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

| OPERATING RESULTS | | | | | |
|------------------------------------|----------------|--------------|----------------|--|--|
| (in thousands) | | | | | |
| <u>Description</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>22/21</u> <u>Increase</u> <u>(Decrease)</u> | <u>21/20</u> <u>Increase</u> <u>(Decrease)</u> |
| Operating Revenues | \$32,131 | \$34,088 | \$33,508 | (\$1,957) | \$580 |
| Operating Expenses | 30,324 | 31,877 | 29,912 | (1,553) | 1,965 |
| Operating Income | 1,807 | 2,211 | 3,596 | (404) | (1,385) |
| Non-Operating Revenues/ (Expenses) | (147) | 360 | 1,352 | (507) | (992) |
| Contributions | 190 | 1,141 | 1,156 | (951) | (15) |
| Transfers from/ (to) | (2,599) | (2,766) | (1,304) | 167 | (1,462) |
| Change in Net Position | <u>(\$749)</u> | <u>\$946</u> | <u>\$4,800</u> | <u>(\$1,695)</u> | <u>(\$3,854)</u> |

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

| STATEMENTS OF NET POSITION | | | | | |
|--|-----------------|-----------------|-----------------|--|--|
| (in thousands) | | | | | |
| <u>Description</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>22/21</u> <u>Increase</u> <u>(Decrease)</u> | <u>21/20</u> <u>Increase</u> <u>(Decrease)</u> |
| Net Capital Assets | \$36,591 | \$33,137 | \$30,811 | \$3,454 | \$2,326 |
| Total Current Assets | 18,801 | 22,813 | 23,714 | (4,012) | (901) |
| Deferred Outflows | 1,659 | 2,054 | 1,599 | (395) | 455 |
| Total Assets and Deferred Outflows | <u>\$57,051</u> | <u>\$58,004</u> | <u>\$56,124</u> | <u>(\$953)</u> | <u>\$1,880</u> |
| Invested in Capital Assets, Net of Related Debt | \$33,135 | \$29,807 | \$26,872 | \$3,328 | \$2,935 |
| Unrestricted Net Position | (2,037) | 2,040 | 4,029 | (4,077) | (1,989) |
| Total Net Position | 31,098 | 31,847 | 30,901 | (749) | 946 |
| Long-Term Debt | 2,577 | 2,486 | 3,096 | 91 | (610) |
| Current Liabilities | 3,931 | 3,467 | 4,061 | 464 | (594) |
| Long-Term Liabilities | 16,511 | 17,387 | 15,635 | (876) | 1,752 |
| Total Liabilities | 23,019 | 23,340 | 22,792 | (321) | 548 |
| Deferred Inflows | 2,934 | 2,817 | 2,431 | 117 | 386 |
| Total Net Position, Liabilities, and Deferred Inflows | <u>\$57,051</u> | <u>\$58,004</u> | <u>\$56,124</u> | <u>(\$953)</u> | <u>\$1,880</u> |

Revenues

2022 Compared to 2021

In 2022, Tacoma Rail operating revenues of \$32.1 million were \$2.0 million lower than the \$34.1 million in 2021. Overall switching revenues decreased \$0.7 million or 2.6%, from 2021. The following table summarizes the switching revenues by activity type for the last three years.

| Activity Types | Switching Revenues (in thousands) | | | | | | | | |
|-------------------------|--------------------------------------|-----------|-----------|------------------------------|--------|------------------------------|-------|--|--|
| | | | | 22/21 Increase (Decrease) | | 21/20 Increase (Decrease) | | | |
| | 2022 | 2021 | 2020 | Var | %Chg | Var | %Chg | | |
| Intermodal Line Hauls | \$ 8,740 | \$ 10,132 | \$ 9,440 | (1,392) | -13.7% | 692 | 7.3% | | |
| Commercial Line Hauls | 15,556 | 14,219 | 15,248 | 1,337 | 9.4% | (1,029) | -6.7% | | |
| Capital Div. Line Hauls | 424 | 433 | 439 | (9) | -2.1% | (6) | -1.4% | | |
| Miscellaneous Switches | 1,790 | 2,442 | 1,705 | (652) | -26.7% | 737 | 43.2% | | |
| Total Line Hauls | \$ 26,510 | \$ 27,226 | \$ 26,832 | \$ (716) | -2.6% | \$ 394 | 1.5% | | |

Demurrage and other operating revenues decreased \$1.2 million. Demurrage revenue increased by \$1.0 million and locomotive servicing revenue and other revenue decreased \$2.2 million. This is due to a decrease in locomotive servicing and an increase in allowing customers railcars to dwell in transit longer than in 2021.

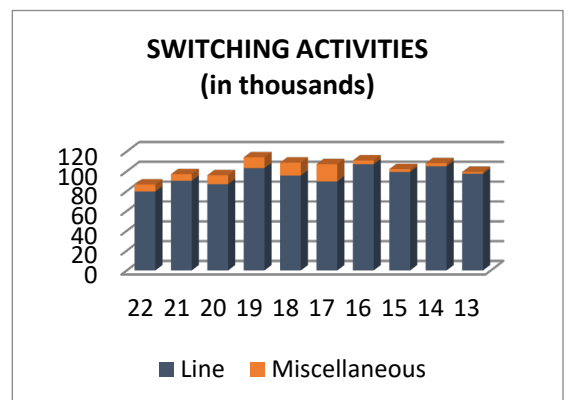
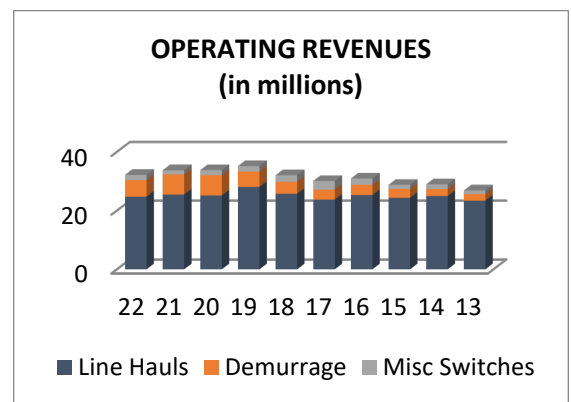
2021 Compared to 2020

In 2021, Tacoma Rail operating revenues of \$34.1 million were \$0.6 million higher than the \$33.5 million in 2020. Overall switching revenues increased \$0.4 million or 1.5%, from 2020.

Switching Activities

Switching activities decreased in 2022 by 10,822 cars or 11.2% to 86,207, from 97,029 in 2021. The most significant decrease in switching activity can be seen in intermodal line-hauls which were down by 10,508 cars or 16.8% due to a decrease in intermodal line haul rail traffic. The average number of cars switched over the last ten years is 102,968.

During 2021, total switching activities increased by 1,065 cars or 1.1% from 2020. The increase in intermodal line haul rail traffic was the dominant factor. Intermodal line-hauls were up by 5,141 cars or 9.0% in 2021.



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

| Activity Types | Rail Cars | | | | | | | | |
|-------------------------|-----------|--------|--------|------------------------------|--------|------------------------------|--------|--|--|
| | | | | 22/21 Increase (Decrease) | | 21/20 Increase (Decrease) | | | |
| | 2022 | 2021 | 2020 | Var | %Chg | Var | %Chg | | |
| Intermodal Line Hauls | 51,941 | 62,449 | 57,308 | (10,508) | -16.8% | 5,141 | 9.0% | | |
| Commercial Line Hauls | 26,536 | 27,219 | 28,920 | (683) | -2.5% | (1,701) | -5.9% | | |
| Capital Div. Line Hauls | 699 | 738 | 771 | (39) | -5.3% | (33) | -4.3% | | |
| Miscellaneous Switches | 7,031 | 6,623 | 8,965 | 408 | 6.2% | (2,342) | -26.1% | | |
| Total Line Hauls | 86,207 | 97,029 | 95,964 | (10,822) | -11.2% | 1,065 | 1.1% | | |

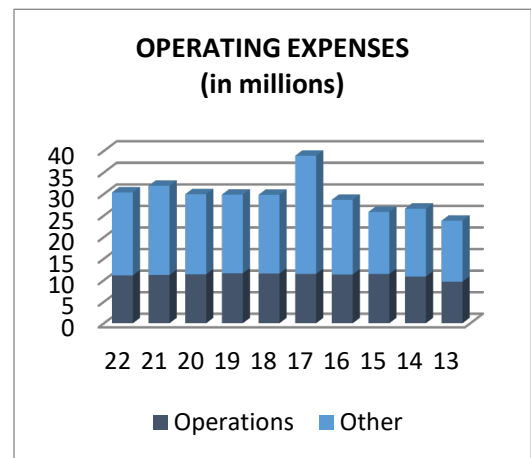
Expenses

2022 Compared to 2021

In 2022, Tacoma Rail operating expenses of \$30.3 million were \$1.6 million lower than \$31.9 million in 2021. This was primarily due to decreases of \$1.5 million in fuel usage and locomotive servicing \$0.7 million in pension expense, \$0.2 million in OPEB expense. These decreases were offset by increases of \$0.3 million in depreciation expenses, \$0.2 million in salaries and wages, and \$0.2 million in repair and maintenance material and services.

2021 Compared to 2020

In 2021, Tacoma Rail operating expenses of \$31.9 million which were \$2.0 million higher than \$29.9 million in 2020. This was primarily due to an increase of \$0.8 million in fuel usages and prices, a \$0.5 million increase in depreciation expenses. This increase was also influenced by a \$0.3 million increase in car hire for 2021, an increase in volume incentive accrual for railcar volumes with Port of Tacoma of \$0.3 million and a \$0.1 million increase in salaries and wages.



Contribution - Grants

In 2022, contribution – grants decreased by \$1.0 million due to the completion of project SR509 crossing, the main grant recipient, in 2021.

Transfers

In 2022, transfer from/(to) Other Funds decreased \$0.2 million compared to 2021. The decrease was mainly due to the decrease in Gross Earnings Tax.

In 2021, transfer from/(to) Other Funds decreased \$1.5 million compared to 2020. The decrease was mainly due to the decrease in vehicles transfer from the Fleet Services Fund which occurred in 2020.

Capital Assets

Net Capital Assets increased \$3.5 million during 2022. The increase was primarily due to the additions of \$4.5 million in Construction Work In Progress (“CWIP”), \$1.2 million in road property plant, and \$0.3 million in office and fixture equipment. These increases were offset with \$2.8 million retirement in machinery equipment. The CWIP addition was mainly the Lincoln Track Upgrade project. The road property plant increases during the year were the completion of projects Transfer Lead Rehabilitation, Warehouse Roll Door, and Lincoln Track Blair Peninsula Upgrade. The office and fixture equipment increase during the year was placing a radio repeater communication system into service. The machinery equipment retirements were mainly locomotives.

During 2021, Net Capital Assets increased \$2.3 million. This increase was reflected primarily in additions of \$4.8 million in road and building in service and \$2.7 million in machinery equipment. These increases were offset with the decrease of \$3.1 million of Construction Work In Progress for new assets placed into service and the increase in accumulated depreciation of \$2.1 million. The road and building increases during the year were on the Marine View Drive Track and Crossing, Tote Yard and Taylor Way Curve projects. The machinery and equipment increases during the year were placing two locomotives into service.

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

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

(in thousands)

| <u>Description</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>22/21</u> | <u>21/20</u> |
|-------------------------------|------------------|------------------|------------------|-------------------|-------------------|
| | | | | <u>Increase</u> | <u>Increase</u> |
| | | | | <u>(Decrease)</u> | <u>(Decrease)</u> |
| Land | \$ 172 | \$ 172 | \$ 172 | \$ - | \$ - |
| Road Property Plant | 19,755 | 19,983 | 16,420 | (228) | 3,563 |
| Building | 1,572 | 1,764 | 1,902 | (192) | (138) |
| Machinery Equipment | 8,495 | 9,479 | 7,350 | (984) | 2,129 |
| Office and Fixture | 705 | 126 | 28 | 579 | 98 |
| Vehicles | 752 | 968 | 1,154 | (216) | (186) |
| Construction Work In Progress | 5,140 | 646 | 3,785 | 4,494 | (3,139) |
| Total Net Capital Assets | <u>\$ 36,591</u> | <u>\$ 33,138</u> | <u>\$ 30,811</u> | <u>\$ 3,453</u> | <u>\$ 2,327</u> |

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

Debt Administration

In 2022, draws were taken from Washington State loans from the Department of Transportation on East Locomotive Service Facility in the amount of \$840,000, Lincoln Track Upgrade in the amount of \$210,000 and Tacoma Rail Yard Track Upgrades in the amount of \$16,550. Tacoma Rail obtained one new Washington State loan from the Department of Transportation for Alexander Wye Track Upgrades in the amount of \$606,000. No funds have been drawn on this new project.

In 2021, draws were taken from Washington State loans from the Department of Transportation on Tote Yard Rehabilitation in the amount of \$271,000. Tacoma Rail obtained three new Washington State loans from the Department of Transportation for the following capital track projects: East Locomotive Service Facility \$840,000, Lincoln Track Upgrade \$310,000 and Tacoma Rail Yard Track Upgrades \$450,000. No funds were drawn on these projects.

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

LONG-TERM DEBT

(in thousands)

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>22/21</u> | <u>21/20</u> |
|---|-------------|-------------|-------------|-------------------|-------------------|
| | | | | <u>Increase</u> | <u>Increase</u> |
| | | | | <u>(Decrease)</u> | <u>(Decrease)</u> |
| Long-Term Debt Balance, Including current portion | \$ 3,455 | \$ 3,330 | \$ 3,940 | \$ 125 | \$ (610) |

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2022, 2021 and 2020, Tacoma Rail had no bonds, only interest free loans.

Summary

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

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

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

Request for Information

Rail 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.

City of Tacoma, Washington
Department of Public Utilities
Tacoma Rail
Statements of Net Position

| NET POSITION AND LIABILITIES | DECEMBER 31, | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| NET POSITION | | |
| Net Investment in Capital Assets | \$33,135,788 | \$29,807,250 |
| Unrestricted | (2,037,366) | 2,040,195 |
| TOTAL NET POSITION | 31,098,422 | 31,847,445 |
| LONG-TERM DEBT, NET OF CURRENT MATURITIES | | |
| State Loans | 2,577,327 | 2,486,723 |
| Total Long-Term Liabilities | 2,577,327 | 2,486,723 |
| CURRENT LIABILITIES | | |
| Accounts Payable | 1,782,023 | 1,430,528 |
| Customer Deposits | 100,000 | 100,000 |
| Wages Payable | 411,805 | 400,872 |
| Unemployment and Other Tax Payables | 323,570 | 315,356 |
| Current Portion of Long-Term Debt | 877,399 | 843,555 |
| Current Portion of Compensated Absences | 148,630 | 145,672 |
| Current Portion of Pension Withdrawal Liability | 286,976 | 229,581 |
| Total Current Liabilities | 3,930,403 | 3,465,564 |
| LONG-TERM LIABILITIES | | |
| On the Job Injury Reserve | 717,564 | 715,702 |
| Long-Term Portion of Compensated Absences | 1,337,672 | 1,311,048 |
| Pension Withdrawal Liability | 2,520,162 | 2,749,743 |
| OPEB Liability | 10,547,150 | 11,164,478 |
| Incurred but not Reported Claims | 1,388,291 | 1,446,149 |
| Total Long-Term Liabilities | 16,510,839 | 17,387,120 |
| TOTAL LIABILITIES | 23,018,569 | 23,339,407 |
| DEFERRED INFLOWS | | |
| Deferred Inflows for OPEB | 2,934,122 | 2,817,432 |
| TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS | \$57,051,113 | \$58,004,284 |

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

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City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Rail
 Statements of Cash Flows

| | YEAR ENDED DECEMBER 31, | |
|--|-------------------------|-------------|
| | 2022 | 2021 |
| Reconciliation of Operating Income to Net Cash From Operating Activities: | | |
| Operating Income | \$1,806,757 | \$2,211,202 |
| Adjustments to Reconcile Operating Income to Net Cash From Operating Activities: | | |
| Depreciation Expense | 2,613,954 | 2,269,298 |
| Pension Withdrawal Expense | - | 624,884 |
| Net OPEB Expense | (105,800) | 108,518 |
| Cash provided from changes in operating assets and liabilities: | | |
| Accounts Receivable | 172,486 | 888,712 |
| Materials and Supplies Inventory | (116,763) | (95,849) |
| Prepayments | 754,106 | (1,290,771) |
| Accounts Payable | 379,495 | (825,865) |
| Unemployment and other Tax Payables | 8,214 | (35,899) |
| Wages Payable and Compensated Absences | 13,891 | 39,913 |
| Long-Term Portion of Compensated Absences | 26,624 | 85,645 |
| On the Job Injury Reserve | 1,862 | (18,055) |
| Incurred but not Reported Claims | (57,858) | 1,112,068 |
| Total Adjustments | 3,690,211 | 2,862,599 |
| Net Cash From Operating Activities | \$5,496,968 | \$5,073,801 |
| Noncash Investing, Capital, and Financing activities | | |
| Fee adjustments - Department of Transportation State Loans | \$28,000 | \$3,213 |

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

GASB Statement No. 92 – *Omnibus 2020*. The primary objective of this statement is to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB No. 92 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this statement.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates (IBOR)*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rates (LIBOR). GASB No. 93 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component unit in fiduciary fund financial statement; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meets the definition of a pension plan and for benefits provided through those plans. GASB No. 97 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this

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

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

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

Daily liquidity requirement to meet the City’s daily obligations is maintained by investing a portion of the City’s Investment Pool in the LGIP.

The Division’s equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2022 and 2021 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer-term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions 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 money market fund and is collateralized by short-term legal investments.

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

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

Interfund and Intergovernmental Transactions – Unsettled transactions between entities at year-end are recorded as due to or due from other funds or other governmental units as appropriate.

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

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

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

| | |
|---------------------|---------------|
| Roads and bridges | 7 – 20 years |
| Building | 10 – 25 years |
| Machinery Equipment | 10 – 25 years |
| Office and Fixture | 5 – 20 years |

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

Contributions – In accordance with GASB No. 33 *Accounting and Financial Reporting for Non-exchange 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 an expense in the year earned.

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

Deferred Outflows of Resources – Deferred outflows of resources, represents a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources consist of deferred outflows of resources related to other post employment benefits other than pensions.

Deferred Inflows of Resources – Deferred inflows of resources, represents an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of deferred inflows of resources related to other post employment benefits other than pensions.

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

Non-Operating Revenues and Expenses – These are items that do not qualify as operating defined above.

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

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

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

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. As of December 31, 2022, and 2021, there were no restricted components of Net Position.

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

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

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

On the Job Injury Reserve – Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

Incurred but not Reported Claims – Liabilities for incurred but not reported claims are initially recorded when the expected loss is both probable and reasonably estimated in Self-Insurance Fund. Equity in the Self-Insurance Fund is transferred to the Division in accordance with GASB 10 and reported under Prepayments and Incurred but not Reported Claims on Statement of Net Position.

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

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

The fair value evaluations are provided by Interactive Data.

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

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

| | As of 12/31/2022 | Level 1 | Level 2 | Level 3 |
|--------------------------|-------------------------|-------------|-------------------------|-------------|
| Debt Securities | | | | |
| U.S. Treasury Securities | \$ 683,653,733 | \$ - | \$ 683,653,733 | \$ - |
| U.S. Agency Securities | 555,411,908 | - | 555,411,908 | - |
| Supranational Securities | 19,561,285 | - | 19,561,285 | - |
| Municipal Bonds | 20,114,217 | - | 20,114,217 | - |
| Corporate Securities | 61,142,820 | - | 61,142,820 | - |
| | <u>\$ 1,339,883,963</u> | <u>\$ -</u> | <u>\$ 1,339,883,963</u> | <u>\$ -</u> |

| | As of 12/31/2021 | Level 1 | Level 2 | Level 3 |
|--------------------------|-------------------------|-------------|-------------------------|-------------|
| Debt Securities | | | | |
| U.S. Treasury Securities | \$ 549,528,777 | \$ - | \$ 549,528,777 | \$ - |
| U.S. Agency Securities | 375,740,028 | - | 375,740,028 | - |
| Supranational Securities | 25,416,670 | - | 25,416,670 | - |
| Municipal Bonds | 5,094,110 | - | 5,094,110 | - |
| Corporate Securities | 56,527,275 | - | 56,527,275 | - |
| | <u>\$ 1,012,306,860</u> | <u>\$ -</u> | <u>\$ 1,012,306,860</u> | <u>\$ -</u> |

Tacoma Rail’s share of the City Investments shown in the table above is 0.77% and 1.17% as of December 31, 2022 and 2021, respectively.

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2022 and 2021 follows:

| | Balance December 31, 2021 | Additions | Retirements | Transfers & Adjustments | Balance December 31, 2022 |
|---------------------------------|---------------------------------|---------------------|---------------------|----------------------------|---------------------------------|
| Land | \$ 172,186 | \$ - | \$ - | \$ - | \$ 172,186 |
| Road Property Plant | 36,626,107 | - | - | 1,218,079 | 37,844,186 |
| Building | 5,012,687 | - | - | 18,340 | 5,031,027 |
| Machinery Equipment | 18,532,221 | - | (2,806,064) | 62,654 | 15,788,811 |
| Office and Fixtures | 786,337 | - | (325,508) | 601,733 | 1,062,562 |
| Total Capital Assets In Service | 61,129,538 | - | (3,131,572) | 1,900,806 | 59,898,772 |
| Less Accumulated Depreciation | (28,638,002) | (2,613,954) | 2,803,523 | - | (28,448,433) |
| | 32,491,536 | (2,613,954) | (328,049) | 1,900,806 | 31,450,339 |
| Construction Work In Progress | 645,992 | 6,398,564 | - | (1,904,381) | 5,140,175 |
| Net Capital Assets | <u>\$ 33,137,528</u> | <u>\$ 3,784,610</u> | <u>\$ (328,049)</u> | <u>\$ (3,575)</u> | <u>\$ 36,590,514</u> |

| | Balance December 31, 2020 | Additions | Retirements | Transfers & Adjustments | Balance December 31, 2021 |
|---------------------------------|---------------------------------|---------------------|--------------------|----------------------------|---------------------------------|
| Land | \$ 172,186 | \$ - | \$ - | \$ - | \$ 172,186 |
| Road Property Plant | 31,877,181 | - | - | 4,748,926 | 36,626,107 |
| Building | 4,950,926 | - | - | 61,761 | 5,012,687 |
| Machinery Equipment | 15,855,151 | - | (217,203) | 2,894,273 | 18,532,221 |
| Office and Fixtures | 685,715 | - | - | 100,622 | 786,337 |
| Total Capital Assets In Service | 53,541,159 | - | (217,203) | 7,805,582 | 61,129,538 |
| Less Accumulated Depreciation | (26,514,486) | (2,269,298) | 145,782 | - | (28,638,002) |
| | 27,026,673 | (2,269,298) | (71,421) | 7,805,582 | 32,491,536 |
| Construction Work In Progress | 3,784,893 | 4,785,768 | - | (7,924,669) | 645,992 |
| Net Capital Assets | <u>\$ 30,811,566</u> | <u>\$ 2,516,470</u> | <u>\$ (71,421)</u> | <u>\$ (119,087)</u> | <u>\$ 33,137,528</u> |

NOTE 5 LONG-TERM DEBT

Long-Term debt activities for 2022 and 2021 were as follows:

| | Balance December 31, 2021 | Additions (*) | Reductions | Balance December 31, 2022 | Due Within One Year |
|----------------------------|---------------------------------|---------------------|---------------------|---------------------------------|------------------------|
| Department of | | | | | |
| Transportation State Loans | \$ 3,330,278 | \$ 1,094,550 | \$ (970,102) | \$ 3,454,726 | \$ 877,399 |
| Total Long-Term Debt | <u>\$ 3,330,278</u> | <u>\$ 1,094,550</u> | <u>\$ (970,102)</u> | <u>\$ 3,454,726</u> | <u>\$ 877,399</u> |

| | Balance December 31, 2020 | Additions | Reductions | Balance December 31, 2021 | Due Within One Year |
|----------------------------|---------------------------------|-------------------|---------------------|---------------------------------|------------------------|
| Department of | | | | | |
| Transportation State Loans | \$ 3,939,614 | \$ 274,213 | \$ (883,549) | \$ 3,330,278 | \$ 843,555 |
| Total Long-Term Debt | <u>\$ 3,939,614</u> | <u>\$ 274,213</u> | <u>\$ (883,549)</u> | <u>\$ 3,330,278</u> | <u>\$ 843,555</u> |

(*) Included in the additions is \$28,000 of accrued loan fee.

Notes to the Financial Statements (continued)

| Washington State Department of Transportation Loans (WSDOT) | 2022 | 2021 |
|---|----------|----------|
| 2009 WSDOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024. | \$ 3,519 | \$ 5,278 |
| 2009 WSDOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025. | 49,893 | 66,523 |
| 2011 WSDOT loan for locomotive repower, with 0% interest, due in yearly installments of \$45,000 from 2013 through 2022. | - | 45,000 |
| 2012 WSDOT loan for Tacoma Rail Annie Tracks 1&2 Rail Relay, with 0% interest, due in yearly installments of \$61,200 from 2013 through 2022. | - | 61,200 |
| 2012 WSDOT loan for Yard Tracks 2, 3 & 4, with 0% interest, due in yearly installments of \$34,859 from 2013 through 2022. | - | 34,861 |
| 2013 WSDOT loan for East 11th Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023. | 34,732 | 69,464 |
| 2013 WSDOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023. | 36,394 | 72,788 |
| 2013 WSDOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024. | 123,725 | 185,588 |
| 2013 WSDOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024. | 49,998 | 74,998 |
| 2013 WSDOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025. | 109,916 | 146,555 |
| 2013 WSDOT loan for East Loop 17th St., with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025. | 231,921 | 309,228 |
| 2013 WSDOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025. | 331,517 | 442,023 |
| 2013 WSDOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025. | 154,731 | 206,308 |
| 2014 WSDOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$91,000 from 2016 through 2025. | 273,002 | 364,002 |
| 2015 WSDOT loan for Edwards Crossover Rehabilitation, with 0% interest, due in yearly installments of \$12,112 from 2017 through 2026. | 48,447 | 60,559 |
| 2015 WSDOT loan for East Lead Low Side Rebuild, with 0% interest, due in yearly installments of \$40,574 from 2017 through 2026. | 162,298 | 202,872 |
| 2015 WSDOT loan for Transfer Yard Connection (Phase 3), with 0% interest, due in yearly installments of \$15,000 from 2017 through 2026. | 60,000 | 75,000 |

Notes to the Financial Statements (continued)

| Junior Lien Debt continued | 2022 | 2021 |
|--|--------------|--------------|
| 2015 WSDOT loan for West Lead High Side Rebuild, with 0% interest, due in yearly installments of \$36,952 from 2017 through 2026. | 147,824 | 184,776 |
| 2015 WSDOT loan for Taylor Wye Rehabilitation, with 0% interest, due in yearly installments of \$31,146 from 2017 through 2026. | 124,583 | 155,729 |
| 2019 WSDOT loan for Mazda Siding Rehabilitation, with 0% interest, due in yearly installments of \$23,305 from 2021 through 2030. | 186,441 | 209,746 |
| 2019 WSDOT loan for Tote Yard Rehabilitation, with 0% interest, due in yearly installments of \$39,753 from 2021 through 2030. | 318,035 | 357,780 |
| 2020 WSDOT loan for Tacoma Rail - Locomotive Facility, with 0% interest, due in yearly installments of \$86,800 from 2022 through 2031. | 781,200 | - |
| 2021 WSDOT loan for Lincoln Ave Track Upgrades (Blair), with 0% interest, due in yearly installments of \$31,800 from 2023 through 2032. | 210,000 | - |
| 2021 WSDOT loan for Yard Track Upgrade 7 & 14-17, with 0% interest, due in yearly installments of \$46,500 from 2023 through 2032. | 16,550 | - |
| Subtotal Junior Lien Debt | 3,454,726 | 3,330,278 |
| Less Current Portion of Debt | (877,399) | (843,555) |
| Long-term Portion of Junior Lien Debt | \$ 2,577,327 | \$ 2,486,723 |

Tacoma Rail obtained one new Washington State loan from the Department of Transportation for Alexander Wye Track Upgrades in the amount of \$606,000. This loan has zero interest and is due in yearly installments of \$60,600 from 2023 through 2032. No funds have been drawn from this loan in 2022.

As of December 31, 2022, scheduled principal maturities on junior lien debts and interest payments are as follows:

| | Principal | Interest |
|-----------|--------------|----------|
| 2023 | \$ 877,399 | \$ - |
| 2024 | 789,717 | - |
| 2025 | 701,095 | - |
| 2026 | 317,489 | - |
| 2027 | 181,658 | - |
| 2028-2032 | 587,368 | - |
| | \$ 3,454,726 | \$ - |

NOTE 6 SIGNIFICANT CUSTOMERS

Tacoma Rail's predominate sources of revenue are Union Pacific (UP), Burlington Northern Santa Fe (BNSF) and U.S. Oil & Refining Co. Revenue from UP, BNSF, and U.S. Oil represented 32%, 45%, and 14% of total revenues, respectively, in 2022. Revenue in 2021 was 36%, 38% and 15%, respectively. Accounts receivable from UP, BNSF, and U.S. Oil in 2022 represented 23%, 45%, and 17% of total customer accounts receivable, whereas in 2021 it was 32%, 32%, and 23%, respectively.

NOTE 7 FLEET SERVICES FUND

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

Tacoma Rail pays the Fleet Services Fund to cover fleet operating expenses. Per Ordinance No. 28688, in 2020 Fleet Services Fund transferred operating division fleet assets to Power, Rail, and Water for funding flexibility. Fleet Services Fund maintains the purchasing and maintenance responsibilities. Starting Jan 1, 2021, Tacoma Rail no longer pays operating capital assets recovery revenues to Fleet Services Fund, but still pays for capital recovery revenues on pool vehicles and other operating revenues including maintenance, administrative overhead, fuel and fuel loading, and pool car rentals. Payments made by Tacoma Rail in 2022 and 2021 were \$335,586 and \$324,712, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle.

NOTE 8 SELF-INSURANCE FUND

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

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$240,000 in 2022 and 2021, respectively. Assets in the Self-Insurance Fund total \$11.5 million which exceeds accrued and incurred but not reported (IBNR) liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. A separate deductible of \$1.0 million applies to Excessive Fees Claims. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee benefit programs. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.25 million per occurrence. Coverage also has a Cybersecurity policy with a limit of \$2.0 million and a deductible of \$250,000. An Excess Cyber policy is maintained with a limit of \$2.0 million in excess of the primary policy.

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

NOTE 9 PENSION PLAN

Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2022 and 2021, Tacoma Rail contributed \$2,253,307 and \$2,205,787 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

| | <u>EARNINGS BASE</u> | |
|-------------------|----------------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| Employer Tier I | \$ 147,000 | \$ 142,800 |
| Employer Tier II | 109,200 | 106,200 |
| Employer Medicare | No Limit | No Limit |

| | <u>TAX RATE</u> | |
|-------------------|-----------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| Employer Tier I | 6.20% | 6.20% |
| Employer Tier II | 13.10% | 13.10% |
| Employer Medicare | 1.45% | 1.45% |

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$56.4 billion as of December 31, 2019. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to pay, in full, the payroll withholdings to the system.

NOTE 10 WESTERN METAL INDUSTRY PENSION FUND

The City of Tacoma 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.

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.

Rail had 26 employees who participated in the plan, those employees who vested would be eligible for benefits based on their date of withdrawal.

There were no contribution rates applicable for 2022 and 2021. There were no contributions in 2022 and 2021.

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.

On November 5, 2021, the City received a Withdrawal Liability Demand Letter from the Plan. The actuaries for the Plan determined that the withdrawal liability attributed to City of Tacoma is \$44,325,881 in total, but the liability was recorded for 20-year limitation liability of \$17,863,052 in accordance with Section 4219 (c) of the Employee Retirement Income Security Act (ERISA), 20 U.S.C. 1399(c). Each operating division recorded the respective liability based on its proportionate share of the 20-year limitation liability as at December 31, 2021. The initial \$337,619 payment was due on or before January 1, 2022 which was comprised of \$169,829 attributable to the partial withdrawal and \$167,790 attributable to the complete withdrawal. Subsequent payments will be due quarterly. The partial withdrawal quarterly payment will continue until 80 quarterly payments are made for a total of \$13,586,320 while the last quarterly installment for the complete withdrawal will be due on April 1, 2028, for a total of \$4,276,732, the last payment amount will be \$81,982. The payments of \$1.0 million and \$337,619 were made during 2022 and 2021, respectively.

As of December 31, 2022, the Division reported a liability of \$2,807,138 for its proportionate share of the Plan's collective total withdrawal liability of \$16,512,576 compared to \$2,979,324, at December 31, 2021. The current portion of the withdrawal liability is \$286,976 as of December 31, 2022, compared to \$229,581 as of December 31, 2021. At December 31, 2022 and 2021, the Division's proportion was 17.0%. There was no withdrawal expense for the year ended December 31, 2022, compared to \$682,279 for the year ended December 31, 2021.

On January 26, 2022, the City submitted an appeal over the liability calculation subject to the Employee Retirement Income Security Act of 1974 (ERISA). On April 12, 2023, the City submitted a Demand and Notice of Initiation Arbitration to American Arbitration Association. The outcome of the appeal and the arbitration is uncertain at the time of the report issuance and may affect the liability amount.

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, 2022 for non-LEOFF 1 members includes 3,819 active participants, 584 vested terminated participants, 176 retirees and surviving spouses, and 115 spouses of current retirees. The membership as of January 1, 2022 for LEOFF 1 members includes 1 active participant and 348 retirees.

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

Actuarial Assumptions and Other Inputs - The valuation date is January 1, 2022 for both non-LEOFF 1 and LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2021. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2022.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2022, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

| | |
|--------------------------|--|
| Valuation Date: | January 1, 2022 |
| Census Date: | January 1, 2022 |
| Actuarial Cost Method: | Individual Entry Age Normal Cost Method |
| Demographic Assumptions: | Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans. |

| | | | | | | | | | | | | | | | | | | | |
|------------------------|---|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|
| Actuarial Assumptions: | | | | | | | | | | | | | | | | | | | |
| Discount Rate: | 2.00% for pay-as-you-go funding | | | | | | | | | | | | | | | | | | |
| Medical Cost Trend: | <table border="0" style="margin-left: 20px;"> <tr><td>2022</td><td>5.50%</td></tr> <tr><td>2023</td><td>5.30%</td></tr> <tr><td>2024</td><td>5.00%</td></tr> <tr><td>2030</td><td>4.50%</td></tr> <tr><td>2040</td><td>4.50%</td></tr> <tr><td>2050</td><td>4.40%</td></tr> <tr><td>2060</td><td>4.40%</td></tr> <tr><td>2070</td><td>4.10%</td></tr> <tr><td>2080</td><td>3.90%</td></tr> </table> | 2022 | 5.50% | 2023 | 5.30% | 2024 | 5.00% | 2030 | 4.50% | 2040 | 4.50% | 2050 | 4.40% | 2060 | 4.40% | 2070 | 4.10% | 2080 | 3.90% |
| 2022 | 5.50% | | | | | | | | | | | | | | | | | | |
| 2023 | 5.30% | | | | | | | | | | | | | | | | | | |
| 2024 | 5.00% | | | | | | | | | | | | | | | | | | |
| 2030 | 4.50% | | | | | | | | | | | | | | | | | | |
| 2040 | 4.50% | | | | | | | | | | | | | | | | | | |
| 2050 | 4.40% | | | | | | | | | | | | | | | | | | |
| 2060 | 4.40% | | | | | | | | | | | | | | | | | | |
| 2070 | 4.10% | | | | | | | | | | | | | | | | | | |
| 2080 | 3.90% | | | | | | | | | | | | | | | | | | |

Note that the trend for year 2022 reflects the percent by which 2023 medical costs are expected to exceed 2022 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 3.90% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

| | |
|------------------------------|--|
| Economic Assumptions - | |
| Discount Rate (Liabilities): | 2.00% |
| Demographic Assumptions: | <p>Eligibility:</p> <p>Disability - Five years of service are required for non-service connected disability.</p> |

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

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

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

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

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

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

Changes of Assumptions: The discount rate was updated to 2.00% from 2.12%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

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

At December 31, 2022 the Division reported a liability of \$10,547,150 for its proportionate share of the collective total City liability of \$227.4 million compared to \$11,164,478 at December 31, 2021. At December 31, 2022, the participating Division’s proportion was 4.63770% as compared to 4.86973% at December 31, 2021. For the year ended December 31, 2022, the participating Division recognized a negative OPEB expense of \$105,800.

At December 31, 2022 and 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | December 31, 2022 | | December 31, 2021 | |
|---|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
| | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources |
| Difference Between Expected and Actual Experience | \$ (86,019) | \$ 120,699 | \$ (119,470) | \$ 16,823 |
| Changes of assumptions | (429,390) | 920,783 | (468,857) | 1,246,657 |
| Changes in Employer Proportion | (1,500,632) | 521,489 | (1,427,574) | 741,805 |
| Differences in Contributions | (918,081) | - | (801,531) | - |
| Contributions Made Subsequent to the Measurement Date | - | 96,171 | - | 48,695 |
| Total | <u>\$ (2,934,122)</u> | <u>\$ 1,659,142</u> | <u>\$ (2,817,432)</u> | <u>\$ 2,053,980</u> |

The Division reported \$96,171 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | |
|------------|-----------------------|
| 2023 | \$ (406,464) |
| 2024 | (470,847) |
| 2025 | (84,285) |
| 2026 | (156,769) |
| 2027 | (157,532) |
| Thereafter | <u>(95,254)</u> |
| | <u>\$ (1,371,151)</u> |

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

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.00%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.00%, or one percentage point higher, 3.00%, than the current rate.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|-------------------------|----------------|--------------------------|----------------|
| As of December 31, 2022 | 1.00% | 2.00% | 3.00% |
| Net OPEB liability | \$ 11,891,323 | \$ 10,547,150 | \$ 9,420,209 |

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.12%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.12%, or one percentage point higher, 3.12%, than the current rate.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|-------------------------|----------------|--------------------------|----------------|
| As of December 31, 2021 | 1.12% | 2.12% | 3.12% |
| Net OPEB liability | \$ 12,633,598 | \$ 11,164,478 | \$ 9,936,864 |

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

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

| | 1% Decrease | Current Trend Rates | 1% Increase |
|-------------------------|----------------|------------------------|----------------|
| As of December 31, 2022 | 4.50% | 5.50% | 6.50% |
| Net OPEB liability | \$ 9,371,290 | \$ 10,547,150 | \$ 11,937,791 |

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

| | 1% Decrease | Current Trend Rates | 1% Increase |
|-------------------------|----------------|------------------------|----------------|
| As of December 31, 2021 | 5.00% | 6.00% | 7.00% |
| Net OPEB liability | \$ 9,819,495 | \$ 11,164,478 | \$ 12,764,986 |

NOTE 12 COMMITMENTS AND CONTINGENCIES

General Legal Matters – Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail's financial position beyond amounts already accrued as of December 31, 2022.

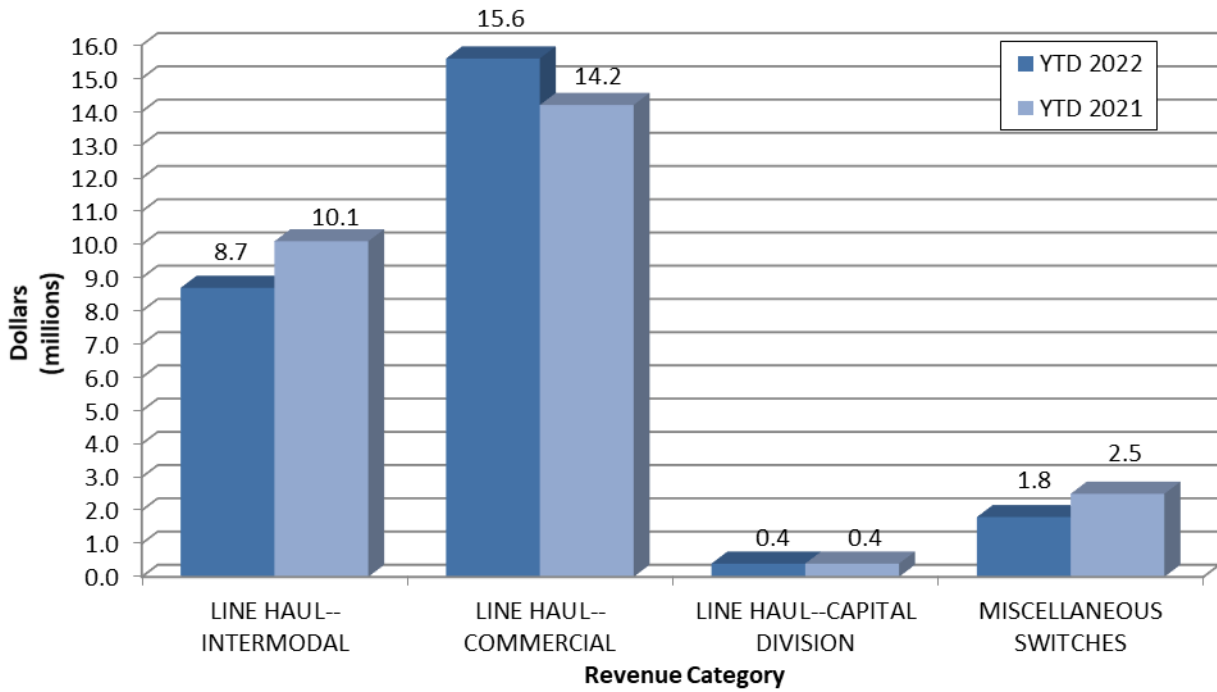
Tacoma Rail Operation of City of Tacoma, Department of Public Works ("Public Works"), Mountain Division - Public Works owns approximately 142 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2023. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

| 2018 | 2017 (As Restated) | 2016 | 2015 | 2014 | 2013 |
|---------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| \$26,113,399 | \$26,705,711 | \$28,216,744 | \$24,748,388 | \$21,058,809 | \$18,015,675 |
| - | - | 64,974 | 64,861 | 65,104 | 65,110 |
| 18,693,794 | 13,964,325 | 13,960,977 | 14,843,745 | 15,964,236 | 12,961,818 |
| 993,546 | 114,073 | - | - | - | - |
| <u>45,800,739</u> | <u>40,784,109</u> | <u>42,242,695</u> | <u>39,656,994</u> | <u>37,088,149</u> | <u>31,042,603</u> |
| 4,403,234 | 5,223,477 | 5,397,028 | 5,556,302 | 4,482,801 | 2,764,959 |
| 3,421,462 | 2,240,256 | 3,793,795 | 3,443,589 | 4,096,245 | 3,232,279 |
| 16,872,528 | 14,461,464 | 4,017,974 | 3,615,442 | 4,278,913 | 2,827,186 |
| 24,697,224 | 21,925,197 | 13,208,797 | 12,615,333 | 12,857,959 | 8,824,424 |
| 289,802 | - | - | - | - | - |
| <u>20,813,713</u> | <u>18,858,912</u> | <u>29,033,898</u> | <u>27,041,661</u> | <u>24,230,190</u> | <u>22,218,179</u> |
| <u>\$45,800,739</u> | <u>\$40,784,109</u> | <u>\$42,242,695</u> | <u>\$39,656,994</u> | <u>\$37,088,149</u> | <u>\$31,042,603</u> |
| \$27,933,469 | \$26,648,873 | \$27,417,653 | \$25,690,797 | \$26,495,108 | \$24,570,867 |
| 5,231,761 | 4,068,008 | 3,409,347 | 3,474,443 | 2,962,289 | 2,372,435 |
| 33,165,230 | 30,716,881 | 30,827,000 | 29,165,240 | 29,457,397 | 26,943,302 |
| 27,582,675 | 36,761,179 | 26,696,068 | 24,168,168 | 25,063,534 | 22,348,268 |
| 465,808 | 432,081 | 439,317 | 417,135 | 429,875 | 437,282 |
| 1,737,714 | 1,644,373 | 1,472,955 | 1,220,882 | 1,069,265 | 996,782 |
| 29,786,197 | 38,837,633 | 28,608,340 | 25,806,185 | 26,562,674 | 23,782,332 |
| 3,379,033 | (8,120,752) | 2,218,660 | 3,359,055 | 2,894,723 | 3,160,970 |
| 1,174,556 | 426,311 | 2,287,330 | 1,878,109 | 1,830,033 | 1,004,957 |
| 152,072 | 68,420 | 86,126 | 51,379 | 72,535 | 21,155 |
| - | (6) | (8,542) | (21,678) | (34,122) | (45,941) |
| 1,326,628 | 494,725 | 2,364,914 | 1,907,810 | 1,868,446 | 980,171 |
| (2,750,860) | (2,548,959) | (2,591,337) | (2,410,016) | (2,440,631) | (2,240,525) |
| - | - | - | (45,378) | (310,527) | (32,407) |
| <u>\$1,954,801</u> | <u>(\$10,174,986)</u> | <u>\$1,992,237</u> | <u>\$2,811,471</u> | <u>\$2,012,011</u> | <u>\$1,868,209</u> |

| <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$25,713,116 | \$23,704,622 | \$25,683,614 | \$24,334,649 | \$24,933,732 | \$23,358,089 |
| <u>2,220,353</u> | <u>2,944,251</u> | <u>1,734,039</u> | <u>1,356,148</u> | <u>1,561,376</u> | <u>1,212,778</u> |
| <u><u>\$27,933,469</u></u> | <u><u>\$26,648,873</u></u> | <u><u>\$27,417,653</u></u> | <u><u>\$25,690,797</u></u> | <u><u>\$26,495,108</u></u> | <u><u>\$24,570,867</u></u> |
| 95,678 | 89,748 | 107,059 | 99,277 | 105,079 | 97,536 |
| <u>13,041</u> | <u>17,382</u> | <u>3,863</u> | <u>2,896</u> | <u>3,058</u> | <u>1,830</u> |
| <u><u>108,719</u></u> | <u><u>107,130</u></u> | <u><u>110,922</u></u> | <u><u>102,173</u></u> | <u><u>108,137</u></u> | <u><u>99,366</u></u> |
| \$268.75 | \$264.12 | \$239.90 | \$245.12 | \$237.29 | \$239.48 |
| \$170.26 | \$169.39 | \$448.88 | \$468.28 | \$510.59 | \$662.72 |

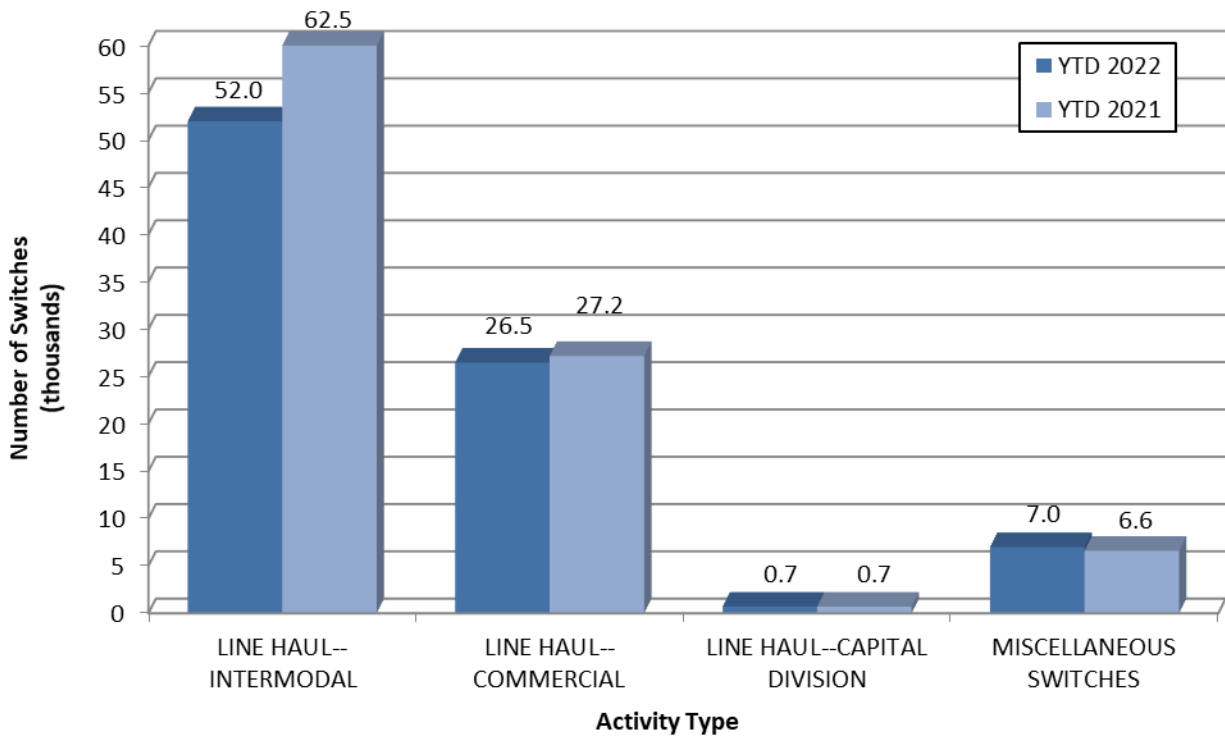
SWITCHING REVENUES

Year to Date - December 2022 & 2021

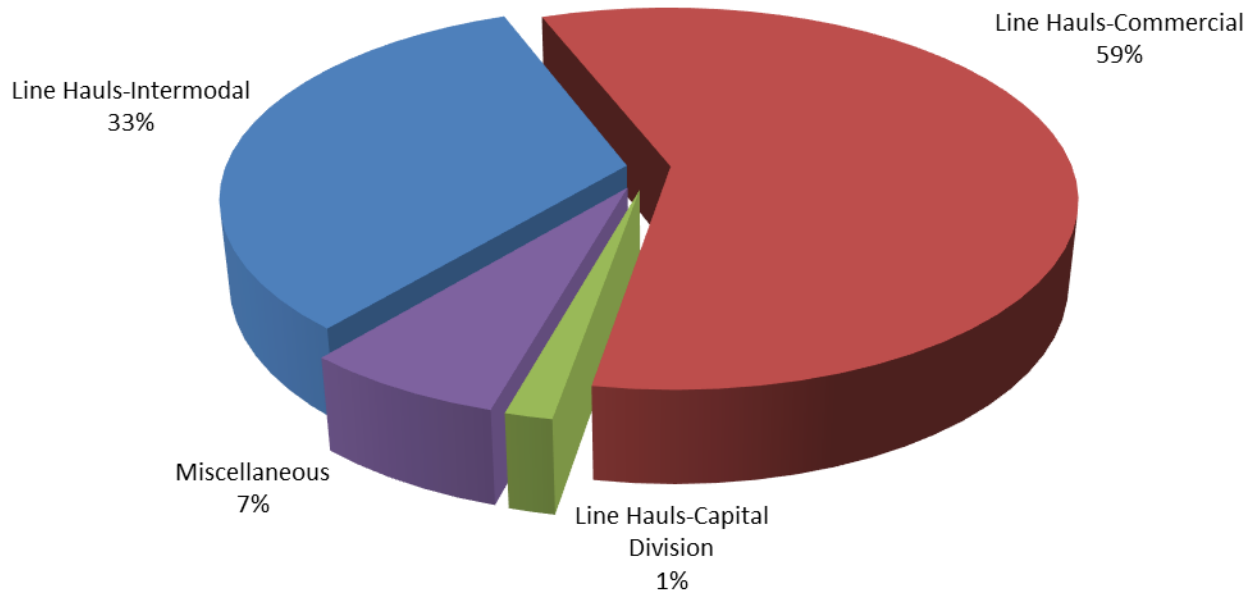


SWITCHING ACTIVITIES

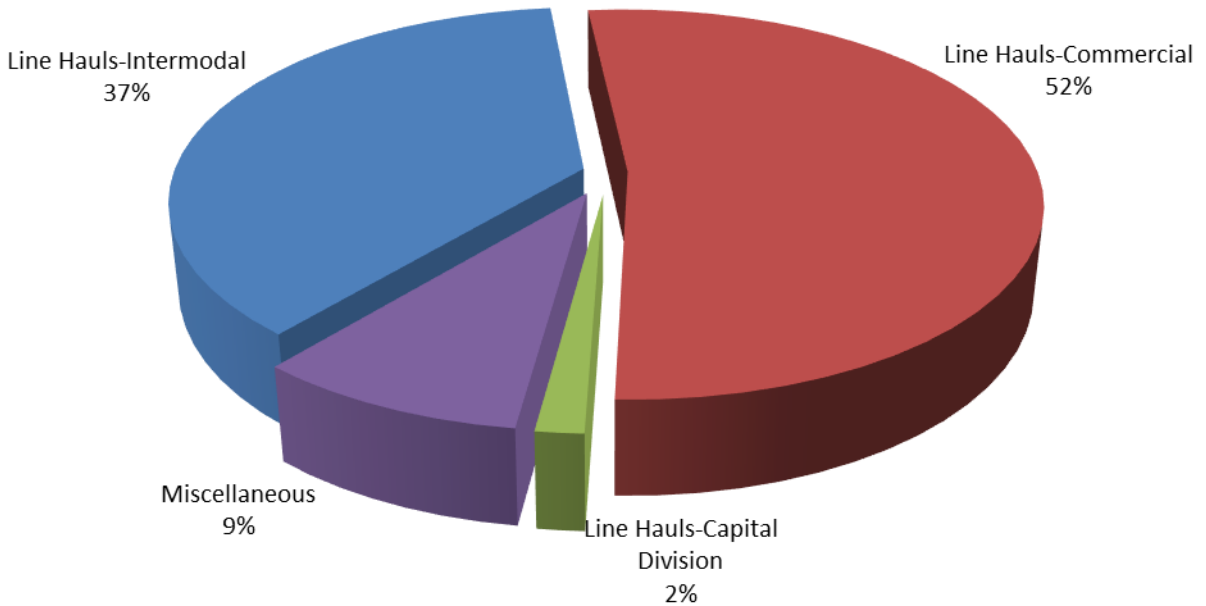
Year to Date - December 2022 & 2021



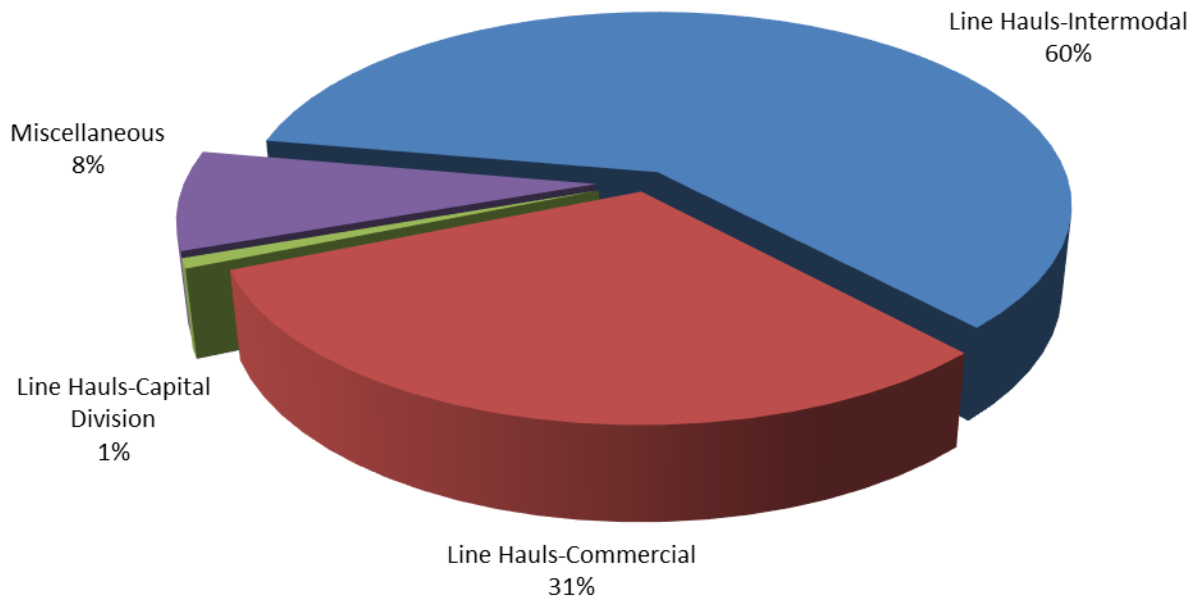
SWITCHING REVENUES
Year to Date - December 2022 (\$26,509,822)



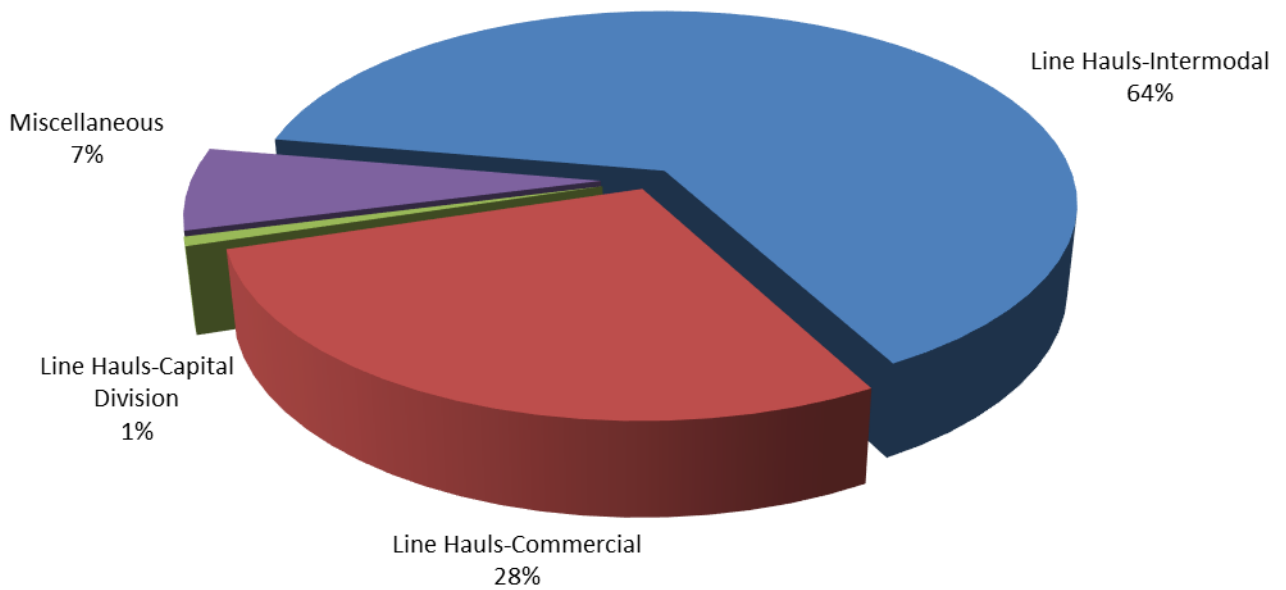
SWITCHING REVENUES
Year to Date - December 2021 (\$27,225,671)



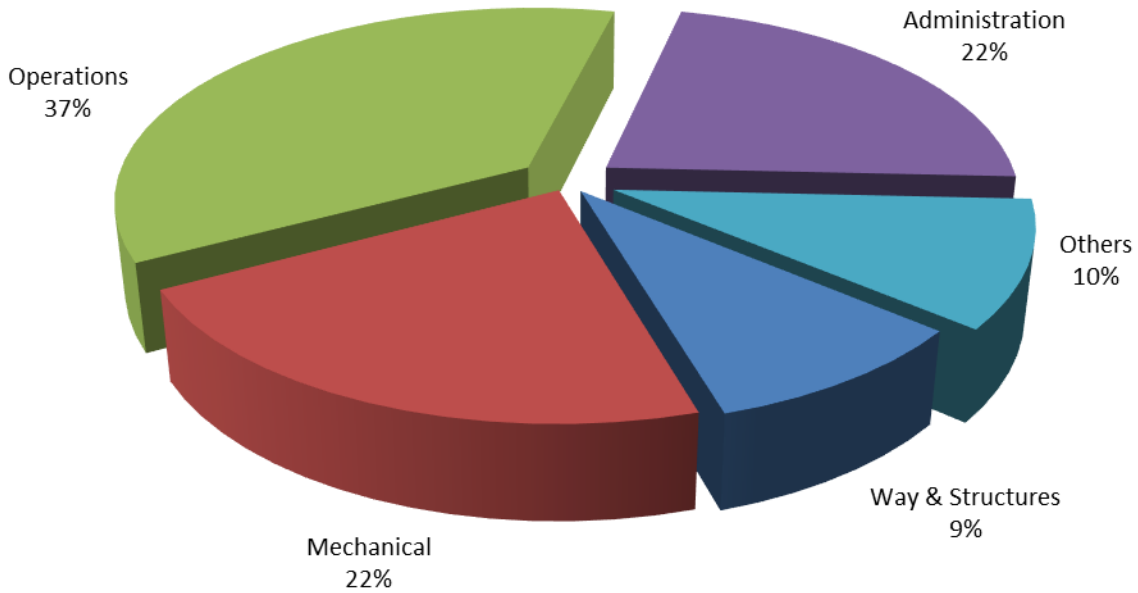
SWITCHING ACTIVITY
Year to Date - December 2022 (86,207 cars)



SWITCHING ACTIVITY
Year to Date - December 2021 (97,029 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2022 (\$30,324,401)



TOTAL OPERATING EXPENSES
Year to Date - December 2021 (\$31,877,166)

