



20 Tacoma Power 19 Annual Financial Report

FOR THE FISCAL YEAR ENDING
DECEMBER 31, 2019
PREPARED BY THE FINANCE DEPARTMENT

TACOMA POWER
TACOMA PUBLIC UTILITIES



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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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

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, 2019 and 2018, 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, 2019 and 2018, 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 Last 10 Years, Schedule of Contributions Last 10 Fiscal Years, and Schedule of Proportionate Share of the Collective OPEB Liability Last 10 Years, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2020, 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 18, 2020

Management Discussion and Analysis

The following discussion and analysis of Tacoma Power's (Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2019, 2018 and 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2019 and 2018, 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 a decrease in net position of (\$31.4) million or (3.6%) in 2019, compared to an increase of \$33.1 million or 3.8% in 2018.
- Operating revenues increased \$6.1 million (1.3%) in 2019 after receiving \$10.0 million of wholesale revenues from the rate stabilization account. Operating revenues in 2018 increased \$8.9 million (2.0%).
- Utility Plant in Service increased \$49.7 million (2.3%) in 2019 and \$63.9 million (3.1%) in 2018.
- Construction work in progress decreased (\$5.5) million (12.4%) in 2019 and \$12.4 million (38.5%) in 2018.

Overview of Financial Statements

Tacoma Power reported net operating income of \$1.8, \$66.0, and \$43.3 million in 2019, 2018 and 2017 respectively. Operating revenues increased \$6.1 million during 2019 and operating expenses increased \$70.3 million. For 2018, operating revenues increased \$8.9 million and operating expenses decreased \$13.8 million compared to 2017. Tacoma Power reported a decrease in net position of \$31.4 million in 2019 compared to an increase of \$33.1 million in 2018 and an increase of \$8.4 million in 2017.

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

OPERATING RESULTS

(in thousands)

<u>Category</u>	<u>2019</u>	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>	<u>19/18</u>	<u>18/17</u>
				<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Operating Revenues	\$ 461,366	\$ 455,291	\$ 446,343	\$ 6,075	\$ 8,948
Operating Expenses	459,565	389,241	403,005	70,324	(13,764)
Net Operating Income	1,801	66,050	43,338	(64,249)	22,712
Net Non-Operating Expense	(10,620)	(11,823)	(13,460)	1,203	1,637
Capital Contributions	7,807	9,390	8,956	(1,583)	434
BABs and CREBs subsidies	3,593	3,824	3,688	(231)	136
Transfers Out	(33,985)	(34,385)	(34,142)	400	(243)
Change in Net Position (Net Income)	\$ (31,404)	\$ 33,056	\$ 8,380	\$ (64,460)	\$ 24,676

MEGAWATT-HOURS BILLED

(in thousands)

<u>Type of Customer</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>19/18</u>	<u>18/17</u>
				<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Residential	1,903	1,871	1,975	32	(104)
Commercial/General/Industrial	2,770	2,744	2,777	26	(33)
Wholesale	1,431	2,159	2,836	(728)	(677)
Total	6,104	6,774	7,588	(670)	(814)

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>	NET POSITION (in thousands)				
	<u>2019</u>	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>	<u>19/18</u> <u>Increase</u> <u>(Decrease)</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>
Net Utility and Non-Utility Plant Special Funds, Current Assets, and Other Assets	\$ 1,069,914	\$ 1,068,472	\$ 1,037,958	\$ 1,442	\$ 30,514
	368,006	402,793	357,561	(34,787)	45,232
Total Assets	1,437,920	1,471,265	1,395,519	(33,345)	75,746
Deferred Outflows	55,281	20,843	38,821	34,438	(17,978)
Total Assets and Deferred Outflows	\$ 1,493,201	\$ 1,492,108	\$ 1,434,340	\$ 1,093	\$ 57,768
Net Position:					
Net Investment in Capital					
Assets	\$ 607,518	\$ 602,011	\$ 613,307	\$ 5,507	\$ (11,296)
Restricted	36,426	51,758	14,031	(15,332)	37,727
Unrestricted	188,083	209,663	203,037	(21,580)	6,626
Total Net Position	832,027	863,432	830,375	(31,405)	33,057
Long-Term Debt	470,424	461,339	417,800	9,085	43,539
Other Liabilities	145,132	92,883	130,260	52,249	(37,377)
Total Liabilities	615,556	554,222	548,060	61,334	6,162
Deferred Inflows	45,618	74,454	55,905	(28,836)	18,549
Total Net Position, Liabilities and Deferred Inflows	\$ 1,493,201	\$ 1,492,108	\$ 1,434,340	\$ 1,093	\$ 57,768

Revenues

2019 Compared to 2018

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

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

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

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%.

Expenses

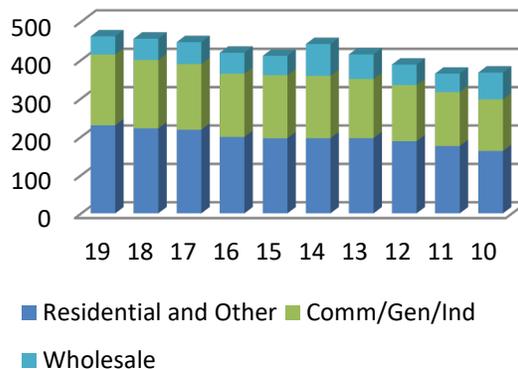
2019 Compared to 2018

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

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

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

OPERATING REVENUES
(in millions)



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

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

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

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

Administrative and General expenses increased \$13.2 million (30.2%). Pension expense attributed to \$5.5 million of the increase. Salaries and Wages increased \$6.5 million. There was a \$2.4 million decrease in the amount of administrative and capital costs capitalized in 2019. Professional services increased \$863,000 and support activities for the advanced metering project increased \$664,000. These increases were off-set with an IBNR claims credit adjustment of \$1.7 million and a decrease in contributions to Self-Insurance Claim Fund of \$1.4 million. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

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.

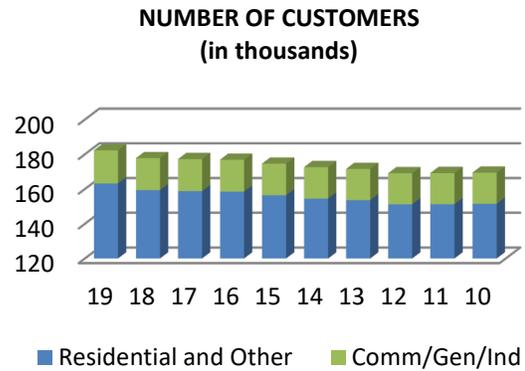
Distribution expenses decreased \$3.9 million (19.8%). Pension expense attributed to \$7.1 million of the decrease while professional services increased \$1.0 million. The primary reason for the increase was for new charges related to the implementation of the new SCADA system. The remaining variance 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.

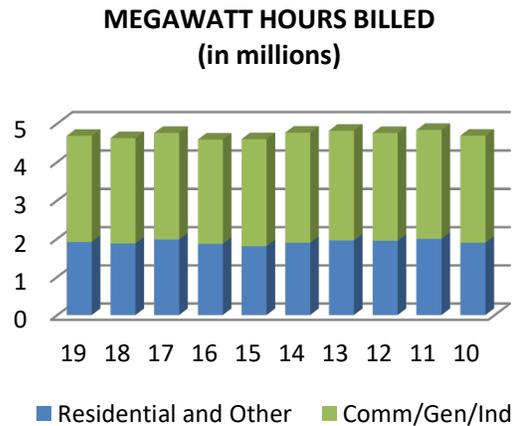
Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2019 is 182,234 compared to 177,723 in 2018 and 177,153 in 2017.



Megawatt-hours Billed

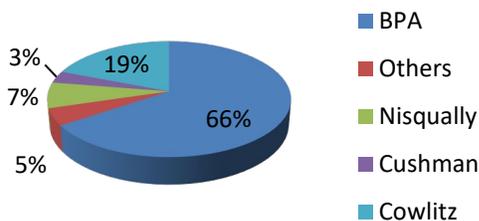
Megawatt-hours billed to residential and other customers increased 1.7% in 2019 and commercial / general / industrial billings increased 0.9%. Wholesale power billed in 2019 was 1,430,766 megawatt-hours compared to 2,159,004 in 2018, a decrease of 728,238 megawatt-hours or 33.7%. Streamflows into Tacoma Power's system were 66% of average in 2019 compared to 90% of average in 2018.



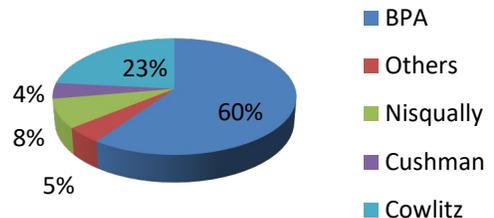
Sources of Power

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.

**Megawatt Hours
Generated/Purchased - 2019**

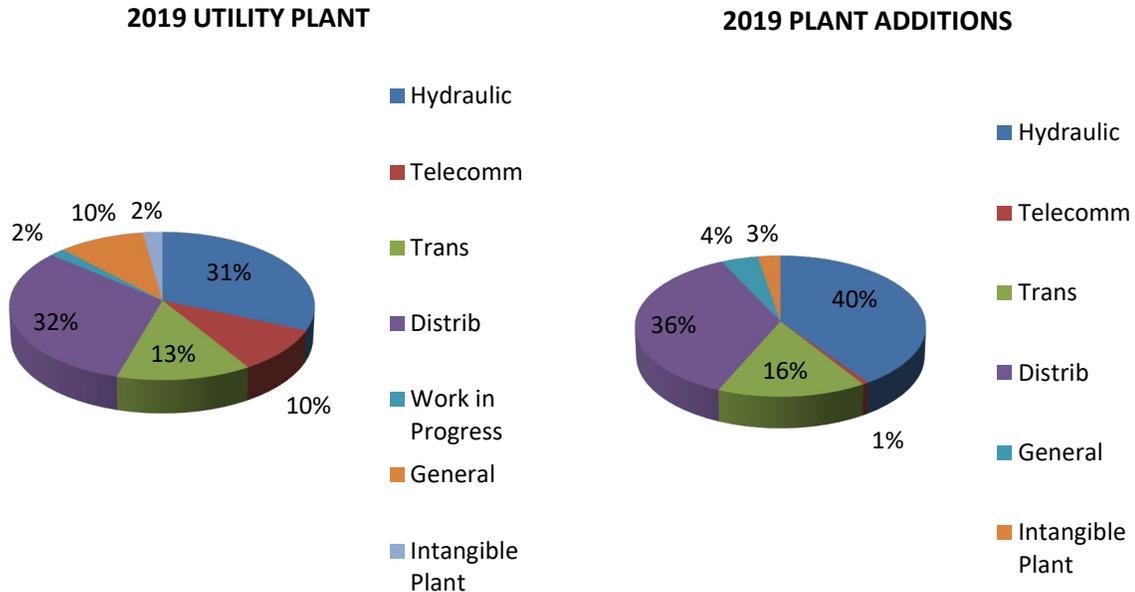


**Megawatt Hours
Generated/Purchased - 2018**



Utility Plant and Plant Additions

Tacoma Power has \$2.2 billion invested in its utility plant assets on a cost basis. The largest portion is for the combined distribution and transmission business unit followed by the generation (hydroelectric) business unit. The following graphs show the total investment in plant and allocation of plant additions.

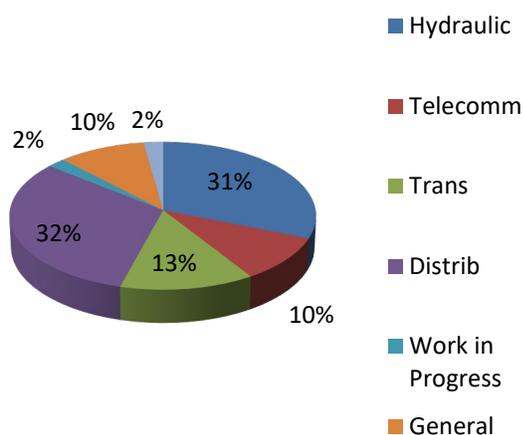


Additions to Intangible Plant in 2019 were \$1.5 million, which primarily included an Operational Analytics platform and land easements. Additions to Hydraulic Plant in 2019 were \$22.0 million, which mainly included the Cowlitz Falls fish passage - North shore collector and fish facility.

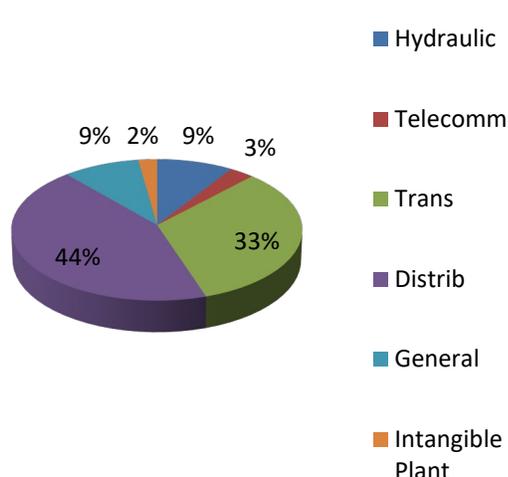
Transmission additions were \$7.8 million, which included the Henderson Bay tower replacement, addition and replacement programs for overhead, substations, and road related additions and replacements. Distribution additions were \$19.8 million, which included addition and replacement programs for new services, overhead distribution, distribution transformers, pole and cable, road related additions and replacements, and meters and devices.

Regional Transmission additions were \$737,000, which included a capital lease for Mason County dark fiber. Additions to General Plant were \$2.4 million, which included the main campus data center and voice solutions system. Click! additions were \$343,000, which included hybrid fiber coax plant extensions.

2018 UTILITY PLANT



2018 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 \$31.0 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.

Net Utility Plant (in thousands)	2019	2018	2017	19/18 Increase (Decrease)	18/17 Increase (Decrease)
Intangible Plant	\$ 31,529	\$ 31,705	\$ 31,448	\$ (176)	\$ 257
Hydraulic Plant	463,126	450,965	454,498	12,161	(3,533)
Transmission Facilities	140,702	140,163	125,610	539	14,553
Distribution Facilities	303,253	298,738	286,735	4,515	12,003
General Plant	68,890	73,329	73,509	(4,439)	(180)
Telecommunications Plant	23,207	28,862	33,819	(5,655)	(4,957)
Construction Work in Progress	39,025	44,528	32,157	(5,503)	12,371
Total Net Utility Plant	\$ 1,069,732	\$ 1,068,290	\$ 1,037,776	\$ 1,442	\$ 30,514

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

Debt Administration

At December 31, 2019 Tacoma Power had outstanding revenue bonds of \$382.9 million, a reduction of \$10.1 million compared to 2018. In December 2019 Tacoma Power took a draw of \$20.0 million on the line of credit agreement with Wells Fargo.

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 \$75.0 million on the line of credit agreement with Wells Fargo. In December 2018 Tacoma Power paid \$20.0 million on the line of credit agreement with Wells Fargo.

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 2019, principal and interest were covered 2.17 times compared to 4.27 times in 2018 and 3.44 times in 2017.

Summary

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

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

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

Request for Information

Power financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

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Financial Statements

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City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Statements of Net Position

	DECEMBER 31,	
ASSETS AND DEFERRED OUTFLOWS	2019	2018
UTILITY PLANT		
In Service, at Original Cost	\$2,169,402,278	\$2,119,742,172
Less - Accumulated Depreciation	<u>(1,138,696,062)</u>	<u>(1,095,980,097)</u>
Total	1,030,706,216	1,023,762,075
Construction Work in Progress	<u>39,025,402</u>	<u>44,527,965</u>
Net Utility Plant	1,069,731,618	1,068,290,040
NON-UTILITY PROPERTY	182,051	182,051
 SPECIAL FUNDS		
Construction Funds	12,396,513	-
Debt Service Funds	19,209,180	20,073,911
Special Bond Reserve Funds	4,997,639	4,973,506
Wynoochee Reserve Funds	2,708,016	2,622,534
Fish and Wildlife Reserves	<u>24,353,391</u>	<u>23,626,260</u>
Total Special Funds	63,664,739	51,296,211
 CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	177,470,619	198,826,677
Accounts Receivable	25,039,956	33,550,566
(Net of Allowance for Doubtful Accounts of \$2,129,304 in 2019 and \$1,429,832 in 2018)		
Accrued Unbilled Revenue	32,547,727	30,730,773
Materials and Supplies	6,741,527	7,007,263
Interfund Receivables	-	1,845,652
Prepayments and Other	<u>12,722,559</u>	<u>10,225,143</u>
Total Current Assets	254,522,388	282,186,074
 OTHER ASSETS		
Regulatory Asset - Conservation		
(Net of Amortization of \$50,078,665 in 2019 and \$40,874,139 in 2018)	47,422,185	51,171,116
Net Pension Asset	-	15,506,238
Conservation Loans Receivable	<u>2,396,282</u>	<u>2,633,418</u>
Total Other Assets	49,818,467	69,310,772
Total Assets	1,437,919,263	1,471,265,148
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow for Pensions	54,329,250	19,885,557
Deferred Outflow for OPEB	<u>952,121</u>	<u>957,357</u>
Total Deferred Outflows	55,281,371	20,842,914
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$1,493,200,634</u>	<u>\$1,492,108,062</u>

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	DECEMBER 31,	
	2019	2018
NET POSITION		
Net Investment in Capital Assets	\$607,518,246	\$602,011,131
Restricted for:		
Wynoochee Reserve Funds	2,708,016	2,622,534
Fish and Wildlife Reserves	24,353,391	23,626,260
Debt Service Funds	9,365,000	10,002,356
Net Pension Asset	-	15,506,238
Unrestricted	188,082,675	209,663,265
Total Net Position	<u>832,027,328</u>	<u>863,431,784</u>
LONG-TERM DEBT		
Revenue Bonds	395,174,575	406,089,467
Revolving Line of Credit	75,250,000	55,250,000
Total Long-Term Debt	<u>470,424,575</u>	<u>461,339,467</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	9,365,000	10,095,000
Taxes and Other Payables	22,498,931	24,749,795
Purchased Power Payable	16,945,864	12,522,509
Salaries, Wages and Compensated Absences Payable	4,032,111	3,459,722
Interest Payable	9,844,180	10,071,555
Unearned Revenue	2,517,742	2,752,999
Customers' Deposits	2,801,939	2,708,008
Interfund Payables	-	207,273
Accrued Environmental Liability	5,258,322	-
Total Current Liabilities	<u>73,264,089</u>	<u>66,566,861</u>
LONG-TERM LIABILITIES		
Long Term Accrued Compensated Absences	10,242,961	9,821,955
Net Pension Liability	45,902,976	-
Net OPEB Liability	10,562,836	12,272,355
Pension Withdrawal Liability	256,560	-
Other Long Term Liabilities	4,901,456	4,221,625
Total Long Term Liabilities	<u>71,866,789</u>	<u>26,315,935</u>
Total Liabilities	<u>615,555,453</u>	<u>554,222,263</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow for Pensions	6,031,613	26,395,236
Deferred Inflow for OPEB	1,586,240	58,779
Rate Stabilization	38,000,000	48,000,000
Total Deferred Inflows	<u>45,617,853</u>	<u>74,454,015</u>
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	<u>\$1,493,200,634</u>	<u>\$1,492,108,062</u>

The accompanying notes are an integral part of these financial statements

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Power
 Statements of Revenues, Expenses and Changes in Net Position

	YEAR ENDED DECEMBER 31,	
	2019	2018
OPERATING REVENUES		
Sales of Electric Energy	\$417,066,344	\$411,393,120
Other Operating Revenue	18,801,890	18,539,960
Click! Network Operating Revenue	25,498,262	25,358,403
Total Operating Revenue	461,366,496	455,291,483
OPERATING EXPENSES		
Operations		
Purchased and Interchanged Power	161,088,947	134,618,445
Generation	28,362,445	16,241,304
Transmission	33,183,358	29,394,316
Distribution	22,584,269	15,781,781
Other	25,362,190	20,140,445
Maintenance	38,979,938	31,200,935
Telecommunications Expense	22,264,464	22,791,699
Administrative and General	56,899,927	43,716,689
Depreciation	48,700,270	53,869,012
Taxes	22,139,736	21,486,970
Total Operating Expenses	459,565,544	389,241,596
Net Operating Income	1,800,952	66,049,887
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	7,607,143	3,719,705
Contribution to Family Need	(500,000)	(100,000)
Other	1,795,633	1,776,333
Interest on Long-Term Debt	(21,072,882)	(18,834,946)
Amortization of Debt Premium	1,549,892	1,615,670
Total Non-Operating Expenses	(10,620,214)	(11,823,238)
Net Income (Loss) Before Capital Contributions and Transfers	(8,819,262)	54,226,649
Capital Contributions		
Cash	7,450,252	8,771,749
Donated Capital Assets	356,918	618,713
BABs and CREBs Interest Subsidies	3,592,789	3,824,135
Transfers		
City of Tacoma Gross Earnings Tax	(33,985,153)	(34,384,956)
CHANGE IN NET POSITION	(31,404,456)	33,056,290
TOTAL NET POSITION - BEGINNING OF YEAR	863,431,784	830,375,494
TOTAL NET POSITION - END OF YEAR	\$832,027,328	\$863,431,784

The accompanying notes are an integral part of these financial statements

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City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$ 458,060,153	\$ 456,704,641
Cash Paid to Suppliers	(245,373,795)	(214,903,047)
Cash Paid to Employees	(123,866,405)	(119,301,602)
Taxes Paid	(22,398,667)	(21,414,705)
Cash from Conservation Loans	237,136	(8,150)
Net Cash from Operating Activities	66,658,422	101,077,137
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(33,985,153)	(34,384,956)
Transfer to Family Need Fund	(500,000)	(100,000)
Net Cash from Non-Capital Financing Activities	(34,485,153)	(34,484,956)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures	(49,346,998)	(82,222,692)
Proceeds from Issuance of Long-Term Debt and LOC	20,000,000	75,000,000
Principal Payments on Long-Term Debt and LOC	(10,095,000)	(31,575,000)
Interest Paid	(21,294,291)	(20,060,269)
BABs and CREBs Interest Subsidies	3,592,789	3,824,135
Contributions in Aid of Construction (Cash)	7,450,252	8,771,749
Other Long-Term Liabilities	(870,327)	360,044
Net Cash from Capital and Related Financing Activities	(50,563,575)	(45,902,033)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	7,607,143	3,719,705
Other Non-Op Revenues and Deductions	1,795,633	1,776,333
Net Cash from Investing Activities	9,402,776	5,496,038
Net Change in Cash and Equity in Pooled Investments	(8,987,530)	26,186,186
Cash and Equity in Pooled Investments at January 1	250,122,888	223,936,702
Cash and Equity in Pooled Investments at December 31	<u>\$241,135,358</u>	<u>\$250,122,888</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

	YEAR ENDED DECEMBER 31,	
	2019	2018
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$1,800,952	\$66,049,887
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	48,700,270	53,869,012
Amortization of Regulatory Assets	9,204,526	8,233,048
Pension Expenses (Credits)	6,601,898	(15,161,926)
Net OPEB Expenses (Credits)	(176,822)	296,569
Pension Withdrawal Expense	256,560	-
Accrued Environmental Expense	5,258,322	-
Estimated Employee Payout	1,136,386	-
Rate Stabilization	(10,000,000)	-
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue	6,693,657	1,413,160
Conservation Loans Receivable	237,136	(8,150)
Interfund Receivables	1,845,652	(25,251)
Materials and Supplies, and Other	(2,231,681)	(3,437,224)
Taxes and Other Payables	(2,516,246)	(644,622)
Purchased Power Payable	4,423,355	(696,567)
Salaries, Wages and Compensated Absences Payable	572,389	423,324
Long Term Accrued Compensated Absences	421,006	423,840
Customers' Deposits	93,931	(82,998)
Regulatory Asset - Conservation	(5,455,596)	(9,714,777)
Interfund Payables	(207,273)	139,812
Total Adjustments	64,857,470	35,027,250
Net Cash from Operating Activities	\$66,658,422	\$101,077,137
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$63,664,739	\$51,296,211
Cash and Equity in Pooled Investments in Operating Funds	177,470,619	198,826,677
Cash and Equity in Pooled Investments at December 31	\$241,135,358	\$250,122,888
Noncash Investing, Capital, and Financing activities		
Donated fixed assets	\$356,918	\$618,713

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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 182,000 retail customers and has 959 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 Washington State Auditor's Office.

ACCOUNTING CHANGES - Effective for the fiscal year 2019, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The object of this statement is to address accounting and financial reporting for asset retirements that carry legally enforceable remediation obligations. It establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. This statement will enhance comparability of financial statements among governments by establishing uniform criteria to recognize and measure decision-usefulness of the information provided to finance statement users by requiring disclosure related to those assets. Division evaluated provisions prescribed by GASB 83 and there were no Asset Retirement Obligations applicable to the Division as of December 31, 2019.

GASB Statement No. 84 – *Fiduciary Activities*. The object of this statement is to improve the identification of fiduciary activities and how they should be reported. It establishes criteria for identifying activities related to control of those assets. Control is defined as holding the assets or the ability to use, exchange, or employ the assets in a manner that provides benefits to the intended recipients. Division evaluated provisions prescribed by GASB 84 and there were no Fiduciary Activities applicable to the Division as of December 31, 2019.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The object of this statement is to improve the information that is disclosed in the notes related to debt, clarifying which liabilities should be included when disclosing that information. Debt is defined as a fixed liability that arises from a contractual obligation to pay cash or other assets as established at the contract date. This Statement requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. Where applicable the Division has made the required adjustments as prescribed by GASB Statement No. 88.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The object of this statement now requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Where applicable the Division has made the required adjustments as prescribed by GASB Statement No. 89. The Division elected to early adopt the implementation of this standard as of January 1, 2019 and therefore no interest was capitalized during 2019.

GASB Statement No. 90 – *Majority Equity Interests (an Amendment of GASB Statements No. 14 & 61)*. The object of this statement is to clarify the reporting of the City’s majority equity interest in a legally separate organization and the component units of 100% equity acquisition. Equity is defined as a financial interest evidenced through an explicit, measurable right to net resources of an organization that is usually based on an investment of financial or capital resources by a government.

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

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issued by any State or Local Government with an A or better rating, Bankers’ Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP).

Daily liquidity requirement to meet the City’s daily obligations is maintained by investing a portion of the City’s Investment Pool in the LGIP and in certificates of deposit with Opus Bank and Home Street Bank.

The Division’s equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2019 and 2018 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer-term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions 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. In 2019, a new construction sub-fund was established related to the Wells Fargo line of credit.

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, which is included in accounts receivable as of December 31, 2019 and 2018.

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, are presented as an offset to the long-term debt balance in the statement of net position. Losses on refunding are amortized on a straight-line basis over the applicable bond period and are presented as deferred outflows in the statement of net position.

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

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

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

The economic lives for plant in service are as follows:

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

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

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

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 through the fiscal year ended December 31, 2018. Effective January 1, 2019, the Division implemented GASB 89, therefore no interest was capitalized during 2019.

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.

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 deferred outflows, and liabilities and deferred inflows is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

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

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

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

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

ENVIRONMENTAL REMEDIATION COSTS - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

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

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

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

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

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

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

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

The fair value evaluations are provided by Interactive Data.

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

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

Debt Securities	As of	Level 1	Level 2	Level 3
	12/31/2019			
U.S. Treasury Securities	\$ 394,034,439	\$ -	\$ 394,034,439	\$ -
U.S. Agency Securities	449,502,580	-	449,502,580	-
Supranational Securities	20,035,790	-	20,035,790	-
Municipal Bonds	17,764,606	-	17,764,606	-
Corporate Securities	63,736,264	-	63,736,264	-
	<u>\$ 945,073,679</u>	<u>\$ -</u>	<u>\$ 945,073,679</u>	<u>\$ -</u>

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

Tacoma Power's share of the City investments shown in the table above is 22.33% and 23.56% for 2019 and 2018.

NOTE 4 UTILITY PLANT

A summary of the balances and changes in utility plant for 2019 and 2018 follows:

	<u>December 31, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>December 31, 2019</u>
Intangible Plant	\$ 47,603,690	\$ 264,098	\$ (167,771)	\$ 1,197,130	\$ 48,897,147
Hydraulic Production Plant	672,886,997	-	-	22,022,091	694,909,088
Transmission Plant	249,226,983	-	(652,550)	7,782,743	256,357,176
Distribution Plant	684,450,628	92,820	(3,779,137)	19,749,705	700,514,016
Regional Transmissio	36,681,877	-	-	737,053	37,418,930
General Plant	214,684,012	-	-	2,418,399	217,102,411
Telecommunications Plant	214,207,985	-	(347,332)	342,857	214,203,510
Total Utility Plant in Service	2,119,742,172	356,918	(4,946,790)	54,249,978	2,169,402,278
Less Accumulated Depreciation	<u>(1,095,980,097)</u>	<u>(48,700,270)</u>	<u>4,779,019</u>	<u>1,205,286</u>	<u>(1,138,696,062)</u>
	1,023,762,075	(48,343,352)	(167,771)	55,455,264	1,030,706,216
Construction Work In Progress	44,527,965	52,529,779	-	(58,032,342)	39,025,402
Net Utility Plant	<u>\$ 1,068,290,040</u>	<u>\$ 4,186,427</u>	<u>\$ (167,771)</u>	<u>\$ (2,577,078)</u>	<u>\$ 1,069,731,618</u>
	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Intangible Plant	\$ 46,075,662	\$ 188,662	\$ (48,781)	\$ 1,388,147.000	\$ 47,603,690
Hydraulic Production Plant	666,714,640	-	(250,000)	6,422,357	672,886,997
Transmission Plant	238,078,697	-	(666,345)	11,814,631	249,226,983
Distribution Plant	657,716,068	430,051	(4,271,436)	30,575,945	684,450,628
Regional Transmissio	25,207,125	-	-	11,474,752	36,681,877
General Plant	208,637,775	-	(394,811)	6,441,048	214,684,012
Telecommunications Plant	213,414,355	-	(1,322,977)	2,116,607	214,207,985
Total Utility Plant in Service	2,055,844,322	618,713	(6,954,350)	70,233,487	2,119,742,172
Less Accumulated Depreciation	<u>(1,050,225,152)</u>	<u>(53,869,012)</u>	<u>6,905,569</u>	<u>1,208,498</u>	<u>(1,095,980,097)</u>
	1,005,619,170	(53,250,299)	(48,781)	71,441,985	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>\$ 38,360,045</u>	<u>\$ (48,781)</u>	<u>\$ (7,797,252)</u>	<u>\$ 1,068,290,040</u>

Total Utility Plant in Service includes non-depreciable assets of \$77,433,718 for 2019 and \$77,148,845 for 2018.

The total amount of interest cost incurred and capitalized is \$1,541,619 for 2018. Starting in 2019, interest cost incurred was no longer included in the historical cost of a capital asset in compliance with GASB 89.

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, 2019 and December 31, 2018 was as follows:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Due Within One Year
Revenue Bonds	\$ 393,035,000	\$ -	\$ (10,095,000)	\$ 382,940,000	\$ 9,365,000
Plus: Unamortized Premium	23,149,467	-	(1,549,892)	21,599,575	-
Net Revenue Bonds	416,184,467	-	(11,644,892)	404,539,575	9,365,000
Line of Credit	55,250,000	20,000,000	-	75,250,000	-
Total Long-Term Debt	<u>\$ 471,434,467</u>	<u>\$ 20,000,000</u>	<u>\$ (11,644,892)</u>	<u>\$ 479,789,575</u>	<u>\$ 9,365,000</u>
	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>

Notes to the Financial Statements (continued)

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

	<u>2019</u>	<u>2018</u>
2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate at 35% of interest, due in yearly installments of \$27,310,000 to \$31,630,000 from 2031 to 2035. Original Issue: \$147,070,000 Current Portion: \$0	\$ 147,070,000	\$ 147,070,000
2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate at 67% of interest, due in one payment of \$24,185,000 in 2027. Original Issue: \$24,185,000 Current Portion: \$0	24,185,000	24,185,000
2013A Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$7,470,000 to \$14,310,000 from 2020 to 2042. Original Issue: \$181,610,000 Current Portion: \$9,365,000	105,490,000	115,585,000
2013B Refunding Bonds, with interest rates ranging from 3.05% to 5.0%, due in yearly installments of \$3,795,000 to \$5,155,000 from 2022 to 2030. Original Issue: \$35,620,000 Current Portion: \$0	35,620,000	35,620,000
2017 Revenue Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$2,150,000 to \$5,225,000 from 2022 to 2047. Original Issue: \$70,575,000 Current Portion: \$0	<u>70,575,000</u>	<u>70,575,000</u>
	382,940,000	393,035,000
Unamortized premium	21,599,575	23,149,467
Current Portion of Revenue Bond Debt	<u>(9,365,000)</u>	<u>(10,095,000)</u>
Long-term Portion of Revenue Bond Debt	395,174,575	406,089,467
Revolving Line of Credit	<u>75,250,000</u>	<u>55,250,000</u>
Total Long Term Debt	<u>\$ 470,424,575</u>	<u>\$ 461,339,467</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. A second amendment was executed in December 2019 to extend the line of credit which will mature in December 2021. Each advance will bear interest at 80% of the London Interbank Offered Rate (LIBOR) of 1.7625% at December 31, 2019. Each advance is secured by Revenues as set forth in the Note Ordinance.

Notes to the Financial Statements (continued)

As of December 31, 2019, scheduled principal maturities on the bonds and interest payments are as follows:

	Principal	Interest
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	6,555,000	18,078,485
2025-2029	53,410,000	83,276,300
2030-2034	123,620,000	61,220,514
2035-2039	92,675,000	25,854,247
2040-2044	62,580,000	7,931,300
2045-2047	15,080,000	920,600
	\$ 382,940,000	\$ 272,872,886

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, 2019 and 2018.

As of December 31, 2019, the following outstanding bonds were considered defeased in substance:

Issue	Amount
2013 Electric System Revenue Refunding Bonds, Series A	24,741,029
	\$ 24,741,029

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

NOTE 6 PURCHASED POWER

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

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

The power received under this contract averaged 405,408 and 454,352 kilowatts per hour for 2019 and 2018, respectively. Charges for the BPA purchased power were approximately \$125.2 million and \$117.0 million for 2019 and 2018, 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 2019 and 2018, Tacoma Power recovered \$80,699 and \$7,794,368 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, 2019 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	220,240mWh	21,140mWh
Megawatt Capacity	-	5mW
Operating Costs	\$3,242,903	\$41,537
Incentive Payments	\$2,918,17	-
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 2019 and 2018 were \$6,011,912 and \$6,722,989, respectively, for Grand Coulee Project Hydro Authority, however, proceeds under the contract exceeded expenses in 2019 and 2018 for Grant County PUD - Priest Rapids resulting in a gain of \$41,537 and \$9,534, respectively.

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

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

Tacoma Power records applicable energy contracts using accrual accounting and recognizes the revenue or expense at the time of contract performance, settlement or termination. As of December 31, 2019 Tacoma Power had forward sales contracts totaling \$11.1 million dollars extending out to December 2020 with a fair market value of \$12.0 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>2019</u> (in kWh)	<u>2018</u> (in kWh)
Secondary Sales	(1,427,974,000)	(2,159,004,000)
Portfolio Purchases	876,792,000	356,043,000
Miscellaneous Exchanges	(671,000)	(1,202,000)
Other	<u>(7,248,000)</u>	<u>(7,743,000)</u>
Net Interchange	<u>(559,101,000)</u>	<u>(1,811,906,000)</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 2019 and 2018 were \$7,569,589 and \$4,792,374 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 2019 and 2018, Fleet Services returned 75% of the interest earned to Tacoma Power's replacement fund. The amount of the refund was \$152,101 and \$131,385 for 2019 and 2018, 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 \$1.0 million and \$2.4 million in 2019 and 2018 respectively. Assets in the Self-Insurance Fund total \$9.1 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee retirement plans. The coverage also provides a Government Crime policy with a \$1.0 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 aggregate for all claims for each 12-month policy period and a Cybersecurity policy with a limit of \$5.0 million.

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

NOTE 9 WESTERN METAL INDUSTRY PENSION FUND

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

Information was unavailable to determine if an actuarial liability exists for the City in 2019, however, the Plan was in "critical" status in the Plan Year beginning January 1, 2019. The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010 and subsequently updated it on July 24, 2012 and December 9, 2016.

The Rehabilitation Plan consists of reductions in adjustable benefits including early retirement benefits and retirement payment options, and contribution increases of 16% per year for up to 11 years over the current contribution level. These contribution increases do not translate into additional benefit accruals but instead are directed solely toward improving the Plan's funded status. The Trustees have adopted the "free look" rule set forth in subsection 4210(a) of ERISA related to withdrawal liabilities.

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

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

On December 3, 2019 the Tacoma City Council approved the collective bargaining agreement for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 General Unit. Contained in this agreement was a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2019, payroll was the final contributions made on behalf of the employees in this unit. As of January 1, 2020, no employees were participating in the plan.

Those employees who vested would be eligible for benefits based on their date of withdrawal.

The contributions rates for 2018 and 2019 by classification were as follows:

Classification	January 1, 2018 - December 31, 2018	January 1, 2019 - December 31, 2019
Fabrication Welder	5.98% of gross pay	6.21% of gross pay
Machinist	5.80% of gross pay	6.36% of gross pay

In 2018 and 2019 the Division contributed \$32,381 and \$32,191, respectively.

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

At this time, WMIPF has not provided a withdrawal liability estimate. The City utilized employee data from 2017, the last year in which all units were actively contributing to WMIPF to estimate the City's withdrawal liability. The Division has recognized a liability in the amount of \$256,560 as of December 31, 2019.

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

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

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

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

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

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

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

The breakdown of membership as of December 31, 2018 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,474
Terminated vested and other terminated participants	747
Active members:	
City of Tacoma	2,706
Pierce Transit	7
South Sound 911	2
Tacoma-Pierce County Health Department	274
Total active members	<u>2,989</u>
Total membership	<u><u>6,210</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.

The total contribution rate continues to be 21%, divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

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

Measurement Date	December 31, 2018
Valuation Date	January 1, 2019
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, 2019 valuation date and December 31, 2018 the measurement date. Therefore, no adjustments were needed from the January 1, 2019 actuarial valuation date to the calculated liabilities as of December 31, 2018, measurement date for reporting date of December 31, 2019. There were no changes between the January 1, 2018 and January 1, 2019 valuation dates.

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

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2018. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Notes to the Financial Statements (continued)

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.03%
US Inflation-Indexed Bonds	5.0%	1.14%
High Yield Bonds	9.0%	3.90%
Emerging Market Debt	5.0%	3.75%
Global Equity	41.5%	5.41%
Public Real Estate	2.0%	5.76%
Private Real Estate	2.5%	3.83%
Private Equity	10.0%	9.37%
Master Limited Partnerships	4.0%	4.06%
Timber	2.0%	4.05%
Infrastructure	2.0%	5.04%
Agriculture	2.0%	4.54%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.65%
Portfolio Arithmetic Real Mean Return		4.73%
Portfolio Median Nominal Geometric Return		6.93%
Portfolio Standard Deviation		11.01%
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)	\$ 127,361,049	\$ 45,902,976	\$ (22,174,322)

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (6,023,838)	\$ 1,433,883
Changes of assumptions	-	6,716,885
Net Difference Between Projected and Actual Earnings	-	35,212,593
Changes in Employer Proportion	(7,775)	4,101
Contributions Made Subsequent to the Measurement Date	-	10,961,788
Total	\$ (6,031,613)	\$ 54,329,250

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:

2020	\$ 12,979,115
2021	5,216,877
2022	6,157,295
2023	12,795,639
2024	186,923
Thereafter	-
	\$ 37,335,849

The proportionate share of the Power Division is 39.23% of total System’s pension liability as of December 31, 2019 and 39.43% as of December 31, 2018. The proportionate share was based on the actual contributions for the year as of December 31, 2019 and 2018.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2019 for non-LEOFF 1 members includes 3,526 active participants, 529 deferred retirees, 577 retirees, and 139 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, 2019 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, 2018. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2019.

There have been no significant changes between the valuation date and fiscal year ends. If there were significant changes, an additional analysis or valuation might be required.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2018 and January 1, 2019 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date: January 1, 2019
 Census Date: January 1, 2019
 Actuarial Cost Method: Individual Entry Age Normal Cost Method
 Demographic Assumptions: Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate: 4.10% for pay-as-you-go funding
 Medical Cost Trend:

2019	9.10%
2020	6.00%
2021	5.50%
2030	5.00%
2040	5.10%
2050	5.10%
2060	5.00%

Note that the trend for year 2019 reflects the percent by which 2020 medical costs are expected to exceed 2019 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.30% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -

Discount Rate (Liabilities): 4.10%

Demographic Assumptions: Eligibility:

Disability - Five years of service are required for non-service connected disability.

Retirement - TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits).

- 30 years of service
- 60 years of age
- Age + Service = 80 years
- Age 55 with 10 years of service
- Age 40 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are also eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die prior to retirement are eligible for medical benefits.

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

Changes of Assumptions: The discount rate was updated to 4.10% from 3.44%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

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

At December 31, 2019 the Division reported a liability of \$10,562,836 for its proportionate share of the collective total OPEB liability of \$204.1 million. The OPEB liability was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2019. At December 31, 2018 the participating Division's proportion was 5.55783% as compared to 5.17498% at December 31, 2019. For the year ended December 31, 2019 the participating Division recognized an OPEB credit of \$176,822.

At December 31, 2019, 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	\$ -	\$ 2,326
Changes of assumptions	(819,697)	315,146
Changes in Employer Proportion	(682,540)	105,795
Differences in Contributions	(84,003)	-
Contributions Made Subsequent to the Measurement Date	-	528,854
Total	\$ (1,586,240)	\$ 952,121

The Division reported \$528,854 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2020	\$ (210,162)
2021	(210,162)
2022	(210,162)
2023	(210,162)
2024	(293,619)
Thereafter	(28,706)
	\$ (1,162,973)

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 4.10%, 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 3.10% or one percentage point higher 5.10% than the current rate.

	1% Decrease 3.10%	Current Discount Rate 4.10%	1% Increase 5.10%
Net OPEB liability	\$ 11,922,246	\$ 10,562,836	\$ 9,426,695

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
	8.10%	9.10%	10.10%
Net OPEB liability	\$ 9,319,753	\$ 10,562,836	\$ 12,042,467

Excise Tax for High Cost or "Cadillac" Health Plans in 2022 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 levied 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, delayed the tax for two years, until 2020. The President signed a continuing resolution (CR) on January 22, 2018. The CR delayed the excise tax by two additional years, so that the first effective year is 2022. Separately, the excise tax indexing basis was changed from Consumer Price Index (CPI-U) to Chained CPI-U. In addition, the CR provided for an additional one-year moratorium on the Health Insurer Fee for calendar year 2019.

Subsequent to the December 31, 2018 measurement date, H.R. 1865 Further Consolidated Appropriations Act of 2020 was passed into law on December 20, 2019. This law repealed the excise tax completely and removes the Health Insurer Fee permanently beginning in 2021. The next GASB 75 disclosure with a measurement date of December 31, 2019 will completely exclude the excise tax and remove the Health Insurer Fee beginning in 2021.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Capital Improvements - The financial requirement for Tacoma Power's 2019/2020 biennial Capital Improvement Program is approximately \$149.7 million. As of December 31, 2019, the remaining financial requirement for the 2019/2020 biennial Capital budget was approximately \$110.2 million.

Kosmos Mill Oil Seep - On November 21, 2019, an emergency action was approved by the Director to begin work to install a containment cap on oil seepage near Riffe Lake on the Cowlitz River. A sawmill was historically located at this site near the town of Kosmos before the area was inundated by Riffe Lake. The Division has recognized a liability in the amount of \$5.3 million as the cost to repair the oil seepage and address the environmental impacts are both probable and reasonably estimated.

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

NOTE 13 SUBSEQUENT EVENTS

The City selected Rainier Connect North, LLC (“Rainier Connect”) to conduct in-depth negotiations for the continued operation of the Click! commercial network. On November 5, 2019 the policymakers approved the Click! Business Transaction Agreement with Rainier Connect which put into motion a transfer of operational control over approximately a 120-day transition period. On April 1, 2020, Rainier Connect entered into an Indefeasible Right of Use Agreement and took operational control of the commercial network. The change of control took place as anticipated.

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and the general population. Given the dynamic nature of these circumstances and potential business disruption, the City and the Division could experience a significant short-term impact to operations. Management will continue to monitor the situation closely, but given the uncertainty about the situation, it is unable to estimate the impact to the financial statements.

Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,				
	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	39.23%	39.43%	39.50%	39.47%	39.80%
Employer's proportion share of net pension liability (asset)	\$45,902,976	(\$15,506,238)	\$36,687,245	\$34,177,293	(\$3,823,476)
Employer's covered payroll (1)	\$98,135,432	\$95,163,955	\$91,704,363	\$93,063,240	\$86,312,354
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll (1)	46.78%	-16.29%	40.01%	36.72%	-4.11%
Plan fiduciary net position as a percentage the total pension liability	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,				
	2019	2018	2017	2016	2015
Contractually required employer contribution	\$10,961,788	\$10,415,912	\$9,528,899	\$9,322,005	\$9,053,341
Contributions in relation to the contractually required employer contribution	(10,961,788)	(10,415,912)	(9,528,899)	(9,322,005)	(9,053,341)
Employer contribution deficiency (excess)					
Employer's covered employee payroll	\$103,961,975	\$98,135,432	\$95,163,955	\$91,704,363	\$93,063,240
Employer contribution as a percentage of covered-employee payroll	10.54%	10.61%	10.01%	10.17%	9.73%

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

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

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,		
	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	5.17%	5.56%	5.48%
Employer's proportion share of collective OPEB liability	\$10,562,836	\$12,272,355	\$11,471,098
Employer's covered-employee payroll**	\$98,135,432	\$95,163,955	\$92,203,786
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	10.76%	12.90%	12.44%

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

** The Division's covered employee payroll has been restated for the measurement date ended December 31, 2017.

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2019**

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 4.10% from 3.44%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

Statistical Data (Unaudited)

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Ten-Year Financial Review

STATEMENTS OF NET POSITION	2019	2018	2017 (As Restated)	2016
ASSETS				
Utility Plant - Net	\$1,069,731,618	\$1,068,290,040	\$1,037,776,028	\$1,033,409,064
Special and Other Assets	113,665,257	120,789,034	81,257,489	95,903,332
Current Assets	254,522,388	282,186,074	276,486,000	289,162,319
Deferred Charges	-	-	-	-
Total Assets	<u>1,437,919,263</u>	<u>1,471,265,148</u>	<u>1,395,519,517</u>	<u>1,418,474,715</u>
Deferred Outflows	<u>55,281,371</u>	<u>20,842,914</u>	<u>38,820,632</u>	<u>39,469,454</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,493,200,634	1,492,108,062	1,434,340,149	1,457,944,169
NET POSITION	832,027,328	863,431,784	830,375,494	821,995,693
LIABILITIES				
Long-Term Debt	470,424,575	461,339,467	417,800,137	457,601,726
Current Liabilities	73,264,089	66,566,861	68,841,615	70,165,746
Long-Term Liabilities	<u>71,866,789</u>	<u>26,315,935</u>	<u>61,418,039</u>	<u>57,893,021</u>
Total Liabilities	615,555,453	554,222,263	548,059,791	585,660,493
Deferred Inflows	<u>45,617,853</u>	<u>74,454,015</u>	<u>55,904,864</u>	<u>50,287,983</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,493,200,634	\$1,492,108,062	\$1,434,340,149	\$1,457,944,169
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential	\$182,002,242	\$175,979,684	\$169,583,337	\$154,091,270
Commercial	29,724,195	29,248,620	29,133,553	27,703,400
General	130,604,401	125,399,026	119,704,634	115,600,650
Contract Industrial	23,730,505	23,494,502	22,278,802	21,462,712
Bulk Power	47,420,681	55,486,697	57,062,247	54,506,535
Unbilled	1,816,954	29,348	2,114,131	(840,477)
Other	<u>1,767,366</u>	<u>1,755,243</u>	<u>1,754,802</u>	<u>1,725,200</u>
Total Electric Revenues	417,066,344	411,393,120	401,631,506	374,249,290
Other Operating Revenue	<u>44,300,152</u>	<u>43,898,363</u>	<u>44,711,899</u>	<u>44,365,098</u>
Total Operating Revenues	461,366,496	455,291,483	446,343,405	418,614,388
OPERATING EXPENSES				
Operation and Maintenance	388,725,538	313,885,614	325,018,197	312,790,388
Taxes	22,139,736	21,486,970	20,755,847	19,727,313
Depreciation	<u>48,700,270</u>	<u>53,869,012</u>	<u>57,231,313</u>	<u>55,702,297</u>
Total Operating Expenses	459,565,544	389,241,596	403,005,357	388,219,998
NET OPERATING INCOME	1,800,952	66,049,887	43,338,048	30,394,390
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	1,795,633	1,776,333	(1,534,389)	1,555,659
Interest Earned on Investments	7,607,143	3,719,705	2,251,477	2,405,144
Interest Charges (Net)	(19,522,990)	(17,219,276)	(14,076,794)	(16,196,734)
Contributions to Family Need	<u>(500,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(480,000)</u>
Net Income Before Contributions, Transfers & Extraordinary Items	(8,819,262)	54,226,649	29,878,342	17,678,459
Total Capital Contributions	11,399,959	13,214,597	12,643,334	8,846,216
Transfers Out	<u>(33,985,153)</u>	<u>(34,384,956)</u>	<u>(34,141,875)</u>	<u>(30,462,279)</u>
CHANGE IN NET POSITION	<u>(\$31,404,456)</u>	<u>\$33,056,290</u>	<u>\$8,379,801</u>	<u>(\$3,937,604)</u>

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.

2015	2014	2013	2012	2011	2010
\$1,002,810,874	\$978,885,275	\$959,885,269	\$954,141,423	\$944,969,878	\$933,796,881
125,203,792	160,778,160	213,192,582	154,745,677	196,860,001	223,057,734
267,460,091	365,173,352	328,974,357	333,694,736	313,457,995	279,967,672
-	-	-	-	-	17,651,421
1,395,474,757	1,504,836,787	1,502,052,208	1,442,581,836	1,455,287,874	1,454,473,708
10,977,517	8,026,229	15,941,231	7,848,910	8,213,239	-
1,406,452,274	1,512,863,016	1,517,993,439	1,450,430,746	1,463,501,113	1,454,473,708
825,933,297	822,803,061	799,078,660	779,206,485	762,944,507	744,735,781
441,928,130	530,580,510	564,960,765	518,251,959	563,718,608	582,930,840
63,906,544	86,776,174	82,905,132	84,070,814	82,861,816	95,884,868
22,647,914	24,703,271	23,048,882	20,901,488	17,976,182	30,922,219
528,482,588	642,059,955	670,914,779	623,224,261	664,556,606	709,737,927
52,036,389	48,000,000	48,000,000	48,000,000	36,000,000	-
\$1,406,452,274	\$1,512,863,016	\$1,517,993,439	\$1,450,430,746	\$1,463,501,113	\$1,454,473,708
\$149,195,092	\$150,972,050	\$149,662,791	\$141,236,063	\$136,944,688	\$127,908,143
26,956,059	26,594,512	25,110,481	23,499,735	22,324,063	21,147,156
116,053,999	114,718,365	109,046,936	103,586,233	99,958,156	96,579,940
21,356,911	21,150,771	19,804,613	18,870,807	18,341,067	16,898,845
50,380,147	82,796,740	64,210,259	53,532,081	48,118,090	69,518,730
677,091	(666,187)	1,651,808	4,615,802	369,424	(3,564,337)
1,643,756	1,609,143	1,562,082	1,558,268	1,373,168	1,472,125
366,263,055	397,175,394	371,048,970	346,898,989	327,428,656	329,960,602
44,363,160	44,070,713	43,413,115	40,983,752	36,895,939	36,892,658
410,626,215	441,246,107	414,462,085	387,882,741	364,324,595	366,853,260
299,200,704	294,741,044	276,558,723	267,457,626	247,409,057	259,366,287
19,993,833	19,276,216	19,562,858	17,494,729	16,970,015	15,553,041
57,381,578	59,156,228	56,397,306	57,842,109	56,555,538	55,717,463
376,576,115	373,173,488	352,518,887	342,794,464	320,934,610	330,636,791
34,050,100	68,072,619	61,943,198	45,088,277	43,389,985	36,216,469
(1,923,329)	(728,908)	(252,363)	3,055,848	1,226,132	2,202,089
1,796,071	3,780,834	1,899,829	5,835,775	8,444,683	7,786,710
(19,428,673)	(27,290,021)	(25,688,219)	(22,859,967)	(21,917,623)	(22,773,604)
(480,000)	(900,000)	(900,000)	(450,000)	(450,000)	(900,000)
14,014,169	42,934,524	37,002,445	30,669,933	30,693,177	22,531,664
9,383,844	7,788,292	8,839,960	9,480,111	14,222,934	10,224,518
(24,969,422)	(26,998,415)	(25,970,230)	(23,888,066)	(23,913,077)	(23,614,200)
(\$1,571,409)	\$23,724,401	\$19,872,175	\$16,261,978	\$21,003,034	\$9,141,982

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Ten-Year Power Summary

	2019	2018	2017	2016
MWh Available				
Generated				
Nisqually	387,967	538,674	631,627	630,483
Cushman	180,935	292,553	377,366	507,618
Cowlitz	1,034,672	1,556,232	2,138,980	1,989,438
Wynoochee	13,734	26,071	34,103	37,209
Hood Street	3,543	2,892	3,282	2,942
Grant Net Actual	-	-	-	-
Tacoma's Share of Priest Rapids	21,140	26,974	27,440	26,975
Tacoma's Share of GCPHA	220,240	241,233	228,781	253,625
Total Generated	<u>1,862,231</u>	<u>2,684,629</u>	<u>3,441,579</u>	<u>3,448,290</u>
Purchased	3,551,373	3,980,124	4,023,330	3,807,370
Interchange - Net	(559,101)	(1,804,434)	(2,458,785)	(2,438,369)
Losses - Net	2,367	5,073	27,919	(8,870)
Total System Load	<u>4,856,870</u>	<u>4,865,392</u>	<u>5,034,043</u>	<u>4,808,421</u>
MWh Billed				
Residential and Other	1,913,582	1,871,796	1,975,096	1,855,706
Commercial/General/Industrial	<u>2,759,606</u>	<u>2,743,659</u>	<u>2,777,190</u>	<u>2,771,822</u>
Total Firm MWh Billed	4,673,188	4,615,455	4,752,286	4,627,528
MWh Available Over MWh Billed (Causes: Timing differences, internal use, and losses other than those reflected above)	183,682	249,937	281,757	180,893
Percent of Power Generated	38.34%	55.18%	68.37%	71.71%
Average Load Factor	59.00%	60.20%	57.27%	60.02%
Average Number of Billings	182,234	177,723	177,153	176,784
Maximum Hourly Energy Load				
MWh	939	922	997	913
Date	2/7/19	2/23/18	1/5/17	12/17/16
Time	0800 hr	0800 hr	0800 hr	0900 hr
Maximum Daily Energy Load				
MWh	19,052	19,318	20,525	19,641
Date	2/6/19	2/23/18	1/5/17	12/17/16
Minimum Hourly Energy Load				
MWh	307	329	350	351
Date	9/8/19	6/7/18	7/2/17	7/5/16
Time	0500 hr	0400 hr	0600 hr	0400 hr
Minimum Daily Energy Load				
MWh	9,911	10,208	10,315	10,110
Date	9/8/19	9/2/18	6/4/17	9/4/16
Average Hourly Energy Load	554	555	571	548

2015	2014	2013	2012	2011	2010
511,592	635,121	572,932	699,104	663,345	586,433
272,457	358,509	239,528	261,735	410,723	393,563
1,630,130	2,111,686	1,792,975	2,322,875	2,157,106	1,725,424
12,680	14,272	24,404	38,149	35,692	36,320
1,889	2,281	3,503	4,029	3,313	4,133
-	(2,018)	(3,279)	(3,285)	-	-
25,360	22,733	34,846	37,355	34,417	30,705
258,679	272,846	254,570	255,564	237,794	240,845
2,712,787	3,415,430	2,919,479	3,615,526	3,542,390	3,017,423
3,674,140	3,845,666	3,756,763	4,167,263	3,799,037	4,132,049
(1,569,981)	(2,339,277)	(1,665,811)	(2,814,479)	(2,266,720)	(1,993,911)
10,340	14,057	7,398	20,718	(8,112)	10,599
4,827,286	4,935,876	5,017,829	4,989,028	5,066,595	5,166,160
1,801,114	1,890,970	1,950,829	1,935,518	1,997,714	1,925,549
2,786,233	2,838,966	2,855,932	2,812,769	2,838,424	2,794,406
4,587,347	4,729,936	4,806,761	4,748,287	4,836,138	4,719,955
239,939	205,940	211,068	240,741	230,457	446,205
56.20%	69.20%	58.18%	72.47%	69.92%	58.41%
62.71%	55.31%	54.18%	61.47%	58.86%	52.82%
174,562	172,531	171,506	169,012	169,123	169,413
877	1,016	980	924	931	992
12/31/15	2/6/14	12/9/13	1/16/12	1/3/11	11/23/10
0900 hr	0800 hr	0800 hr	1800 hr	0800 hr	1800 hr
18,675	21,686	21,172	19,100	18,788	20,591
12/31/15	2/6/14	12/09/13	1/16/12	1/11/11	11/23/10
354	348	349	340	310	303
6/21/15	7/6/14	9/8/13	9/19/12	7/5/11	9/3/10
0600 hr	0600 hr	0500 hr	0400 hr	0400 hr	0300 hr
10,262	10,221	10,379	10,160	9,171	9,041
5/24/15	7/5/14	7/4/13	9/2/12	7/3/11	9/5/10
550	562	572	566	548	524

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Gross Generation Report
December 31, 2019 and December 31, 2018

	YEAR ENDED		2019 OVER (UNDER) 2018	PERCENT CHANGE
	Dec 31 2019	Dec 31 2018		
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	244,931,000	332,001,000	(87,070,000)	-26.2%
Generated - Alder	143,036,000	206,673,000	(63,637,000)	-30.8%
TOTAL NISQUALLY	<u>387,967,000</u>	<u>538,674,000</u>	<u>(150,707,000)</u>	-28.0%
Generated - Cushman No 1	76,366,000	115,172,000	(38,806,000)	-33.7%
Generated - Cushman No 2	104,569,000	177,381,000	(72,812,000)	-41.0%
TOTAL CUSHMAN	<u>180,935,000</u>	<u>292,553,000</u>	<u>(111,618,000)</u>	-38.2%
Generated - Mossyrock	584,779,000	909,192,000	(324,413,000)	-35.7%
Generated - Mayfield	449,893,000	647,040,000	(197,147,000)	-30.5%
TOTAL COWLITZ	<u>1,034,672,000</u>	<u>1,556,232,000</u>	<u>(521,560,000)</u>	-33.5%
Generated - Wynoochee	<u>13,734,000</u>	<u>26,071,000</u>	<u>(12,337,000)</u>	-47.3%
Generated - Hood Street	<u>3,543,483</u>	<u>2,892,400</u>	<u>651,083</u>	22.5%
Tacoma's Share of Priest Rapids	<u>21,140,000</u>	<u>26,974,000</u>	<u>(5,834,000)</u>	-21.6%
Tacoma's Share of GCPHA	<u>220,240,000</u>	<u>241,233,000</u>	<u>(20,993,000)</u>	-8.7%
TOTAL KWH GENERATED - TACOMA SYSTEM	1,862,231,483	2,684,629,400	(822,397,917)	-30.6%
Purchased Power				
BPA Slice Contract	2,029,003,000	2,449,625,000	(420,622,000)	-17.2%
BPA Block Contract	1,522,370,000	1,530,499,000	(8,129,000)	-0.5%
Interchange Net	(559,101,000)	(1,804,433,916)	1,245,332,916	-69.0%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED	<u>4,854,503,483</u>	<u>4,860,319,484</u>	<u>(5,816,001)</u>	-0.1%
Losses	33,249,761	39,681,195	(6,431,434)	-16.2%
Baldi Replacement	288,097	606,072	(317,975)	-52.5%
Ketron	278,263	302,209	(23,946)	-7.9%
NT PC Mutuals Schedules	(32,094,000)	(31,651,000)	(443,000)	1.4%
PC Mutual Inadvertent	644,308	(3,865,349)	4,509,657	-116.7%
TACOMA SYSTEM FIRM LOAD	<u>4,856,869,912</u>	<u>4,865,392,611</u>	<u>(8,522,699)</u>	-0.2%
PIERCE COUNTY MUTUAL LOAD	1,487,202,000	1,304,231,000	182,971,000	14.0%
KWH BILLED				
Residential Sales	1,895,538,014	1,863,660,190	31,877,824	1.7%
Commercial Sales	320,727,113	319,239,715	1,487,398	0.5%
General	1,942,122,720	1,914,278,610	27,844,110	1.5%
Contract Industrial	496,756,020	510,140,760	(13,384,740)	-2.6%
Public Street and Highway Lighting	10,496,260	520,950	9,975,310	1914.8%
Sales to Other Electric Utilities	7,548,300	7,614,900	(66,600)	-0.9%
TOTAL FIRM	<u>4,673,188,427</u>	<u>4,615,455,125</u>	<u>57,733,302</u>	1.3%
Bulk Power Sales	1,430,766,000	2,159,004,000	(728,238,000)	-33.7%
TOTAL KWH BILLED	<u>6,103,954,427</u>	<u>6,774,459,125</u>	<u>(670,504,698)</u>	-9.9%

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Power

Debt Service Requirements
 December 31, 2019

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
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>\$382,940,000</u>	<u>\$272,872,886</u>	<u>\$655,812,886</u>

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Power

Funds Available for Debt Service

	2019	2018	2017 (As Restated)	2016	2015
Total Income	\$473,776,579	\$464,467,429	\$450,627,829	\$425,755,909	\$413,680,801
Less: Operating Exp	<u>410,865,274</u>	<u>335,372,584</u>	<u>345,774,044</u>	<u>332,517,701</u>	<u>319,194,537</u>
Income Available for Debt Service	<u>\$62,911,305</u>	<u>\$129,094,845</u>	<u>\$104,853,785</u>	<u>\$93,238,208</u>	<u>\$94,486,264</u>
Bond Redemption	\$9,365,000	\$10,095,000	\$11,575,000	\$12,730,000	\$14,735,000
Bond Interest	<u>19,688,360</u>	<u>20,143,110</u>	<u>18,949,910</u>	<u>19,025,810</u>	<u>22,420,035</u>
Debt Service Payable on All Debt	\$29,053,360	\$30,238,110	\$30,524,910	\$31,755,810	\$37,155,035
Times Debt Service Covered	2.17	4.27	3.44	2.94	2.54

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Power

Resources
 As of December 31, 2019

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	208,410
LaGrande	5	64,000	338,334
Cushman No 1	2	43,200	130,686
Cushman No 2	3	81,000	208,921
Mayfield	4	162,000	688,643
Mossyrock	2	300,000	991,095
Wynoochee	1	12,800	27,779
Total Hydro		713,000	2,593,868

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

CUSTOMERS BY CLASS	AVERAGE NUMBER BILLINGS	AVERAGE HOURLY ENERGY (kW)
Residential	162,213	1.330
Incidental	16,503	2.219
General	2,586	109.691
Public Streets and Highways	932	1.286
Total System	182,234	2.927
Circuit Miles of Transmission Lines		
115 kV		308
230 kV		44
Circuit Miles of Distribution Lines		
Overhead		1,172
Underground		859

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Power

Taxes and Employee Welfare Contributions
 For the Year 2019

FEDERAL

Power Social Security (FICA)	\$7,477,452	
Total		\$7,477,452

STATE OF WASHINGTON

Retail Sales and Use Taxes	2,228,909	
Power Utilities and Business Operations Tax	14,844,839	
Power State Employment Security	175,124	
Total		17,248,872

COUNTY

Lewis County - In Lieu of Taxes	1,682,637	
Mason County - In Lieu of Taxes	214,446	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	142,278	
Mossyrock School Support	123,599	
Morton School Support	3,473	
Lewis County Fire Protection District	11,139	
Pierce County Fire Protection District	21,469	
Pierce County Drainage District	68,421	
Thurston County	2,457	
Total		2,276,919

MUNICIPALITIES

City of Tacoma Power Gross Earnings Tax	32,009,334	
Click!Network Gross Earnings Tax/Franchise Fees	3,086,239	
City of Fife Power Franchise Fee	1,287,920	
City of University Place Power Franchise Fee	1,204,749	
City of Lakewood Power Franchise Fee	1,123,301	
City of Fircrest Power Franchise Fee	285,744	
City of Steilacoom Power Franchise Fee	5,835	
Total		39,003,122
TOTAL TAXES		\$66,006,365

Taxes as a % of Operating Revenues of \$461,366,496 14.31%

EMPLOYEE WELFARE CONTRIBUTIONS

Power Industrial Insurance and Medical Aid	\$732,675	
Power City of Tacoma Pension Fund	10,706,221	
Power Medical/Life Insurance	16,718,718	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$28,157,614

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

2019 Electric Rates
(Based on 2019 rate schedules)

RATE PER MONTH

Schedule A-1 - Residential Service

Customer Charge	\$16.90 per month
Customer Charge (for collectively metered apartments)	\$13.85 per month
Energy (all energy measured in kilowatt-hours)	\$0.045351 per kWh
Delivery (all energy delivered in kilowatt-hours)	\$0.034891 per kWh

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

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

Schedule B - Small General Service

Customer Charge	\$23.00 per month
Customer Charge (for unmetered services)	\$17.90 per month
Energy (all energy measured in kilowatt-hours)	\$0.044616 per kWh
Delivery (all energy delivered in kilowatt-hours)	\$0.034895 per kWh

Schedule G - General Service

Customer Charge	\$78.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.047317 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$8.43 per kW

Schedule HVG - High Voltage General Service

Customer Charge	\$1,590.00 per month
Energy (all energy measured in kilowatt-hours)	\$0.042915 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$4.89 per kW

Other schedules also now in effect are:

CP - Contract Industrial Service (major industrial power use - written contract required)

H-1 - Street Lighting and Traffic Signal Service

H-2 - Private Off-Street Lighting Service

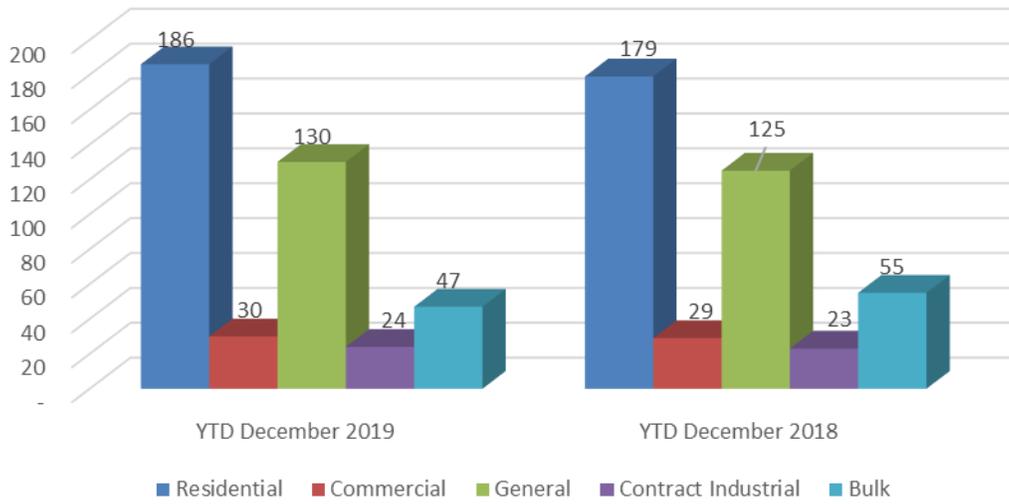
H-3 - Street Lighting Service

FC - Electric Vehicle Fast Charge

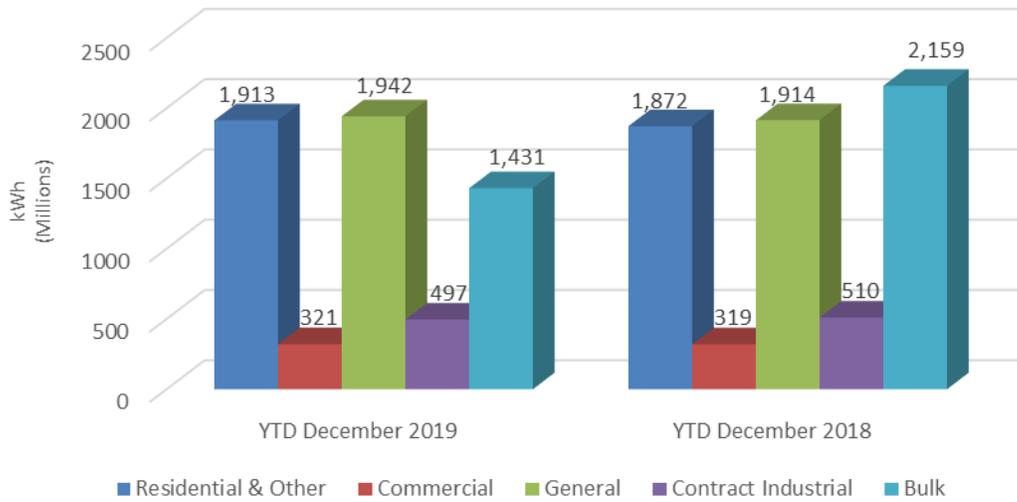
Electric rates were established by Ordinance No. 28551 passed November 20, 2018 and became effective April 1, 2019.

Graphs

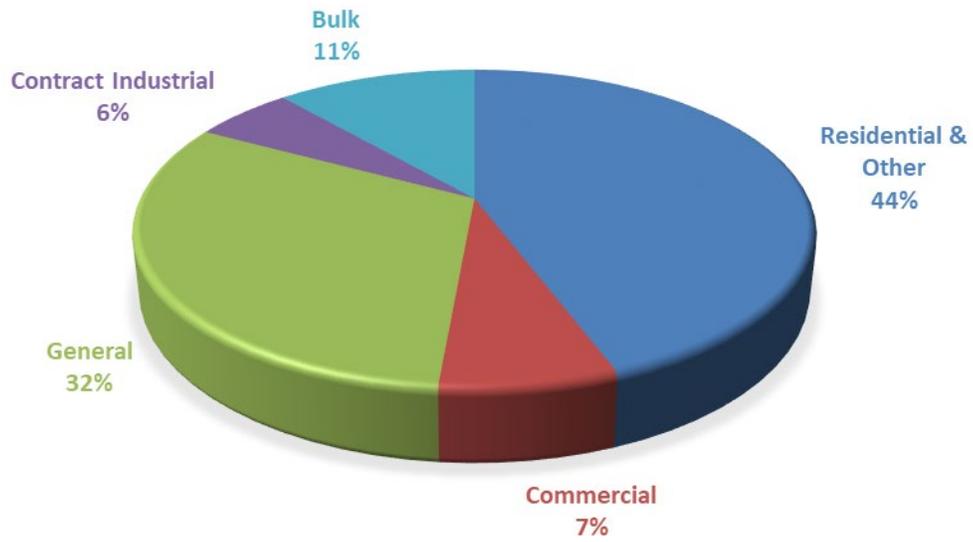
Sales of Electric Energy Year to Date - December 2019 & 2018



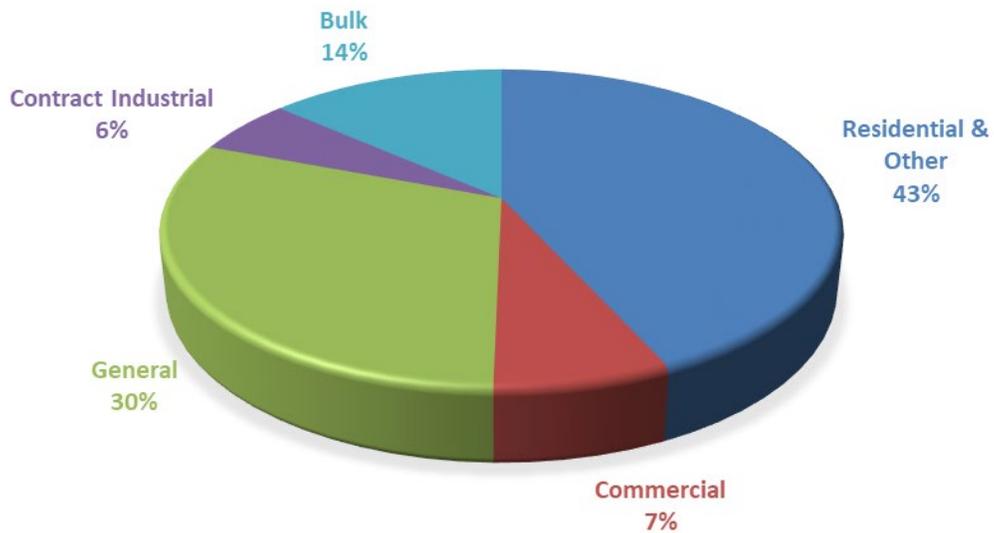
Total Power Billed Year to Date - December 2019 & 2018



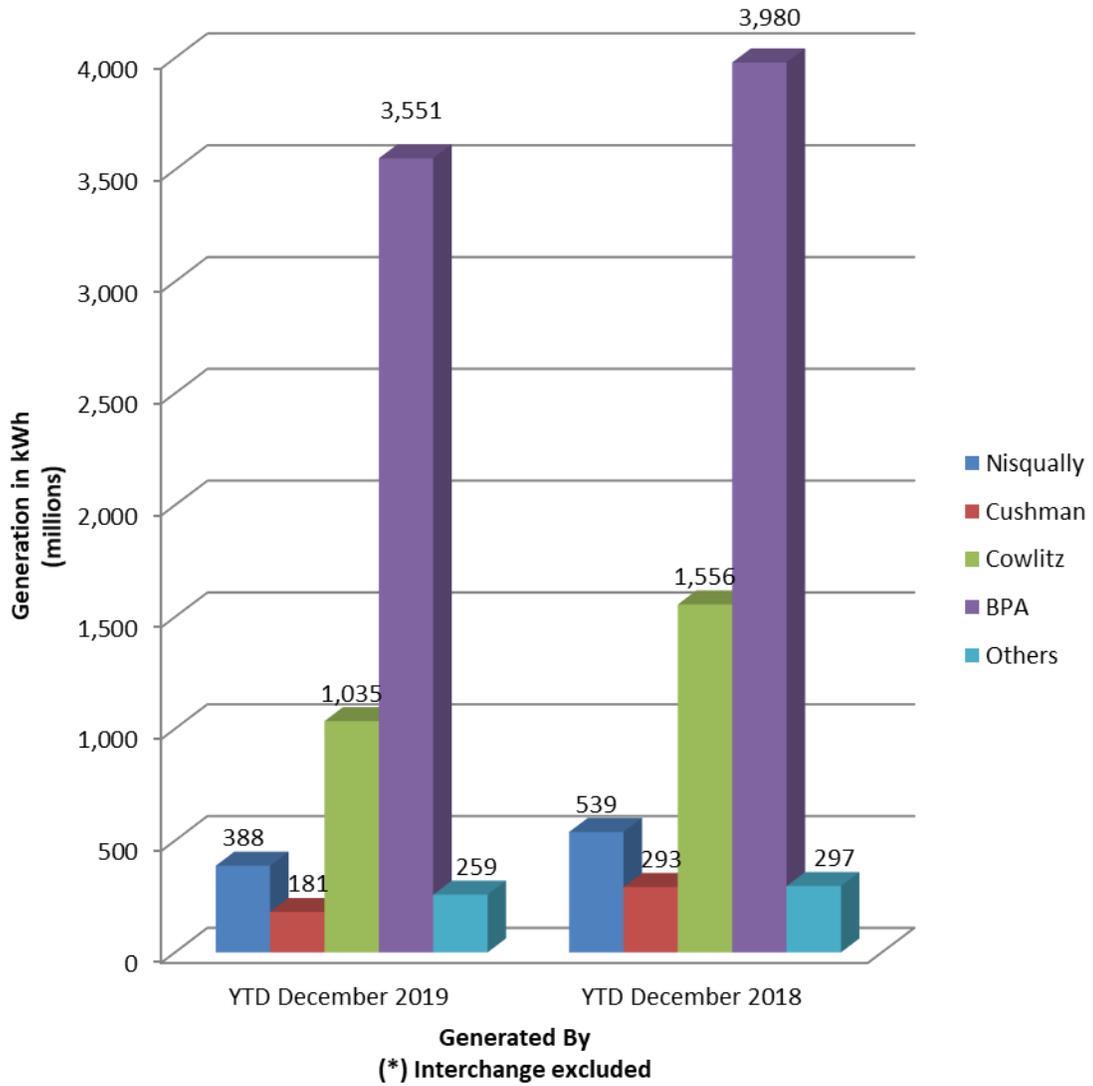
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2019 (\$417,066,344)**



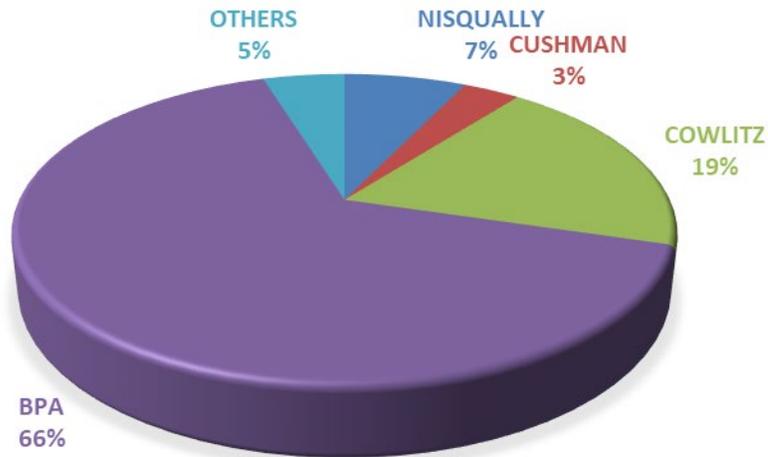
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2018 (\$411,393,120)**



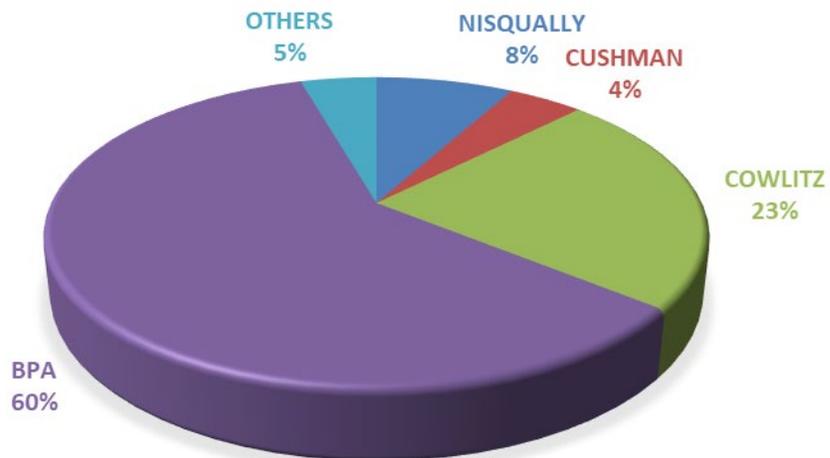
Power Sources (*) Year to Date December 2019 & 2018



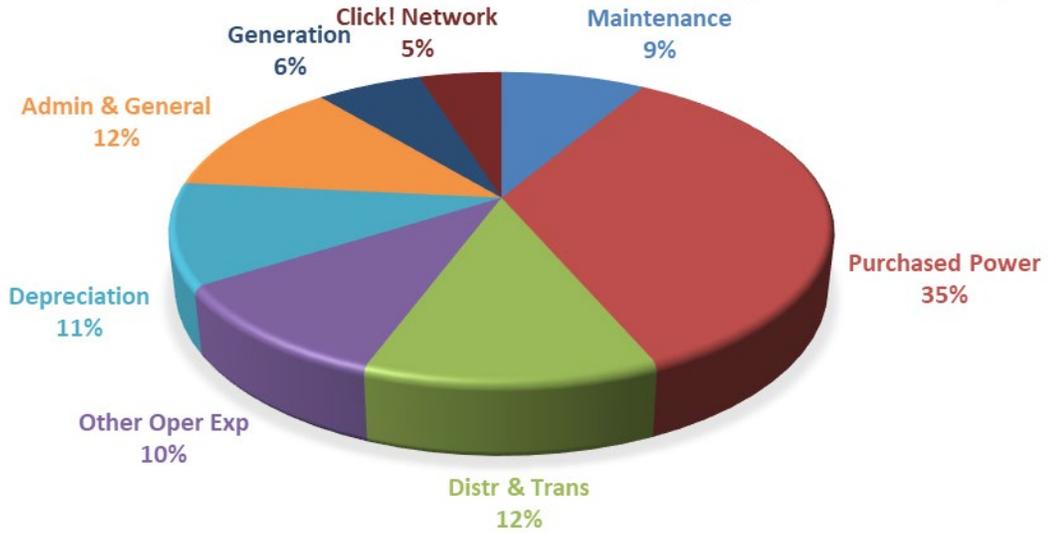
POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2019



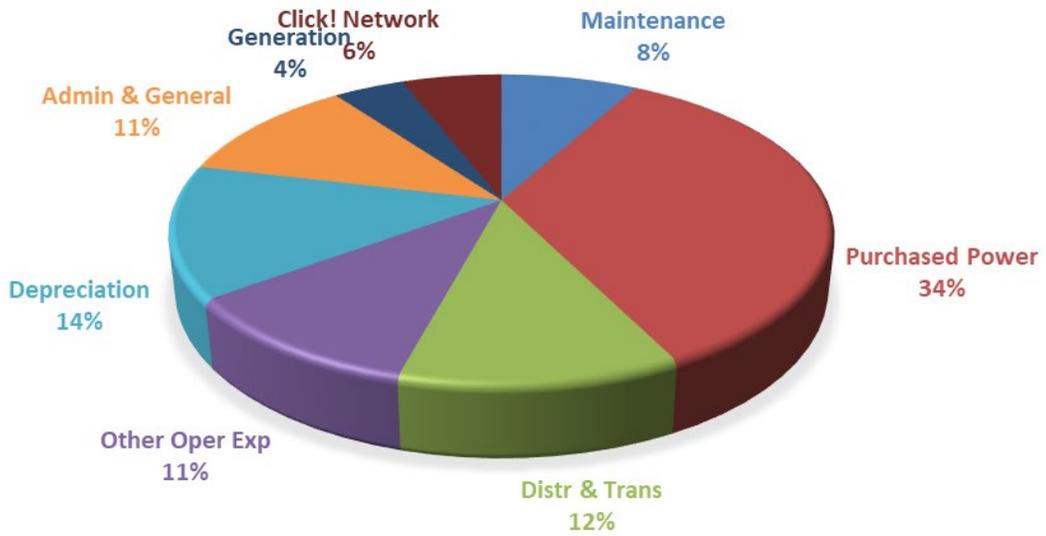
POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2018



TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2019 (\$459,565,544)

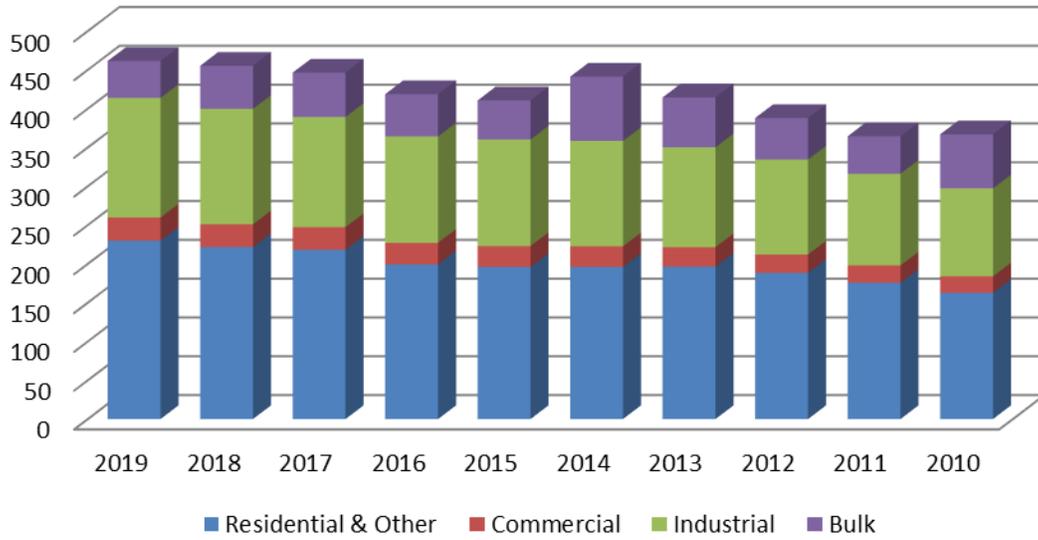


TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2018 (\$389,241,596)

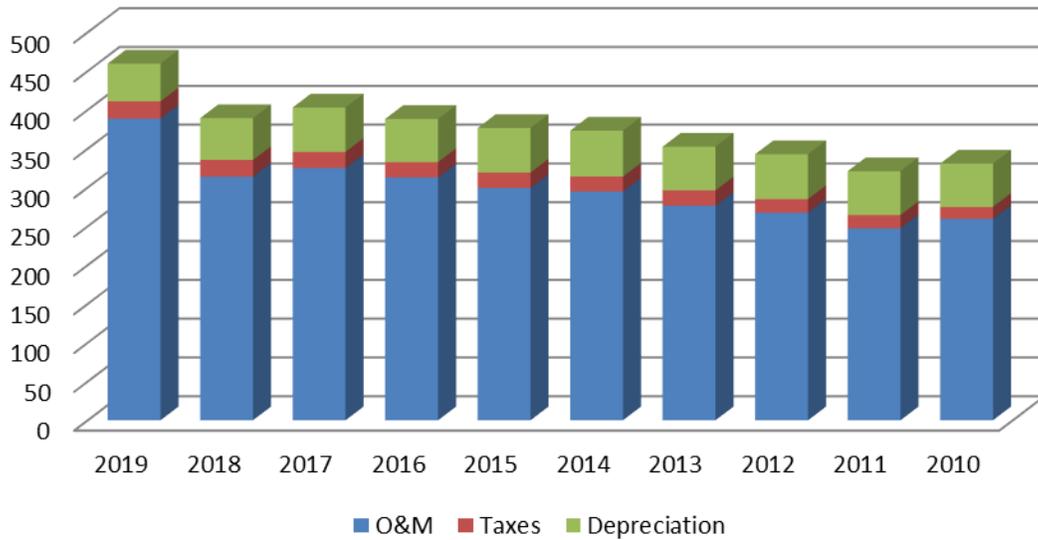


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



Superintendent's Report (Unaudited)

2019 Tacoma Power Superintendent's Report

[CLICK!](#)

Pending Lawsuit

The case is currently in appellate court. The City of Tacoma filed appellate briefs and presented oral arguments in the 3rd quarter of 2019. The Court is expected to issue a decision in early 2020. The City continues to pursue a settlement in the case.

Public-Private Partnership Model

The City retained CTC Technology and Energy (“CTC”) in February 2018 to evaluate potential partners and to negotiate a contract to expand the public private partnership model for the future of the Click! network. Term sheets were developed by two interested parties, Wave Broadband and Rainier Connect. The City selected Rainier Connect to conduct in-depth negotiations for the continued operation of the network. The Click! Business Transaction Agreement was approved by policymakers on November 5, 2019. Rainier Connect will operate under an Indefeasible Right of Use to lease access to the commercial network. Control of the business and technical operations is slated to transition to Rainier Connect in early 2020.

Community Policy Goals

As part of the City's decision to pursue the public-private partnership model, the City, with input from community stakeholders, adopted a set of 12 policy goals to shape the future of Click! Network. Rainier Connect's plan to accomplish all 12 policy goals was an important determining factor in selecting them to lease the operations. Their plans to upgrade the network and provide affordable access will benefit community members.

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 City negotiated with the labor unions on retention and severance packages for impacted employees. Throughout 2019, 37 employees have been placed in new positions across the City, and placement efforts continue.

Product Enhancement

The TiVo whole-home set-top box solution was enhanced in 2019 by the addition of audible access to programming guides and menus (the “talking guide” for the visually impaired). This enhancement enabled Click! to comply with federal accessibility requirements and to assist customers.

GENERATION

Fish and Wildlife

Tacoma completed the construction of the Cowlitz Falls fish handling facility adjacent to the shore-based juvenile collector which improves fish health, operations and employee safety. The Tilton River fish release site construction was completed. The Cushman fisheries program saw increased adult Chinook returns as the program moves towards sustainability.

Hydropower

Tacoma Power's hydroelectric fleet provided 99% availability when called upon in 2019. To support increased operational flexibility, staff increased the operating range of three units at Cushman and broadened the lower end of the operating range of Tacoma's largest unit at Mossyrock. The Emergency Action Plans for all hydroelectric facilities were updated in coordination with local agencies. Asset Management strategies for turbines and generators were updated. Several turbines were repaired including a repair at Cushman No. 1 using an innovative method that reduced outage time by two weeks. A multi-year exciter and governor replacement program was completed this year with the Unit 41 excitation system replacement. An exciter transformer upgrade at LaGrande Powerhouse increased reliability for Units 1-4.

Recreation

There were approximately 366,953 visitors to Tacoma Power parks in 2019. A rare drawdown of Mayfield Lake was performed in order to replace and extend the boat launch at Mayfield Lake Park. Improvements to the core recreational area continued at Mossyrock Park near the new swim beach with a significant restroom remodel that provides several individual family restrooms with ADA accessibility. At Taidnapam Park, the removal of a jetty improved boating access. At Alder Park, the moorage dock and east loop restroom were upgraded and new safety booms installed at the swim beaches.

POWER MANAGEMENT

Power Management will achieve almost twice its 2018-2019 EIA target of 6.4 aMW, substantially under budget.

Staff developed an innovative program for economically disadvantaged customers to improve home weatherization and install ductless heat pumps with a no-interest, deferred loan. No payment is due until the sale or transfer of a home.

Power Management completed its first year of a Commercial Strategic Energy Management program pilot. Differing from other energy efficiency programs, energy savings are not the result of customer capital investments but improved building operations. We exceeded our first year target of 3.5 % energy savings goal.

The Energy Research and Development group was established to develop programs that assist customers with their transportation electrification, demand response, and distributed generation efforts.

Water year 2019 (October 2018 – September 2019) was one of the lowest on record with flows into Tacoma Power system in the lowest sixth percentile and flows into the Federal System in the lowest quartile. Streamflows during the summer months were near record low levels.

Due to these poor hydrologic conditions, wholesale power sales were well below budget estimates. In 2019, net wholesale power sales were 549,000 MWh, significantly below budget estimates of 1.4 million MWh. Annual revenue was \$10.8 million compared to budget estimates of \$36.9 million.

Tacoma Power continued to find opportunities to sell non-traditional wholesale products, such as operating reserves, frequency response, and low-carbon power. For 2019, non-traditional sales created over \$2 million of additional revenue.

Tacoma Power purchases about 55% of its power supply from the Bonneville Power Administration (BPA), costing approximately \$120 million per year. Coordinating with public power entities and advocacy groups, we worked collaboratively with BPA to achieve a 0% power rate increase for 2020 and 2021.

RATES, PLANNING, AND ANALYSIS

Budget and Retail Rates

Tacoma Power has been preparing for the 2021/2022 Budget and Rates biennium that will begin in early 2020. Refined budget practices were put in place for the new biennium and various revenue requirement scenarios were reviewed for the long-range financial plan. In addition, Rates staff worked with stakeholders to understand expected rate design needs and capabilities post-advanced meter implementation. The Open Access Transmission Tariff (OATT) methodology was also reviewed and an updated rate will be presented to the Public Utility Board in 2020.

Energy Risk Management

RPA staff collaborated with Power Management Resource Operations and Trading staff to develop recommendations for modernizing Tacoma Power's hedging program. These recommendations were reviewed and approved by the Risk Management Team. Staff also enhanced analysis and evaluation of resource adequacy and peak load.

The Public Utility Board approved delegation of authority to the Director of Utilities for updating the Energy Risk Management Policy. The completed procedure document is expected to be finalized in early 2020.

Finance

An updated Long-Range Financial Plan (LRFP) was finalized and presented to policy makers in November. As part of the LRFP, Tacoma Power extended the current short-term Note Purchase Agreement (NPA) until December, 2021, to provide interim financing for capital improvements in advance of issuing a long-term bonds. Tacoma Power also extended its existing Surety Policy to enable the utility to use the policy rather than set aside additional cash reserves to fund its debt reserve requirements. In addition, Tacoma Power Bonds were reaffirmed as AA by Standard & Poor's, AA- by Fitch and Aa3 by Moody's.

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.

In support of long-term planning, Tacoma Power's Strategic Asset Management team used a new approach to develop the 10-year Capital Improvement Plan (CIP). Program staff performed probabilistic analysis based on project cost ranges and project timing uncertainty. The results have been used for scenario analysis in the financial model to understand potential rate impacts, and to assist the business units in project planning.

Power Project Management Office (PMO)

The Power PMO strives to create a consistent and transparent project management culture that provides value to our community. In 2019, the PMO team developed, implemented, and collected feedback on the first suite of Project Management tools to be used by staff.

The program team selected a Project Management Training vendor and collaborated with the vendor to develop content to advance Power's project management maturity. The program also offered 12 project management learning events and, in collaboration with the Power Budget team, began developing data analytics capabilities necessary to report on project cost performance. This capability should result in a project reporting dashboard near the end of 2020.

TRANSMISSION & DISTRIBUTION

System Reliability

On average, there were 76 customers without service per outage (ACO). The average outage duration for each customer served (SAIDI) was 51 outage minutes per customer. The average frequency of sustained interruption per customer (SAIFI) was 0.50 interruptions per customer.

Rolling 6-Year Average¹	SAIDI	SAIFI	ACO
01/1/14-12/31/19	551.25	.50	75.7
2019 Performance Target	≤ 75	≤ 0.95	≤ 150

The Tacoma native peak load was 940 MW on Friday, February 7, 2019. The transmission peak was 1,303 MW and occurred on the same day as the native peak.

System Planning and Operations

Tacoma Power completed its Reliability Coordinator transition from Peak Reliability to RC West (CAISO). In support of this effort, System Planning managed the project and worked with CAISO to implement our transmission network model. System Operations trained dispatchers on the new RC West tools and protocols and updated internal procedures.

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 \$8.7 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 (an additional 10 MW of monthly service has been regularly purchased by Avangrid)	2021

¹ The reliability performance measures of the transmission and distribution system are based on a six-year average, from January 1, 2014 through December 31, 2019.

Asset Management

T&D Asset Management established a charter, 2020 work plan, and completed an Asset Class Strategy for poles. Staff also standardized data for three asset classes, performed risk analysis, provided budget coordination and support, and developed a prioritized Asset Class list.

System Improvements

In 2019, T&D staff replaced four high-voltage circuit breakers and one distribution substation transformer. Staff also added high-speed protection to the 115kV Southwest-Cedar transmission line, relocated transmission and distribution lines to support transportation-related projects, and increased operating capacity of segments of the 115kV Southwest-Custer and Pearl-Hilltop transmission lines.

Electrical Services

New Services Engineering 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	59 (46 in 2018)	\$1,167,000
New primary underground residential projects	34 (32 in 2018)	\$850,000 (+ \$560,800 for secondary projects)
Electrical permits issued	11,582 (11,502 in 2018)	\$2,066,711
Electrical inspections	19,660 (17,539 in 2018)	

Business and Financial Management

2019 brought in the highest historical number of pole attachment requests. The work group is currently engaged in a continuous improvement effort to enhance work forecasting, increasing opportunities for resource planning and cost savings. Staff also completed a study of Tacoma Power's wireless fee assessments to ensure regulatory alignment.

Safety and Work Practices

T&D safety staff collaborated with operational units to implement a new Arc Flash Work Practice, aligning with new requirements in the Washington Administrative Code related to employee exposure to electrical arc flash energy.

UTILITY TECHNOLOGY SERVICES

In 2019, Utility Technology Service (UTS) focused on enabling the implementation of major transformation initiatives defined in the TPU Utility Modernization Strategy and Technology Strategic Plan. UTS accomplishments of note were guided by four objectives defined in the plan.

Drive Customer Value & Enhance the Experience

The Advanced Meter Infrastructure Program completed major procurement activities and is now in the development phase. The program will enable many customer benefits including flexible billing options, outage and leak notifications, and a new customer portal.

Operate Reliably & Bolster Resilience

The TPU Main Campus Data Center that hosts the utility's critical computing resources was fully commissioned this year. Tacoma Power's North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection (CIP) Program continues to mature through a successful Western Electricity Coordinating Council (WECC) audit and meeting the requirements for low-impact cyber systems. Also, cybersecurity capabilities made significant progress with the deployment of security controls to more control systems and the launch of a robust cybersecurity awareness campaign.

Enhance the Employee Experience

UTS staff also initiated efforts to enhance TPU's digital capabilities. The Workforce Connect project completed its initial deployment phase and will continue to release functionality that advances mobility for our field force. UTS also delivered an analytics strategy and platform that fosters data-driven operational decision-making and has published dozens of utility data sets.

Operate with Excellence

UTS continues to adopt best practices and develop new services that enhance productivity, reduce risk, and reduce costs. These include the implementation of IT asset management and the technology contract/supplier management programs. The Unmanned Aircraft Systems (UAS) program also recently moved beyond pilot phase and enabled flight operations for asset inspection across TPU.

POWER SHARED SERVICES

Training and Apprenticeship Programs

98% of Tacoma Power's leads, managers and supervisors attended a 3-day workshop focused on Leadership, Engagement and Development of five key behaviors derived from the employee satisfaction survey results. The group also managed the apprenticeship programs, providing training and work experiences to 36 apprentices and trainees in five areas - line, substation, meter, advanced meter/relay, and system dispatcher.

Strategy, Innovation, and Engagement Performance & Analytics

Power Shared Services staff partnered with the City of Tacoma's Continuous Improvement (CI) team to foster the development of a CI culture. Strategic and operational improvement require the use of a data analytics discipline to make informed, data-driven decisions for our business. Power is collaborating with TPU stakeholders to create an Analytics Roadmap.

In 2019, Tacoma Power's Senior Leadership team decided to create a new strategic plan. This was driven by a recognition that several new members have joined the leadership team, we accomplished many of the initiatives in the previous plan, and we are challenged by an environment of rapidly changing customer and energy markets. The new strategic plan will be launched in early 2020 and will focus on affordability for our customers, equity in the workplace and our community, and giving customers access to new and improved services that better meet their needs.

Reliability and Compliance (R&C)

R&C facilitated preparation and execution of the 2019 WECC Audit. WECC complimented Tacoma Power on the organization's program documentation and evidence for being thorough and easy to review, and on SMEs' clear and consistent answers to interview questions. In addition to the WECC audit, R&C overhauled the Internal Compliance Program and several supporting processes to incorporate 2018 organizational and responsibility changes, and to better align with current NERC/WECC compliance industry practices.

Facilities

The TPU Sustainability Action Team (SAT) rolled out "Switch Off for Sustainability," a campaign intended to encourage overhead lighting energy savings on campus.

Tacoma Power sponsored the Commercial Strategic Energy Management (CSEM) program and exceeded goals with a 13% reduction in electricity use at the TPU Admin Complex through HVAC equipment adjustments, LED lighting upgrades in the ABS Building, and other low-cost operational changes leading to energy efficiencies.

Facilities' Mechanical Maintenance group completed the ECC Data Center upgrade project, providing updated power and environmental controls in support of new and anticipated space usage as well as increased reliability of building systems.

Facilities' Grounds Maintenance improved processes for addressing homeless encampment issues on TPU properties, including coordination with local authorities and resource programs to engage with campers, processes for mitigation of abandoned encampments, and landscaping changes that discourage camping.

Facilities also partnered with Power Management, Public Affairs, and Pierce Transit to implement the first electric vanpool pilot in Pierce County at the TPU Admin Complex.



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