
ANNUAL

TACOMA POWER

2018

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA POWER

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FINANCIAL DATA

Report of Independent Auditors

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of the City of Tacoma, Department of Public Utilities, Power Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington
May 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Financial Highlights

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

Overview of Financial Statements

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

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

OPERATING RESULTS

(in thousands)

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

MEGAWATT-HOURS BILLED

(in thousands)

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

Net Position

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

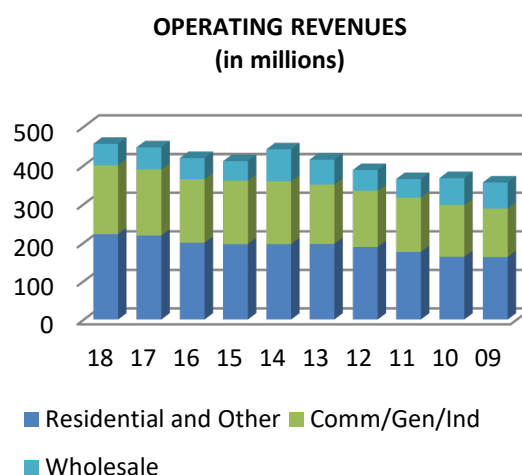
<u>Description</u>	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>	<u>2016</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>	<u>17/16</u> <u>Increase</u> <u>(Decrease)</u>
Net Utility and Non-Utility Plant	\$ 1,068,472	\$ 1,037,958	\$ 1,033,591	\$ 30,514	\$ 4,367
Current Assets, Other Assets and Special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

Revenues

2018 Compared to 2017

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

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



2017 Compared to 2016

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

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

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

Expenses

2018 Compared to 2017

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

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

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

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

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

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

2017 Compared to 2016

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

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

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

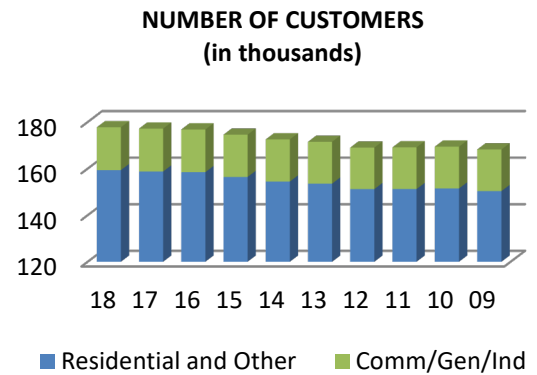
Other expenses increased \$1.4 million (7.5%) primarily due an increase of the amortization of deferred conservation costs. These costs are amortized over a 10 year period and year 8 of 10 was added to the 2017 schedule.

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

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

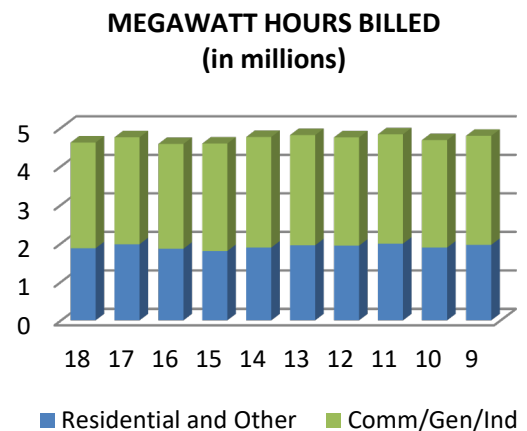
Customer Counts

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



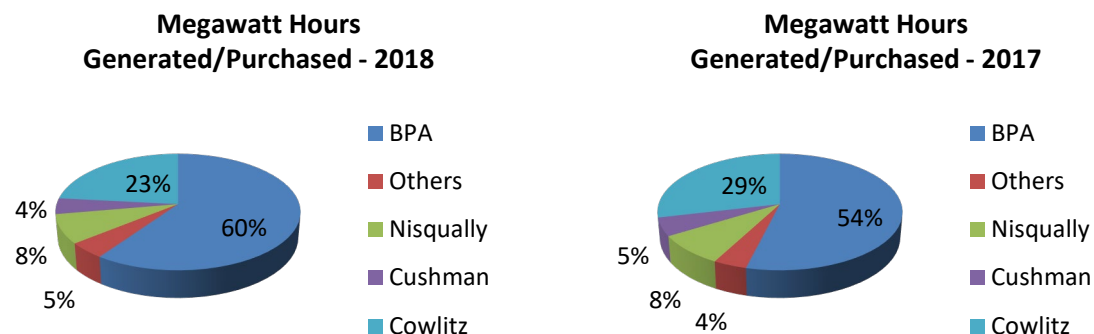
Megawatt-hours Billed

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



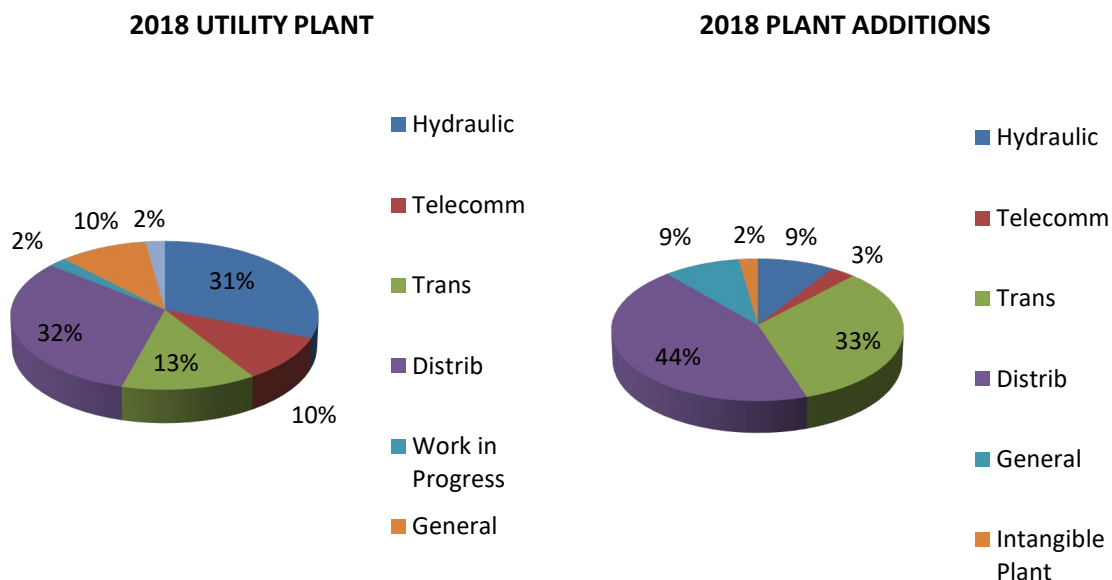
Sources of Power

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



Utility Plant and Plant Additions

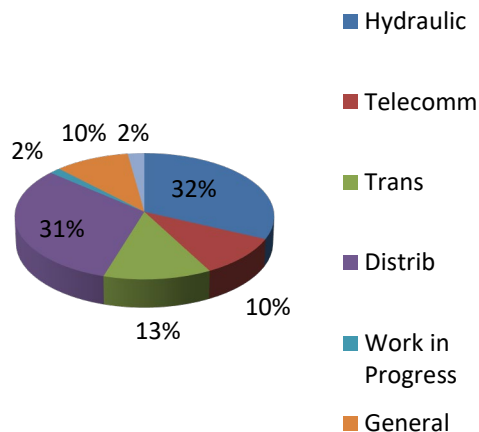
Tacoma Power has \$2.1 billion invested in its utility plant assets on a cost basis. The largest portion is for the generation (hydroelectric) business unit followed by the combined distribution and transmission business unit. The following graphs show the total investment in plant and allocation of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



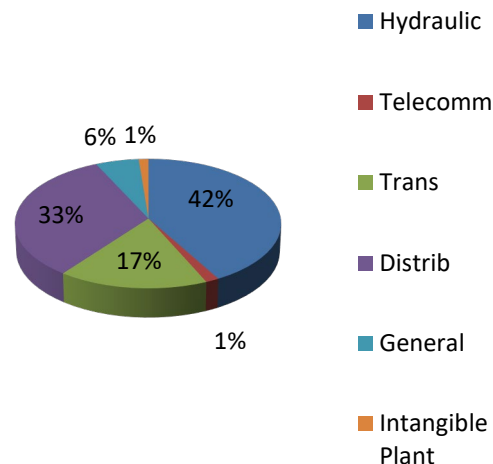
Additions to Intangible Plant in 2018 were \$1.6 million which primarily included an IT service management tool. Additions to Hydraulic Plant in 2018 were \$6.4 million, which mainly included replacement for generation breakers at Cushman, the boat ramp at Mossyrock, security upgrade at Alder Park, and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

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

2017 UTILITY PLANT



2017 PLANT ADDITIONS



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

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

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

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

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

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

Debt Administration

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

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

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

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

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

Debt Service Coverage

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

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Power's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The financial statements have been audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

Management considers and takes appropriate action on audit recommendations. Management has established and maintains a system of controls which includes organizational, administrative and accounting processes. These controls provide reasonable assurance that records and reports are complete and reliable, that assets are used appropriately and that business transactions are carried out as authorized.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF NET POSITION

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

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

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

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

STATEMENTS OF CASH FLOWS

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

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

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

NOTE 1 OPERATIONS

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

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

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

The economic lives for plant in service are as follows:

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

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

The fair value evaluations are provided by Interactive Data.

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 UTILITY PLANT

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 LONG-TERM DEBT

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

NOTE 6 PURCHASED POWER

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

NOTE 7 FLEET SERVICES FUND

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

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

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

NOTE 8 SELF-INSURANCE FUND

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

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

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

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

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

NOTE 9 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

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

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

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

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members.

The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

At its November 28, 2017 meeting, the Tacoma City Council approved an increase in the total contribution rate from 20% of pay to 21% of pay effective February 1, 2018. The contribution rate continues to be divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

**The actual contribution is used if that rate is greater than the rate necessary to amortize the UAAL. Note that the UAAL amortization period is 30 years for years 2017 and earlier and 25 for years beginning January 1, 2018 and later.*

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2018 valuation date and December 31, 2017 measurement date. Therefore, no adjustments were needed from the January 1, 2018 actuarial valuation date to the calculated liabilities as of December 31, 2017. There were changes between the January 1, 2017 and January 1, 2018 valuation dates. Those changes were reflected in the January 1, 2018 actuarial valuation and are discussed below.

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2017. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

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

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

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

Amounts will be recognized in pension expense as follows:

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

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

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description - The City provides the opportunity to receive medical benefits to most of its retirees until age 65. Eligibility and the amount of benefits paid by the City vary by group (TERS, LEOFF 1, LEOFF 2, or Rail employees). The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of both actives and retirees. Since health claims costs generally increase with age, retiree health premiums would be significantly higher if they were determined without regard to active claims experience. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2017 for non-LEOFF 1 members includes 3,490 active participants, 476 deferred retirees, 150 retirees, and 105 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 retirees.

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

Actuarial Assumptions and Other Inputs - The Valuation Date is January 1, 2017 for non-LEOFF 1 members and January 1, 2018 for LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement Date is December 31, 2017. This is the date as of which the total OPEB liability is determined. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

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

Valuation Date:	January 1, 2017
Census Date:	January 1, 2017
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate:	3.44% for pay-as-you-go funding
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Medical Cost Trend:	2017	9.10%
	2018	6.40%
	2019	5.80%
	2020	5.30%
	2030	5.40%
	2040	5.50%
	2050	5.20%

Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -

Discount Rate (Liabilities):	3.44%
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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.

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

The discount rate was based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher

Changes of Assumptions - The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

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

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

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

The Division reported \$404,747 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

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

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.44%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.44%) or one percentage point higher (4.44%) than the current rate.

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

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

The following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB liability	\$10,798,616	\$ 12,272,355	\$ 14,036,473

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

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

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

TACOMA POWER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 RESTATEMENTS OF 2017 BALANCES

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

Revised balances are shown in the following schedule:

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

NOTE 12 COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

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

Schedule of Contributions Last 10 Fiscal Years*

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

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

** The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.*

Proportionate Share of the Collective OPEB Liability Last 10 Years*

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

** The above schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.*

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

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms: There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of Assumptions: The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR FINANCIAL REVIEW

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

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TEN-YEAR POWER SUMMARY

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

FUNDS AVAILABLE FOR DEBT SERVICE

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

RESOURCES
AS OF DECEMBER 31, 2018

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

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

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2018

FEDERAL

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

STATE OF WASHINGTON

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

COUNTY

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

MUNICIPALITIES

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

Taxes as a % of Operating Revenues of \$ 455,291,483 ..	14.80%
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EMPLOYEE WELFARE CONTRIBUTIONS

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA POWER

2018 ELECTRIC RATES
(Based on 2018 rate schedules)

RATE PER MONTH

Schedule A-1 - Residential Service

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

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

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

Schedule B - Small General Service

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

Schedule G - General Service

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

Schedule HVG - High Voltage General Service

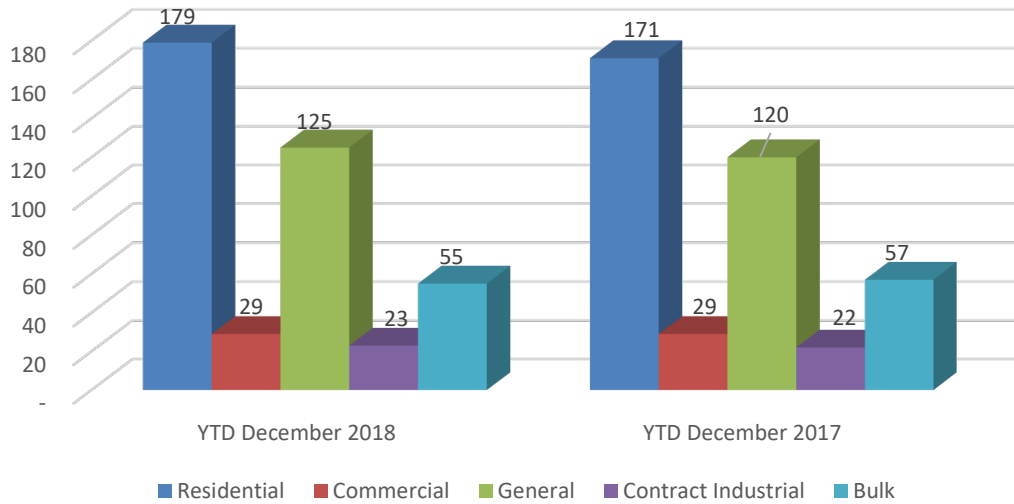
Customer Charge	\$1,490.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.041691 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$4.75 per kW

Other schedules also now in effect are:

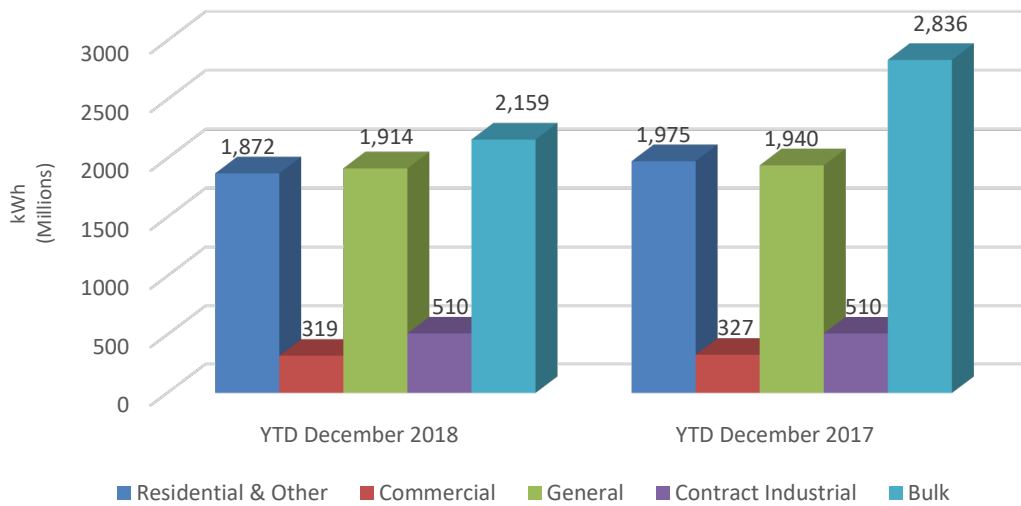
- CP - Contract Industrial Service (major industrial power use -
written contract required)
- H-1 - Street Lighting and Traffic Signal Service
- H-2 - Private Off-Street Lighting Service
- H-3 - Street Lighting Service

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

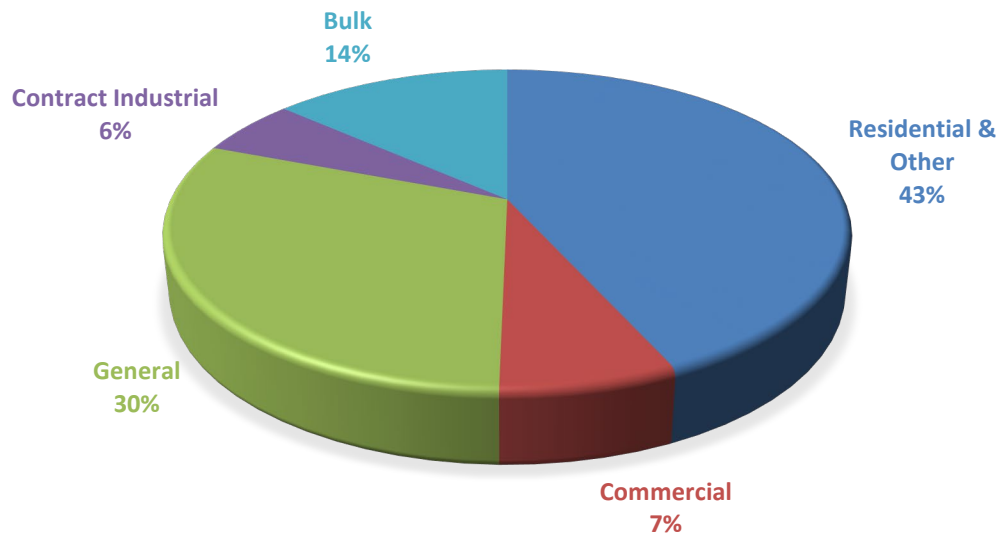
Sales of Electric Energy Year to Date - December 2018 & 2017



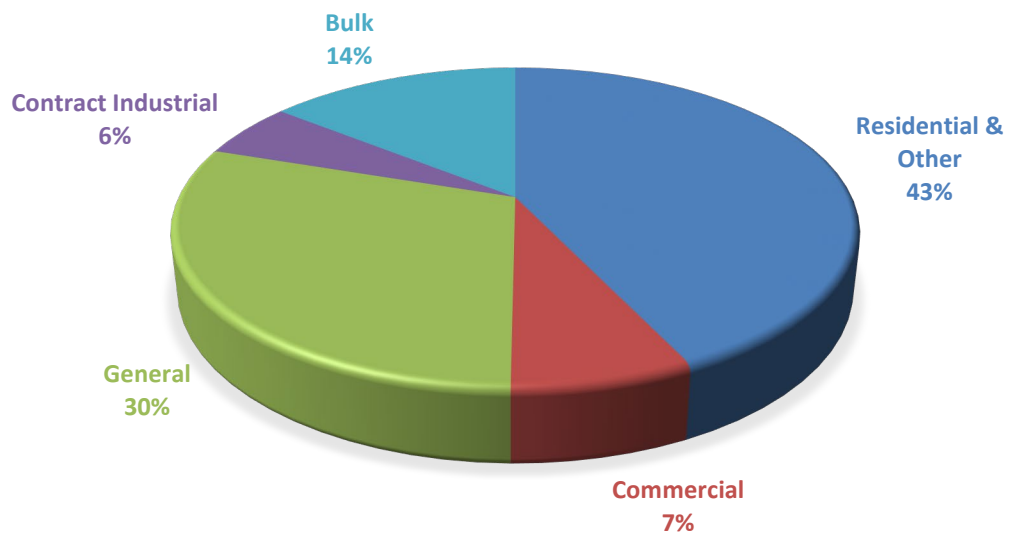
Total Power Billed Year to Date - December 2018 & 2017



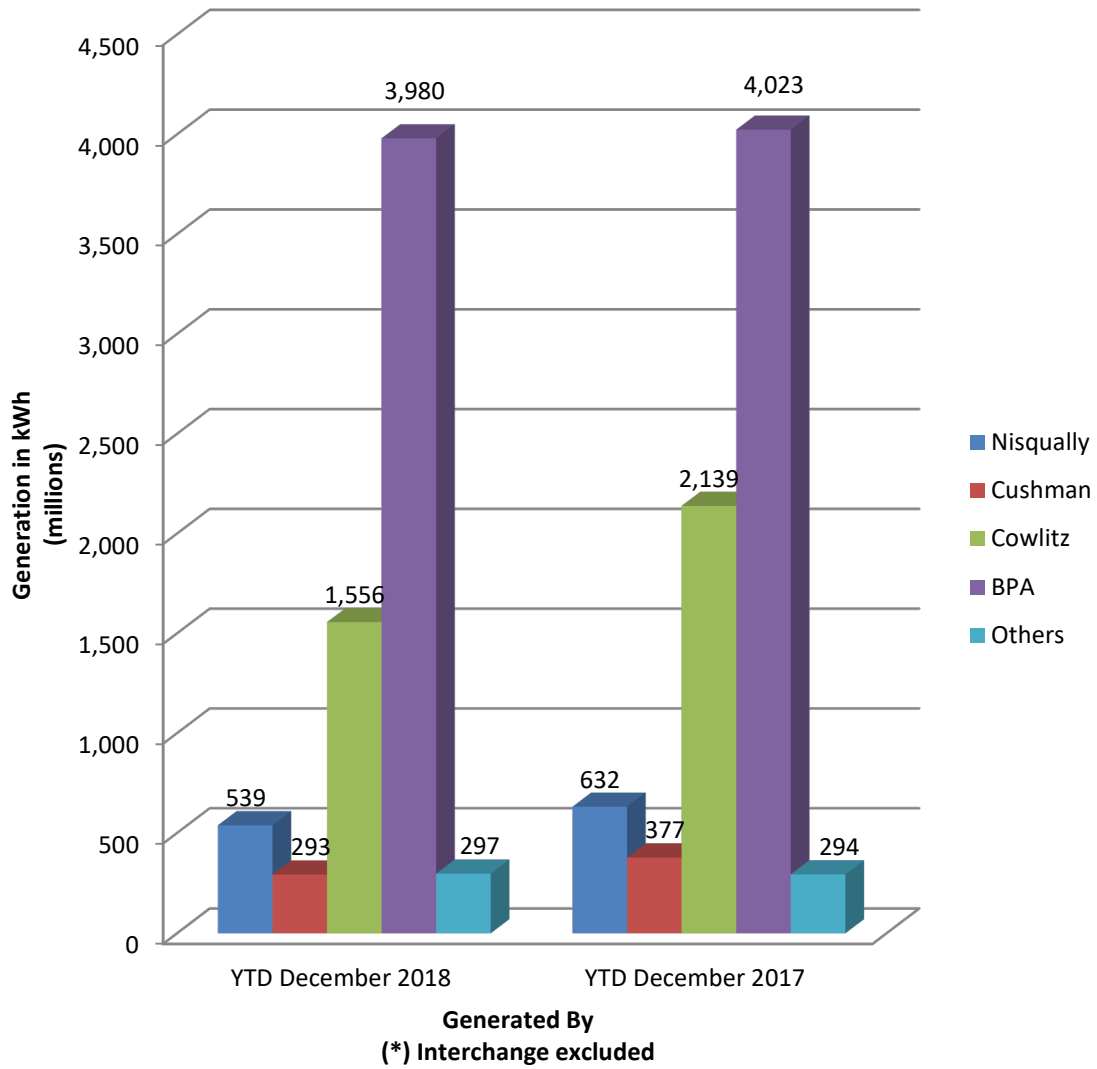
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2018 (\$411,393,120)**



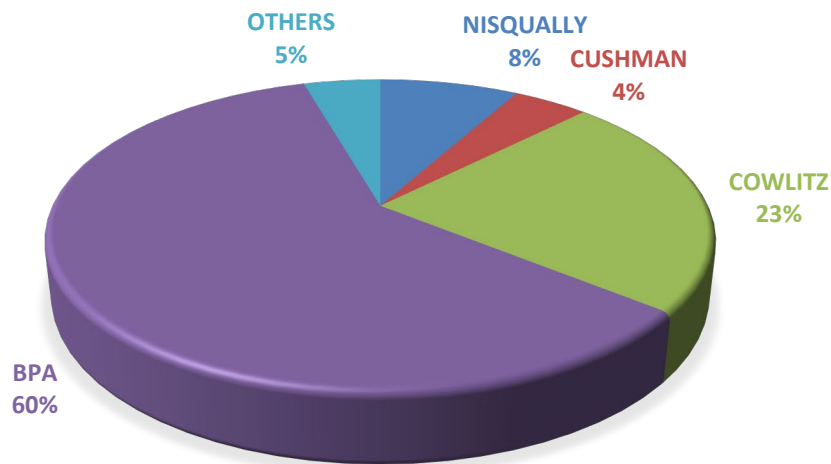
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2017 (\$401,631,506)**



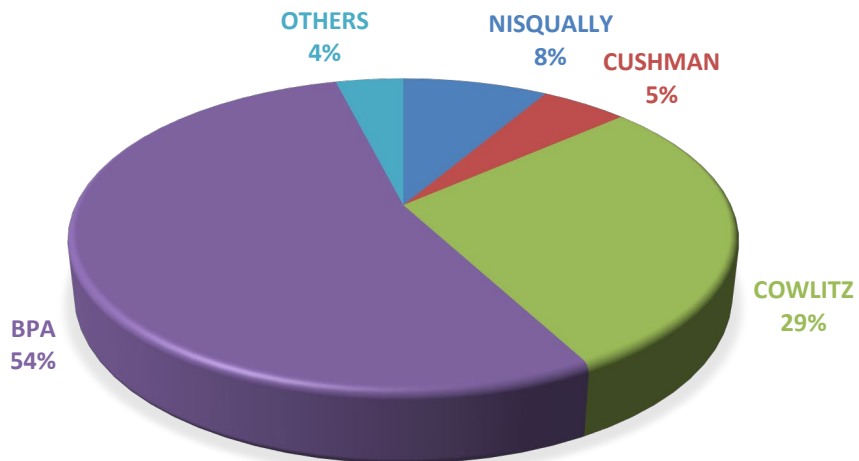
Power Sources (*) Year to Date December 2018 & 2017



POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2018

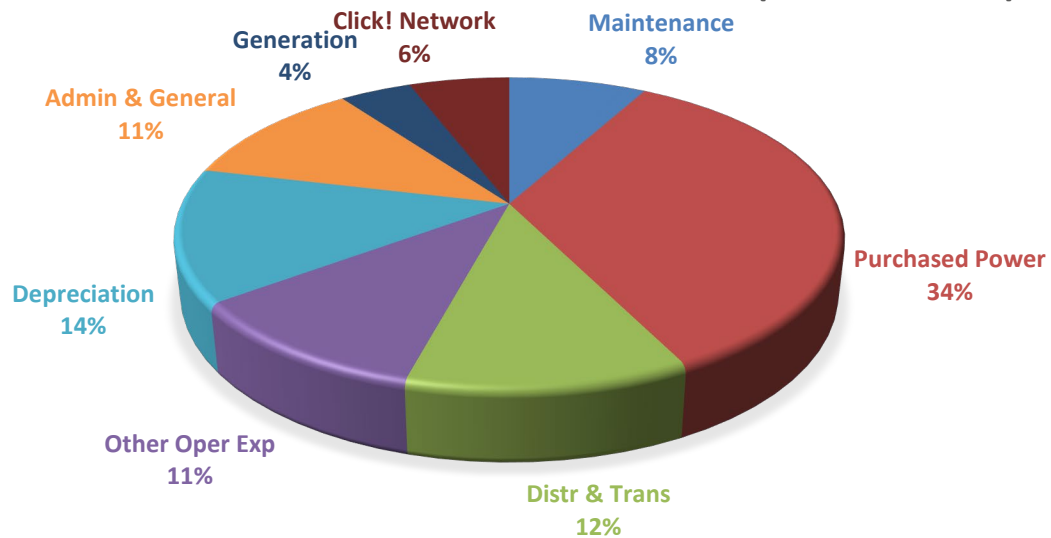


POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2017

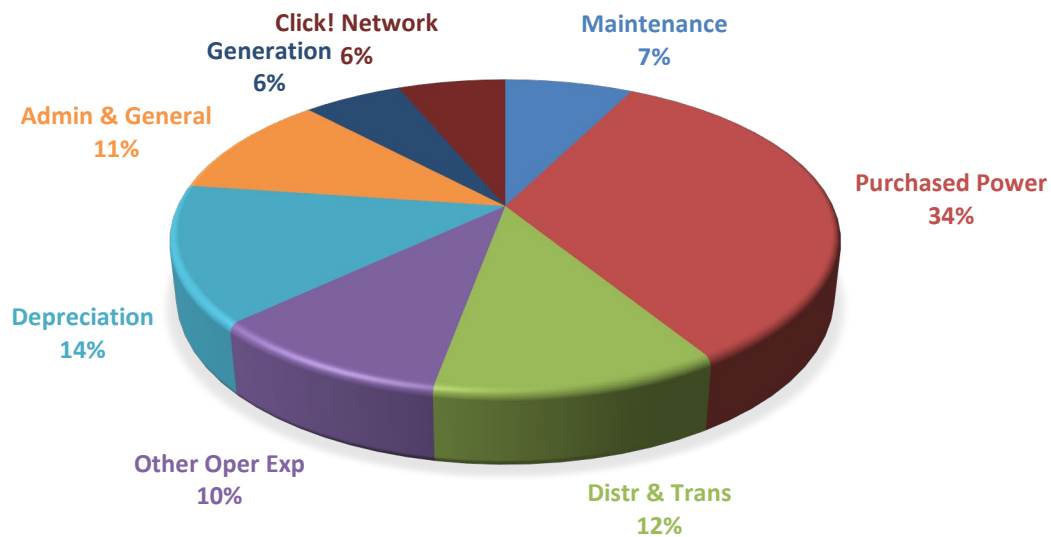


(*) Interchange excluded

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

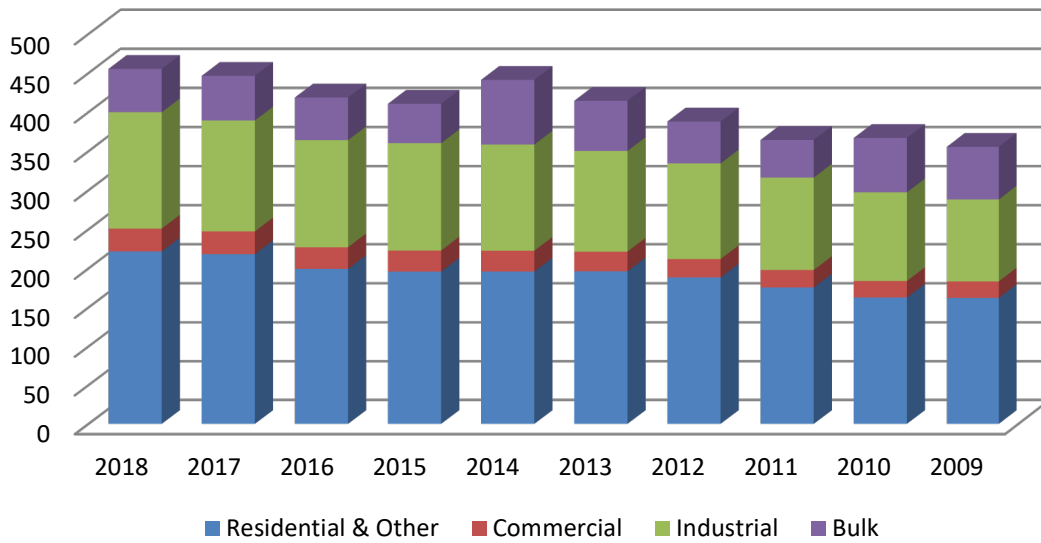


TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2017 (\$403,005,357)

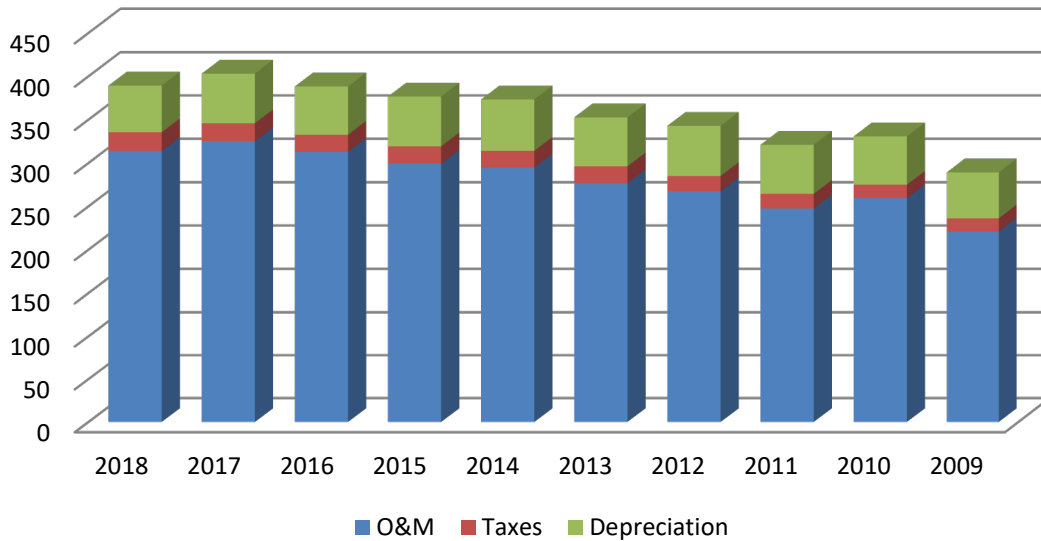


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES





2018

Tacoma Power Superintendent's Report

CLICK!

Ratepayer Lawsuit

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

Public Private Partnership Model

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

Community Stakeholder Collaboratives

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

Employee Transition Plan

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

Product Enhancement

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

GENERATION

Fisheries

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

Wildlife and Lands

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

Hydropower

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

Recreation

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

POWER MANAGEMENT

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

RATES, PLANNING, AND ANALYSIS

Budget and Retail Rates

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

Energy Risk Management

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

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

Finance

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

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

Strategic Asset Management

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

Construction Project Management Office (PMO)

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

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

TRANSMISSION & DISTRIBUTION

System Reliability

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

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

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

System Planning and Operations

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

Transmission Service

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

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

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

Asset Management

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

System Improvements

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

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

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

Electrical Services

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

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

Business and Financial Management

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

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

Safety and Work Practices

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

UTILITY TECHNOLOGY SERVICES

Financial Management

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

Project Management

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

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

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

Technology Advancements

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

Other successful projects included:

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

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

Cybersecurity

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

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

POWER SHARED SERVICES

Training and Apprenticeship Programs

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

Strategy

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

Reliability and Compliance

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

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

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

Facilities

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

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

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



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