Ordinance No. 28688, in 2020 Fleet Services Fund transferred operating division fleet assets to Power, Rail, and Water for funding flexibility. \$7.1 million of unspent capital fund contributed to Fleet from Power and \$18.8 million of net book value in assets (net between cost of \$46.3 million and accumulated depreciation of \$27.5 million) were transferred to Power in 2020. Fleet Services Fund maintains the purchasing and maintenance responsibilities.

#### 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 were \$1.0 million in 2020 and 2019. Assets in the Self-Insurance Fund total \$10.2 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 Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee retirement plans. The coverage also provides a Government Crime policy with a \$1.0 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest acts by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.0 million per occurrence and an additional \$250,000 of total loss in excess of the self-insured retention. Such additional \$250,000 deductible may be satisfied by loss from one or more occurrences. Coverage also has a Cybersecurity policy with a limit of \$5.0 million.

Separate from General Government, the Department of Public Utilities maintains Property insurance and Excess Liability insurance. The Property insurance policy has a deductible of \$250,000 per occurrence that applies to the buildings and contents while a deductible of \$10,000 per vehicle applies to motor vehicles. Coverage also provides a Wrongful Acts Liability policy with a limit of \$1.25 million for each wrongful act and a \$2.5 million aggregate. Excess Liability policies provide coverage in excess of the previously noted Wrongful Acts liability policy and include General liability and Automobile liability coverage with a \$1.5 million retention. Coverage also includes Aviation Liability - Unmanned aircraft liability for drones with a limit of \$1.0 million.

#### **NOTE 9 WESTERN METAL INDUSTRY PENSION FUND**

The City of Tacoma had approximately 113 employees who participated 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.

Information was unavailable to determine if an actuarial liability exists for the City in 2020, however, the Plan was in "critical" status in the Plan Year beginning January 1, 2019. 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. The Trustees have adopted the "free look" rule set forth in subsection 4210(a) of ERISA related to withdrawal liabilities.

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.

The employer is required to make contributions to the Plan absent terms of a Collective Bargaining Agreement. On December 3, 2019, the Tacoma City Council approved the collective bargaining agreement for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 General Unit. Contained in this agreement was a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2019, payroll were the final contributions made on behalf of



the employees in this unit. As of December 31, , 2020, there were no employees participating in the plan nor were there any contributions made.

Those employees who vested would be eligible for benefits based on their date of withdrawal.

There were no contribution rates applicable for 2020. The contribution rates for 2019 by classification were as follows:

Classification	January 1, 2019 - December 31, 2019
Fabrication Welder	6.21% of gross pay
Machinist	6.36% of gross pay

There was no contribution in 2020. In 2019, the Division contributed \$32,191.

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.

At this time, WMIPF has not provided a withdrawal liability estimate. The City utilized employee data from 2017, the last year in which all units were actively contributing to WMIPF to estimate the City's withdrawal liability. The Division has recognized a liability in the amount of \$256,560 as of December 31, 2020, and 2019.

#### **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 Annual Report that includes financial statements and required supplementary information and may be obtained by writing to:

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

Or the TERS Annual Report may be downloaded from the TERS website at [www.cityoftacoma.org/retirement](http://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, 2019 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,617
Terminated vested and other terminated participants	745
Active members:	
City of Tacoma	2,791
Pierce Transit	9
South Sound 911	2
Tacoma-Pierce County Health Department	274
Total active members	<u>3,076</u>
Total membership	<u>6,438</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 41.54 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

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

The total contribution rate continues to be 21%, divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

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

Measurement Date	December 31, 2019
Valuation Date	January 1, 2020
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows: <ul style="list-style-type: none"> <li>• Level percent</li> <li>• Open periods</li> <li>• 25 year amortization period</li> <li>• 3.75% amortization growth rate</li> </ul>
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.

**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, 2020, valuation date and December 31, 2019, the measurement date. Therefore, no adjustments were needed from the January 1, 2020, actuarial valuation date to the calculated liabilities as of December 31, 2019, measurement date for reporting date of December 31, 2020. There were no changes between the January 1, 2019, and January 1, 2020, valuation dates.

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 was 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, 2019. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

## Notes to the Financial Statements (continued)

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	1.46%
US Bank/ Leveraged Loans	3.0%	2.69%
US Long Government Bonds	3.0%	1.69%
High Yield Bonds	6.0%	3.08%
Emerging Market Debt	5.0%	3.31%
Global Equity	34.5%	5.07%
Private Real Estate	10.0%	3.84%
Private Equity	10.0%	9.47%
Master Limited Partnerships	4.0%	3.98%
Timber	1.5%	4.00%
Infrastructure	2.0%	4.79%
Agriculture	1.5%	4.49%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.65%
Portfolio Arithmetic Real Mean Return		4.23%
Portfolio Median Nominal Geometric Return		6.54%
Portfolio Standard Deviation		9.81%
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)	\$76,939,538	\$(7,189,022)	\$ (77,495,734)

## Notes to the Financial Statements (continued)

As of December 31, 2020, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (3,612,890)	\$ 6,294,479
Changes of assumptions	-	3,969,517
Net Difference Between Projected and Actual Earnings	(23,778,049)	-
Changes in Employer Proportion	(5,004)	465
Contributions Made Subsequent to the Measurement Date	-	11,063,963
Total	<u>\$ (27,395,943)</u>	<u>\$ 21,328,424</u>

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:

2021	\$ (5,311,285)
2022	(4,385,011)
2023	2,153,490
2024	(10,265,586)
2025	676,910
	<u>\$ (17,131,482)</u>

At December 31, 2020, the Division reported a pension asset of \$7,189,022 for its proportionate share of the total System, compared to a pension liability of \$45,902,976 at December 31, 2019. The proportionate share of the Power Division is 38.64% of total System's pension liability as of December 31, 2020, and 39.23% as of December 31, 2019. The proportionate share was based on the actual contributions for the year as of December 31, 2020 and 2019.

### 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, 2019 for non-LEOFF 1 members includes 3,525 active participants, 171 retirees and surviving spouses, and 139 spouses of current retirees. The membership as of January 1, 2020 for LEOFF 1 members includes 1 active participant and 370 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, 2019 for non-LEOFF 1 members and January 1, 2020 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, 2019. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2020.

Subsequent to the January 1, 2019, valuation date for non-LEOFF 1 members, H.R. 1865 Further Consolidated Appropriations Act of 2020 was passed into Law on December 20, 2019. This law repealed the excise tax completely and removed the Health Insurer Fee permanently beginning in 2021. The total OPEB liability as of the December 31, 2019, measurement date reflects this change.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2019, and January 1, 2020, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2019
Census Date:	January 1, 2019
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

**Actuarial Assumptions:**

Discount Rate:	2.74% for pay-as-you-go funding
----------------	---------------------------------

Medical Cost Trend:	2019	9.10%
	2020	6.00%
	2021	5.50%
	2030	5.00%
	2040	5.10%
	2050	5.10%
	2060	5.00%

Note that the trend for year 2019 reflects the percent by which 2020 medical costs are expected to exceed 2019 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.30% 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):	2.74%
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Demographic Assumptions:	Eligibility:
	Disability - Five years of service are required for non-service connected disability.

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

- 30 years of service
- 60 years of age
- Age + Service = 80 years
- Age 55 with 10 years of service

- Age 40 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are also eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die prior to retirement are eligible for medical benefits.

The discount rate was based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

**Changes of Assumptions:** The discount rate was updated to 2.74% from 4.10%. 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, 2020, the Division reported a liability of \$10,972,398 for its proportionate share of the collective total OPEB liability of \$208.4 million, compared to \$10,562,836 at December 31, 2019. The OPEB liability was measured as of December 31, 2019, and was determined by an actuarial valuation as of January 1, 2020. At December 31, 2019, the participating Division's proportion was 5.17498% as compared to 5.26451% at December 31, 2020. For the year ended December 31, 2020, the participating Division recognized an OPEB credit of \$79,538.

At December 31, 2020, 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	\$ (160,656)	\$ 1,902
Changes of assumptions	(670,372)	543,438
Changes in Employer Proportion	(548,708)	240,034
Differences in Contributions	(65,272)	24,409
Contributions Made Subsequent to the Measurement Date	-	490,206
Total	\$ (1,445,008)	\$ 1,299,989

The Division reported \$490,206 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	\$ (147,913)
2022	(147,913)
2023	(147,913)
2024	(231,139)
2025	33,285
Thereafter	6,368
	<u>\$ (635,225)</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 2.74%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.74%, or one percentage point higher, 3.74%, than the current rate.

	1% Decrease 1.74%	Current Discount Rate 2.74%	1% Increase 3.74%
Net OPEB liability	\$ 12,428,135	\$ 10,972,398	\$ 9,758,974

**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 5.00%	Current Trend Rates 6.00%	1% Increase 7.00%
Net OPEB liability	\$ 9,707,905	\$ 10,972,398	\$ 12,472,940

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

**Capital Improvements** - The financial requirement for Tacoma Power's 2019/2020 biennial Capital Improvement Program is approximately \$149.7 million. As of December 31, 2020, the remaining financial requirement for the 2019/2020 biennial Capital budget was approximately \$52.7 million.

**Kosmos Mill Oil Seep** - On November 21, 2019, emergency action was initiated and subsequently completed to install a containment cap on oil seepage near Riffe Lake on the Cowlitz River. A sawmill was historically located at this site near the town of Kosmos before the area was inundated by Riffe Lake. The Division is working with the Department of Ecology towards a remedial investigation of the site and has recognized a liability in the amount of \$400,000 as the known cost for the site investigation progress in 2021.

**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.

**NOTE 13 – COVID-19 PANDEMIC**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the deadly new virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The COVID-19 pandemic is ongoing, and the duration and severity of the crisis are uncertain. The City and the Division took aggressive budget actions in early 2020 to manage the impacts of COVID-19. The actions included, but are not limited to, the following: reduction of 2020 revenue projections, eliminated discretionary spending, cancelled planned projects, established purchasing and contract freezes, established a hiring freeze, put certain staff on temporary furloughs and did targeted lay-offs. Other actions the City took in response to COVID-19



included, but are not limited to, the following: instituted telework for all non-frontline service staff, health screening for employees reporting to City facilities, implemented an Emergency Leave Program for employees impacted by COVID-19, provided additional funding for Rental Assistance programs, and provided additional funding for utility bill assistance. The City and the Division will continue to monitor the community impacts of COVID-19 and remain flexible on responding to community needs.

In 2020, the Division received \$464,000 from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), of which \$377,000 was used to support small business for business interruptions, and \$87,000 was used for COVID-19 related expenses.

#### **NOTE 14 SUBSEQUENT EVENTS**

On March 11, 2021, the American Rescue Plan Act (“ARPA”) was signed into law. ARPA provides \$350 billion to help states, counties, cities and tribal governments cover increased expenditures, replenish lost revenue and mitigate economic harm from the COVID-19 pandemic. Based on allocation projections, the City anticipates receiving approximately \$63.0 million in ARPA assistance. Funds received under the ARPA may be used for authorized purposes relating to mitigating the fiscal effects of the COVID-19 pandemic, including responding to the public health emergency, providing governmental services, and making certain infrastructure investments, among other purposes. The City will monitor and apply for additional Federal and State support for expenses related to responding to the COVID-19 pandemic if and as such relief becomes available.

While the full impact of the COVID-19 pandemic on the City, the Division and the regional economy is currently uncertain, the City and the Division currently believe that the measures they have taken will help mitigate its anticipated revenue shortfall. The City and the Division, however, cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the regional and local economy or on the revenues and expenses of the City and the Division. Management will continue to monitor the situation closely, but given the uncertainty about the situation, it is unable to estimate the full financial impact.

#### **NOTE 15 RESTATEMENT**

The previously issued financial statements as of December 31, 2020, have been updated for the omitted required disclosure in accordance with requirements of GASB 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placement*. This omission did not impact any other financial statement amounts or disclosure items in the previously issued financial statements.

On May 21, 2020, Tacoma Power entered into a two-year taxable \$100 million Note Purchase Agreement with KeyBank National Association (Note) for general liquidity purposes. Each advance is secured by Revenues as set forth in the Note Ordinance and will bear interest based on the one-month LIBOR. No advances were made on the Note in 2020 and entire balance of \$100 million was available as of December 31, 2020.

# Required Supplementary Information

### Proportionate Share of the Net Pension Liability Last 10 Years\*

	As of Measurement Date December 31,					
	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	38.64%	39.23%	39.43%	39.50%	39.47%	39.80%
Employer's proportion share of net pension liability (asset)	\$ (7,189,022)	\$45,902,976	(\$15,506,238)	\$36,687,245	\$34,177,293	(\$3,823,476)
Employer's covered payroll (1)	\$103,961,975	\$98,135,432	\$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)	-6.92%	46.78%	-16.29%	40.01%	36.72%	-4.11%
Plan fiduciary net position as a percentage the total pension liability	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

### Schedule of Contributions Last 10 Fiscal Years\*

	Fiscal Year Ended December 31,					
	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$11,063,963	\$10,961,788	\$10,415,912	\$9,528,899	\$9,322,005	\$9,053,341
Contributions in relation to the contractually required employer contribution	(11,063,963)	(10,961,788)	(10,415,912)	(9,528,899)	(9,322,005)	(9,053,341)
Employer contribution deficiency (excess)	-	-	-	-	-	-
Employer's covered employee payroll	\$103,973,693	\$103,961,975	\$98,135,432	\$95,163,955	\$91,704,363	\$93,063,240
Employer contribution as a percentage of covered-employee payroll	10.64%	10.54%	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\*

	As of Measurement Date December 31,			
	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	5.26%	5.17%	5.56%	5.48%
Employer's proportion share of collective OPEB liability	\$10,972,398	\$10,562,836	\$12,272,355	\$11,471,098
Employer's covered-employee payroll**	\$103,961,975	\$98,135,432	\$95,163,955	\$92,203,786
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	10.55%	10.76%	12.90%	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.

\*\* The Division's covered employee payroll has been restated for the measurement date ended December 31, 2017.

### Notes to Required Supplementary Information For the Fiscal Year Ended December 31, 2020

There are no assets accumulated in a trust to pay related benefits.

**Changes of benefit terms:** There have been no changes to the benefit provisions since the prior actuarial valuation.

**Changes of Assumptions:** The discount rate was updated to 2.74% from 4.10%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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# Statistical Data (Unaudited)

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City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Ten-Year Financial Review

	2020	2019	2018	2017 (As Restated)
<b>STATEMENTS OF NET POSITION</b>				
ASSETS AND DEFERRED OUTFLOWS				
Utility Plant - Net	\$1,098,579,166	\$1,069,731,618	\$1,068,290,040	\$1,037,776,028
Special and Other Assets	111,347,289	113,665,257	120,789,034	81,257,489
Current Assets	316,708,685	254,522,388	282,186,074	276,486,000
Total Assets	1,526,635,140	1,437,919,263	1,471,265,148	1,395,519,517
Deferred Outflows	22,628,413	55,281,371	20,842,914	38,820,632
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,549,263,553	1,493,200,634	1,492,108,062	1,434,340,149
NET POSITION	876,999,947	832,027,328	863,431,784	830,375,494
LIABILITIES AND DEFERRED INFLOWS				
Long-Term Debt	386,222,415	470,424,575	461,339,467	417,800,137
Current Liabilities	192,829,811	73,264,089	66,566,861	68,841,615
Long-Term Liabilities	26,370,429	71,866,789	26,315,935	61,418,039
Total Liabilities	605,422,655	615,555,453	554,222,263	548,059,791
Deferred Inflows	66,840,951	45,617,853	74,454,015	55,904,864
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,549,263,553	\$1,493,200,634	\$1,492,108,062	\$1,434,340,149
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>				
OPERATING REVENUES				
Residential	\$186,622,420	\$182,002,242	\$175,979,684	\$169,583,337
Commercial	28,587,971	29,724,195	29,248,620	29,133,553
General	130,529,532	130,604,401	125,399,026	119,704,634
Contract Industrial	23,962,855	23,730,505	23,494,502	22,278,802
Bulk Power	59,615,216	47,420,681	55,486,697	57,062,247
Unbilled	(527,907)	1,816,954	29,348	2,114,131
Other	1,748,329	1,767,366	1,755,243	1,754,802
Total Electric Revenues	430,538,416	417,066,344	411,393,120	401,631,506
Other Operating Revenue	30,414,785	44,300,152	43,898,363	44,711,899
Total Operating Revenues	460,953,201	461,366,496	455,291,483	446,343,405
OPERATING EXPENSES				
Operation and Maintenance	338,082,475	388,725,538	313,885,614	325,018,197
Taxes	21,530,739	22,139,736	21,486,970	20,755,847
Depreciation	48,123,728	48,700,270	53,869,012	57,231,313
Total Operating Expenses	407,736,942	459,565,544	389,241,596	403,005,357
NET OPERATING INCOME	53,216,259	1,800,952	66,049,887	43,338,048
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	7,079,995	1,795,633	1,776,333	(1,534,389)
Interest Earned on Investments	6,064,525	7,607,143	3,719,705	2,251,477
Interest Charges (Net)	(18,757,244)	(19,522,990)	(17,219,276)	(14,076,794)
Contributions to Family Need	(500,000)	(500,000)	(100,000)	(100,000)
Net Income Before Contributions, Transfers & Extraordinary Items	47,103,535	(8,819,262)	54,226,649	29,878,342
Total Capital Contributions	8,740,649	11,399,959	13,214,597	12,643,334
Transfers In/Out	(10,871,565)	(33,985,153)	(34,384,956)	(34,141,875)
CHANGE IN NET POSITION	\$44,972,619	(\$31,404,456)	\$33,056,290	\$8,379,801

In accordance with Governmental Accounting Standards Board Statement No65 both 2012 and 2011 were restated for comparative purposes.



2016	2015	2014	2013	2012	2011
\$1,033,409,064	\$1,002,810,874	\$978,885,275	\$959,885,269	\$954,141,423	\$944,969,878
95,903,332	125,203,792	160,778,160	213,192,582	154,745,677	196,860,001
<u>289,162,319</u>	<u>267,460,091</u>	<u>365,173,352</u>	<u>328,974,357</u>	<u>333,694,736</u>	<u>313,457,995</u>
1,418,474,715	1,395,474,757	1,504,836,787	1,502,052,208	1,442,581,836	1,455,287,874
<u>39,469,454</u>	<u>10,977,517</u>	<u>8,026,229</u>	<u>15,941,231</u>	<u>7,848,910</u>	<u>8,213,239</u>
1,457,944,169	1,406,452,274	1,512,863,016	1,517,993,439	1,450,430,746	1,463,501,113
82,199,569,278	825,933,297	822,803,061	799,078,660	779,206,485	762,944,507
457,601,726	441,928,130	530,580,510	564,960,765	518,251,959	563,718,608
70,165,746	63,906,544	86,776,174	82,905,132	84,070,814	82,861,816
<u>5,789,302,121</u>	<u>22,647,914</u>	<u>24,703,271</u>	<u>23,048,882</u>	<u>20,901,488</u>	<u>17,976,182</u>
6,317,069,593	528,482,588	642,059,955	670,914,779	623,224,261	664,556,606
<u>50,287,983</u>	<u>52,036,389</u>	<u>48,000,000</u>	<u>48,000,000</u>	<u>48,000,000</u>	<u>36,000,000</u>
\$88,566,926,854	\$1,406,452,274	\$1,512,863,016	\$1,517,993,439	\$1,450,430,746	\$1,463,501,113
\$154,091,270	\$149,195,092	\$150,972,050	\$149,662,791	\$141,236,063	\$136,944,688
27,703,400	26,956,059	26,594,512	25,110,481	23,499,735	22,324,063
115,600,650	116,053,999	114,718,365	109,046,936	103,586,233	99,958,156
21,462,712	21,356,911	21,150,771	19,804,613	18,870,807	18,341,067
54,506,535	50,380,147	82,796,740	64,210,259	53,532,081	48,118,090
(840,477)	677,091	(666,187)	1,651,808	4,615,802	369,424
<u>1,725,200</u>	<u>1,643,756</u>	<u>1,609,143</u>	<u>1,562,082</u>	<u>1,558,268</u>	<u>1,373,168</u>
374,249,290	366,263,055	397,175,394	371,048,970	346,898,989	327,428,656
<u>44,365,098</u>	<u>44,363,160</u>	<u>44,070,713</u>	<u>43,413,115</u>	<u>40,983,752</u>	<u>36,895,939</u>
418,614,388	410,626,215	441,246,107	414,462,085	387,882,741	364,324,595
312,790,388	299,200,704	294,741,044	276,558,723	267,457,626	247,409,057
19,727,313	19,993,833	19,276,216	19,562,858	17,494,729	16,970,015
<u>55,702,297</u>	<u>57,381,578</u>	<u>59,156,228</u>	<u>56,397,306</u>	<u>57,842,109</u>	<u>56,555,538</u>
388,219,998	376,576,115	373,173,488	352,518,887	342,794,464	320,934,610
30,394,390	34,050,100	68,072,619	61,943,198	45,088,277	43,389,985
1,555,659	(1,923,329)	(728,908)	(252,363)	3,055,848	1,226,132
2,405,144	1,796,071	3,780,834	1,899,829	5,835,775	8,444,683
(16,196,734)	(19,428,673)	(27,290,021)	(25,688,219)	(22,859,967)	(21,917,623)
<u>(480,000)</u>	<u>(480,000)</u>	<u>(900,000)</u>	<u>(900,000)</u>	<u>(450,000)</u>	<u>(450,000)</u>
17,678,459	14,014,169	42,934,524	37,002,445	30,669,933	30,693,177
8,846,216	9,383,844	7,788,292	8,839,960	9,480,111	14,222,934
<u>(30,462,279)</u>	<u>(24,969,422)</u>	<u>(26,998,415)</u>	<u>(25,970,230)</u>	<u>(23,888,066)</u>	<u>(23,913,077)</u>
<u>(\$3,937,604)</u>	<u>(\$1,571,409)</u>	<u>\$23,724,401</u>	<u>\$19,872,175</u>	<u>\$16,261,978</u>	<u>\$21,003,034</u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Ten-Year Power Summary

	2020	2019	2018	2017
MWh Available				
Generated				
Nisqually	562,674	387,967	538,674	631,627
Cushman	259,101	180,935	292,553	377,366
Cowlitz	1,838,319	1,034,672	1,556,232	2,138,980
Wynoochee	29,756	13,734	26,071	34,103
Hood Street	3,617	3,543	2,892	3,282
Grant Net Actual	-	-	-	-
Tacoma's Share of Priest Rapids	26,687	21,140	26,974	27,440
Tacoma's Share of GCPHA	258,513	220,240	241,233	228,781
Total Generated	2,978,667	1,862,231	2,684,629	3,441,579
Purchased	3,697,665	3,551,373	3,980,124	4,023,330
Interchange - Net	(1,871,233)	(559,101)	(1,804,434)	(2,458,785)
Losses - Net	2,743	2,367	5,073	27,919
Total System Load	4,807,842	4,856,870	4,865,392	5,034,043
MWh Billed				
Residential and Other	1,932,973	1,913,582	1,871,796	1,975,096
Commercial/General/Industrial	2,677,791	2,759,606	2,743,659	2,777,190
Total Firm MWh Billed	4,610,764	4,673,188	4,615,455	4,752,286
MWh Available Over MWh Billed (Causes: Timing differences, internal use, and losses other than those reflected above)	197,078	183,682	249,937	281,757
Percent of Power Generated	61.95%	38.34%	55.18%	68.37%
Average Load Factor	61.19%	59.00%	60.20%	57.27%
Average Number of Billings	182,526	182,234	177,723	177,153
Maximum Hourly Energy Load				
MWh	894	939	922	997
Date	1/14/20	2/7/19	2/23/18	1/5/17
Time	1900 hr	0800 hr	0800 hr	0800 hr
Maximum Daily Energy Load				
MWh	18,856	19,052	19,318	20,525
Date	1/14/20	2/6/19	2/23/18	1/5/17
Minimum Hourly Energy Load				
MWh	315	307	329	350
Date	7/6/20	9/8/19	6/7/18	7/2/17
Time	0600 hr	0500 hr	0400 hr	0600 hr
Minimum Daily Energy Load				
MWh	9,501	9,911	10,208	10,315
Date	7/6/20	9/8/19	9/2/18	6/4/17
Average Hourly Energy Load	547	554	555	571

2016	2015	2014	2013	2012	2011
630,483	511,592	635,121	572,932	699,104	663,345
507,618	272,457	358,509	239,528	261,735	410,723
1,989,438	1,630,130	2,111,686	1,792,975	2,322,875	2,157,106
37,209	12,680	14,272	24,404	38,149	35,692
2,942	1,889	2,281	3,503	4,029	3,313
-	-	(2,018)	(3,279)	(3,285)	-
26,975	25,360	22,733	34,846	37,355	34,417
253,625	258,679	272,846	254,570	255,564	237,794
3,448,290	2,712,787	3,415,430	2,919,479	3,615,526	3,542,390
3,807,370	3,674,140	3,845,666	3,756,763	4,167,263	3,799,037
(2,438,369)	(1,569,981)	(2,339,277)	(1,665,811)	(2,814,479)	(2,266,720)
(8,870)	10,340	14,057	7,398	20,718	(8,112)
4,808,421	4,827,286	4,935,876	5,017,829	4,989,028	5,066,595
1,855,706	1,801,114	1,890,970	1,950,829	1,935,518	1,997,714
2,771,822	2,786,233	2,838,966	2,855,932	2,812,769	2,838,424
4,627,528	4,587,347	4,729,936	4,806,761	4,748,287	4,836,138
180,893	239,939	205,940	211,068	240,741	230,457
71.71%	56.20%	69.20%	58.18%	72.47%	69.92%
60.02%	62.71%	55.31%	54.18%	61.47%	58.86%
176,784	174,562	172,531	171,506	169,012	169,123
913	877	1,016	980	924	931
12/17/16	12/31/15	2/6/14	12/9/13	1/16/12	1/3/11
0900 hr	0900 hr	0800 hr	0800 hr	1800 hr	0800 hr
19,641	18,675	21,686	21,172	19,100	18,788
12/17/16	12/31/15	2/6/14	12/09/13	1/16/12	1/11/11
351	354	348	349	340	310
7/5/16	6/21/15	7/6/14	9/8/13	9/19/12	7/5/11
0400 hr	0600 hr	0600 hr	0500 hr	0400 hr	0400 hr
10,110	10,262	10,221	10,379	10,160	9,171
9/4/16	5/24/15	7/5/14	7/4/13	9/2/12	7/3/11
548	550	562	572	566	548

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Gross Generation Report  
December 31, 2020 and December 31, 2019

	YEAR ENDED		2020 OVER (UNDER) 2019	PERCENT CHANGE
	Dec 31 2020	Dec 31 2019		
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	350,596,000	244,931,000	105,665,000	43.1%
Generated - Alder	212,078,000	143,036,000	69,042,000	48.3%
TOTAL NISQUALLY	562,674,000	387,967,000	174,707,000	45.0%
Generated - Cushman No 1	105,245,000	76,366,000	28,879,000	37.8%
Generated - Cushman No 2	153,856,000	104,569,000	49,287,000	47.1%
TOTAL CUSHMAN	259,101,000	180,935,000	78,166,000	43.2%
Generated - Mossyrock	1,111,716,000	584,779,000	526,937,000	90.1%
Generated - Mayfield	726,603,000	449,893,000	276,710,000	61.5%
TOTAL COWLITZ	1,838,319,000	1,034,672,000	803,647,000	77.7%
Generated - Wynoochee	29,756,000	13,734,000	16,022,000	116.7%
Generated - Hood Street	3,617,100	3,543,483	73,617	2.1%
Tacoma's Share of Priest Rapids	26,687,000	21,140,000	5,547,000	26.2%
Tacoma's Share of GCPHA	258,513,000	220,240,000	38,273,000	17.4%
TOTAL KWH GENERATED - TACOMA SYSTEM	2,978,667,100	1,862,231,483	1,116,435,617	60.0%
Purchased Power				
BPA Slice Contract	2,277,980,000	2,029,003,000	248,977,000	12.3%
BPA Block Contract	1,419,685,000	1,522,370,000	(102,685,000)	-6.7%
Interchange Net	(1,871,233,000)	(559,101,000)	(1,312,132,000)	234.7%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED	4,805,099,100	4,854,503,483	(49,404,383)	-1.0%
Losses	34,968,534	33,249,761	1,718,773	5.2%
Baldi Replacement	1,779,561	288,097	1,491,464	517.7%
Ketron	312,500	278,263	34,237	12.3%
NT PC Mutuals Schedules	(32,187,000)	(32,094,000)	(93,000)	0.3%
PC Mutual Inadvertent	(2,130,800)	644,308	(2,775,108)	-430.7%
TACOMA SYSTEM FIRM LOAD	4,807,841,895	4,856,869,912	(49,028,017)	-1.0%
PIERCE COUNTY MUTUAL LOAD	1,475,829,000	1,487,202,000	(11,373,000)	-0.8%
KWH BILLED				
Residential Sales	1,915,481,786	1,895,538,014	19,943,773	1.1%
Commercial Sales	306,418,459	320,727,113	(14,308,654)	-4.5%
General	1,872,369,457	1,942,122,720	(69,753,263)	-3.6%
Contract Industrial	499,003,392	496,756,020	2,247,372	0.5%
Public Street and Highway Lighting	9,974,469	10,496,260	(521,791)	-5.0%
Sales to Other Electric Utilities	7,516,800	7,548,300	(31,500)	-0.4%
TOTAL FIRM	4,610,764,363	4,673,188,427	(62,424,064)	-1.3%
Bulk Power Sales	2,326,504,000	1,430,766,000	895,738,000	62.6%
TOTAL KWH BILLED	6,937,268,363	6,103,954,427	833,313,936	13.7%

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Debt Service Requirements  
December 31, 2020

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
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	18,078,485	24,633,485
2025	6,885,000	17,785,336	24,670,336
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	7,096,672	38,726,672
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>\$373,575,000</u>	<u>\$253,418,652</u>	<u>\$626,993,652</u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Funds Available for Debt Service

	2020	2019	2018	2017 (As Restated)	2016
Total Income	\$476,791,233	\$473,776,579	\$464,467,429	\$450,627,829	\$425,755,909
Less: Operating Exp	359,613,214	410,865,274	335,372,584	345,774,044	332,517,701
Income Available for Debt Service	<u>\$117,178,019</u>	<u>\$62,911,305</u>	<u>\$129,094,845</u>	<u>\$104,853,785</u>	<u>\$93,238,208</u>
Bond Redemption	\$7,470,000	\$9,365,000	\$10,095,000	\$11,575,000	\$12,730,000
Bond Interest	<u>19,220,110</u>	<u>19,688,360</u>	<u>20,143,110</u>	<u>18,949,910</u>	<u>19,025,810</u>
Debt Service Payable on All Debt	\$26,690,110	\$29,053,360	\$30,238,110	\$30,524,910	\$31,755,810
Times Debt Service Covered	4.39	2.17	4.27	3.44	2.94

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Resources  
As of December 31, 2020

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	208,410
LaGrande	5	64,000	338,334
Cushman No 1	2	43,200	130,686
Cushman No 2	3	81,000	208,921
Mayfield	4	162,000	688,643
Mossyrock	2	300,000	991,095
Wynoochee	1	12,800	27,779
Total Hydro		713,000	2,593,868

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	162,367	1.343
Incidental	16,666	2.099
General	2,552	106.638
Public Streets and Highways	941	1.210
Total System	182,526	2.880
Circuit Miles of Transmission Lines		
115 kV		308
230 kV		44
Circuit Miles of Distribution Lines		
Overhead		1,172
Underground		862

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
Taxes and Employee Welfare Contributions  
For the Year 2020

**FEDERAL**

Power Social Security (FICA)	\$7,554,271	
Total		\$7,554,271

**STATE OF WASHINGTON**

Retail Sales and Use Taxes	3,154,930	
Power Utilities and Business Operations Tax	14,896,106	
Power State Employment Security	176,072	
Total		18,227,107

**COUNTY**

Lewis County - In Lieu of Taxes	1,693,757	
Mason County - In Lieu of Taxes	203,335	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	131,587	
Mossyrock School Support	114,303	
Morton School Support	3,212	
Lewis County Fire Protection District	11,063	
Pierce County Fire Protection District	21,396	
Pierce County Drainage District	72,202	
Thurston County	2,432	
Total		2,260,287

**MUNICIPALITIES**

City of Tacoma Power Gross Earnings Tax	36,330,606	
Click!Network Gross Earnings Tax/Franchise Fees	722,152	
City of Fife Power Franchise Fee	1,352,189	
City of University Place Power Franchise Fee	1,270,060	
City of Lakewood Power Franchise Fee	1,204,366	
City of Fircrest Power Franchise Fee	291,051	
City of Steilacoom Power Franchise Fee	6,182	
Total		41,176,606
TOTAL TAXES		\$69,218,271

Taxes as a % of Operating Revenues of \$460,953,201 15.02%

**EMPLOYEE WELFARE CONTRIBUTIONS**

Power Industrial Insurance and Medical Aid	\$705,946	
Power City of Tacoma Pension Fund	10,861,864	
Power Medical/Life Insurance	16,163,522	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$27,731,331



City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Power  
2020 Electric Rates  
(Based on 2020 rate schedules)

**RATE PER MONTH**

**Schedule A-1 - Residential Service**

Customer Charge	\$17.30 per month
Customer Charge (for collectively metered apartments)	\$14.15 per month
Energy (all energy measured in kilowatt-hours)	\$0.045351 per kWh
Delivery (all energy delivered in kilowatt-hours )	\$0.035353 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	\$23.50 per month
Customer Charge (for unmetered services)	\$18.30 per month
Energy (all energy measured in kilowatt-hours)	\$0.044616 per kWh
Delivery (all energy delivered in kilowatt-hours)	\$0.035207 per kWh

**Schedule G - General Service**

Customer Charge	\$80.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.049961 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$8.51 per kW

**Schedule HVG - High Voltage General Service**

Customer Charge	\$1,690.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.044175 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$5.03 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

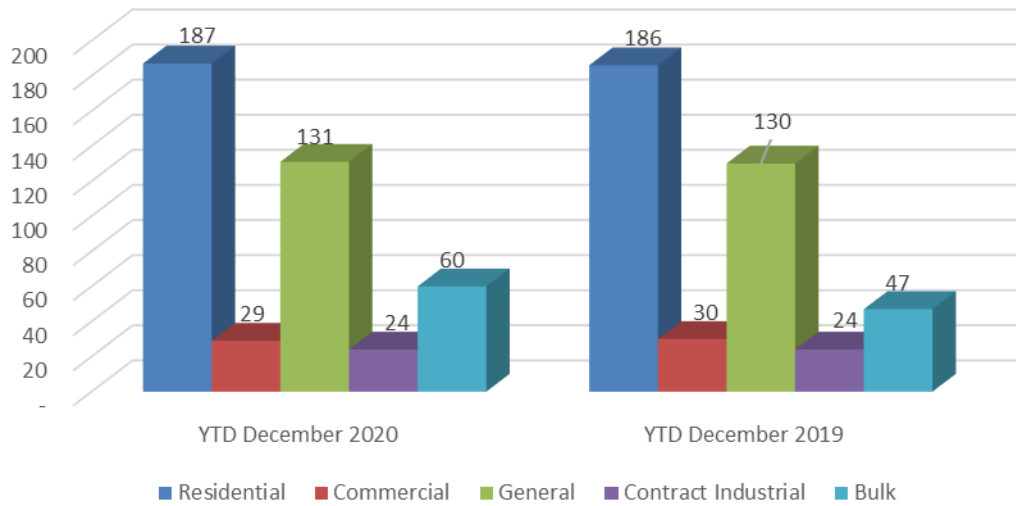
FC - Electric Vehicle Fast Charge

Electric rates were established by Ordinance No. 28665  
and became effective July 1, 2020.

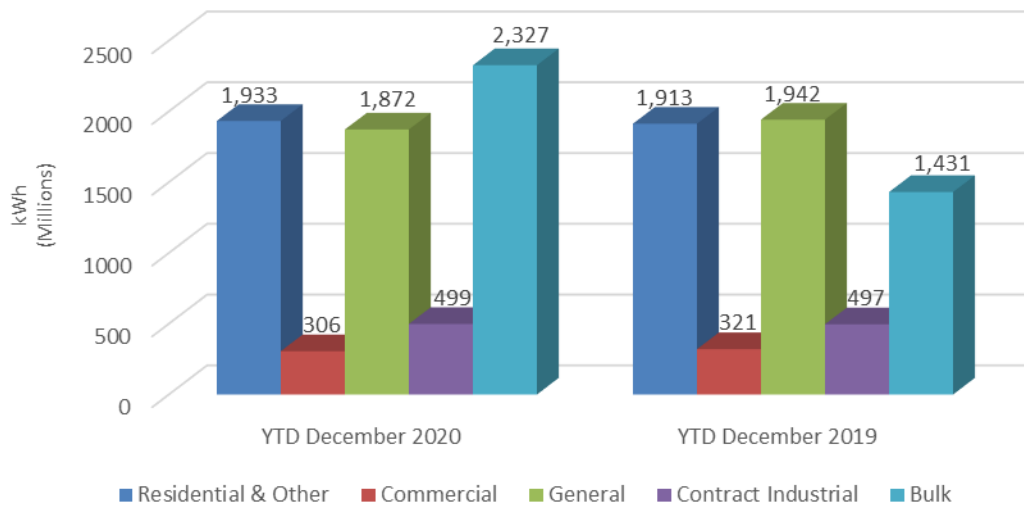
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# Graphs

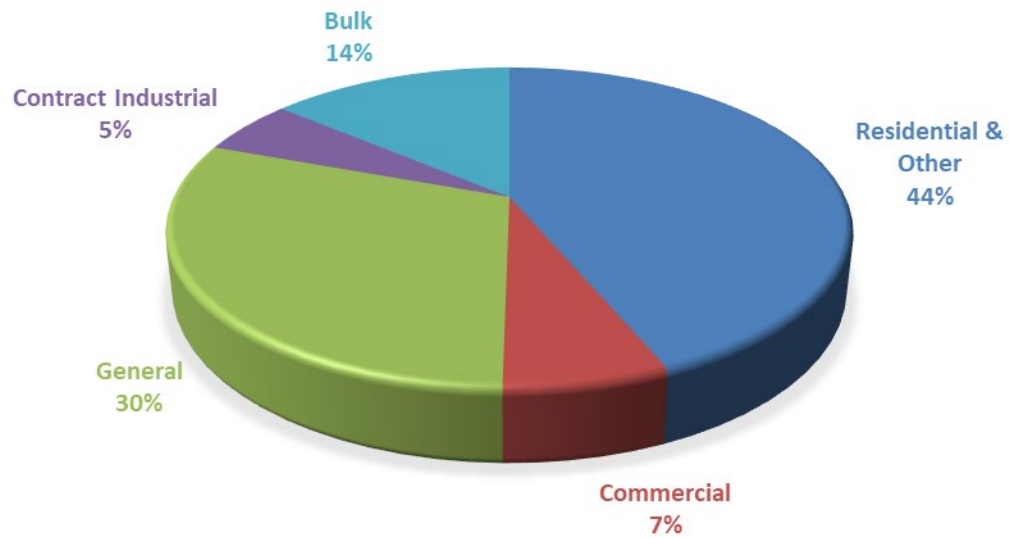
### Sales of Electric Energy Year to Date - December 2020 & 2019



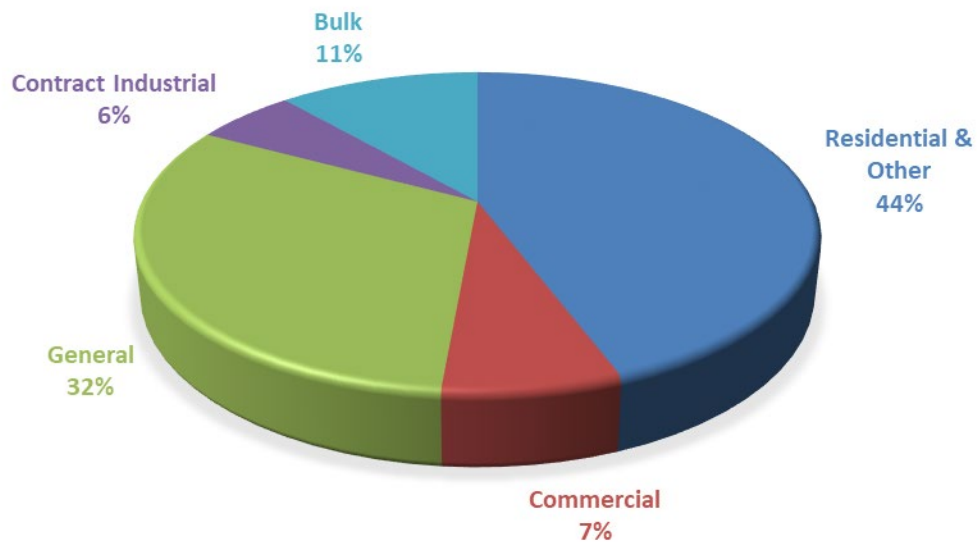
### Total Power Billed Year to Date - December 2020 & 2019



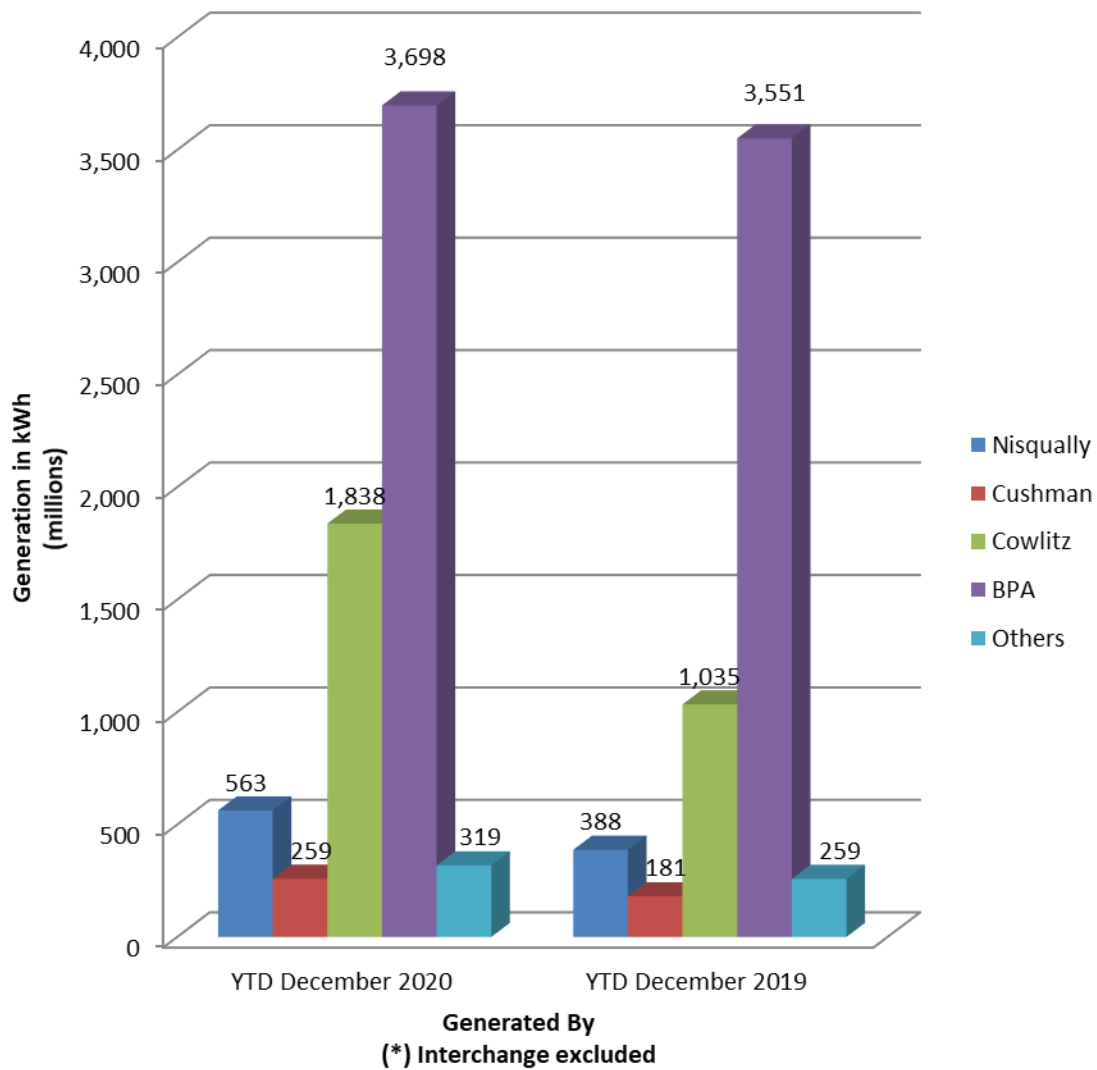
**SALES OF ELECTRIC ENERGY  
YEAR TO DATE - DECEMBER 2020 (\$430,538,416)**



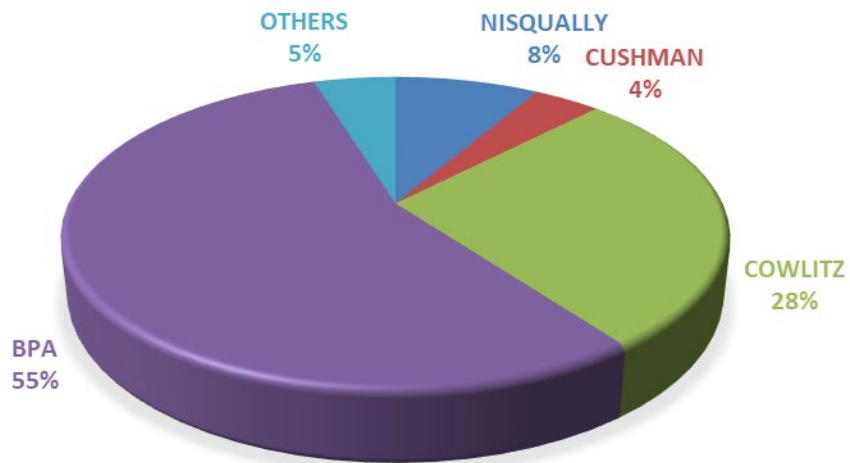
**SALES OF ELECTRIC ENERGY  
YEAR TO DATE - DECEMBER 2019 (\$417,066,344)**



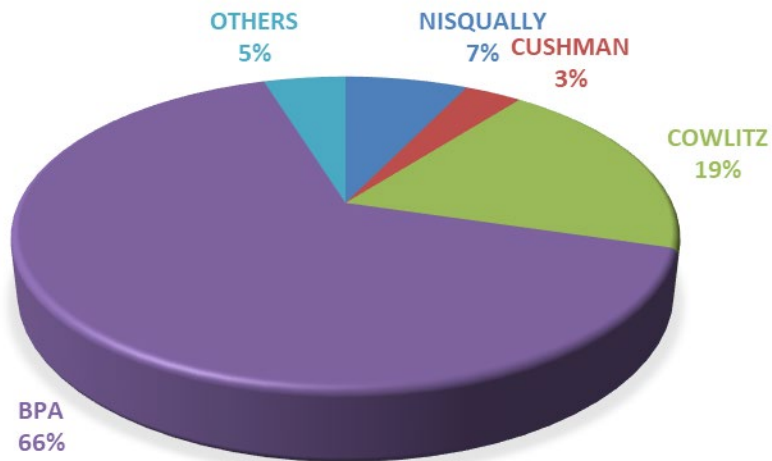
## Power Sources (\*) Year to Date December 2020 & 2019



**POWER SOURCES (\*)**  
**YEAR TO DATE - DECEMBER 2020**

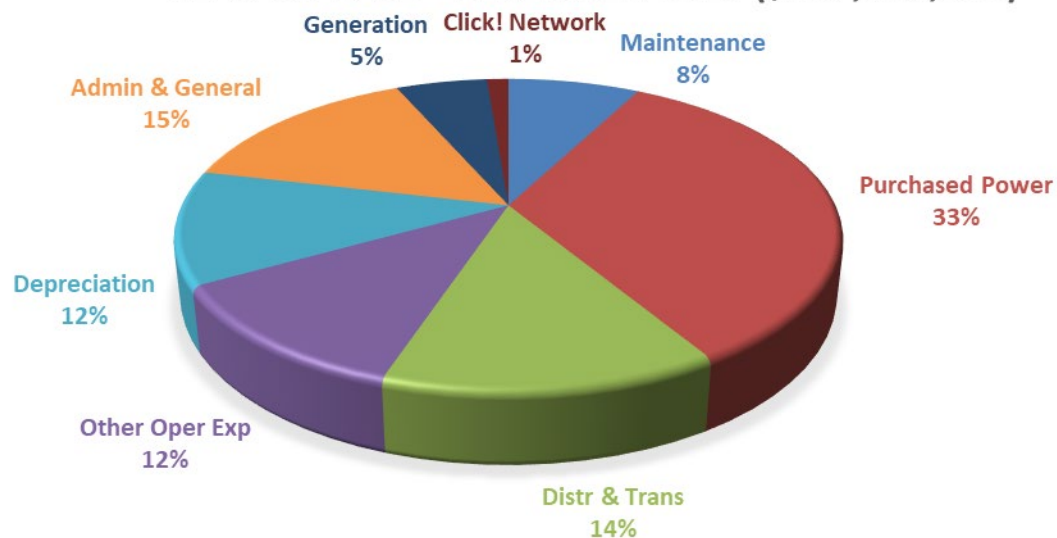


**POWER SOURCES (\*)**  
**YEAR TO DATE - DECEMBER 2019**

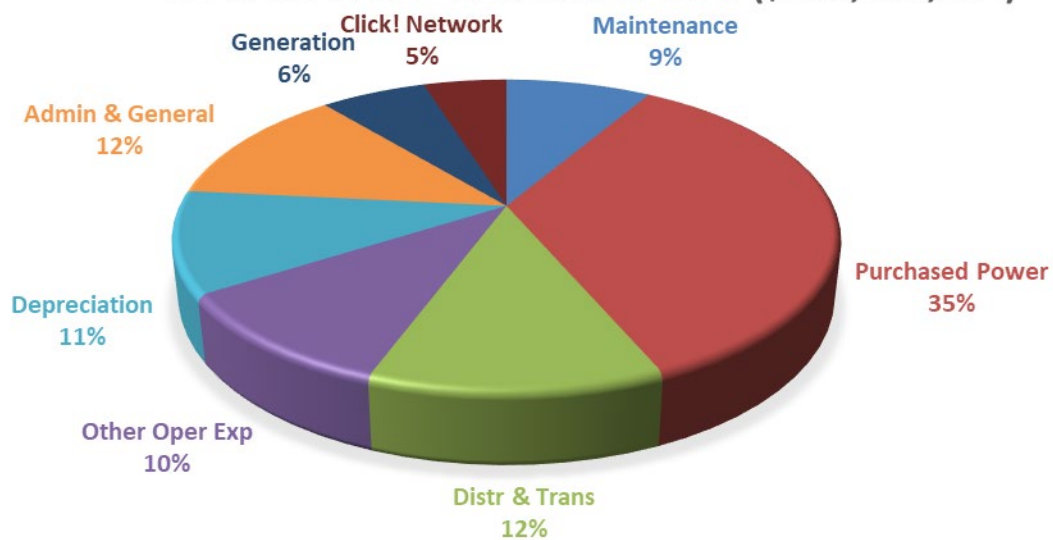


(\*) Interchange excluded

**TOTAL OPERATING EXPENSES \***  
**YEAR TO DATE - DECEMBER 2020 (\$407,736,942)**



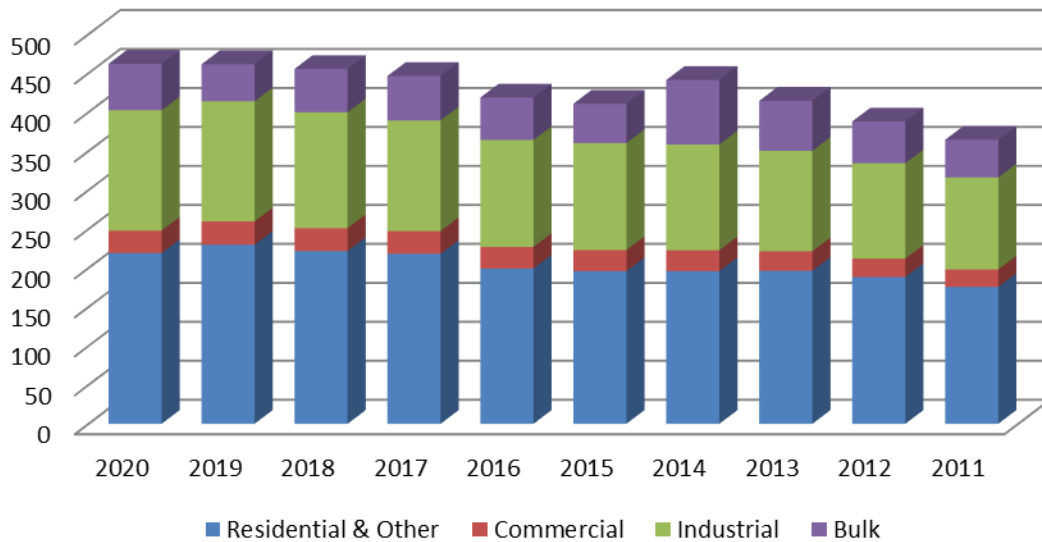
**TOTAL OPERATING EXPENSES \***  
**YEAR TO DATE - DECEMBER 2019 (\$459,565,544)**



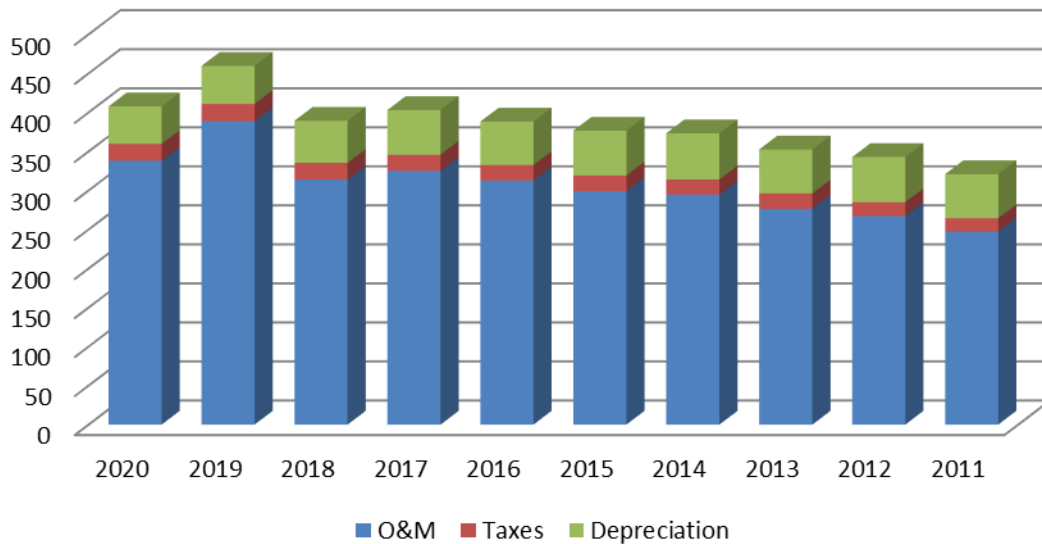
\* City Gross Earnings Taxes are not included in Total Operating Expenses.



## TEN-YEAR SUMMARY OF OPERATING REVENUES



## TEN-YEAR SUMMARY OF OPERATING EXPENSES





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

## APPENDIX E

### ECONOMIC AND DEMOGRAPHIC INFORMATION

Tacoma, the county seat of Pierce County (the “County”), is located in the west central part of Washington State near the southern tip of Puget Sound. It is the third largest city in the State with a 2021 estimated population of 214,700. The City is located 32 miles south of the City of Seattle and 31 miles northeast of the City of Olympia, the State capital.

The historical population of the City and Pierce County is shown in the following table.

**TABLE E-1: POPULATION**

<b>Year</b>	<b>Tacoma</b>	<b>Pierce County</b>
2021	214,700	917,100
2020	213,300	900,700
2019	211,400	888,300
2018	209,100	872,220
2017	208,100	859,400

*Source: Washington State Office of Financial Management estimates.*

The following are economic indicators for the City and Pierce County.

**TABLE E-2: PIERCE COUNTY  
2020 MAJOR EMPLOYERS**

<b>Employer</b>	<b>Sector</b>	<b>Number of Full Time Employees</b>
Joint Base Lewis-McCord	Military	54,000
MultiCare Health System	Health Care	8,264
The State	Government	7,859
CHI Franciscan Health	Health Care	5,682
Tacoma School District	Education	3,649
The City and Tacoma Public Utilities	Government	3,623
Pierce County Government	Government	3,304
Puyallup School District	Education	2,711
Bethel School District	Education	2,689
Safeway and Albertsons	Retail	2,153

*Source: Economic Development Board of Tacoma-Pierce County.*

**TABLE E-3: CITY RESIDENTIAL AND  
COMMERCIAL BUILDING PERMIT VALUES**

Year	Single Family		Multifamily	
	Number of Dwellings	Value of Permits	Number of Dwellings	Value of Permits
2021 <sup>(1)</sup>	143	\$ 40,829,366	1,202	\$ 136,753,656
2020	241	66,921,678	691	103,200,698
2019	162	44,650,935	914	114,839,154
2018	124	33,543,370	909	130,610,534
2017	139	38,079,241	988	122,618,527

<sup>(1)</sup> Latest data available through June 2021.

Source: United States Census Bureau

**TABLE E-4: PIERCE COUNTY AND CITY OF TACOMA  
TAXABLE RETAIL SALES (\$000)**

Year	Pierce County	City of Tacoma
2021 <sup>(1)</sup>	\$ 5,181,079,652	\$ 1,514,159,571
2020	19,407,955,285	5,700,693,214
2019	18,746,939,008	5,887,578,667
2018	17,592,771,533	5,821,935,082
2017	16,081,078,014	5,465,163,728
2016	14,878,550,727	5,015,371,719

<sup>(1)</sup> Latest data available through March 2021.

Source: Washington State Department of Revenue.

**TABLE E-5: PIERCE COUNTY AND WASHINGTON STATE  
MEDIAN HOUSEHOLD INCOME**

Year	Pierce County	Washington State
2020 <sup>(1)</sup>	\$ 78,518	\$ 81,668
2019 <sup>(2)</sup>	74,774	76,840
2018	71,208	72,297
2017	65,517	69,288
2016	61,042	65,500

<sup>(1)</sup> Projected.

<sup>(2)</sup> Preliminary estimates.

Source: Washington State Office of Financial Management for County and State data.

**TABLE E-6: PIERCE COUNTY AND STATE OF WASHINGTON  
TOTAL PERSONAL AND PER CAPITA INCOME**

Year	Pierce County		State of Washington	
	Total Personal Income (in thousands) <sup>(1)</sup>	Per Capita Income <sup>(1)</sup>	Total Personal Income (in thousands) <sup>(2)</sup>	Per Capita Income <sup>(2)</sup>
2020	-	-	\$ 525,643,400	\$ 68,322
2019	\$ 48,481,266	\$ 53,572	493,127,859	64,758
2018	45,753,481	51,192	468,005,125	62,209
2017	42,955,131	48,832	433,795,843	58,437
2016	40,552,080	46,995	407,060,366	55,802
2015	38,492,409	45,619	385,904,752	53,870

<sup>(1)</sup> Census Bureau mid-year population estimates. Estimates for 2010-2019 reflect county estimates available as of March 2020.

<sup>(2)</sup> Census Bureau mid-year state population. Estimates for 2010-2020 reflect estimates available as of December 2020.

*Source: U.S. Department of Commerce, Bureau of Economic Analysis.*

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Employment within the County is described in the following table:

**TABLE E-7: TACOMA METROPOLITAN AREA (PIERCE COUNTY)  
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT AND AVERAGE CIVILIAN  
NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT**

NAICS Industry Title	Annual Average				
	2021 <sup>(1)</sup>	2020	2019	2018	2017
Residential Labor Force					
Civilian Labor Force	441,445	454,097	442,094	428,870	415,689
Total Employment	416,555	410,611	419,394	403,258	393,077
Total Unemployment	24,890	43,486	22,700	22,612	22,612
Unemployment Percent of Labor Force	5.6%	9.6%	5.1%	5.3%	5.4%
Total Nonfarm	316,217	312,108	327,342	321,392	313,175
Total Private	260,483	255,433	267,825	262,317	254,550
Goods Producing	41,317	41,475	43,200	42,167	40,358
Mining and Logging	300	300	300	300	300
Construction	24,850	24,708	25,167	24,475	23,058
Specialty Trade Contractors	16,417	16,392	16,725	16,025	14,783
Manufacturing	16,167	16,467	17,733	17,392	17,000
Services Providing	274,900	270,633	284,142	279,225	272,817
Trade, Transportation and Utilities	70,550	67,567	68,142	68,008	67,542
Wholesale Trade	12,767	12,575	13,375	13,158	12,642
Retail Trade	37,133	35,258	36,075	36,083	35,542
Food and Beverage Stores	6,517	6,408	5,975	5,942	5,775
General Merchandise Stores	8,750	8,842	8,842	8,808	8,642
Transportation and Utilities	20,650	19,733	18,692	18,767	19,358
Information	1,900	1,992	2,208	2,350	2,567
Financial Activities	14,317	14,433	14,708	14,733	14,733
Professional and Business Services	31,950	32,833	33,983	32,925	30,842
Admin, Support, Waste Mgmt. & Remed.	19,983	20,750	22,350	21,808	20,117
Administrative and Support Services	17,450	18,825	20,625	20,150	18,542
Education and Health Services	59,500	57,075	56,942	54,742	52,733
Ambulatory Health Care Services	18,733	18,000	18,075	17,142	16,292
Hospitals	13,467	13,300	13,125	12,300	11,892
Leisure and Hospitality	28,217	27,258	33,975	33,050	31,600
Food Services and Drinking Places	24,267	22,758	27,400	26,758	25,642
Other Services	12,733	12,800	14,667	14,342	14,175
Government	55,733	56,675	59,517	59,075	58,625
Federal Government	11,533	11,700	11,892	11,817	11,867
State Government	10,167	10,833	11,167	11,442	11,517
State Government Educational Services	3,083	3,167	3,608	3,717	3,833
Local Government	34,033	34,142	36,458	35,817	35,242
Local Government Educational Services	18,683	18,992	20,367	20,067	19,642

(1) Information uses the most recent quarter from the Unemployment Insurance tax reports (currently December 2020) and estimates employment from that point to present. Most recent data available is June 2021.

Source: Washington State Employment Security Department.

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Certificate”) is executed and delivered by the City of Tacoma, Washington (the “City”), in connection with the issuance by the City of its Electric System Revenue Bonds, Series 2021 (Green Bonds) (the “Bonds”) pursuant to Ordinance No. 28146, passed by the City Council on April 30, 2013, as supplemented and amended, including as supplemented and amended by Supplemental Ordinance No. 28773 passed by the City Council on August 3, 2021 (collectively, the “Bond Ordinance”). Pursuant to the Bond Ordinance, the City hereby covenants and agrees as follows:

Section 1. Purpose of this Certificate. This Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (each as defined below).

Section 2. Definitions. In addition to the definitions set forth herein, in the Bond Ordinance or in the Official Statement, which apply to any capitalized term used in this Certificate unless otherwise defined herein, the following capitalized terms shall have the following meanings:

*Commission* means the Securities and Exchange Commission.

*Financial obligation* means a (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of clause (A) or (B) of this definition. The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

*MSRB* means the Municipal Securities Rulemaking Board.

*Official Statement* means the Official Statement related to the Bonds.

*Participating Underwriter* means the original underwriter of the Bonds required to comply with the Rule in connection with offering the Bonds.

*Rule* means Section (b)(5) of Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provisions of Annual Information.

(a) *Financial Statements/Operating Data.* The City agrees to provide or cause to be provided to the MSRB, the following annual financial information and operating data for the prior fiscal year (commencing in 2022 for the fiscal year ended December 31, 2021):

- (1) audited financial statements of the Electric System, prepared in accordance with generally accepted accounting principles applicable to government entities, with regulations prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and substantially in accordance with the system prescribed by the Federal Energy Regulatory Commission, provided, that if the Electric System’s financial statements are not yet available, the City shall provide unaudited financial statements in substantially the same format, and audited statements when they become available;
- (2) principal amount of outstanding Parity Bonds;
- (3) debt service coverage for outstanding Parity Bonds;

- (4) energy resources from Electric System-owned resources and purchases from Electric System power purchase contracts (substantially in the form of the table “Peak Demand, Energy Requirements and Resources” in the Official Statement); and
- (5) average number of customers, energy sales and revenue from energy sales for the major customer classes (substantially in the form of the table “Customers, Energy Sales and Revenues from Electric Sales” in the Official Statement).

Items (2)-(5) shall be required only to the extent that such information is not included in the annual financial statements. The annual financial information may be provided in a single or multiple documents and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

The information and data described above shall be provided on or before the last day of the ninth month after the end of the City’s fiscal year. The City’s fiscal year currently ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross refer to other documents available to the public on the MSRB’s internet website or filed with the Commission.

If not provided as part of the annual financial information discussed above, the City shall provide the City’s audited annual financial statement prepared in accordance with the Budgeting Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to the MSRB.

(b) *Listed Events.* The City further agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the City;
- The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- Incurrence of a financial obligation of the City, if material, or agreements to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.



Section 4. Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in above on or prior to the date set forth in above.

Section 5. EMMA; Format for Filings with the MSRB. Until otherwise designated by the MSRB or the Commission, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org). All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination/Modification. The City's obligations to provide annual financial information and notices of listed events with respect to a series of Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of such series of Bonds. Any provision of this undertaking shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (2) notifies the MSRB of such opinion and the cancellation of all or any portion of this undertaking.

Notwithstanding any other provision of this certificate, the City may amend this certificate, and any provision of the undertaking contained herein may be waived, in accordance with Rule, which, as currently interpreted by the Commission, requires that (i) the amendment or waiver be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule at the time of the primary offering, after taking into account any amendments or interpretations of Rule, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the City (such as bond counsel) or by the approving vote of holders of the Bonds.

In the event of any amendment or waiver of the undertaking provided for in this certificate, the City shall describe such amendment or waiver in the next annual report, and shall include a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a listed event above, and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Bond Owner's Remedies. The right of any bond owner or beneficial owner of Bonds to enforce the provisions of this undertaking shall be limited to a right to obtain specific enforcement of the City's obligations under this undertaking, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds. For purposes of this Certificate, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 8. Responsible Officer; Dissemination Agent. The City Finance Director, or such individual's designee, is designated to carry out this undertaking in accordance with Rule 15c2-12. The City may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent.

DATED this 14<sup>th</sup> day of September.

CITY OF TACOMA, WASHINGTON

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**APPENDIX G**

**GREEN BOND SECOND PARTY OPINION**

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# Second Party Opinion

## EXECUTIVE SUMMARY

### ISSUER

City of Tacoma, Washington

### OPINION ON

Electric System Revenue Bonds, Series 2021 (Green Bonds)

### GREEN STANDARD AND CATEGORIES



- Renewable Energy

### EVALUATION DATE

July 23, 2021

### SUMMARY

Kestrel Verifiers is of the opinion that the Electric System Revenue Bonds, Series 2021 (Green Bonds) issued by the City of Tacoma, Washington, conform with the four core components of the Green Bond Principles 2021 as follows:

#### ▪ Use of Proceeds

The City of Tacoma intends to use the Series 2021 new money bond proceeds to finance improvements to its electric utilities system, Tacoma Power, through refinancing of the City's Electric System Subordinate Revenue Note, Series 2015A (the "2015 Note"). The Series 2021 Bond proceeds will be used to repay the 2015 Note which was used as a short-term borrowing facility for interim funding of capital projects of the Electric System. These capital improvements support Tacoma Power's 100% renewable hydropower electric system and include but are not limited: advanced metering infrastructure upgrades, fish passage and dam improvements, and LED streetlighting additions. Capital improvements financed by the 2015 Note (which is to be refinanced by the 2021 Bonds) are eligible green projects as defined by the Green Bond Principles in the project category of *Renewable Energy*.

#### ▪ Process for Project Evaluation and Selection

Tacoma Power utilizes internal Value Criteria to evaluate and prioritize potential capital improvement projects. Several planning documents guide and inform decision-making for electric system projects, including the 2021 Long-Range Financial Plan, Integrated Resources Plan, and the 2015 Climate Report.

#### ▪ Management of Proceeds

Bond proceeds will be used to refinance the outstanding 2015 Note and to pay the costs of issuance of the Series 2021 Bonds. Funds will be temporarily placed in the 2021 construction account and used immediately upon receipt to repay the outstanding 2015 Note. The 2015 Note is callable and there will be no temporary investments of funds.

#### ▪ Reporting

The City of Tacoma commits to posting continuing disclosures to the Municipal Securities Rulemaking Board ("MSRB") annually through the Electronic Municipal Market Access ("EMMA") system. Tacoma Power will provide one post-issuance report at the end of 2022 in tandem with the closing of the fiscal year. This report will be posted on EMMA and Tacoma Public Utilities' investor relations website.

#### ▪ Impact and Alignment with United Nation Sustainable Development Goals

By refinancing capital improvements that support a renewable electric system, the Series 2021 Bonds support and advance multiple UN SDGs, including Goals 7: *Affordable and Clean Energy*, 13: *Climate Action* and 15: *Promote Sustainable Use of Natural Resources*.

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## Second Party Opinion

<b>Issuer:</b>	<b>City of Tacoma, Washington</b>
<b>Issue Description:</b>	Electric System Revenue Bonds, Series 2021 (Green Bonds)
<b>Project:</b>	Tacoma Power Projects
<b>Green Standard:</b>	Green Bond Principles
<b>Green Categories:</b>	Renewable Energy
<b>Par:</b>	\$121,855,000
<b>Evaluation Date:</b>	July 23, 2021

### GREEN BONDS DESIGNATION

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of these Bonds to evaluate conformance with the Green Bond Principles (June 2021) established by the International Capital Market Association.

This Second Party Opinion reflects our review of the uses of proceeds and conformance of the Bonds with the Green Bond Principles. In our opinion, the Electric System Revenue Bonds, Series 2021 (Green Bonds) ("Series 2021 Bonds") are aligned with the four core components of the Green Bond Principles and qualify for green bonds designation.

### ABOUT THE ISSUER

The City of Tacoma is the third largest city in the state of Washington. Within the City government (the "City"), Tacoma Public Utilities is the largest department and includes Tacoma Power, Tacoma Water, and Tacoma Rail. Tacoma Power was originally formed in 1893 after the City purchased water and electric utility properties from the former Tacoma Water and Light Company. Tacoma Power is now the fourth largest public power utility in Washington and is divided into the following units: (1) Generation, (2) Power Management, (3) Power Shared Services, (4) Transmission and Distribution, (5) Rates, Planning and Analysis, and (6) Utility Technology Services.

Tacoma Power's first hydroelectric generation facility was built in 1912. As of 2021, Tacoma Power's hydroelectric system operates through four hydroelectric generation projects with seven hydroelectric dams. The Cowlitz River Project includes the Mayfield Dam and the Mossyrock Dam; the Nisqually River Project includes the Alder Dam and LaGrande Dam; the Cushman Hydro Project consists of two dams located on the Skokomish River; and the Wynoochee River Project consists of a powerhouse and flood-controlled dam. These hydroelectric projects are located on four rivers in Washington with dams storing and releasing water through turbines which generate electricity for customers that is 100% clean hydroelectric power.

Tacoma Power maintains licenses issued by the Federal Energy Regulatory Commission for its projects. Tacoma Power operates 352 miles of transmission facilities distributed over 2,034 miles to provide contracted wholesale transmission to small utilities and serves approximately 183,000 retail customer accounts in nine cities with 717 employees. In 2020, Tacoma Power's hydroelectric resources provided approximately 38% of the utility's total energy supply and are a stable, low-cost portion of Tacoma Power's portfolio. To meet energy demands, Tacoma Power also acquires power through power purchase contracts

and market purchases. Tacoma Power demonstrates a strong commitment to reducing emissions from energy generation by purchasing renewables such as hydropower and wind. In 2019, Tacoma Power's fuel mix was 97% carbon free.

In addition to supplying electricity, Tacoma Power supports responsible natural resource management through maintaining fish passages and preserving over 20,000 acres of protected wildlife habitat. Tacoma Power's Habitat Conservation Plan outlines capital projects that support fish passages, enhance water flow for fish survival, and monitor native fish species. There are four ongoing wildlife and watershed protection projects to ensure healthy habitats for native animals and plants:

- Cowlitz Wildlife Area is a designated wildlife area owned by Tacoma Power that covers about 14,000 acres of forests, wetlands, lowland valleys, and riparian habitats with the 20-mile-long Peterman Hill Trail for recreational use;
- Nisqually River Project Wildlife Lands includes various protections to the Nisqually River Basin, including preservation of the river corridor downstream of LaGrande Dam, and visual markers on power lines for birds;
- Wynoochee River Project enhances 1,000 acres of high-quality forage area for elk; and
- Cushman Project Wildlife Lands conserve almost 3,000 acres of habitat for birds and other wildlife.

## ALIGNMENT TO GREEN STANDARDS

*Green Bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bond Principles (International Capital Market Association definition).*

### Use of Proceeds

Proceeds from the Series 2021 Bonds will be used to refinance the City's Electric System Subordinate Revenue Note, Series 2015A (the "2015 Note") and to pay the cost of issuance of the Series 2021 Bonds. Proceeds of the 2015 Note were used to finance various capital improvements to the Tacoma Power Electric System. These capital improvements support Tacoma Power's hydropower system—a renewable system that has minimal greenhouse gas emissions, prioritizes climate resiliency and environmental restoration, and expands community access to electricity. Tacoma Power integrates fish passage and watershed stewardship to minimize environmental risks associated with hydroelectric facilities. The bond-financed improvements are eligible green projects as defined by the Green Bond Principles project category *Renewable Energy*.\*

Tacoma Power's operations and bond-financed capital improvements support the hydroelectric system, which provides renewable electric service to approximately 183,000 customers throughout Tacoma, Fircrest, University Place, Fife, Steilacoom, Lakewood, Joint Base Lewis-McChord and Pierce County. Several capital improvements have significant environmental benefit and are highlighted in Table 1 in Appendix B. Hydropower is a green alternative to fossil fuel power generation and thus supports climate change mitigation. Although some hydropower systems have been associated with negative environmental impacts, Tacoma Power ensures that the system mitigates risks to surrounding natural land and wildlife through various initiatives and projects, some of which were directly financed by the 2015 Note to be repaid with the Series 2021 Bonds.

Besides financing maintenance and improvements to renewable energy generation infrastructure, the 2015 Note financed energy efficiency projects and fish passage for migratory fish. The 2015 Note financed efficiency projects including LED lighting upgrades and advanced metering infrastructure that improve energy management capabilities. The 2015 Note also financed projects that protect migrating fish and their habitats.



\* Some financed activities fall under the Green Bond Principles project category *Pollution Prevention and Control*.

Bond-financed capital improvements fall under the following categories defined by Tacoma Power: Transmission and Distribution, System Reliability and Modernization, Natural Resource Management, Power Generation and Management, and General Plant Facilities. Projects in these categories include, but are not limited to:

- Distribution network improvements (i.e., underground cable replacement, pole and overhead replacements)
- Advanced metering infrastructure
- Substation work
- Transformer purchases and upgrades
- Fish facility and hatchery projects at the Cushman Hydro Project, and Cowlitz Falls Fish Facility
- Modification of the Mayfield Fish Passage
- Modernization of water treatment system at the Cowlitz Trout Hatchery
- Voltage optimization at substations for energy savings
- Debris removal at certain reservoirs
- Barrier dam repairs
- LED lighting projects
- Security upgrades

### **Process for Project Evaluation and Selection**

Tacoma Power utilizes internally-defined Value Criteria, established in 2020, to evaluate and prioritize potential capital improvements and projects. Each project in the biennial budget is given a weighted score from 0 to 10 on each criterion based on the degree the project contributes to Tacoma Power's defined strategic goals. The criteria are: Safety, Customer and Employee Experience, Reliability, Compliance and Stewardship, and Rate Affordability and Economic Development. A project's final score is an aggregate of the criteria scores. The Value Criteria ensure projects align with Tacoma Power's mission and long-term planning trajectories. A portion of the capital improvements and green projects have been assigned value criteria scores. The Advanced Metering Infrastructure projects were in the top two highest scoring projects for the 2020-2021 budget (cumulative score: 3.74).

In addition to using Value Criteria, Tacoma Power's Capital Steering Committee evaluates and selects capital improvements and green projects based on financial feasibility, consumer behavior, environmental requirements laid out by the State of Washington, and "Monte Carlo" simulation risk analysis. Moreover, several planning documents guide the selection and evaluation process for capital improvements and projects, including the Long-Range Financial Plan, 2020 Integrated Resources Plan, and the 2015 Climate Report. These guidance documents account for financial opportunities and risks, including those posed by climate change. The capital improvement plan is refreshed annually to account for new data and information. Subsequently, projects are prioritized by financial feasibility as well as strategic directives provided by the Tacoma Power's management team. One of the strategic directives is decarbonization of the electric utility system and transportation electrification. The purpose, associated values, and measurements associated with the strategic directive to decarbonize are included in Appendix C. The decarbonization strategic directive is also formalized in Resolution U-11193 adopted by the Public Utility Board and supported by the City of Tacoma Resolution 40016.

Tacoma Power is aware of the potential impacts of climate change on the hydroelectric system, including changes in precipitation and temperatures. A 2016 Climate Change Resilience Study by the City of Tacoma's Environmental Services Department considers climate risk for Tacoma Public Utilities, including Tacoma Power. In 2015, Tacoma Power contacted the Climate Impacts Group to run an analysis on watersheds, water supply and quality, and streamflow into reservoirs against two greenhouse gas scenarios. Both of these reports guide Tacoma Power's capital planning and budgeting for hydroelectric power operations and conservation projects.

### **Management of Proceeds**

Proceeds from the Series 2021 Bonds will be used to refinance the outstanding 2015 Note, which financed capital improvements to Tacoma Power's electric system, and to pay the costs of issuance of the Series 2021 Bonds. Funds will be temporarily placed in the 2021 construction account and used immediately to



refund the outstanding 2015 Note in full. The 2015 Note Purchase Agreement is callable and there will be no temporary investments of funds.

## Reporting

The City has committed to submitting continuing disclosures to the Municipal Securities Rulemaking Board (“MSRB”) so long as the Series 2021 Bonds are outstanding. The City anticipates as part of its regular operations providing publicly available periodic updates on the operating status of capital improvements and also in the event of material developments of the hydropower electric system. Reporting on strategic directives that have been adopted by the Board is expected, including reporting on progress towards decarbonization. Tacoma Power will provide one post-issuance report specific to the Green Bonds at the end of 2022 in tandem with the closing of the fiscal year. This report will be posted on the Electronic Municipal Market Access (“EMMA”) system operated by the MSRB and on Tacoma Public Utilities’ investor relations webpage:

[www.mytpu.org/about-tpu/investors/tacoma-power-investor-information/](http://www.mytpu.org/about-tpu/investors/tacoma-power-investor-information/). Tacoma Power does not anticipate producing additional post-issuance reports because the Series 2021 Bond proceeds will be allocated immediately after closing and proceeds from the 2015 Note to be repaid have already been allocated to eligible capital improvements.

## IMPACT AND ALIGNMENT WITH UN SDGS

Tacoma Power’s bond-financed projects are helping to address UN SDGs 7, 13, and 15 by ensuring access to renewable energy through hydroelectric power. Several projects support Tacoma Power’s transmission and distribution system and help maintain a modern and clean electric system, which supports Target 7.1. The City, Tacoma Public Utilities, and Tacoma Power incorporate forecasting for water supply and climate change impacts on the system when prioritizing capital improvements, which addresses Target 13.2. Tacoma Power’s mission to conserve quality habitat for wildlife and dedication to preserving fish passages advances Target 15.4.

A comprehensive list of targets and background on UN SDGs 7, 13, and 15 are available on the United Nations website: [www.un.org/sustainabledevelopment](http://www.un.org/sustainabledevelopment)



### Affordable and Clean Energy (Target 7.1)

#### Possible Indicators

- Proportion of service area with access to electricity
- Proportion of service area with primary reliance on hydropower electricity



### Climate Action (Target 13.2)

#### Possible Indicators

- Hydroelectric system’s greenhouse gas emissions per year



### Promote Sustainable Use of Natural Resources (Target 15.4)

#### Possible Indicators

- Proportion of fish passages completed and preserved

## CONCLUSION

Based on our independent external review, the Series 2021 Bonds (Green Bonds) conform, in all material respects, with the Green Bond Principles (2021) and are in complete alignment with one eligible project category: *Renewable Energy*. Tacoma Power’s stewardship of natural resources and operation of hydropower facilities demonstrates a clear commitment to regional climate change mitigation and resiliency. Bond-financed capital improvements directly support the renewable hydroelectric system and several stand out as having enduring positive environmental impacts.

## ABOUT KESTREL VERIFIERS



For 20 years Kestrel has been a trusted consultant in sustainable finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based certified Women's Business Enterprise.

For more information, visit [www.kestrelverifiers.com](http://www.kestrelverifiers.com)

## DISCLAIMER

This Opinion aims to explain how and why the discussed financing meets the ICMA Green Bond Principles based on the information which was available to us during the time of this engagement (July-August 2021) only. By providing this Opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Green Bonds. It was beyond Kestrel Verifiers' scope of work to review issues relating to regulatory compliance and no surveys or site visits were conducted. Furthermore, we are not responsible for surveillance on the project or use of proceeds. Kestrel Verifiers relied on information provided by the issuer and publicly available information. The Opinion delivered by Kestrel Verifiers does not address financial performance of the Green Bonds or the effectiveness of allocation of its proceeds. This Opinion does not make any assessment of the creditworthiness of the Issuer, or its ability to pay principal and interest when due. This is not a recommendation to buy, sell or hold the Bonds. Kestrel Verifiers is not liable for consequences when third parties use this Opinion either to make investment decisions or to undertake any other business transactions. This Opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers reserves the right to revoke or withdraw this Opinion at any time. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the issuer or the projects discussed. Language in the offering disclosure supersedes any language included in this Second Party Opinion.

Use of the United Nations Sustainable Development Goal (SDG) logo and icons does not imply United Nations endorsement of the products, services or bond-financed activities. The logo and icons are not being used for promotion or financial gain. Rather, use of the logo and icons is primarily illustrative, to communicate SDG-related activities.

## Appendix A.

### UN SDG TARGET DEFINITIONS

**Target 7.1**

By 2030, ensure universal access to affordable, reliable and modern energy services

**Target 13.2**

Integrate climate change measures into national policies, strategies and planning

**Target 15.4**

By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development



## Appendix B.


### SELECT CAPITAL IMPROVEMENTS

Table 1. Select capital improvements with significant environmental benefit receiving bond proceeds

Project	Description of Environmental Benefit	Category	Project Status	Cost
<b>Cowlitz Falls Downstream Fish Passage</b>	Through relicensing of the Cowlitz River Project, Tacoma Power has agreed to improve downstream fish passage. Funding for this project will be used for costs supporting the following fish passage survival goals: 1) Achievement of 95% Fish Passage Survival (FPS) to contribute to effective downstream passage and collection at or near Cowlitz Falls and/or to be constructed downstream of Cowlitz Falls Dam at Riffe Lake; 2) Implementation of additional downstream passage facility improvements with the best available technology and reports at 18 month intervals until the and achieved at least 75% FPS for all species.	Natural Resource Management	Closed/Closing	(\$12,443,464.19)
<b>City of Tacoma LED Street Lights/ PE17-0224F</b>	This project will provide funding for approximately 16,400 "Cobrahead" and "Shoebox" LED fixtures to replace the City of Tacoma's current sodium vapor (HID) streetlight lamps. An estimated 15,300 Cobrahead and 1,100 Shoebox streetlights are targeted for replacement. Tacoma Power will contract with third parties for the LED replacement of the current HID lamps. After replacement, the COT will be responsible for routine maintenance.	Modern Energy Efficient Infrastructure	Closed/Closing	(\$4,582,133.71)
<b>Advanced Metering Infrastructure</b>	Tacoma Power is deploying Advanced Metering Infrastructure (AMI) for all Tacoma Power and Water meters across the service territory and to retire existing automated metering solutions that have reached end of life. Cost consideration also includes planning, design, technical and business process, change management, and vendor selection. AMI infrastructure will improve reliability of meters through faster outage and leakage detection, which ultimately saves costs for customers and reduces overall energy consumption.	Modern Energy Efficient Infrastructure	Closed/Closing/Ongoing	(\$23,474,726.64)
<b>Cowlitz Salmon Hatchery Barrier Dam Repair</b>	The Barrier Dam, located below the Cowlitz Salmon Hatchery on the Cowlitz River, serves the following purposes: builds head for the water supply intake pumps for the Cowlitz Hatchery, provides an upstream barrier to the migrant fish, and directs returning adult fish into the hatchery fish ladder. The goal of this project is to repair the erosion around the Barrier Dam and alter the shape of the dam to reduce future damage.	Power Generation and Management	Ongoing	(\$1,482,560.14)

# Appendix C.

## TACOMA POWER'S STRATEGIC DIRECTIVE: DECARBONIZATION

	
PUBLIC UTILITY BOARD POLICY	
Category: <b>Strategic Directive</b>	Title: <b>Decarbonization</b>
Date of Adoption: <b>September 9, 2020</b>	Policy Number: <b>SD-11</b>
Resolution No.: <b>U-11193</b>	
Revision Date:	

### Purpose

Tacoma Public Utilities seeks to be a leader in decarbonization of the electric utility system and transportation electrification and to promote Tacoma Power's renewable and nearly carbon free generation portfolio as a driver of economic development and a competitive advantage for existing customers.

### Values

1. TPU is committed to advancing decarbonization of the electric utility system and transportation electrification where technically and economically feasible to meet these challenges today and into the future.
2. Electrification of transportation can produce new markets for TPU and can provide added revenue from surplus power that can help keep rates down for all customers.
3. The TPU Board joins the Tacoma City Council in supporting Council Resolution 40509, relating to the reality of climate change, and Council Resolution 39427, the Environmental Action Plan.
4. TPU believes that decarbonization is a vital tool to address the public emergency of climate change, and will help to minimize harm to current and future generations.
5. The Public Utility Board and senior management encourage measured risk taking while balancing opportunity and benefits to ensure that decarbonization and transportation electrification is pursued with strict discipline through analysis, sound technical data and good management oversight.
6. TPU is committed to educating our customers on the benefits of decarbonization and transportation electrification.
7. TPU is committed to decarbonizing our own operations and transitioning to electrified transportation as much as economically and operationally feasible.

### Outcomes

1. Decarbonization and transportation electrification activities are identified, deployed, and supported with financial investment.
2. TPU will promote and support decarbonization efforts which benefit our customers, reducing their costs as well as reducing rate pressure. TPU will seek opportunities to make pro-active capital investments to accommodate anticipated customer electrification and decarbonization efforts.
3. TPU will be ready to act on opportunities as they arise by researching our customers' needs and barriers with regards to transportation electrification and collaborating with federal, state, and local governments, private business, and other stakeholders.
4. TPU will leverage its abundant natural resources to support decarbonization through the development of carbon credit projects.
5. TPU will seek opportunities to reduce greenhouse gas emissions in our own activities where operationally appropriate by replacing energy using devices with electric alternatives.
6. TPU will partner with and support the City of Tacoma in their greenhouse gas reduction efforts.
7. TPU will encourage electrification of transportation and decarbonization in the community and support with programs and initiatives in alignment with TPU business objectives and statutory authority.
8. TPU will support a legislative agenda that improves Tacoma Power's ability to advance decarbonization through increased electrification of energy use.
9. Decarbonization efforts are made transparent through reporting.

### Measurements

1. Track progress on related Tacoma Environmental Action Plan and participate in City's Greenhouse Gas Inventory.
2. Adhere to the Transportation Electrification Strategic Plan.
3. Decarbonization goals will be reflected in long term planning such as the Power Integrated Resource Plan.
4. Track community outreach and communication activities related to decarbonization and transportation electrification.
5. Report to the Utility Board on organizational work groups who are focused on innovation, research and development, and modernization projects.
6. Individual work groups track and report progress.
7. Agree on simple metrics that can be tracked and reported. These metrics should map directly to an established value profile.

### Reporting

1. Frequency: Annually
2. Reporting Method: To Be Developed.



# TACOMA POWER

TACOMA PUBLIC UTILITIES



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