



20 Tacoma Water 22 Annual Financial Report

FOR THE FISCAL YEAR ENDING
DECEMBER 31, 2022
PREPARED BY THE FINANCE DEPARTMENT

TACOMA WATER
TACOMA PUBLIC UTILITIES

Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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City of Tacoma, Washington
Department of Public Utilities, Water Division
Doing Business as

Tacoma Water

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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, Water Division
Tacoma, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Tacoma, Department of Public Utilities, Water Division (the Division), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of City of Tacoma, Washington, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 3 of the financial statements, the Division adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective January 1, 2021. The financial statements have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, Proportionate Share of Net Pension Liability Last 10 Years, Schedule of Contributions Last 10 Fiscal Years, and Proportionate Share of the Collective OPEB Liability Last 10 Years (the "required supplementary information"), as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, 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 basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the table of contents. The other information comprises the statistical data and graphs but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the 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 the Division's 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
June 5, 2023

Management Discussion and Analysis

The following management discussion and analysis of Tacoma Water's (Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2022, 2021 and 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and 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 judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2022 and 2021, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Water's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- Tacoma Water reported an increase in net position of \$23.1 million or 3.5% in 2022 compared to an increase of \$16.5 million or 2.6% in 2021.
- Operating revenues increased by \$3.9 million or 3.5% in 2022. Operating revenues increased \$6.9 million or 6.6% in 2021.
- Utility Plant in Service increased \$23.6 million or 2.6% in 2022 and \$11.8 million or 1.3% in 2021.
- Construction work in progress decreased \$4.4 million or 21.3% in 2022 compared to a decrease of \$5.2 million or 20.3% in 2021.

Overview of the Financial Statements

Tacoma Water reported net operating income of \$25.9, \$21.4, and \$21.2 million in 2022, 2021, and 2020, respectively. In 2022, operating revenues increased by \$3.9 million and operating expenses decreased by \$603,000. For 2021, operating revenues increased by \$6.9 million and operating expenses increased by \$6.7 million.

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

Operating Results

(In thousands)

Category	2022	2021		22/21	21/20
		(As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Operating Revenues	\$ 115,218	\$ 111,366	\$ 104,468	\$ 3,852	\$ 6,898
Operating Expenses	89,325	89,928	83,239	(603)	6,689
Net Operating Income	25,893	21,438	21,229	4,455	209
Net Non-Operating Expenses	(20,589)	(15,833)	(11,392)	(4,756)	(4,441)
Capital Grants and Contributions	20,742	15,398	16,459	5,344	(1,061)
Federal BAB Subsidies	3,622	3,630	3,651	(8)	(21)
Transfers	(6,586)	(8,103)	3,302	1,517	(11,405)
Change in Net Position	\$ 23,082	\$ 16,530	\$ 33,249	\$ 6,552	\$ (16,719)

Gallons Billed

(In millions)

Type of Customer	2022	2021	2020	22/21	21/20
				Increase (Decrease)	Increase (Decrease)
Residential	8,568	9,353	8,912	(785)	441
Commercial & Industrial	8,950	9,266	9,047	(316)	219
Wholesale	696	922	728	(226)	194
Total	18,214	19,541	18,687	(1,327)	854

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.

Statements of Net Position (In thousands)

Description	2021			22/21	21/20
	2022	(As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 932,773	\$ 909,208	\$ 897,352	\$ 23,565	\$ 11,856
Current & Other Assets	227,346	231,587	243,589	(4,241)	(12,002)
Total Assets	1,160,119	1,140,795	1,140,941	19,324	(146)
Deferred Outflows	10,016	10,670	6,255	(654)	4,415
Total Assets & Deferred Outflows	<u>\$ 1,170,135</u>	<u>\$ 1,151,465</u>	<u>\$ 1,147,196</u>	<u>\$ 18,670</u>	<u>\$ 4,269</u>
Net Position:					
Net Investment in Capital Assets	\$ 551,436	\$ 512,097	\$ 484,405	\$ 39,339	\$ 27,692
Restricted for:					
Water Capital and Sys Dev Chg	56,719	73,158	79,233	(16,439)	(6,075)
Debt Service Funds	2,057	2,339	2,678	(282)	(339)
Net Pension Asset	14,153	-	1,637	14,153	(1,637)
Unrestricted	51,312	65,001	68,112	(13,689)	(3,111)
Total Net Position	<u>675,677</u>	<u>652,595</u>	<u>636,065</u>	<u>23,082</u>	<u>16,530</u>
Long-Term Debt	383,331	398,389	414,308	(15,058)	(15,919)
Current & Other LT Liabilities	59,032	63,244	54,659	(4,212)	8,585
Total Liabilities	442,363	461,633	468,967	(19,270)	(7,334)
Deferred Inflows	52,095	37,237	42,164	14,858	(4,927)
Total Net Position, Liabilities & Deferred Inflows	<u>\$ 1,170,135</u>	<u>\$ 1,151,465</u>	<u>\$ 1,147,196</u>	<u>\$ 18,670</u>	<u>\$ 4,269</u>

Revenues

Tacoma Water's operating revenues were \$115.2 million in 2022, an increase of \$3.9 million or 3.5% compared to 2021. Sales of water increased in 2022 by a net of \$2.2 million of which \$10.7 million is due to an average service rate increase and \$8.5 million decrease is due to consumption. There was an average rate increase of 2.0% effective January 1, 2022. In addition, other operating revenues increased by \$989,000 and an increase in contract resource obligations revenues of \$674,000 from Regional Water Second Supply (RWSS) Partners to reimburse Tacoma Water for O&M related expenses.

Tacoma Water's operating revenues were \$111.4 million in 2021, an increase of \$6.9 million or 6.6% compared to 2020. Sales of water increased in 2021 by a net of \$6.3 million of which \$805,000 is due to an average service rate increase and \$5.5 million is due to an increase in consumption. There was an average of 1.5% effective January 1, 2021. In addition, other operating revenues increased by \$248,000 and an increase in contract resource obligations revenues of \$358,000 from Regional Water Second Supply (RWSS) Partners to reimburse Tacoma Water for O&M related expenses.

The following table highlights water sales by type of customer for 2022, 2021 and 2020.

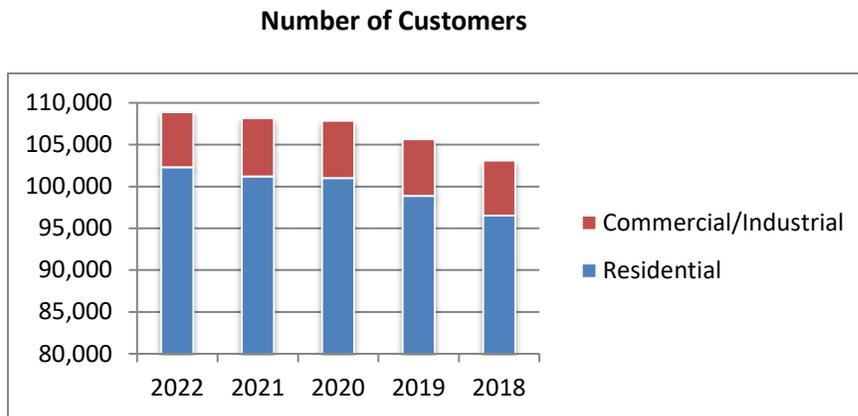
Type of Customer	Water Sales (In thousands)			22/21	21/20
	2022	2021	2020	Increase (Decrease)	Increase (Decrease)
Residential & Domestic	\$ 69,127	\$67,702	\$64,487	\$ 1,425	\$ 3,215
Commercial & Industrial	21,919	20,816	18,725	1,103	2,091
Special Rate	7,344	7,284	7,109	60	175
Wholesale	2,434	2,711	2,283	(277)	428
Unbilled Revenue	364	486	104	(122)	382
Total	\$101,188	\$98,999	\$92,708	\$ 2,189	\$ 6,291

Approximately 68.3%, 68.4% and 69.6% of water sales were to residential and domestic customers in 2022, 2021, and 2020, respectively. Commercial and industrial sales were 21.7%, 21.0%, and 20.2% total sales for each year. Special rate sales were 7.3%, 7.4%, and 7.7% of sales respectively.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2022, 94.0% of all customers were residential compared to 93.6% in 2021 and 2020. Commercial and industrial customers were 6.0% in 2022 and remained at 6.4% in 2021 and 2020.

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

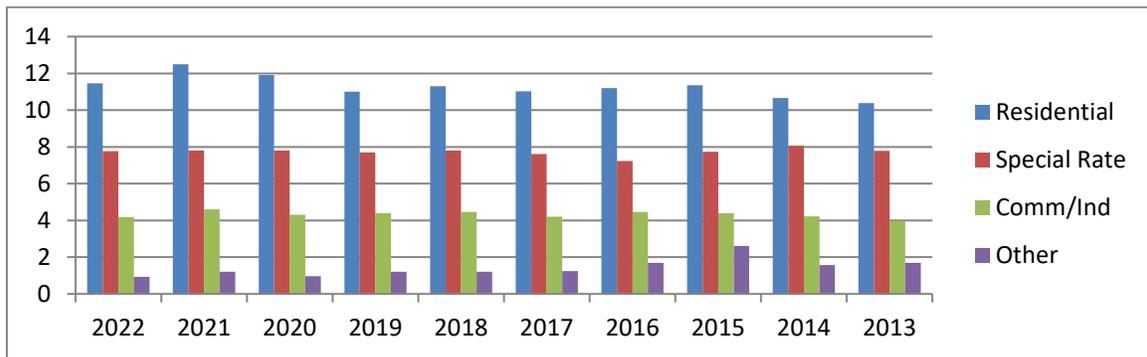


Water Users

Tacoma Water generates the majority of its revenues from its residential and domestic customer base. Consumption is measured in 100 cubic feet (CCF). In the years 2022, 2021, and 2020 residential customers used 11.5 million CCF or 47.1%, 12.5 million CCF or 47.8% and 11.9 million CCF or 47.7% of total consumption, respectively. Special Rate customers used approximately 7.8 million CCF or 31.9%, 7.8 million CCF or 29.7% and 7.8 million CCF or 31.0%, respectively. Commercial and industrial customers used 4.2 million CCF or 17.2%, 4.6 million CCF or 17.8% and 4.3 million CCF or 17.4%, respectively. The remaining 931,000 CCF or 3.8%, 1.2 million CCF or 4.7% and 973,000 CCF or 4.0%, respectively was consumed by other customers.

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

Annual Water Usage
(In millions of CCF)



Expenses

2022 Compared to 2021

In 2022, operating expenses decreased \$603,000 or 0.7%, compared to an increase of \$6.7 million or 8.0% in 2021.

The decreases are mainly \$3.5 million decrease in bad debt expense due to lower aging accounts receivable and \$4.2 million decrease in GASB 68 pension adjustment. These decreases are off-set with the increases of \$2.3 million in labor costs due to general wage increases as well as additional filled positions, and \$3.5 million increase due to price increases, inflation, and supply chain issues. Taxes increased by \$718,000 due to University Place franchise administrative rate increase from 3% to 6% in 2022. Depreciation increased by \$673,000 due to a net increase in depreciable assets of \$11.8 million in 2021.

2021 Compared to 2020

In 2021, operating expenses increased \$6.7 million or 8.0%, compared to an increase of \$2.4 million or 3.0% in 2020.

Personnel expenses increased \$2.3 million primarily due to 18 additional full time employees filled in 2021 and cost of living adjustments compared to 2020. Interns were hired in 2021, but the intern program was cancelled in 2020. Depreciation increased by \$2.0 million primarily due to the transfer of fleet division assets to Water in 2020. Assessments from internal service funds increased by \$867,000 compared to 2020. Bad debt expense increased \$839,000 due to an increase in aging accounts receivable. An increase of \$648,000 is attributed to general increases on electricity, insurance, rent, and credit card fees.

The following table highlights Tacoma Water’s operating expenses for 2022 – 2020.

Operating Expenses					
(In thousands)					
Category	2021			22/21	21/20
	2022	(As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Operations Expense					
Power Pumping Expense	\$ 668	\$ 653	\$ 737	\$ 15	\$ (84)
Transmission & Storage Expense	3,669	3,953	1,715	(284)	2,238
Distribution Expense	15,747	16,324	17,359	(577)	(1,035)
Total Operations Expense	20,084	20,930	19,811	(846)	1,119
Production Expense					
Source of Supply	2,763	3,355	4,684	(592)	(1,329)
Water Treatment	10,641	9,914	9,637	727	277
Total Production Expense	13,404	13,269	14,321	135	(1,052)
Administrative and General					
Customer Accounting & Service	5,886	5,438	5,375	448	63
Other Administrative & General	14,963	16,693	12,610	(1,730)	4,083
Total Administrative and General	20,849	22,131	17,985	(1,282)	4,146
Depreciation	28,400	27,728	25,724	672	2,004
Lease Amortization	14	14	-	-	14
Taxes	6,574	5,856	5,398	718	458
Total Operating Expenses	\$ 89,325	\$ 89,928	\$ 83,239	\$ (603)	\$ 6,689

Non-Operating Revenues (Expenses)

Interest income decreased \$1.5 million in 2022 primarily due to significant decrease in fair value of investments by \$2.2 million and lower interest rates brought down investment earnings by \$220,000. The City bought securities at a discount in 2022 compared to buying securities at a premium in 2021 and this partly offset decrease in income by \$910,000.

Other revenues/ (expenses) decreased by \$1.6 million primarily due to \$1.8 million expenses to assist overdue utility accounts receivable. The Division received \$1.8 million federal funds as pass-through federal funds from Neighborhood and Community Services (NCS) as part of Emergency Rental Assistance, Tenant Utility Assistance, and the corona virus state fiscal recovery fund federal appropriation programs. The fundings were applied to overdue utility accounts receivable for customers impacted by COVID-19.

Gain on Sale/Disposal of Capital Assets decreased by \$2.0 million because of the sale of land to the Puyallup School District in 2021.

Capital Grants and Contributions

Capital Grants increased by \$778,000 representing the federal grant from the Department of Interior – Bureau of Reclamation for WaterSMART project (Sustain and Manage America’s Resources for Tomorrow).

Transfers

Transfers from/(to) Other Funds increased by \$1.9 million mainly due to \$1.8 million federal funds from NCS as discussed in the Non-operating Revenues (Expenses) section.

Capital Assets

Tacoma Water invests in a broad range of utility assets and at the end of 2022 had \$932.3 million in net utility plant, an increase of \$23.6 million from 2021.

Plant in Service increased \$51.1 million compared to 2021. This increase is primarily due to the increase of \$18.9 million in cast iron mains, \$3.4 million in services, pipes and accessories, \$139,000 in meters, \$18.1 million in AMI (Advance Metering Infrastructure), \$1.7 million in hydrants, and \$6.2 million in miscellaneous intangible assets. Intangible assets additions mainly included advanced meter modules and software, workforce management software, and easements. Also in 2022, 15.77 miles of water main were added or replaced, 2.94 miles of water main were retired and construction was completed on 31 private contracts resulting in 12.83 net miles.

At the end of 2021, Tacoma Water had \$908.7 million in net utility plant, an increase of \$11.8 million compared to 2020.

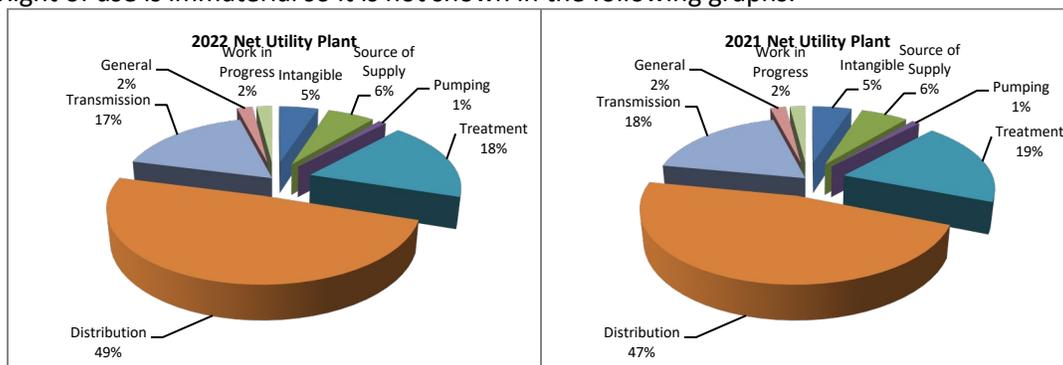
Plant in Service increased \$36.7 million compared to 2020. This increase is primarily due to the increase of \$11.3 million in cast iron mains, \$3.5 million in services, pipes and accessories, \$9.1 million in meters, \$1.8 million in hydrants, and \$6.4 million in miscellaneous intangible assets. Intangible assets additions mainly included advanced meter modules and software, workforce management software, and easements. Also in 2021, 13.56 miles of water main were added or replaced, 2.69 miles of water main were retired and construction was completed on 27 private contracts resulting in 10.87 net miles.

The following table summarizes Tacoma Water’s capital assets, net of accumulated depreciation, for 2022 – 2020.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2021			22/21	21/20
	2022	(As Restated)	2020	Increase (Decrease)	Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 51,114	\$ 45,495	\$ 38,971	\$ 5,619	\$ 6,524
Right to Use Lease Assets	25	39	-	(14)	39
Source of Supply Plant	51,185	52,878	54,171	(1,693)	(1,293)
Pumping Plant	7,665	5,216	5,389	2,449	(173)
Water Treatment Plant	166,385	175,000	183,532	(8,615)	(8,532)
Transmission Plant	158,485	161,850	165,638	(3,365)	(3,788)
Distribution Plant	460,422	430,184	406,452	30,238	23,732
General Plant	20,886	17,583	17,010	3,303	573
Construction Work In Progress	16,113	20,470	25,696	(4,357)	(5,226)
Total	\$ 932,280	\$ 908,715	\$ 896,859	\$ 23,565	\$ 11,856

The following graphs provide a visual presentation of the allocation of Tacoma Water’s capital investments in 2022 and 2021. Right of use is immaterial so it is not shown in the following graphs.



Additional information on capital assets can be found in Note 5 of the financial statements.

Debt Administration

At December 31, 2022 Tacoma Water had outstanding revenue bond obligations of \$338.6 million (inclusive of unamortized bond premiums), a decrease of \$9.7 million compared to 2021. As of year-end 2021, the Utility had outstanding revenue bond obligations of \$348.3 million (inclusive of unamortized bond premiums), a decrease of \$9.5 million compared to 2020.

All outstanding bonds are rated Aa2 by Moody's Investors Service and AA by Standard & Poor's.

Tacoma Water is required by bond covenants to maintain a debt service coverage ratio of 1.25 for principal and interest. Debt service coverage ratios (excluding RWSS) were 2.73, 2.74, and 2.74 in 2022, 2021 and 2020, respectively.

At the end of 2022, Tacoma Water had an outstanding State loan balance of \$58.7 million compared to \$64.8 million in 2021 and \$71.8 million in 2020.

Additional information on Tacoma Water's long-term debt can be found in Note 7 of the financial statements and in the supplementary statistical data.

Summary

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

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

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

Request for Information

Water 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.

Financial Statements

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS	DECEMBER 31,	
	2022	2021 (As Restated)
UTILITY PLANT		
In Service, at Original Cost	\$1,272,776,387	\$1,221,697,392
Less - Accumulated Depreciation	(356,634,343)	(333,491,315)
Total	916,142,044	888,206,077
Right to Use Lease Assets	52,613	52,613
Less - Accumulated Amortization	(27,548)	(13,725)
Total	25,065	38,888
Construction Work In Progress	16,113,019	20,469,919
Net Utility Plant	932,280,128	908,714,884
NON-UTILITY PROPERTY	492,963	492,963
SPECIAL FUNDS		
Debt Service Funds	3,646,592	3,970,318
Bond Reserve Funds	21,687,280	21,692,269
System Development Charge Fund	80,044,101	78,768,249
Other Cash & Equity in Pooled Investments	20,419,709	39,456,220
Total Special Funds	125,797,682	143,887,056
CURRENT ASSETS		
Operating Funds Cash and Equity in Pooled Investments	60,997,546	63,099,465
Grant Receivable	348,108	482,056
Accounts Receivable	6,360,358	7,920,878
(Net of Allowance for Doubtful Accounts of \$2,064,440 in 2022 and \$3,599,687 in 2021)		
BABs Interest Subsidies Receivable	2,112,742	301,820
Accrued Unbilled Revenues	6,771,474	6,407,783
Materials and Supplies	5,289,260	3,167,556
Prepayments	2,231,806	2,868,389
Total Current Assets	84,111,294	84,247,947
OTHER ASSETS		
Regulatory Asset-Surcharges	3,284,200	3,451,604
Net Pension Asset	14,152,644	-
Total Other Assets	17,436,844	3,451,604
TOTAL ASSETS	1,160,118,911	1,140,794,454
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	427,204	614,449
Deferred Outflows for Pensions	7,782,163	8,570,873
Deferred Outflows for OPEB	1,806,572	1,484,797
Total Deferred Outflows of Resources	10,015,939	10,670,119
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$1,170,134,850	\$1,151,464,573

The accompanying notes are an integral part of these financial statements

	DECEMBER 31,	
NET POSITION, LIABILITIES AND DEFERRED INFLOWS	2022	2021 (As Restated)
NET POSITION		
Net Investment in Capital Assets	\$551,436,437	\$512,096,580
Restricted for:		
Water Capital and System Development Charge	56,719,126	73,158,293
Debt Service Funds	2,056,732	2,339,098
Net Pension Asset	14,152,644	-
Unrestricted	51,311,959	65,000,909
Total Net Position	<u>675,676,898</u>	<u>652,594,880</u>
LONG-TERM DEBT		
Revenue Bonds	330,212,955	339,675,968
Public Works Trust Fund Loans	8,338,921	9,864,297
Drinking Water State Revolving Fund Loan	44,778,674	48,848,868
Total Long-Term Debt	<u>383,330,550</u>	<u>398,389,133</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	14,014,913	14,745,235
Current Maturities of Long-Term Liabilities	160,291	164,300
Accrued Taxes	2,238,982	1,842,017
Accrued Expenses and Contracts Payable	5,220,571	3,434,544
Salaries, Wages and Fringe Benefits Payable	1,480,771	1,469,408
Interest Payable	1,589,860	1,631,220
Customers' Deposits	233,226	186,085
Current Lease Liability	14,098	14,098
Total Current Liabilities	<u>24,952,712</u>	<u>23,486,907</u>
LONG-TERM LIABILITIES		
Muckleshoot Agreements	5,919,906	6,080,198
Customer Advances for Construction	12,093,103	12,163,597
Unearned Revenue	6,037,349	6,048,610
Long-Term Accrued Compensated Absences	3,196,288	2,942,578
Net Pension Liability	-	6,337,863
Net OPEB Liability	5,350,651	4,780,773
Long Term Lease Liability	11,379	25,021
Other Long-Term Liabilities	1,470,678	1,378,409
Total Long-Term Liabilities	<u>34,079,354</u>	<u>39,757,049</u>
TOTAL LIABILITIES	<u>442,362,616</u>	<u>461,633,089</u>
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
Deferred Inflows for Pensions	16,189,221	1,356,280
Deferred Inflows for OPEB	330,668	304,877
Total Deferred Inflows of Resources	<u>52,095,336</u>	<u>37,236,604</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,170,134,850</u>	<u>\$1,151,464,573</u>

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City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Statements of Revenues, Expenses and Changes in Net Position

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
OPERATING REVENUES		
Sale of Water	\$101,188,399	\$98,999,183
Other Operating Revenues	8,201,778	7,213,114
Contract Resource Obligation Revenues	5,827,521	5,153,589
Total Operating Revenues	115,217,698	111,365,886
OPERATING EXPENSES		
Operations	20,083,968	20,930,455
Production	13,403,935	13,268,765
Administrative and General	20,848,806	22,130,866
Depreciation	28,400,190	27,727,624
Lease Amortization	13,823	13,725
Taxes	6,574,082	5,856,255
Total Operating Expenses	89,324,804	89,927,690
Net Operating Income	25,892,894	21,438,196
NON-OPERATING REVENUES (EXPENSES)		
Investment Income (Loss)	(2,687,718)	(1,182,910)
Interest Expense on Lease Activity	(456)	(604)
Operating Grants	16,500	3,400
Other	(1,250,616)	323,496
Gain on Sale/Disposal of Capital Asset	230,072	2,118,197
Interest on Long-Term Debt	(17,752,684)	(18,080,563)
Amortization of Premium and Loss on Refunding	856,425	986,172
Total Non-Operating Expenses	(20,588,477)	(15,832,812)
Net Income Before Capital Contributions and Transfers	5,304,417	5,605,384
Capital Contributions		
Cash	8,671,125	7,636,173
Capital Grants	1,256,942	478,656
Donated Capital Assets	10,813,613	7,283,053
Federal BAB Subsidies	3,621,843	3,629,294
Transfers		
City of Tacoma Gross Earnings Tax	(8,728,920)	(8,305,896)
Transfer from/(to) Other Funds	2,142,998	202,778
CHANGE IN NET POSITION	23,082,018	16,529,442
NET POSITION - BEGINNING OF YEAR	652,594,880	636,065,438
TOTAL NET POSITION - END OF YEAR	\$675,676,898	\$652,594,880

The accompanying notes are an integral part of these financial statements

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from Customers	\$118,036,462	\$108,844,693
Cash Paid to Suppliers	(24,354,340)	(25,967,147)
Cash Paid to Employees	(34,011,352)	(31,636,565)
Taxes Paid	(6,177,117)	(5,782,320)
NET CASH FROM OPERATING ACTIVITIES	53,493,653	45,458,661
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from Other Funds	2,142,998	202,778
Transfer Out for Gross Earnings Tax	(8,728,920)	(8,305,896)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES	(6,585,922)	(8,103,118)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Expenditures, net	(41,165,644)	(32,271,853)
Principal Payments on Leases	(14,098)	(14,098)
Proceeds from Sale of Capital Assets	179,150	2,020,080
Principal Payments on Long-term (LT) Debt	(14,745,235)	(15,292,775)
Principal Payments on Muckleshoot LT Liability	(164,299)	(168,406)
Interest Paid	(17,794,044)	(18,123,684)
BABs Federal Interest Subsidies	1,810,921	5,440,217
Contributions in Aid of Construction (Cash)	8,671,125	7,636,173
System Development Charges & Other LT Liabilities	10,513	1,816,017
NET CASH FROM CAPITAL FINANCING ACTIVITIES	(63,211,611)	(48,958,329)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments Income (Loss)	(2,687,718)	(1,182,910)
Other Net Non-Op Revenues and Expenses	(1,199,695)	432,207
NET CASH FROM INVESTING ACTIVITIES	(3,887,413)	(750,703)
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	(20,191,293)	(12,353,489)
CASH AND EQUITY IN POOLED INVESTMENTS AT JANUARY 1	206,986,521	219,340,010
CASH AND EQUITY IN POOLED INVESTMENTS AT DECEMBER 31	\$186,795,228	\$206,986,521

The accompanying notes are an integral part of these financial statements

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Net Operating Income	\$25,892,894	\$21,438,196
Adjustments to Reconcile Net Operating Income to Net Cash From Operating Activities:		
Depreciation	28,400,190	27,727,624
Lease Amortization	13,823	13,725
Pension (Credits) Expense	(4,868,856)	(621,404)
OPEB (Credits) Expense	273,894	170,801
Cash from Changes in Operating Assets and Liabilities:		
Accounts Receivable and Unbilled Revenue	2,604,219	(2,634,917)
Regulatory Asset-Surcharges	167,404	192,262
Materials and Supplies	(2,121,704)	(393,326)
Prepayments	636,583	(480,637)
Accrued Taxes	396,965	73,935
Salaries, Wages and Fringe Benefits Payable	11,363	202,895
Long-Term Accrued Compensated Absences	253,710	242,356
Customers' Deposits	47,141	(63,020)
Accrued Expenses and Contracts Payable	1,786,027	(409,829)
Total Adjustments	27,600,759	24,020,465
NET CASH FROM OPERATING ACTIVITIES	\$53,493,653	\$45,458,661
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$125,797,682	\$143,887,056
Cash and Equity in Pooled Investments in Operating Funds	\$60,997,546	\$63,099,465
Cash and Equity in Pooled Investments at December 31	\$186,795,228	\$206,986,521
NON CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated Assets	\$10,813,613	\$7,283,053

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Notes to Financial Statements
Years Ended December 31, 2022 and 2021

NOTE 1 OPERATIONS

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

Tacoma Water owns and operates the City’s Water System which includes a surface water supply source (the Watershed); several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water had supplied water to approximately 108,897 customer accounts and had 281 employees as of December 31, 2022. Tacoma Water’s service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties and multiple other cities.

Prior to 2020, Tacoma Water was organized as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Water Asset and Information Management, and Water Finance and Analytics. In 2020, Tacoma Water reorganized to combine groups by functions in support of a 2020-2025 strategic plan. An overview of the functions included in each of these sections follows:

The Superintendent Office is responsible for all utility operations including Enterprise Safety and Strategy and an Assigned Projects Team. Safety is a high priority for the organization. The Safety Team is focused on the development, delivery, and administration of all safety program elements supporting Tacoma Water employees with safe work practices and compliance with all applicable regulations. The Strategy Manager oversees the development and management of the Tacoma Water Strategic Plan. The Assigned Projects Team currently leads the Advanced Metering Infrastructure Project.

Customer & Employee Experience is responsible for supporting new and existing Tacoma Water customers including development in our service area, facilitating services received, enterprise communications, education, and conservation activities. This section supports employee workforce development, workforce management, payroll administration, and knowledge management.

Business Services delivers customer value through integrated, strategic capabilities across the domains of finance, operational technology, project and portfolio management, data management and analytics. This section owns Tacoma Water’s long-range financial planning strategy, cost of service ratemaking, special pricing development, debt management, financial reporting, and internal controls; it is responsible for managing Tacoma Water’s data through governance and stewardship, deploying advanced analytics tools and associated training, process development, and data/technology/analytics project delivery. It also, owns Tacoma Water’s technology strategy, and is responsible for application development, support, and solution architecture. Project and Portfolio Management is a new area of deliberate focus for this group, and this capability is responsible for connecting our project portfolio to Tacoma Water’s strategy, and enabling portfolio-level capabilities like prioritization, portfolio health visibility, and enterprise resource management.

Source Water and Treatment Operations produces, delivers, and balances potable water across transmission and distribution systems to meet seasonal and short-term demand while protecting source water and providing natural resource stewardship. This section also ensures water quality and treatment meet all regulatory requirements through monitoring and reporting and cross-connection control.

Maintenance and Construction maintains and repairs all parts of the water system through effective logistics (including fleet and warehouse) and planning. This section supports economic development through the installation of new service connections and water quality by performing system flushing.

Planning & Engineering is responsible for all aspects of comprehensive strategic development and engineering planning across all technical and operational functions of Tacoma Water. This section provides technical support for system operations and maintenance and manages the planning, design, and construction of projects to improve the water system.

The Regional Water Supply System (RWSS) is a partnership formed by Tacoma, the City of Kent, Covington Water District and Lakehaven Water and Sewer District (the “Participants”) to permit, design, finance, construct, operate, maintain and receive delivery of water from the Second Supply Project. The Second Supply Project consists of the following components: (i) water from the exercise of Tacoma Water’s Second Diversion Water Right, (ii) the Second Supply Pipeline, (iii) improvements made at the Headworks diversion dam and intake, (iv) Second Supply Project fisheries and environmental enhancements, (v) the right to store water as a result of the Howard Hanson Dam Additional Storage Project, and (vi) associated Treatment Facilities. Participants’ rights and obligations with regard to the Second Supply Project are called out in the Second Supply Project Agreement. Tacoma, consistent with the Project Agreement, is the owner and operator of the Second Supply Project. Please refer to Note 8 for further information.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

ACCOUNTING CHANGES – Effective for the fiscal year 2022, the Division implemented the following new accounting and reporting standard issued by the GASB):

GASB Statement No. 87 – *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Division implemented the provisions of GASB Statement No. 87 effective January 1, 2021 and restated financial results for the year ended December 31, 2021, as required by the standard (see Note 3).

GASB Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB No. 91 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. 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 Rate (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 statement.

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 statement.

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

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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 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 of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

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

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

ACCOUNTS RECEIVABLE AND ACCRUED UNBILLED REVENUES – Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31, 2022 and 2021.

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

INTERFUND AND INTERGOVERNMENTAL TRANSACTIONS - Unsettled transactions between entities at year end are recorded as due to or due from either 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.

BOND PREMIUM AND LOSS ON REFUNDING – Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding, 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.

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

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

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

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

The economic lives for plant in service are as follows:

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

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

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

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 Generally Accepted Accounting Principles, capital grants and capital contributions are recorded as capital contributions.

CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYSTEM DEVELOPMENT CHARGES – GASB Statement No. 33, which addresses accounting for contributed capital, requires that contributed capital be recognized as change in net position. Capital contributions include new service connections and system development charges. System development charges are collected on all new services prior to installation to ensure required new source, transmission and storage facilities needed to meet new demands are funded.

The charge was developed using a cost-of-service approach and includes a share of historical plant investment and projected future outlays that will increase system capacity. Because the funds collected for this charge can only be used for system expansion projects, the balance is reflected as restricted in the Division's net position.

System development charges on uncompleted projects are recorded in other long term liabilities.

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.

DEFERRED OUTFLOWS OF RESOURCES - Deferred outflows of resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources consist of losses on refunding of bonds, deferred outflows of resources related to pensions, and 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 so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of inflows for rate stabilization, deferred inflows of resources related to pensions, deferred inflows of resources related to other post-employment benefits other than pensions.

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

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

NON-OPERATING REVENUES AND EXPENSES – These are items that do not qualify as operating defined above such as interest and gain (loss) on disposition of property.

TAXES – The City charges the Division a Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.75% on certain other non-utility revenues. The Division is exempt from payment of federal income tax.

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

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

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

LEASES

Division as a lessor - A lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease receivable is recognized at the net present value of the leased asset at a borrowing rate either explicitly described in the agreement or implicitly determined by the City, as is reduced by principal payments received. The deferred inflow of resources is recognized in an amount equal to the sum of the lease receivable and any payments relating to future periods which were received prior to the lease commencement. These deferred inflows of resources are amortized over the life of the lease. Key estimates and judgments related to lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) ease payments. The City uses an average incremental borrowing rate as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of future payments to be received from the lessee. The City monitors change in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Division as a lessee - A Lessee is required to recognize a lease payable and an intangible right-to-use lease asset. A lease payable is recognized at the net present value of future lease payments and is adjusted over time by interest and payments. Future lease payments include fixed payments, variable payments, based on index or rate, reasonably certain residual guarantees. The right-to-use lease asset is initially recorded at the amount of the lease liability plus prepayments less any lease incentives received prior to lease commencement, and is subsequently amortized over the life of the lease. Key estimates and judgments related to lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its average incremental borrowing rate as the discount rate for leases. The lease term includes noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise. The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease asset and liability if certain changes occur that are expect to significantly affect the amount of the lease liability.

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

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

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 Other Long-Term Liabilities on the 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, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations and federal government regulations.

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

NOTE 3 RESTATEMENT AND RECLASSIFICATION

The Division restated and reclassified the December 31, 2021, financial statements for the adoption of GASB Statement No. 87 – Leases as summarized below:

	2021 (As previously reported)	Effect of Restatement related to adoption of GASB No. 87	2021 (As Restated)
Statement of Net Position			
Net Utility & Non-Utility Plant:			
Net Utility & Non-Utility Plant, excluding lease assets	\$ 909,168,959	\$ -	\$ 909,168,959
Right-to-use lease assets	-	52,613	52,613
Less accumulated amortization	-	(13,725)	(13,725)
Current & Other Assets	231,586,607	-	231,586,607
Total Assets	1,140,755,566	38,888	1,140,794,454
Deferred Outflows	10,670,119	-	10,670,119
Total Assets & Deferred Outflows	1,151,425,685	38,888	1,151,464,573
Net Position:			
Net Investment in Capital Assets	\$512,096,811	(231)	512,096,580
Restricted for:			
Water Capital and System Development Charge	73,158,293	-	73,158,293
Debt Service Funds	2,339,098	-	2,339,098
Net Pension Asset	-	-	-
Unrestricted	65,000,909	-	65,000,909
Total Net Position	652,595,111	(231)	652,594,880
Long-Term Debt	398,389,133	-	398,389,133
Current Liabilities:			
Current Liabilities, excluding lease liability	23,472,809	-	23,472,809
Current leases liability	-	14,098	14,098
Long-term liabilities:			
Long-term Liabilities, excluding lease liability	39,732,028	-	39,732,028
Long-term leases liability	-	25,021	25,021
Total Liabilities	461,593,970	39,119	461,633,089
Deferred Inflows	37,236,604	-	37,236,604
Total Net Position, Liabilities & Deferred Inflows	\$1,151,425,685	\$ 38,888	\$1,151,464,573

Notes to the Financial Statements (continued)

	December Year-to-Date			
	2021 (As previously reported)	Effect of Restatement related to adoption of GASB No. 87	Reclassification *	2021 (As Restated)
Statement of Revenues, Expenses, and Changes in Net Position				
Operating revenues	\$ 111,365,886	\$ -	\$ -	\$ 111,365,886
Operating expenses:				
Operating expenses, excluding lease amortization	89,928,063	(14,098)	-	89,913,965
Lease amortization	-	13,725	-	13,725
Net Operating Income	21,437,823	373	-	21,438,196
Nonoperating revenues (expenses):				
Nonoperating expenses, excluding interest expense on lease activity	(15,353,552)	-	(478,656)	(15,832,208)
Interest expense on lease activity	-	(604)	-	(604)
Net income before capital contributions and transfers	6,084,271	(231)	(478,656)	5,605,384
Capital Contributions	14,919,226	-	478,656	15,397,882
Federal BAB Subsidies	3,629,294	-	-	3,629,294
Transfers	(8,103,118)	-	-	(8,103,118)
Change in Net Position	16,529,673	(231)	-	16,529,442
Net position - Beginning of year	636,065,438	-	-	636,065,438
Net position - Ending	\$ 652,595,111	\$ (231)	\$ -	\$ 652,594,880

* \$478,656 capital grants was re-classified from Nonoperating revenues (expenses) to Capital Contributions.

NOTE 4 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
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
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 Water’s share of the City Investments shown in the table above is 12.81% and 17.22% for 2022 and 2021.

Notes to the Financial Statements (continued)

NOTE 5 UTILITY PLANT

A summary of the balances and changes in utility plant for 2022 and 2021 follows:

	Balance			Transfers &		Balance
	December 31,	Additions	Retirements	Adjustments	December 31,	
	2021 (Restated)				2022	
Intangible Plant	\$ 45,587,916	\$ 546,455	\$ (164,300)	\$ 5,523,576	\$ 51,493,647	
Right to Use Lease Assets	52,613	-	-	-	52,613	
Source of Supply Plant	88,134,903	-	(2,894)	378,307	88,510,316	
Pumping Plant	10,587,280	-	-	2,720,020	13,307,300	
Water Treatment Plant	243,544,396	-	-	40,519	243,584,915	
Transmission Facilities	232,702,290	-	-	1,440,451	234,142,741	
Distribution Facilities	541,428,778	10,267,158	(2,329,960)	27,659,211	577,025,187	
General Plant	59,711,829	-	(1,331,383)	6,331,835	64,712,281	
Total Water Plant in Service	1,221,750,005	10,813,613	(3,828,537)	44,093,919	1,272,829,000	
Less Accumulated						
Depreciation	(333,491,315)	(28,400,190)	3,651,758	1,605,404	(356,634,343)	
Amortization	(13,725)	(13,823)	-	-	(27,548)	
	888,244,965	(17,600,400)	(176,779)	45,699,323	916,167,109	
Construction Work in Progress	20,469,919	42,332,006	-	(46,688,906)	16,113,019	
Net Utility Plant	\$ 908,714,884	\$ 24,731,606	\$ (176,779)	\$ (989,583)	\$ 932,280,128	

	Balance			Transfers &		Balance
	December 31,	Additions	Retirements	Adjustments	December 31,	
	2020	(Restated)			2021 (Restated)	
Intangible Plant	\$ 39,027,963	\$ 393,887	\$ (198,343)	\$ 6,364,409	\$ 45,587,916	
Right to Use Lease Assets	-	52,613	-	-	52,613	
Source of Supply Plant	87,375,103	-	-	759,800	88,134,903	
Pumping Plant	10,491,629	-	-	95,651	10,587,280	
Water Treatment Plant	243,424,754	-	-	119,642	243,544,396	
Transmission Facilities	232,656,909	-	-	45,381	232,702,290	
Distribution Facilities	515,540,055	6,889,166	(4,839,769)	23,839,326	541,428,778	
General Plant	56,481,464	-	(524,657)	3,755,022	59,711,829	
Total Water Plant in Service	1,184,997,877	7,335,666	(5,562,769)	34,979,231	1,221,750,005	
Less Accumulated						
Depreciation	(313,835,003)	(27,727,624)	5,364,426	2,706,886	(333,491,315)	
Amortization	-	(13,725)	-	-	(13,725)	
	871,162,874	(20,405,683)	(198,343)	37,686,117	888,244,965	
Construction Work in Progress	25,696,434	35,138,858	-	(40,365,373)	20,469,919	
Net Utility Plant	\$ 896,859,308	\$ 14,733,175	\$ (198,343)	\$ (2,679,256)	\$ 908,714,884	

Total Water Plant in Service includes non-depreciable assets of \$63,136,826 for 2022 and \$61,848,171 for 2021.

NOTE 6 LEASES

Lease Liability

In December 2009, the Division entered into a real estate lease for space for equipment within an existing communications building, and space on an existing communications tower at the Grass Mountain Communication Site located in King County, Washington. The lease term is 15 years which will end October 31, 2024. Tacoma Water is required to make an annual rent payment of \$14,098 for the duration of the lease.

The City used its average incremental borrowing rate of 2.264% as of December 31, 2021 in calculation of net present value of lease liability, as the interest rate is not stated in the agreement.

Lease liability for the year ended December 31, 2022 and 2021 is as follows:

	<u>Lease Liability</u>
Beginning balance, January 1, 2022	\$ (39,119)
Additions	(456)
Reductions	14,098
Ending Balance, December 31, 2022	<u>\$ (25,477)</u>
Beginning balance, January 1, 2021	\$ (52,613)
Additions	(604)
Reductions	14,098
Ending Balance, December 31, 2021	<u>\$ (39,119)</u>

Current lease liability as of December 31, 2022 is \$14,098 which includes accrued interest payable of \$275 compared to \$14,098 as of December 31, 2021 which includes accrued interest payable of \$456.

Interest expense on lease activity of \$456 was recorded in 2022 and \$604 in 2021.

Future annual lease liability as of December 31, 2022 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 13,823	\$ 275	\$ 14,098
2024	11,654	77	11,731
<u>Total</u>	<u>\$ 25,477</u>	<u>\$ 352</u>	<u>\$ 25,829</u>

NOTE 7 LONG-TERM DEBT

The Division's Long-term Liabilities are primarily for capital improvements. Long-term debt activities for the years ended December 31, 2022 and 2021, were as follows:

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Due Within One Year
Revenue Bonds	\$ 341,652,758	\$ -	\$ (8,618,415)	\$ 333,034,343	\$ 8,419,343
Plus: Unamortized Premium	6,641,625	-	(1,043,670)	5,597,955	-
Net Revenue Bonds	348,294,383	-	(9,662,085)	338,632,298	8,419,343
Public Works Trust Fund Loans	11,920,923	-	(2,056,626)	9,864,297	1,525,376
Drinking Water State Revolving Fund Loans	52,919,062	-	(4,070,194)	48,848,868	4,070,194
Total Long-Term Debt	\$ 413,134,368	\$ -	\$ (15,788,905)	\$ 397,345,463	\$ 14,014,913

	Balance December 31, 2020	Additions	Reductions	Balance December 31, 2021	Due Within One Year
Revenue Bonds	\$ 350,017,516	\$ -	\$ (8,364,758)	\$ 341,652,758	\$ 8,618,415
Plus: Unamortized Premium	7,815,042	-	(1,173,417)	6,641,625	-
Net Revenue Bonds	357,832,558	-	(9,538,175)	348,294,383	8,618,415
Public Works Trust Fund Loans	14,617,694	-	(2,696,771)	11,920,923	2,056,626
Drinking Water State Revolving Fund Loans	57,150,308	-	(4,231,246)	52,919,062	4,070,194
Total Long-Term Debt	\$ 429,600,560	\$ -	\$ (16,466,192)	\$ 413,134,368	\$ 14,745,235

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

SENIOR LIEN BONDS

	2022	2021
2005 Water System Revenue and Refunding Bonds, with interest rate of 5.0%, due in 2025. Original Issue: \$46,550,000 Current Portion: \$0	\$ 5,000	\$ 5,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62%, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000 Current Portion: \$0	76,775,000	76,775,000

SENIOR LIEN BONDS CONTINUED

	2022	2021
2010B Water System Revenue Bonds, with interest rates ranging from 4.581% to 5.621%, with Build America Bond (BAB) Rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2024 ranging from \$2,115,000 to \$15,390,000 through 2040. Original Issue: \$74,985,000 Current Portion: \$0	74,985,000	74,985,000
2010A Regional Water Supply System Revenue Bonds, with interest rates ranging from 3.0% to 4.0%, due in yearly installments ranging from \$345,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000 Current Portion: \$345,000	700,000	1,030,000
2010B Regional Water Supply System Revenue Bonds, with interest rates ranging from 5.371% to 5.621%, with Build America Bond (BAB) rebate ranging from 32.45% to 32.62% of interest, due in yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 8) Original Issue: \$44,245,000 Current Portion: \$0	44,245,000	44,245,000
2013 Water System Revenue and Refunding Bonds, with interest rates of 4.0%, due in yearly installments starting in 2041 ranging from \$23,820,000 to \$25,765,000 through 2043. Original Issue: \$78,305,000 Current Portion: \$0	74,355,000	74,355,000
2013 Regional Water Supply System Revenue and Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,985,000 to \$6,425,000 through 2032. (See Note 8) Original Issue: \$64,795,000 Current Portion: \$2,110,000	52,045,000	54,030,000
2015A Water System Refunding Bonds with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,755,000 to \$2,025,000 through 2025. Original Issue: \$16,645,000 Current Portion: \$1,845,000	5,805,000	7,560,000
2020 Water System Refunding Bonds with interest of 1.4% due in yearly installments ranging from \$4,119,343 to \$4,548,415 through 2023. Original Issue: \$17,466,514 Current Portion: \$4,119,343	4,119,343	8,667,758

Notes to the Financial Statements (continued)

SENIOR LIEN BONDS CONTINUED

	2022	2021
Subtotal Senior Lien Debt	\$ 333,034,343	\$ 341,652,758
Unamortized Premium	5,597,955	6,641,625
Less Current Portion of Revenue Bond Debt	(8,419,343)	(8,618,415)
Long-term Portion of Revenue Bond Debt	\$ 330,212,955	\$ 339,675,968

As of December 31, 2022, scheduled principal maturities on the bonds and interest payments are as follows:

Year	Principal	Interest
2023	\$ 8,419,343	\$ 16,738,540
2024	9,230,000	16,469,319
2025	9,655,000	16,021,278
2026	10,350,000	15,544,923
2027	10,785,000	15,031,862
2028-2032	60,640,000	66,446,937
2033-2037	88,350,000	47,711,156
2038-2042	109,840,000	20,934,445
2043	25,765,000	1,030,600
	\$ 333,034,343	\$ 215,929,060

Tacoma Water's revenue bonds are secured by the net revenue of Tacoma Water and all cash and investments held in the bond funds and construction funds. The bonds are also subject to certain financial and non-financial covenants. The Division was in compliance with all debt covenants at December 31, 2022.

The carrying amounts of the Washington State Public Works Board Loans and Drinking Water State Revolving Fund Loans approximate the fair value since such loans are exclusive and have no market.

	2022	2021
Public Works Trust Fund Loans		
2002 Public Works Trust Fund construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$531,250 through 2022.	\$ -	\$ 531,250
2004 Public Works Trust Fund pre-construction loan for the design of the Green River Ozone Facility with interest of .5% per annum, due in yearly installments of \$53,363 through 2024.	106,725	160,088
2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly installments of \$370,588 through 2026.	1,482,353	1,852,941
2008 Public Works Trust Fund construction loan for the McMillin Reservoir Reconstruction, with interest of .5% per annum, due in yearly installments of \$545,870 through 2028.	3,275,219	3,821,089
2012 Public Works Trust Fund construction loan for the Green River Filtration Facility, with interest of .5% per annum, due in yearly installments of \$555,555 through 2031.	5,000,000	5,555,555

Notes to the Financial Statements (continued)

	2022	2021
Drinking Water State Revolving Fund Loans		
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,108 through 2028.	\$ 1,290,651	\$ 1,505,759
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	3,670,879	4,037,967
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	3,030,000	3,333,000
2010 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$304,579 through 2034.	3,654,947	3,959,526
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,524 through 2033.	1,336,760	1,458,284
2011 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2035.	3,939,000	4,242,000
2012 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	7,878,000	8,484,000
2013 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	7,878,000	8,484,000
2013F construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$606,000 through 2035.	7,878,000	8,484,000
2015 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$637,895 through 2035.	8,292,631	8,930,526
Subtotal Junior Lien Debt	\$ 58,713,165	\$ 64,839,985
Less Current Portion of Debt	(5,595,570)	(6,126,820)
Long-term Portion of Junior Lien Debt	\$ 53,117,595	\$ 58,713,165

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

Year	Principal	Interest
2023	\$ 5,595,570	\$ 722,237
2024	5,595,570	658,582
2025	5,542,207	594,927
2026	5,542,207	531,539
2027	5,171,619	468,151
2028-2032	22,258,626	1,453,464
2033-2035	9,007,366	244,693
	\$ 58,713,165	\$ 4,673,593

NOTE 8 SECOND SUPPLY PROJECT AGREEMENT

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

NOTE 9 SIGNIFICANT CUSTOMER

Contracted sales to WestRock CP LLC accounted for 7.2% of Tacoma Water's total water sales in 2022 and 7.4% in 2021. There were no outstanding accounts receivables from WestRock at year-end 2022 or 2021.

Tacoma Water has contracted with WestRock to supply certain quantities of water at a specified rate through July 31, 2023.

NOTE 10 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 Water 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 Water 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 Water in 2022 and 2021 were \$2,273,442 and \$2,093,971, 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 11 SELF-INSURANCE FUND

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

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

The City purchased a 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 12 TACOMA EMPLOYEES’ RETIREMENT SYSTEM FUND (TERS OR THE SYSTEM)

The Tacoma Employees’ Retirement System (TERS or System), a pension trust fund of the City of Tacoma, issues a publicly available ACFR 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 ACFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

Administration of The System - TERS 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, 2021 and 2020 (measurement dates) is as follows:

	Measurement date as of	
	December 31,	
	2021	2020
Retirees and beneficiaries currently receiving benefits	2,695	2,653
Terminated vested and other terminated participants	842	790
Active members:		
City of Tacoma	2,790	2,740
Pierce Transit	12	10
South Sound 911	2	2
Tacoma-Pierce County Health Department	292	285
Total active members	3,096	3,037
Total membership	6,633	6,480

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, 2021
Valuation Date	January 1, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.25% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%

Notes to the Financial Statements (continued)

Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration Data 1957-2017.

**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, 2022, valuation date and December 31, 2021, the measurement date. Therefore, no adjustments were needed from the January 1, 2022, actuarial valuation date to the calculated liabilities as of December 31, 2021, measurement date for reporting date of December 31, 2022. There were no changes between the January 1, 2021, and January 1, 2022, valuation dates.

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, 2021 and December 31, 2020 for reporting date December 31, 2022 and December 31, 2021, respectively. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated November 2021 and March 2019 for reporting date December 31, 2022, and December 31, 2021, respectively.

Asset Class	Reporting date			
	December 31, 2022		December 31, 2021	
	Target Allocation	Long-term Expected Arithmetic Real Rate of Return	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	2.00%	19.5%	1.30%
US Bank/ Leveraged Loans	3.0%	3.14%	3.0%	2.39%
US Long Government Bonds	3.0%	2.30%	3.0%	1.75%
High Yield Bonds	6.0%	3.60%	6.0%	3.10%
Emerging Market Debt	5.0%	3.20%	5.0%	2.65%
Global Equity	34.5%	5.15%	34.5%	5.55%
Private Real Estate	10.0%	5.90%	10.0%	6.20%
Private Equity	10.0%	8.10%	10.0%	6.95%
Master Limited Partnerships	4.0%	6.60%	4.0%	7.30%
Timber	1.5%	3.88%	1.5%	6.15%
Infrastructure	2.0%	7.55%	2.0%	6.25%
Agriculture	1.5%	4.23%	1.5%	3.72%
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.23%		1.65%
Portfolio 30 year Arithmetic Rate of Return		7.26%		7.13%
Portfolio 30 year Geometric Rate of Return		6.71%		6.58%
Portfolio Standard Deviation		10.97%		10.89%
Long-Term Expected Rate of Return, net of investment expenses		6.75%		6.75%

Notes to the Financial Statements (continued)

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 6.75% as of December 31, 2022 and 2021, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower, 5.75%, or 1 percentage point higher, 7.75%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2022	5.75%	6.75%	7.75%
Net pension liability (asset)	\$9,391,856	\$(14,152,644)	\$(33,773,289)

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2021	5.75%	6.75%	7.75%
Net pension liability (asset)	\$28,056,796	\$6,337,863	\$(11,762,666)

As of December 31, 2022 and 2021, the deferred inflows and outflows of resources are as follows:

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred of Outflows Resources	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (511,727)	\$ 1,146,869	\$ (887,406)	\$ 1,147,061
Changes of assumptions	-	3,618,007	-	4,713,329
Net Difference Between Projected and Actual Earnings	(15,665,822)	-	(464,683)	-
Changes in Employer Proportion	(11,672)	66	(4,191)	86
Contributions Made Subsequent to the Measurement Date	-	3,017,221	-	2,710,397
Total	\$ (16,189,221)	\$ 7,782,163	\$ (1,356,280)	\$ 8,570,873

The Division reported \$3.0 million 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 pension liability in the fiscal year ending December 31, 2023.

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:

2023	\$ (1,555,533)
2024	(4,634,961)
2025	(1,921,664)
2026	(3,338,421)
2027	26,300
	\$ (11,424,279)

At December 31, 2022, the Division reported a pension asset of \$14,152,644 for its proportionate share of the total System, compared to a pension liability of \$6,337,863 at December 31, 2021. The proportionate share of the Water Division is 9.65% of total System's pension liability as of December 31, 2022, and 9.14% as of December 31, 2021. The proportionate share was based on the actual contributions for the year as of December 31, 2022 and 2021.

NOTE 13 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:	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.

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

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

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

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

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

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

Changes of Assumptions: The discount rate was updated to 2.00% 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 \$5,350,651 for its proportionate share of the collective total City liability of \$227.4 million compared to \$4,780,773 at December 31, 2021. At December 31, 2022, the participating Division’s proportion was 2.35274% as compared to 2.08528% at December 31, 2021. For the year ended December 31, 2022, the participating Division recognized an OPEB expense of \$273,894.

Notes to the Financial Statements (continued)

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	\$ (43,638)	\$ 61,232	\$ (51,158)	\$ 7,204
Changes of assumptions	(217,833)	467,120	(200,771)	533,835
Changes in Employer Proportion	-	1,032,099	-	677,828
Differences in Contributions	(69,197)	68,598	(52,948)	87,316
Contributions Made Subsequent to the Measurement Date	-	177,523	-	178,614
Total	\$ (330,668)	\$ 1,806,572	\$ (304,877)	\$ 1,484,797

The Division reported \$177,523 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	\$ 257,053
2024	225,164
2025	289,735
2026	265,165
2027	206,827
Thereafter	54,437
	<u>\$ 1,298,381</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	\$ 6,032,560	\$ 5,350,651	\$ 4,778,945

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	\$ 5,409,869	\$ 4,780,773	\$ 4,255,093

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	\$ 4,574,128	\$ 5,350,651	\$ 6,056,133

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	\$ 4,204,834	\$ 4,780,773	\$ 5,466,132

NOTE 14 COMMITMENTS AND CONTINGENCIES

Capital Improvements - The financial requirement for Tacoma Water's 2021-2022 biennial Capital Improvement program is approximately \$79.3 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2022 the remaining financial requirement for Capital Improvement Programs relating to the current biennium is \$21 million.

Muckleshoot Indian Tribe Settlement - A mutually beneficial settlement agreement was reached with the Muckleshoot Indian Tribe in 1995. The settlement package has a cost of approximately \$30 million and includes five basic elements: 1) building a fish restoration facility and annual operation and maintenance of that facility, or in the alternative, providing \$12 million (indexed at 1995 dollars) into a fish restoration fund; 2) providing for enhanced flows in the Green River; 3) transferring certain lands; 4) establishing a trust fund payable over 40 years which is intended to provide for the general welfare, educational and other needs of the Tribe; and 5) limited access into the Green River Watershed. The settlement resolved past damage claims by the Tribe for Tacoma Water's historical operations on the river, gain the Tribe's support for the Second Supply Project and provide the basis for a long-term, cooperative working relationship on the Green River. Tacoma Water has been implementing this agreement.

General Legal Matters - The Water Division has received several other miscellaneous claims or litigation that either do not allege material amounts or that the Legal Department has determined do not pose a risk of liability to the Utility.

Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	9.65%	9.14%	8.80%	8.77%	8.74%	8.91%	8.99%	9.17%
Employer's proportion share of net pension liability (asset)	\$(14,152,644)	\$ 6,337,863	\$ (1,636,678)	\$10,264,957	\$ (3,438,481)	\$ 8,278,522	\$ 7,788,151	\$ (881,279)
Employer's covered payroll	\$ 26,693,208	\$24,449,314	\$23,537,115	\$21,819,996	\$20,914,658	\$20,220,795	\$21,148,347	\$20,099,527
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-53.02%	25.92%	-6.95%	47.04%	-16.44%	40.94%	36.83%	-4.17%
Plan fiduciary net position as a percentage the total pension liability	107.74%	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$3,017,221	\$2,710,397	\$2,518,860	\$2,451,307	\$2,309,710	\$2,150,205	\$2,124,252	\$2,086,719
Contributions in relation to the contractually required employer contribution	(3,017,221)	(2,710,397)	(2,518,860)	(2,451,307)	(2,309,710)	(2,150,205)	(2,124,252)	(2,086,719)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-	-
Employer's covered employee payroll	\$28,341,901	\$26,693,208	\$24,449,314	\$23,537,115	\$21,819,996	\$20,914,658	\$20,220,795	\$21,148,347
Employer contribution as a percentage of covered-employee payroll	10.65%	10.15%	10.30%	10.41%	10.59%	10.28%	10.51%	9.87%

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

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,					
	2021	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	2.35%	2.09%	1.76%	1.75%	1.71%	1.67%
Employer's proportion share of collective OPEB liability	\$5,350,651	\$4,780,773	\$3,675,963	\$3,565,886	\$3,780,897	\$3,492,067
Employer's covered-employee payroll**	\$26,693,208	\$24,449,314	\$23,537,115	\$21,819,996	\$20,914,658	\$20,432,705
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	20.04%	19.55%	15.62%	16.34%	18.08%	17.09%

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

** 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, 2022**

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

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

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

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Statistical Data (Unaudited)

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Water
 Ten-Year Financial Review

	2022	2021 (As Restated)	2020	2019
STATEMENTS OF NET POSITION				
ASSETS AND DEFERRED OUTFLOWS				
Utility Plant - Net	\$932,280,128	\$908,714,884	\$896,859,308	\$874,659,681
Non-Utility Plant	492,963	492,963	492,963	492,963
Special Funds	125,797,682	143,887,056	151,998,322	155,002,719
Current Assets	84,111,294	84,247,947	86,310,156	84,942,679
Other Assets	17,436,844	3,451,604	5,280,544	2,058,552
Total Assets	<u>1,160,118,911</u>	<u>1,140,794,454</u>	<u>1,140,941,293</u>	<u>1,117,156,594</u>
Deferred Outflows	10,015,939	10,670,119	6,255,109	13,609,381
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>1,170,134,850</u>	<u>1,151,464,573</u>	<u>1,147,196,402</u>	<u>1,130,765,975</u>
NET POSITION	675,676,898	652,594,880	636,065,438	602,816,562
LIABILITIES AND DEFERRED INFLOWS				
Long-Term Debt	383,330,550	398,389,133	414,307,785	431,269,870
Current Liabilities	24,952,712	23,486,907	24,263,595	21,087,589
Long-Term Liabilities	34,079,354	39,757,049	30,395,281	38,297,146
Total Liabilities	<u>442,362,616</u>	<u>461,633,089</u>	<u>468,966,661</u>	<u>490,654,605</u>
Deferred Inflows	52,095,336	37,236,604	42,164,303	37,294,808
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,170,134,850</u>	<u>\$1,151,464,573</u>	<u>\$1,147,196,402</u>	<u>\$1,130,765,975</u>
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential and Domestic	\$69,127,333	\$67,702,012	\$64,487,335	\$60,847,540
Commercial and Industrial	21,918,842	20,816,460	18,724,562	19,836,364
Special Rate-WestRock/Other	7,344,132	7,283,918	7,109,384	6,883,021
Municipal	-	-	-	-
Wholesale	2,434,401	2,711,269	2,282,638	2,787,239
Unbilled	363,691	485,524	103,821	(111,782)
Total Water Sales	<u>101,188,399</u>	<u>98,999,183</u>	<u>92,707,740</u>	<u>90,242,382</u>
Other Operating Revenues	14,029,299	12,366,703	11,760,454	12,302,372
Total Operating Revenues	<u>115,217,698</u>	<u>111,365,886</u>	<u>104,468,194</u>	<u>102,544,754</u>
OPERATING EXPENSES				
Operation and Maintenance	54,336,709	56,330,086	52,116,679	50,339,168
Taxes	6,574,082	5,856,255	5,398,410	5,188,882
Lease Amortization	13,823	13,725	-	-
Depreciation	28,400,190	27,727,624	25,723,865	25,295,078
Total Operating Expenses	<u>89,324,804</u>	<u>89,927,690</u>	<u>83,238,954</u>	<u>80,823,128</u>
NET OPERATING INCOME (LOSS)	25,892,894	21,438,196	21,229,240	21,721,626
NON-OPERATING REVENUES (EXPENSES)				
Other Income	(1,004,044)	2,445,093	651,209	1,802,296
Interest Income	(2,687,718)	(1,182,910)	5,522,409	7,370,377
Interest Expense on Lease Activity	(456)	(604)	-	-
Interest Charges (Net)	<u>(16,896,259)</u>	<u>(17,094,391)</u>	<u>(17,565,824)</u>	<u>(18,181,445)</u>
Net Income (Loss) Before Contributions & Transfers	5,304,417	5,605,384	9,837,034	12,712,854
Total Capital Grants and Contributions	20,741,680	15,397,882	16,459,062	12,775,630
Federal BAB Subsidies	3,621,843	3,629,294	3,651,006	3,609,359
Transfers In/ (Out)	<u>(6,585,922)</u>	<u>(8,103,118)</u>	<u>3,301,774</u>	<u>(8,019,638)</u>
CHANGE IN NET POSITION	<u>\$23,082,018</u>	<u>\$16,529,442</u>	<u>\$33,248,876</u>	<u>\$21,078,205</u>

In accordance with Governmental Accounting Standards Board Statement No. 65 2012 was restated for comparative purposes.

2018	2017 (As Restated)	2016	2015	2014	2013
\$871,008,433	\$873,518,773	\$879,547,650	\$884,721,107	\$872,083,357	\$813,050,518
492,963	492,963	492,963	492,963	492,963	492,963
160,004,945	153,962,378	156,827,483	143,309,769	146,440,207	156,819,016
79,459,959	73,857,244	68,927,643	64,476,112	58,737,269	63,568,675
4,669,297	1,810,430	2,866,478	4,689,200	3,769,208	4,679,599
1,115,635,597	1,103,641,788	1,108,662,217	1,097,689,151	1,081,523,004	1,038,610,771
5,881,479	10,113,888	10,623,174	4,002,699	1,587,851	1,813,858
1,121,517,076	1,113,755,676	1,119,285,391	1,101,691,850	1,083,110,855	1,040,424,629
581,738,357	556,846,481	549,652,226	542,501,823	516,673,245	480,288,973
447,562,815	463,619,285	478,617,199	478,400,742	483,542,005	455,876,975
23,031,002	20,524,364	20,986,727	18,261,548	20,767,576	42,478,805
27,703,192	35,406,357	33,932,418	26,021,937	26,552,582	26,204,429
498,297,009	519,550,006	533,536,344	522,684,227	530,862,163	524,560,209
41,481,710	37,359,189	36,096,821	36,505,800	35,575,447	35,575,447
\$1,121,517,076	\$1,113,755,676	\$1,119,285,391	\$1,101,691,850	\$1,083,110,855	\$1,040,424,629
\$59,624,491	\$52,539,643	\$50,742,135	\$48,263,128	\$44,655,076	\$40,928,355
19,225,528	17,408,529	17,558,905	17,233,617	15,406,078	13,507,899
6,873,675	6,322,195	5,845,719	5,951,348	5,801,842	5,242,359
-	-	-	-	-	445,844
3,253,029	3,069,448	3,971,839	5,192,149	3,718,315	3,519,409
472,999	660,078	(137,857)	318,945	121,346	468,030
89,449,722	79,999,893	77,980,741	76,959,187	69,702,657	64,111,896
12,491,739	14,644,528	14,820,869	21,179,637	28,617,297	32,007,524
101,941,461	94,644,421	92,801,610	98,138,824	98,319,954	96,119,420
45,892,214	48,921,970	46,894,363	41,804,233	37,993,563	35,906,356
5,273,751	4,776,164	4,639,031	4,681,114	3,779,373	3,918,944
-	-	-	-	-	-
26,117,843	24,038,103	23,822,527	17,102,664	16,783,698	16,072,243
77,283,808	77,736,237	75,355,921	63,588,011	58,556,634	55,897,543
24,657,653	16,908,184	17,445,689	34,550,813	39,763,320	40,221,877
3,215,049	1,216,295	(221,125)	(30,042)	537,052	(1,246,053)
3,876,762	1,762,813	1,826,299	1,112,850	1,718,226	807,466
-	-	-	-	-	-
(19,269,514)	(18,321,085)	(19,000,536)	(16,677,645)	(11,911,850)	(14,141,036)
12,479,950	1,566,207	50,327	18,955,976	30,106,748	25,642,254
16,440,749	9,138,434	10,274,030	9,052,674	8,670,639	7,175,575
3,596,241	3,582,475	3,579,107	3,609,706	3,959,446	3,535,426
(7,625,062)	(7,092,861)	(6,753,061)	(6,873,467)	(6,352,561)	(5,922,418)
\$24,891,878	\$7,194,255	\$7,150,403	\$24,744,889	\$36,384,272	\$30,430,837

City of Tacoma, Washington
Department of Public Utilities
Regional Water Supply System

Ten-Year Financial Review (RWSS)

STATEMENTS OF NET POSITION	2022	2021	2020	2019
ASSETS				
Utility Plant - Net	\$237,965,466	\$245,786,121	\$253,438,437	\$261,815,181
Current Assets	10,099,311	9,766,278	10,343,200	10,493,887
Total Assets	248,064,777	255,552,399	263,781,637	272,309,068
Deferred Outflows	159,693	175,797	191,900	208,004
TOTAL ASSETS AND DEFERRED OUTFLOWS	248,224,470	255,728,196	263,973,537	272,517,072
NET POSITION	146,220,643	150,738,557	156,173,719	161,888,944
LIABILITIES AND EQUITY				
Long-Term Debt	98,177,211	101,259,957	104,226,180	107,104,701
Current Liabilities	2,870,245	2,743,499	2,633,541	2,544,840
Total Liabilities	101,047,456	104,003,456	106,859,721	109,649,541
Deferred Inflows	956,371	986,183	940,097	978,587
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	248,224,470	255,728,196	263,973,537	272,517,072
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
CRO - Debt Service	\$6,459,139	\$6,445,519	\$6,359,276	\$6,365,634
CRO - O&M	5,044,883	4,191,992	4,044,665	3,869,205
CRO - Capital	698,283	233,873	108,780	266,010
Other Operating Revenue	-	-	-	-
Total Operating Revenues	12,202,305	10,871,384	10,512,721	10,500,849
OPERATING EXPENSES				
Operation and Maintenance	4,712,030	4,218,612	4,261,822	3,928,423
Depreciation	8,542,323	8,524,386	8,521,426	8,507,090
Total Operating Expenses	13,254,353	12,742,998	12,783,248	12,435,513
NET OPERATING INCOME (LOSS)	(1,052,048)	(1,871,614)	(2,270,527)	(1,934,664)
NON-OPERATING REVENUES (EXPENSES)				
Other Income	-	6,586	-	-
Interest Income	(110,285)	(39,563)	252,531	346,329
Interest Charges (Net)	(4,416,196)	(4,500,797)	(4,579,890)	(4,645,692)
Net Income (Loss) Before Contributions & Transfers	(5,578,529)	(6,405,388)	(6,597,886)	(6,234,027)
Total Capital Contributions	241,782	151,393	57,235	(163,022)
Grants & Federal BAB Subsidies	818,833	818,833	825,426	816,007
Transfers Out	-	-	-	-
CHANGE IN NET POSITION	(\$4,517,914)	(\$5,435,162)	(\$5,715,225)	(\$5,581,042)

In accordance with Governmental Accounting Standards Board Statement No. 65 2012 was restated for comparative purposes.

2018	2017	2016	2015	2014	2013
\$270,292,252	\$279,190,310	\$287,187,547	\$295,780,351	\$293,110,553	\$264,883,717
10,420,340	10,442,765	10,395,435	9,274,080	11,321,557	20,473,681
280,712,592	289,633,075	297,582,982	305,054,431	304,432,110	285,357,398
224,106	240,210	256,313	272,417	288,520	304,624
280,936,698	289,873,285	297,839,295	305,326,848	304,720,630	285,662,022
167,469,986	174,701,516	180,852,158	186,712,448	183,898,541	154,285,209
109,899,314	112,594,314	114,364,416	116,113,730	117,798,157	120,006,348
2,558,764	1,564,360	1,601,549	1,496,773	1,993,880	10,436,851
112,458,078	114,158,674	115,965,965	117,610,503	119,792,037	130,443,199
1,008,634	1,013,095	1,021,172	1,003,897	1,030,052	933,614
280,936,698	289,873,285	297,839,295	305,326,848	304,720,630	285,662,022
\$5,610,671	\$5,554,208	\$5,582,030	\$6,047,314	\$6,008,599	\$6,208,432
3,764,605	3,858,622	3,858,714	2,840,435	2,706,023	2,740,645
93,191	202,255	483,498	7,621,901	15,132,508	18,535,695
-	-	-	1,675	-	-
9,468,467	9,615,085	9,924,242	16,511,325	23,847,130	27,484,772
3,718,890	3,881,686	3,871,737	2,864,326	2,735,246	2,895,385
9,199,706	8,266,685	8,263,267	4,582,300	4,542,912	4,505,158
12,918,596	12,148,371	12,135,004	7,446,626	7,278,158	7,400,543
(3,450,129)	(2,533,286)	(2,210,762)	9,064,699	16,568,972	20,084,229
-	-	-	(120,564)	(18,732)	(373,899)
182,850	91,554	87,696	64,497	114,387	51,743
(4,907,255)	(4,697,999)	(4,715,565)	(4,072,780)	(880,966)	(2,665,310)
(8,174,534)	(7,139,731)	(6,838,631)	4,935,852	15,783,661	17,096,763
129,958	179,156	456,685	(2,924,135)	13,024,297	148,865
813,046	809,933	808,775	802,190	805,374	799,296
-	-	(287,119)	-	-	40,079
<u>(\$7,231,530)</u>	<u>(\$6,150,642)</u>	<u>(\$5,860,290)</u>	<u>\$2,813,907</u>	<u>\$29,613,332</u>	<u>\$18,085,003</u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Statements of Net Position (RWSS)

ASSETS AND DEFERRED OUTFLOWS	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
UTILITY PLANT				
In Service, at Original Cost	\$ 927,107,589	\$ 345,668,798	\$ -	\$ 1,272,776,387
Less - Accumulated Depreciation	(247,620,632)	(109,013,711)	-	(356,634,343)
Total	679,486,957	236,655,087	-	916,142,044
Right to Use Lease Assets	52,613	-	-	52,613
Less - Accumulated Amortization	(27,548)	-	-	(27,548)
Total	25,065	-	-	25,065
Construction Work In Progress	14,802,640	1,310,379	-	16,113,019
Net Utility Plant	694,314,662	237,965,466	-	932,280,128
NET UTILITY PROPERTY	492,963	-	-	492,963
SPECIAL FUNDS				
Debt Service Funds	3,269,546	377,046	-	3,646,592
Bond Reserve Funds	13,227,327	8,459,953	-	21,687,280
System Development Charge Fund	80,044,101	-	-	80,044,101
Other Cash & Equity in Pooled Investments	20,519,837	-	(100,128)	20,419,709
Total Special Funds	117,060,811	8,836,999	(100,128)	125,797,682
CURRENT ASSETS				
Operating Funds Cash & Equity in				
Pooled Investments	60,997,546	(100,128)	100,128	60,997,546
Grant Receivable	348,108	-	-	348,108
Accounts Receivable	5,600,145	760,213	-	6,360,358
(Net of Allowance for Doubtful Accounts of \$2,064,440 in 2022)				
BABs Interest Subsidies Receivable	1,635,089	477,653	-	2,112,742
Accrued Unbilled Revenues	6,771,474	-	-	6,771,474
Materials and Supplies	5,289,260	-	-	5,289,260
Prepayments	2,107,232	124,574	-	2,231,806
	82,748,854	1,262,312	100,128	84,111,294
OTHER ASSETS				
Regulatory Asset - Surcharges	3,284,200	-	-	3,284,200
Pension Asset	14,152,644	-	-	14,152,644
Total Other Assets	17,436,844	-	-	17,436,844
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized Losses on Refunding Bonds	267,511	159,693	-	427,204
Pension Contributions	7,782,163	-	-	7,782,163
OPEB	1,806,572	-	-	1,806,572
Total Deferred Outflows	9,856,246	159,693	-	10,015,939
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 921,910,380	\$ 248,224,470	\$ -	\$ 1,170,134,850

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	WATER W/O RWSS	RWSS	ADJUSTMENTS	WATER STATEMENTS
NET POSITION				
Invested in Capital Assets, Net of Related Debt	\$ 405,483,536	\$ 145,952,901	\$ -	\$ 551,436,437
Restricted for:				
Water Capital and System Development Charge	56,719,126	-	-	56,719,126
Debt Service Funds	2,056,732	-	-	2,056,732
Net Pension Asset	14,152,644	-	-	14,152,644
Unrestricted	51,044,217	267,742	-	51,311,959
Total Net Position	<u>529,456,255</u>	<u>146,220,643</u>	<u>-</u>	<u>675,676,898</u>
LONG-TERM DEBT				
Revenue Bonds	232,035,744	98,177,211	-	330,212,955
Public Works Trust Fund Loans	8,338,921	-	-	8,338,921
Drinking Water State Revolving Fund Loan	44,778,674	-	-	44,778,674
Total Long-Term Debt	<u>285,153,339</u>	<u>98,177,211</u>	<u>-</u>	<u>383,330,550</u>
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	11,559,913	2,455,000	-	14,014,913
Current Maturities of Long-Term Liabilities	160,291	-	-	160,291
Accrued Taxes	2,238,982	-	-	2,238,982
Accrued Expenses and Contracts Payable	5,215,616	4,955	-	5,220,571
Salaries, Wages and Fringe Benefits Payable	1,480,771	-	-	1,480,771
Interest Payable	1,179,570	410,290	-	1,589,860
Customers' Deposits	233,226	-	-	233,226
Current Lease Liability	14,098	-	-	14,098
Total Current Liabilities	<u>22,082,467</u>	<u>2,870,245</u>	<u>-</u>	<u>24,952,712</u>
LONG-TERM LIABILITIES				
Muckleshoot Agreements	5,919,906	-	-	5,919,906
Customer Advances for Construction	12,093,103	-	-	12,093,103
Unearned Revenue	5,080,978	956,371	-	6,037,349
Long-Term Accrued Compensated Absences	3,196,288	-	-	3,196,288
OPEB Liability	5,350,651	-	-	5,350,651
Long Term Lease Liability	11,379	-	-	11,379
Other Long-Term Liabilities	1,470,678	-	-	1,470,678
Total Long-Term Liabilities	<u>33,122,983</u>	<u>956,371</u>	<u>-</u>	<u>34,079,354</u>
DEFERRED INFLOWS OF RESOURCES				
Rate Stabilization	35,575,447	-	-	35,575,447
Pension Contribution	16,189,221	-	-	16,189,221
OPEB Contribution	330,668	-	-	330,668
Total Inflows of Resources	<u>52,095,336</u>	<u>-</u>	<u>-</u>	<u>52,095,336</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$ 921,910,380</u>	<u>\$ 248,224,470</u>	<u>\$ -</u>	<u>\$ 1,170,134,850</u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Statements of Revenues, Expenses, and Changes in Net Position (RWSS)

	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
OPERATING REVENUES				
Sale of Water	\$ 101,188,399	\$ -	\$ -	\$ 101,188,399
Other Operating Revenues	8,201,778	-	-	8,201,778
Contract Resource Obligation Revenues	-	12,202,305	(6,374,784)	5,827,521
Total Operating Revenues	<u>109,390,177</u>	<u>12,202,305</u>	<u>(6,374,784)</u>	<u>115,217,698</u>
OPERATING EXPENSES				
Operations	19,889,599	194,369	-	20,083,968
Production	9,261,586	4,142,349	-	13,403,935
Administrative and General	26,848,278	375,312	(6,374,784)	20,848,806
Depreciation	19,857,867	8,542,323	-	28,400,190
Lease Amortization	13,823	-	-	13,823
Taxes	6,574,082	-	-	6,574,082
Total Operating Expenses	<u>82,445,235</u>	<u>13,254,353</u>	<u>(6,374,784)</u>	<u>89,324,804</u>
Net Operating Income	26,944,942	(1,052,048)	-	25,892,894
NON-OPERATING REVENUES (EXPENSES)				
Interest Income	(2,577,433)	(110,285)	-	(2,687,718)
Interest Expense on Lease Activity	(456)	-	-	(456)
Operating Grant	16,500	-	-	16,500
Other	(1,020,544)	-	-	(1,020,544)
Interest on Long-Term Debt	(12,724,845)	(5,027,839)	-	(17,752,684)
Amortization of Premium and Loss on Refunding	244,782	611,643	-	856,425
Total Non-Operating Expenses	<u>(16,061,996)</u>	<u>(4,526,481)</u>	<u>-</u>	<u>(20,588,477)</u>
Net Income Before Capital Contributions and Transfers	10,882,946	(5,578,529)	-	5,304,417
Capital Grants and Contributions				
Cash	8,429,343	241,782	-	8,671,125
Capital Grant	1,256,942	-	-	1,256,942
Donated Fixed Assets	10,813,613	-	-	10,813,613
Federal BABs Subsidies	2,803,010	818,833	-	3,621,843
City of Tacoma Gross Earnings Tax	(8,728,920)	-	-	(8,728,920)
Transfer to/from Other Funds	<u>2,142,998</u>	<u>-</u>	<u>-</u>	<u>2,142,998</u>
CHANGE IN NET POSITION	27,599,932	(4,517,914)	-	23,082,018
TOTAL NET POSITION - BEGINNING OF YEAR	501,856,323	150,738,557	-	652,594,880
TOTAL NET POSITION - END OF YEAR	<u>\$ 529,456,255</u>	<u>\$ 146,220,643</u>	<u>\$ -</u>	<u>\$ 675,676,898</u>

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Water

Bond Debt Service Requirements
 December 31, 2022

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2023	\$5,964,343	\$11,815,054	\$2,455,000	\$4,923,486	\$25,157,883
2024	4,300,000	11,665,133	4,930,000	4,804,186	25,699,319
2025	4,465,000	11,460,042	5,190,000	4,561,236	25,676,278
2026	4,930,000	11,244,560	5,420,000	4,300,363	25,894,923
2027	5,085,000	11,003,926	5,700,000	4,027,936	25,816,862
2028	5,265,000	10,730,810	5,970,000	3,741,452	25,707,262
2029	5,445,000	10,448,028	6,300,000	3,441,430	25,634,458
2030	5,640,000	10,155,577	6,595,000	3,124,853	25,515,430
2031	5,835,000	9,852,652	6,880,000	2,855,022	25,422,674
2032	6,050,000	9,524,668	6,660,000	2,572,445	24,807,113
2033	11,915,000	9,184,597	4,495,000	2,298,427	27,893,024
2034	12,360,000	8,502,114	4,655,000	2,045,763	27,562,877
2035	12,820,000	7,794,145	4,830,000	1,784,105	27,228,250
2036	13,295,000	7,059,824	5,005,000	1,512,611	26,872,435
2037	13,790,000	6,298,290	5,185,000	1,231,280	26,504,570
2038	14,305,000	5,508,406	5,375,000	939,831	26,128,237
2039	14,835,000	4,689,021	5,570,000	637,702	25,731,723
2040	15,390,000	3,839,272	5,775,000	324,613	25,328,885
2041	23,820,000	2,974,200	-	-	26,794,200
2042	24,770,000	2,021,400	-	-	26,791,400
2043	25,765,000	1,030,600	-	-	26,795,600
	<u>\$236,044,343</u>	<u>\$166,802,319</u>	<u>\$96,990,000</u>	<u>\$49,126,741</u>	<u>\$548,963,403</u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water
Without RWSS

Funds Available for Debt Service

	2022	2021 (As Restated)	2020 (As Restated)	2019	2018
Total Income	\$112,331,475	\$113,860,266	\$110,377,311	\$111,675,882	\$113,090,167
Less: Operating Exp	62,587,368	63,705,835	58,970,799	57,193,541	52,488,595
Income Available for Debt Service	<u>\$49,744,107</u>	<u>\$50,154,431</u>	<u>\$51,406,512</u>	<u>\$54,482,341</u>	<u>\$60,601,572</u>
Bond Redemption	6,275,159	6,171,729	6,279,811	5,639,167	5,413,750
Bond Interest	<u>11,953,863</u>	<u>12,100,641</u>	<u>12,502,629</u>	<u>13,072,833</u>	<u>13,290,645</u>
Tacoma Water	11,953,863	12,100,641	12,502,629	13,072,833	13,290,645
Debt Service Payable	<u>\$18,229,022</u>	<u>\$18,272,370</u>	<u>\$18,782,440</u>	<u>\$18,712,000</u>	<u>\$18,704,395</u>
Times Debt Service Covered	2.73	2.74	2.74	2.91	3.24

Bond covenants requires debt service coverage of 1.25

All In Debt Service Coverage
(In thousands)

	2022	2021 (As Restated)	2020 (As Restated)	2019	2018	2017 (As Restated)
Operating Revenue	\$109,390	\$106,206	\$99,673	\$97,638	\$97,515	\$90,060
Non-Operating Revenue (Expense)	(1,770)	1,298	5,801	8,826	6,909	2,888
Build America Bond Subsidy	2,803	2,810	2,825	2,793	2,783	2,773
System Development Charge	1,908	3,546	2,078	2,418	5,883	2,586
Total Revenue Available	\$112,331	\$113,860	\$110,377	\$111,675	\$113,090	\$98,307
Tacoma Share of RWSS Debt Service (CRO Operating Expense)	3,754	3,734	3,683	3,669	3,274	3,239
Other Operating Expenses less Depreciation	58,833	59,972	55,288	53,525	49,215	51,608
Net Revenue Available for Debt Service Senior Lien	\$49,744	\$50,154	\$51,406	\$54,481	\$60,601	\$43,460
Senior Debt Service (Water Bonds)	18,229	18,272	18,782	18,712	18,704	18,664
Gross Earnings Tax Transfer to City of Tacoma	8,729	8,307	7,816	8,020	7,695	7,144
Tacoma Share of RWSS Debt Service (CRO Operating Expense)	3,754	3,734	3,683	3,669	3,274	3,239
Net Revenue Available for Debt Service All-In	44,769	45,581	47,273	50,130	56,180	39,555
Subordinate Debt Service	6,630	7,408	7,438	7,946	8,645	8,062
Total All-In Debt Service (Senior + Tacoma Share of RWSS Debt Service + Subordinate)	28,613	29,414	29,903	30,327	30,623	29,965
Debt Service Coverage - Senior Lien	2.73	2.74	2.74	2.91	3.24	2.33
Debt Service Coverage - All-In	1.56	1.55	1.58	1.65	1.83	1.32

As stated in the Tacoma Water Rate and Financial Policy, Senior Debt Service Coverage will be maintained above 1.50, exceeding Tacoma Water's bond covenant requirement of net revenue at least 1.25 times annual senior debt service. This calculation excludes transfers to the City of Tacoma and subordinate debt, and includes transfers from the Rate Stabilization Account and Tacoma Share of RWSS debt service payments as a CRO operating expense.

The Policy also states that All-In Debt Service Coverage will be maintained above 1.25 except when cash reserves are budgeted to meet the annual revenue requirement, when it will be maintained above 1.00. This calculation includes transfers to the City of Tacoma and subordinate debt, and excludes transfers from the Rate Stabilization Account. Tacoma Share of RWSS debt service payments are included as debt service rather than CRO operating expense.

City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

Summary of Water Sales – 2022

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
RESIDENTIAL AND DOMESTIC SERVICE						
Inside City						
Single and Multiple House	57,262	4,547,090	\$ 28,406,293	28.1%	9.32	18.7%
Multiple Unit Dwellings	3,486	1,702,823	7,092,005	7.0%	3.49	7.0%
Parks & Irrigation Services	193	78,615	462,350	0.5%	0.16	0.3%
Private Fire Services	111	752	111,612	0.1%	0.00	0.0%
	61,052	6,329,280	36,072,260	35.7%	12.97	26.0%
Outside City						
Single and Multiple Houses	38,962	3,975,250	26,736,821	26.4%	8.15	16.3%
Multiple Unit Dwellings	1,936	1,035,793	5,403,629	5.3%	2.12	4.3%
Parks & Irrigation Services	281	113,788	866,711	0.9%	0.23	0.5%
Private Fire Services	77	7	47,912	0.0%	0.00	0.0%
	41,256	5,124,838	33,055,073	32.6%	10.50	21.1%
COMMERCIAL AND INDUSTRIAL SERVICE						
Inside City						
Large Volume Service	2	326,651	712,828	0.7%	0.67	1.3%
General Service	3,720	2,031,356	8,335,161	8.2%	4.16	8.3%
Parks & Irrigation Services	387	262,199	1,578,535	1.6%	0.54	1.1%
Private Fire Services	1,133	15,157	2,857,315	2.8%	0.03	0.1%
	5,242	2,635,363	13,483,839	13.3%	5.40	10.8%
Outside City						
Large Volume Service	4	710,395	1,847,676	1.8%	1.46	2.9%
General Service	934	643,454	3,940,421	3.9%	1.32	2.6%
Parks & Irrigation Services	133	189,314	1,328,062	1.3%	0.39	0.8%
Private Fire Services	258	13,161	1,318,844	1.3%	0.03	0.1%
	1,329	1,556,324	8,435,003	8.3%	3.19	6.4%
WESTROCK	1	7,772,053	7,344,132	7.3%	15.93	31.9%
WHOLESALE	17	930,770	2,434,401	2.4%	1.91	3.8%
Unbilled Revenue			363,691	0.4%		
TOTAL WATER SALES	108,897	24,348,628	\$ 101,188,399	100.0%	49.90	100.0%

MGD defined as Millions of Gallons Per Day

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Water

2022 Statistical Information
 As of December 31, 2022

Tacoma Water System:			
Average daily delivery exclusive of pulp mill		37.92	MG
Average daily delivery of pulp mill		15.93	MG
Total average daily delivery		53.85	MG
Maximum daily production	7/26/2022	87.90	MG
Minimum daily production	10/28/2022	36.88	MG
Total water produced in 2022*		19,719	MG
Regional Water Supply System (RWSS):			
Total average daily delivery		12.55	MG
Average daily consumption per single family residential service (Inside City)		162.6	GPD
Miles of transmission and wells supply mains - 28" to 96" diameter (includes North Fork wells system)		150	mi
Miles of distribution mains - 2" to 24" in diameter		1,318.19	mi
Fire Hydrants (Inside)		6,211	
Fire Hydrants (Outside)		5,356	

The primary source of Tacoma's water supply is the Green River. Additionally the North Fork well field provides blending options during periods of excessive river turbidity. The Green River source consists of a 73 million gallons per day (MGD) water right. Tacoma is also partner in the Regional Water Supply System (RWSS) and holds a 27 MGD average share of that 64.6 MGD interruptible, junior water right on the Green River. Tacoma also has ground water rights totaling 87 MGD with an installed pumping capacity of 47 MGD.

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

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

**Includes losses and water for self-consumption excludes RWSS
 MG equals million gallons
 GPD equals gallons per day
 mi equals miles*

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Water

Taxes and Employee Welfare Contributions
 For the Year 2022

FEDERAL

Social Security (FICA)		<u>\$2,122,781</u>
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STATE OF WASHINGTON

Retail Sales Tax	2,586,535	
Utilities and Business Activities Tax	<u>5,238,424</u>	
Total		7,824,959

COUNTY

Real Property	<u>82,441</u>	
Total		82,441

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	8,728,920	
City of Fircrest Administrative Fee	7,277	
City of Lakewood Administrative Fee	6,458	
City of Puyallup Administrative Fee	24,620	
City of University Place Administrative Fee	747,778	
City of University Place Utility Tax	<u>503,589</u>	
		<u>10,018,642</u>

TOTAL TAXES		<u>\$20,048,823</u>
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Taxes as a % of Non-CRO Revenues of \$109,390,177		18.33%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$374,819	
Pensions	2,978,744	
Medical Insurance	5,434,978	
Dental Insurance	<u>431,418</u>	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$9,219,959</u>
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City of Tacoma, Washington
Department of Public Utilities
Tacoma Water

2022 Water Rates

METER SIZE	READY TO SERVE CHARGE PER MONTH		Effective 4/1/22
	INSIDE TACOMA	OUTSIDE TACOMA	University Place
	5/8 inch	\$25.83	\$31.28
3/4 inch	\$37.25	\$44.98	\$48.32
1 inch	\$60.08	\$72.38	\$77.75
1-1/2 inch	\$117.15	\$140.86	\$151.30
2 inch	\$185.64	\$223.05	\$239.58
3 inch	\$345.45	\$414.82	\$445.56
4 inch	\$573.75	\$688.78	\$739.82
6 inch	\$1,144.50	\$1,373.68	\$1,475.47
8 inch	\$1,829.40	\$2,195.56	\$2,358.25
10 inch	\$2,628.45	\$3,154.42	\$3,388.17
12 inch	\$3,855.56	\$4,626.95	\$4,969.81

	CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET		Effective 4/1/22
	INSIDE TACOMA	OUTSIDE TACOMA	University Place
	<u>Residential Service</u>		
Each 100 cubic ft of water consumption during the winter months of October through May	\$2.207	\$2.648	\$2.844
First 500 cubic ft of water consumption per month during the summer months of June through September	\$2.207	\$2.648	\$2.844
Each 100 cubic ft of water consumption over 500 cubic ft during the summer months of June through September	\$2.759	\$3.310	\$3.555
<u>Commercial and Industrial</u>			
General Service	\$2.379	\$2.855	\$3.067
Large Volume Service (over 65,000 cubic feet annually)	\$1.850	\$2.220	\$2.385
<u>Parks and Irrigation Service</u>			
Each 100 cubic feet of water consumption	\$4.628	\$5.554	\$5.966

City of Tacoma water services are 100% metered.

Where service conditions are considered extraordinary, the Water Division may, with City Council approval, enter into contracts for periods up to 20 years.

Water rates were established by Ordinance No. 28711 and were effective January 1, 2022.
Updated University Place rates were established by Ordinance No. 28736 and were effective April 1, 2022.

Residential service rate for outside Tacoma does not include University Place.

City of Tacoma, Washington
 Department of Public Utilities
 Tacoma Water

2022 Fire Protection Rates

METER SIZE	READY TO SERVE CHARGE PER MONTH			WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
	INSIDE TACOMA	OUTSIDE TACOMA	Effective 4/1/22 University Place	
	2 inch	\$29.79	35.75	
3 inch	\$43.39	52.07	55.93	2.99
4 inch	\$72.48	86.98	93.43	2.99
6 inch	\$162.59	195.11	209.57	2.99
8 inch	\$289.44	347.33	373.07	2.99
10 inch	\$452.72	543.26	583.52	2.99
12 inch	\$724.12	868.94	933.33	2.99

No charge is made for water used through a fire service in extinguishing fires of incendiary or accidental origin if the customer, at the location where the use occurs, gives written notice to the Division within ten days from the time of such fire. Use of water through a fire service for purposes other than extinguishing fires of incendiary or accidental origin is charged as follows:

MONTHLY CHARGE

12 times the monthly service charge (minimum).

CONSUMPTION

Rates per 100 cubic feet per month \$3.960

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

Costs associated with fire hydrant services are currently recovered from customers in two different ways, depending on their location in the service area. Customers outside the City of Tacoma with residential and commercial accounts pay a flat monthly franchise "Franchise Hydrant Service Fee" as shown below:

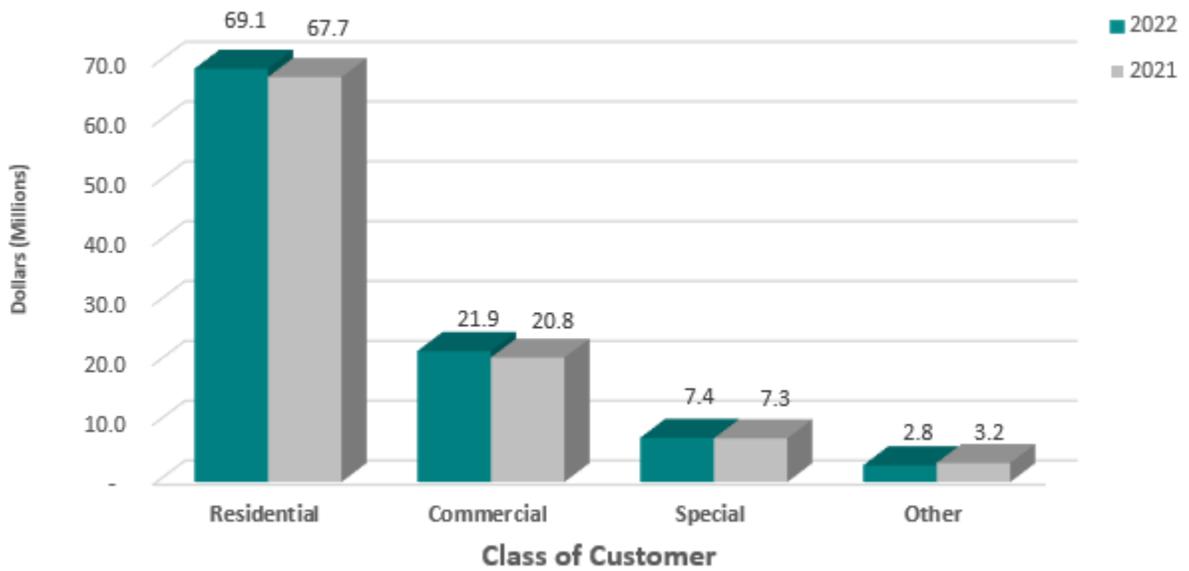
Outside City, other contract	\$4.752	
University Place	\$5.104	Effective 4/1/22
Outside Including Lakewood, Puyallup, and Fircrest Franchises	\$4.752	

Water rates were established by Ordinance No. 28711 and were effective January 1, 2022.
 Updated University Place rates were established by Ordinance No. 28736 and were effective April 1, 2022.

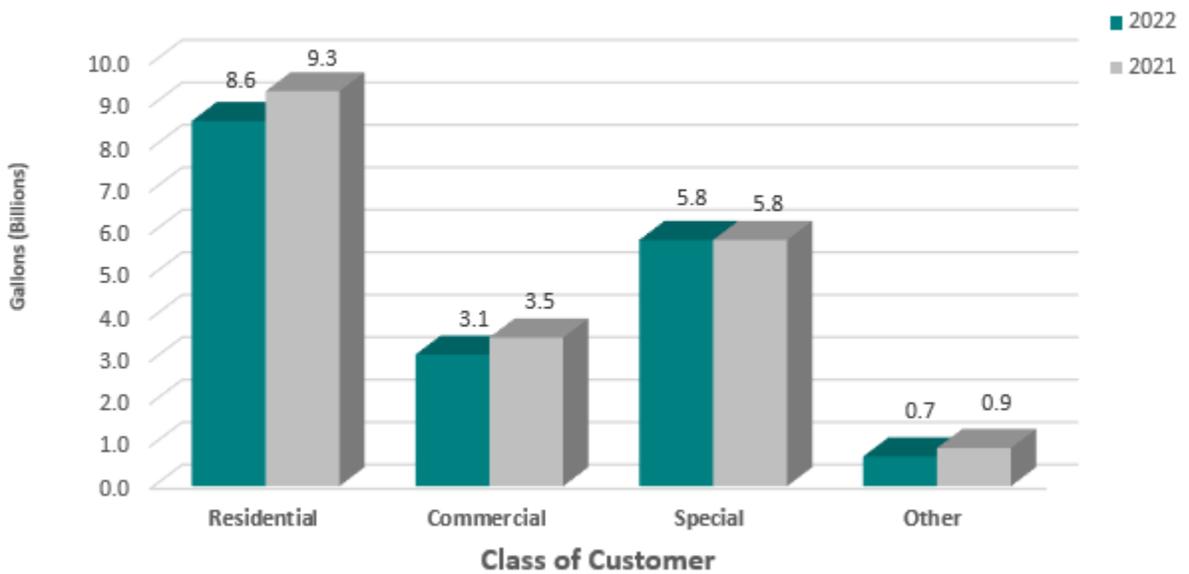
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Graphs

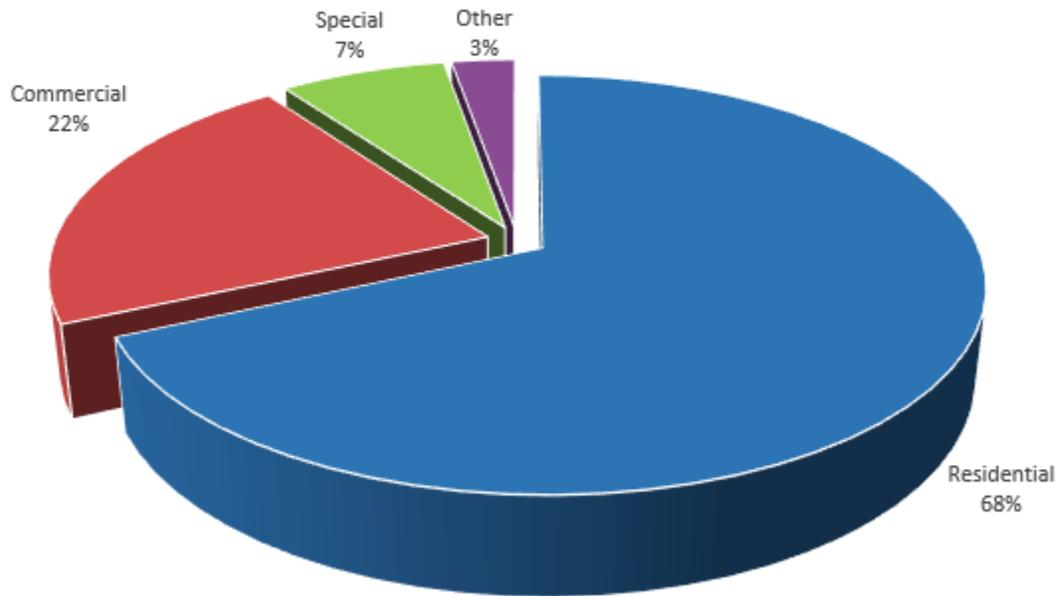
WATER SALES Year to Date - December 2022 & 2021



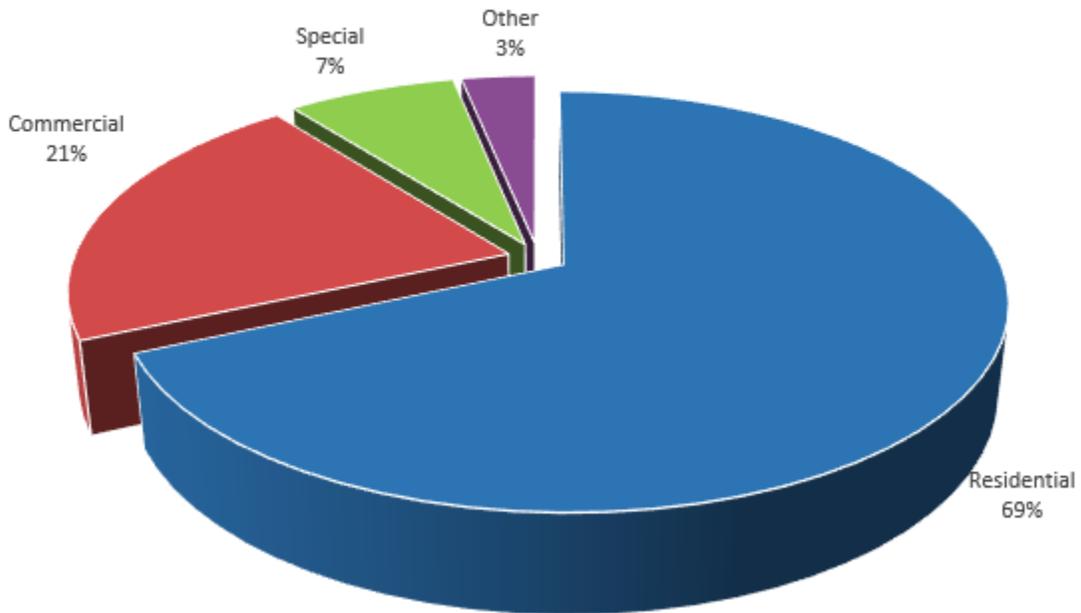
WATER CONSUMPTION Year to Date - December 2022 & 2021



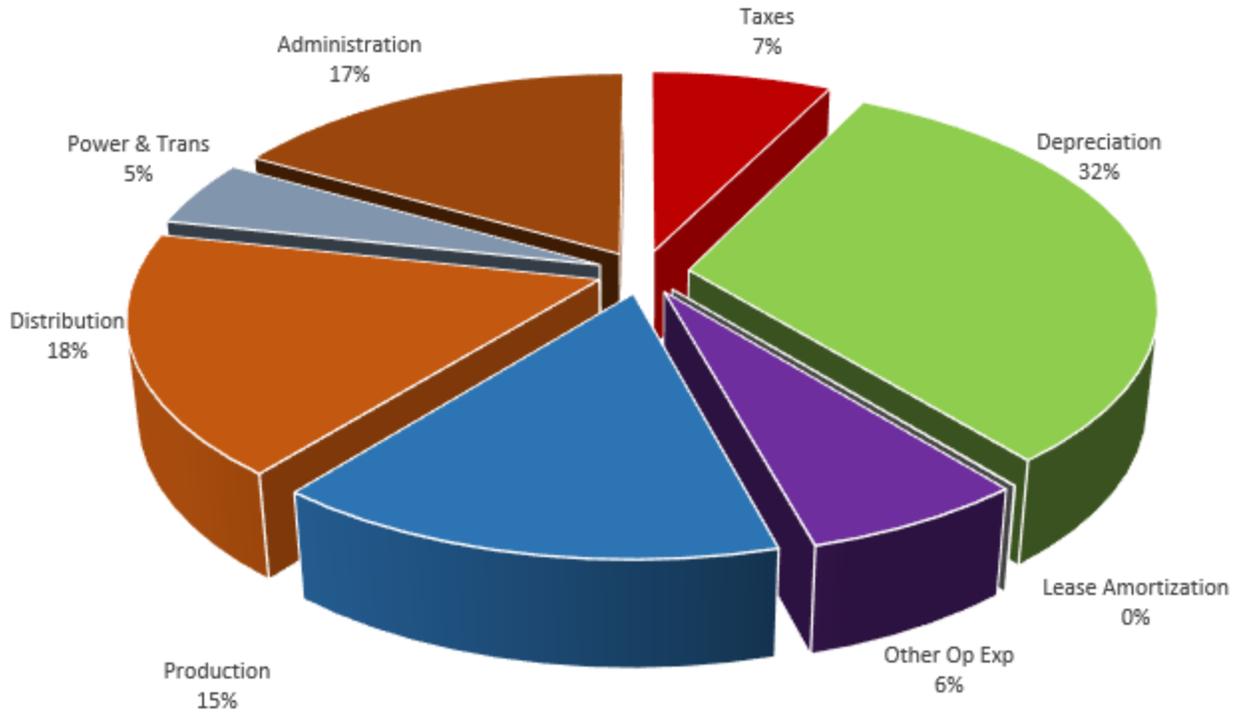
WATER SALES
Year to Date - December 2022
(\$101,188,399)



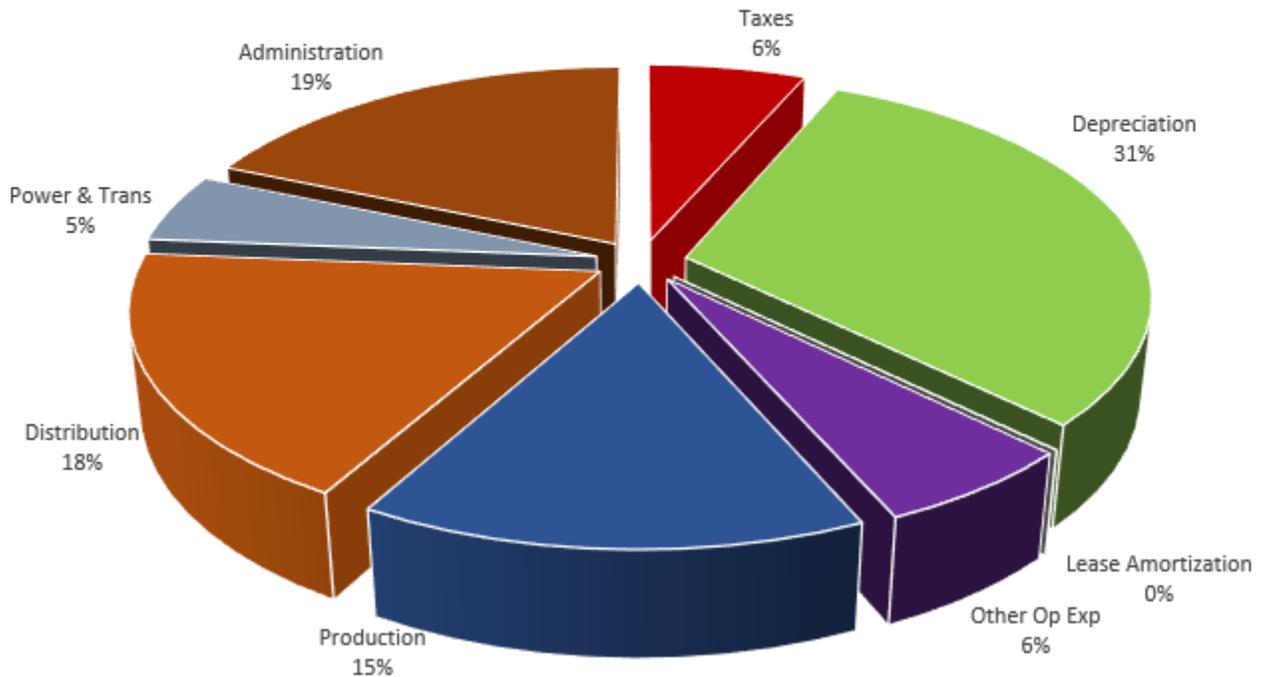
WATER SALES
Year to Date - December 2021
(\$98,999,183)



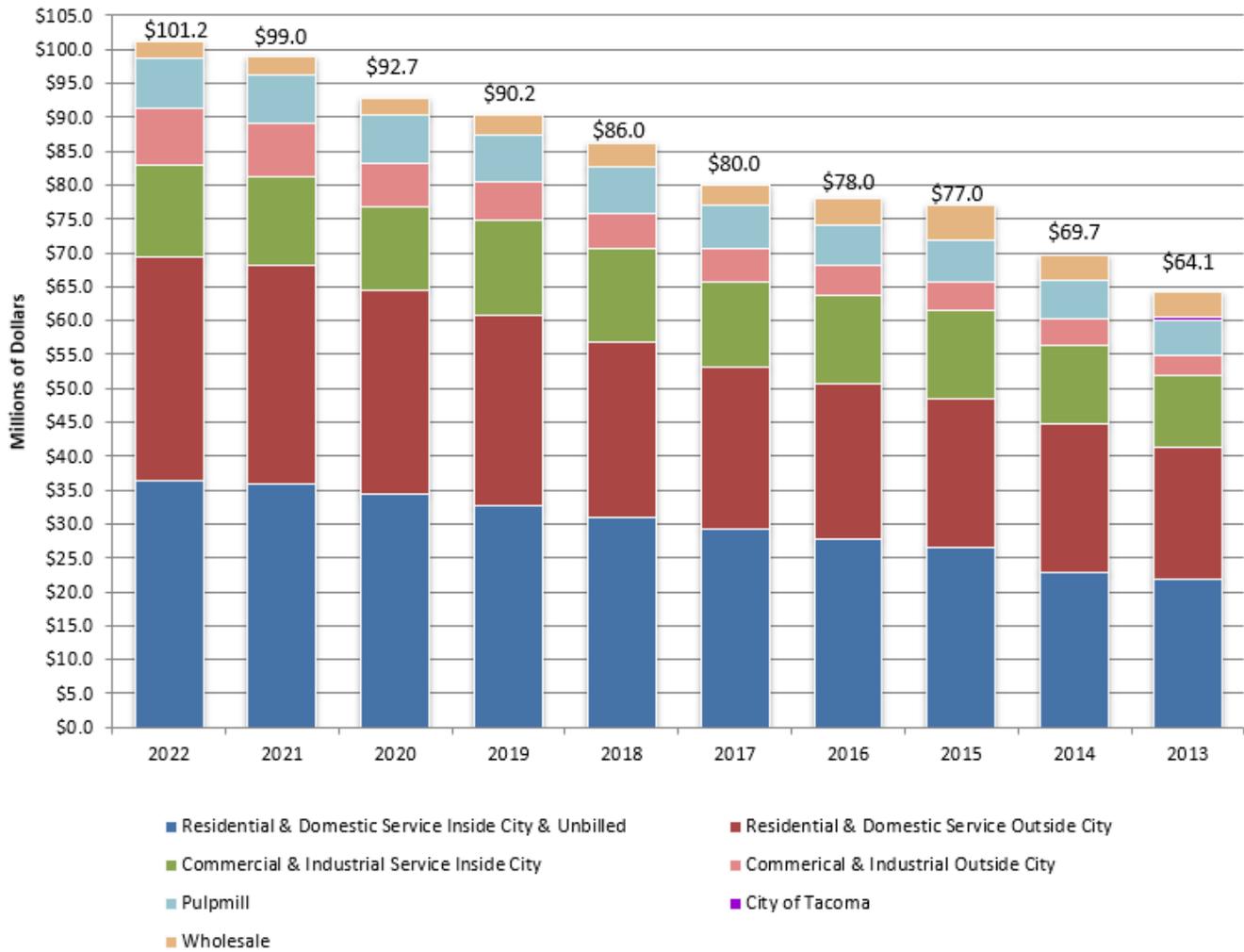
TOTAL OPERATING EXPENSES
Year to Date - December 2022
(\$89,324,804)



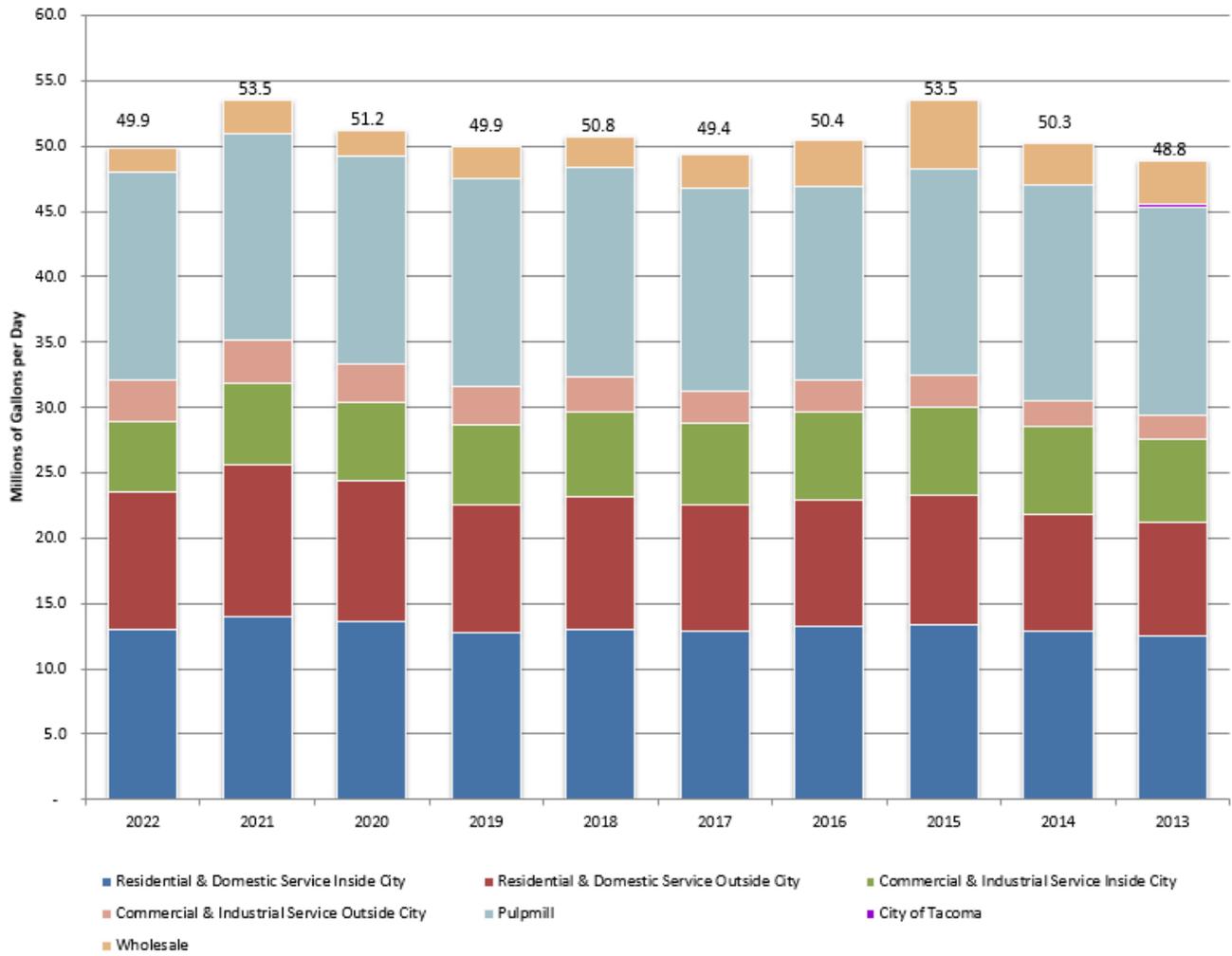
TOTAL OPERATING EXPENSES
Year to Date - December 2021 (Restated)
(\$89,927,690)



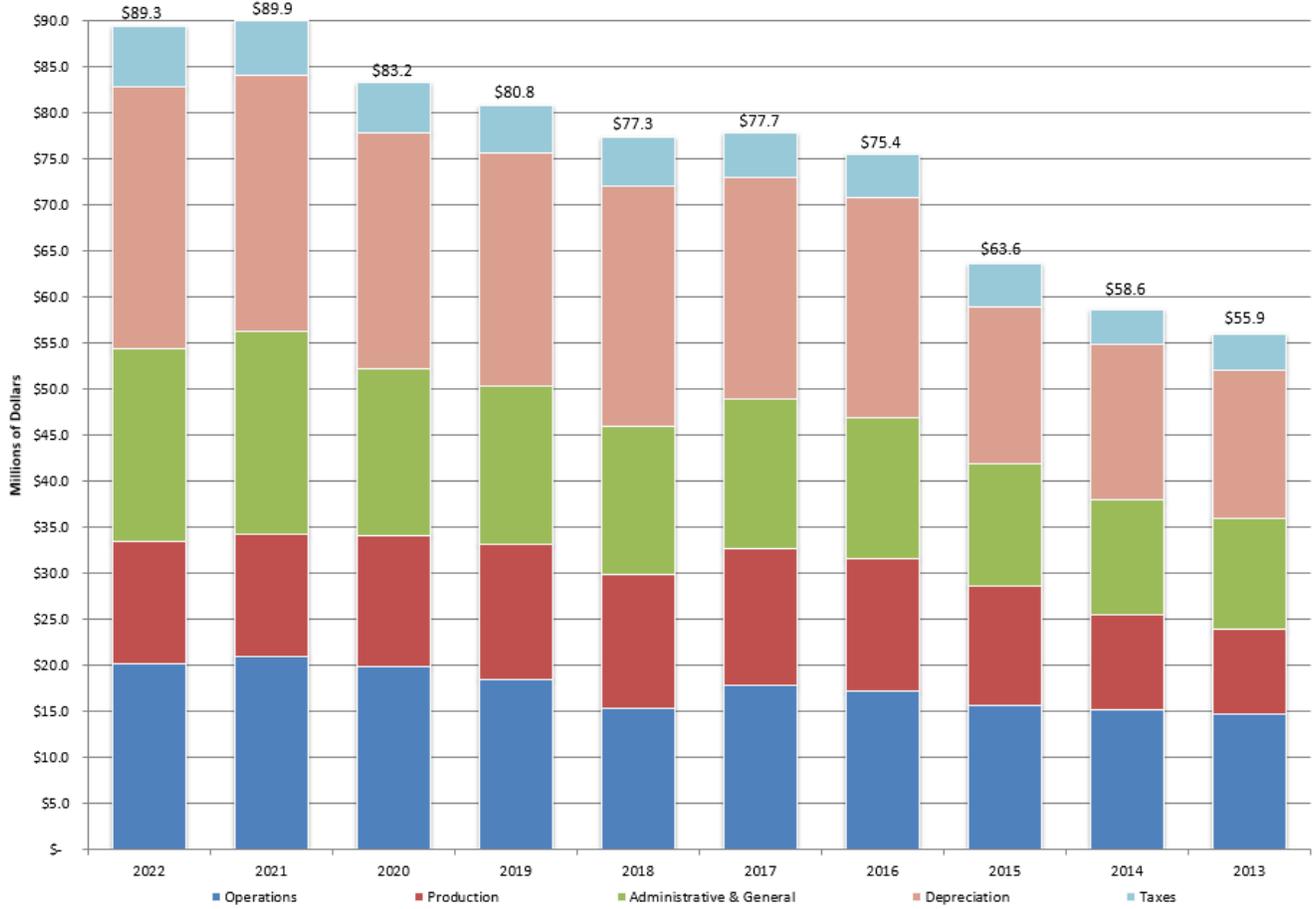
TEN-YEAR SUMMARY OF WATER SALES (MILLIONS OF \$)



TEN-YEAR SUMMARY OF WATER DEMAND (MGD)



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





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