
ANNUAL

TACOMA WATER

2018

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA 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 Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of net pension liability, schedule of employer contributions, and schedule of proportionate share of net OPEB liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic 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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data on pages 49 through 68 and the superintendent's report on pages 69 through 78 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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



Tacoma, Washington
May 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Water's financial performance provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the 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 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, 2018 and 2017, 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

- The net position of Tacoma Water was \$581.7 million in 2018, \$556.8 million in 2017 and \$549.7 million in 2016. Of these amounts, \$61.7 million in 2018, \$58.2 million in 2017, and \$57.1 million in 2016 is reported as Unrestricted net position and is available to finance day-to-day operations without constraints established by debt covenants or other legal requirements.
- Tacoma Water's total net positions increased by \$24.9 (4.5%) million in 2018, \$7.2 (1.3%) million in 2017 and \$7.2 (1.3%) million in 2016.
- Operating revenues were \$102.0 million in 2018, an increase of \$7.3 million (7.7%) compared to 2017 which is primarily due to an average rate increase of 4.0% and an increase in consumption. Operating revenues were \$94.6 million in 2017, an increase of \$1.8 million (2.0%) compared to 2016. While sales and other revenue increased by \$2.1 million from 2016 to 2017, contract resource obligation revenue decreased by \$0.2 million. The decrease in contract resource revenue is primarily due to a shift in focus from building the Green River Filtration Facility to operating the facility and the partners were billed accordingly.

- In 2018, Tacoma Water's net utility plant of \$871.0 million represented a decrease of \$2.5 million (0.3%) compared to the 2017 \$873.5 million balance. This is primarily due to a net increase of \$23.8 million in plant in service offset by an increase in accumulated depreciation of \$21.9 million and a decrease in construction work in progress of \$4.4 million. In 2017, Tacoma Water's net utility plant of \$873.5 million represented a decrease of \$6.0 million (0.7%) compared to the 2016 \$879.5 million balance. This is primarily due to a net increase of \$24.4 million in plant in service offset by an increase in accumulated depreciation of \$21.8 million and a decrease in construction work in progress of \$8.7 million.

Overview of the Financial Statements

Tacoma Water reported net operating income of \$24.7, \$16.9, and \$17.4 million in 2018, 2017 and 2016 respectively. In 2018, operating revenues increased by \$7.3 million and operating expenses decreased by \$0.5 million. For 2017, operating revenues increased by \$1.8 million and operating expenses increased \$2.4 million.

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

Operating Results (In thousands)

Category	2018	2017 (As Restated)	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Operating Revenues	\$ 101,941	\$ 94,644	\$ 92,802	\$ 7,297	\$ 1,842
Operating Expenses	77,284	77,736	75,356	(452)	\$ 2,380
Net Operating Income	24,657	16,908	17,446	7,749	\$ (538)
Net Non-Operating Income (Expense)	(12,178)	(15,342)	(17,395)	3,164	\$ 2,053
Capital Contributions	16,441	9,139	10,274	7,302	\$ (1,135)
Federal BAB Subsidies & Grants	3,596	3,582	3,579	14	\$ 3
Transfers Out	(7,625)	(7,093)	(6,754)	(532)	\$ (339)
Change in Net Position	\$ 24,891	\$ 7,194	\$ 7,150	\$ 17,697	\$ 44

Gallons Billed (In millions)

Type of Customer	2018	2017	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Residential	8,469.9	8,251.3	8,371.3	218.6	(120.0)
Commercial & Industrial	9,169.6	8,838.2	8,763.4	331.4	74.8
Wholesale	885.9	935.5	1,275.6	(49.6)	(340.1)
Total	18,525.4	18,025.0	18,410.3	500.4	(385.3)

Net Position

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

Statements of Net Position (In thousands)

Description	2018	2017 (As Restated)	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 871,501	\$ 874,012	\$ 880,041	\$ (2,511)	\$ (6,029)
Current & Other Assets	244,134	229,630	228,621	14,504	1,009
Total Assets	1,115,635	1,103,642	1,108,662	11,993	(5,020)
Deferred Outflows	5,882	10,114	10,623	(4,232)	(509)
Total Assets & Deferred Outflows	\$ 1,121,517	\$ 1,113,756	\$ 1,119,285	\$ 7,761	\$ (5,529)
Net Position:					
Net Investment in Capital Assets	\$ 449,840	\$ 445,995	\$ 446,518	\$ 3,845	\$ (523)
Restricted for:					
Water Capital and Sys Dev Chg	64,770	50,149	43,534	14,621	6,615
Debt Service Funds	1,995	2,506	2,496	(511)	10
Net Pension Asset	3,438	-	-	3,438	-
Unrestricted	61,695	58,196	57,104	3,499	1,092
Total Net Position	581,738	556,846	549,652	24,892	7,194
Long-Term Debt	447,563	463,619	478,617	(16,056)	(14,998)
Current & Other LT Liabilities	50,734	55,931	54,919	(5,197)	1,012
Total Liabilities	498,297	519,550	533,536	(21,253)	(13,986)
Deferred Inflows	41,482	37,360	36,097	4,122	1,263
Total Net Position, Liabilities & Deferred Inflows	\$ 1,121,517	\$ 1,113,756	\$ 1,119,285	\$ 7,761	\$ (5,529)

Revenues

Tacoma Water's operating revenues were \$102.0 million in 2018, an increase of \$7.3 million (7.7%) compared to 2017. Sales of water increased in 2018 by a net of \$6.0 million of which \$3.8 million is due to an average rate increase of 4.0% effective January 1, 2018 and an increase in usage of \$2.2 million. This is offset by a decrease in contract resource obligations of \$0.2 million from Regional Water Second Supply (RWSS) Partners to reimburse Tacoma Water for O&M related expenses.

Tacoma Water's operating revenues were \$94.6 million in 2017, an increase of \$1.8 million (2.0%) compared to 2016. Sales of water increased in 2017 by a net of \$2.0 million of which \$3.7 million is due to an average rate increase of 4.0% effective April 1, 2017 and a decrease in usage of \$1.7 million. This is offset by a decrease in contract resource obligations of \$0.2 million 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 2018, 2017 and 2016.

Water Sales (In thousands)

Type of Customer	2018	2017	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Residential & Domestic	\$ 56,391	\$ 52,540	\$ 50,742	\$ 3,851	\$ 1,798
Commercial & Industrial	19,056	17,409	17,559	1,647	(150)
Special Rate	6,874	6,322	5,846	552	476
Wholesale	3,253	3,069	3,972	184	(903)
Unbilled Revenue	473	660	(138)	(187)	798
Total	<u>\$ 86,047</u>	<u>\$ 80,000</u>	<u>\$ 77,981</u>	<u>\$ 6,047</u>	<u>\$ 2,019</u>

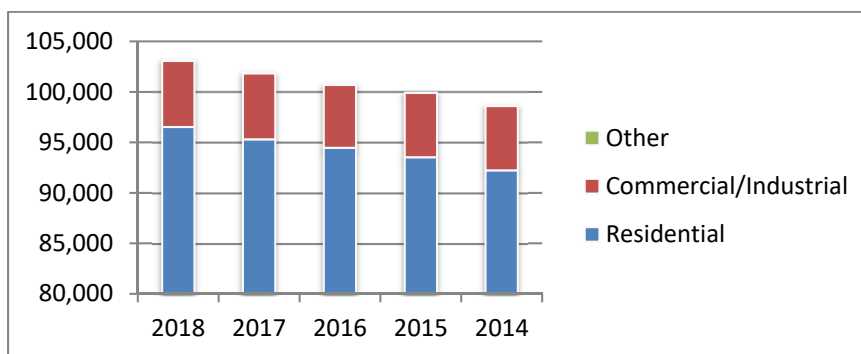
Approximately 65.5%, 65.7% and 65.1% of water sales were to residential and domestic customers in 2018, 2017, and 2016 respectively. Commercial and industrial sales were 22.2%, 21.8%, and 22.5% total sales for each year. Special rate sales were 8.0%, 7.9%, and 7.5% of sales respectively.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2018, 93.6% of all customers were residential compared to 93.6% in 2017 and 93.8% in 2016. Commercial and industrial customers were 6.4% of all customers in 2018, 6.4% in 2017 and 6.2% in 2016.

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

Number of Customers



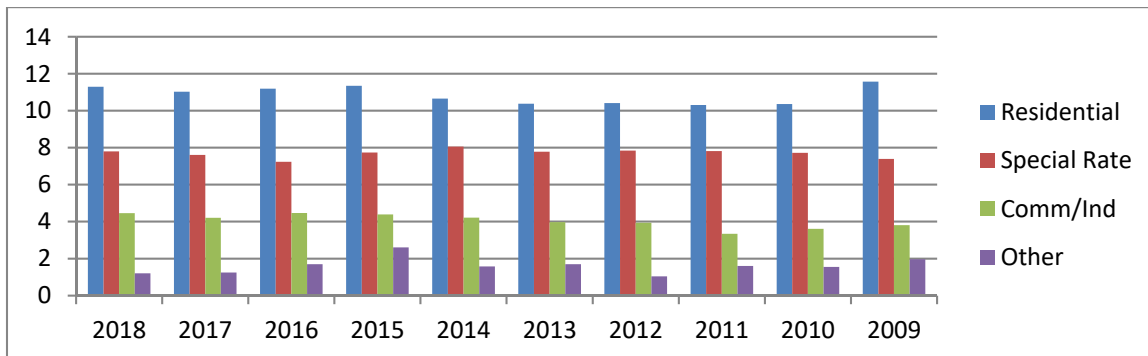
Water Users

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 2018, 2017, and 2016 residential customers used 11.3 million CCF (45.7%), 11.0 million CCF (45.8%) and 11.2 million CCF (45.5%) of total sales respectively. Special Rate customers used approximately 7.8 million CCF (31.5%), 7.6 million CCF (31.6%) and 7.2 million CCF (29.4%) respectively. Commercial and industrial customers used 4.5 million CCF (18.0%), 4.2 million CCF (17.4%) and 4.5 million CCF (18.2%) respectively. The remaining 1.2

million CCF (4.8%), 1.3 million CCF (5.2%) and 1.7 million CCF (6.9%) 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

2018 Compared to 2017

In 2018, operating expenses decreased \$0.5 million (0.6%), compared to an increase of \$2.4 million (3.2%) in 2017.

Contributing to the decrease in operating expense related to adjustments from pension items causing a decrease of \$5.4 million allocated across the Division in labor expense as follows: Source \$1.1 million, Treatment \$0.8 million, Transmission \$0.2 million, Distribution \$2.5 million, and Admin & General \$0.8 million.

While overall expenses decreased, professional services increased \$1.6 million due to the completion of the Integrated Resource Plan (IRP) as well as various condition assessments and the completion of the Puyallup River Bridge Crossing. The increase affected Source of Supply by \$0.7 million, Transmission by \$0.2 million, Distribution by \$0.2 million, and Admin & General by \$0.5 million.

Depreciation expense increased by \$2.1 million (8.7%) in 2018 due to a net increase in depreciable assets of \$24.4 million during 2017.

2017 Compared to 2016

In 2017, operating expenses increased \$2.4 million (3.2%), compared to an increase of \$11.8 million (18.5%) in 2016.

Two major projects totaling \$0.8 million took place in 2017 contributing to the increase in operating expense: the IRP and the Water System Plan. The IRP will be used by Tacoma Water to enhance the ability to manage water resources. The plan will evaluate Tacoma Water's groundwater sources and help to decide where additional focus may be needed. In addition, the IRP will develop a water supply yield model that will look at both short and

long-term use and be able to look at yield under several different scenarios. The Department of Health requires the creation of a Water System Plan every 10 years. Tacoma Water uses input from stakeholders and the public to create the plan which is meant to provide an overview of the system as well as outline the different parts of the system, changes from the last plan and projects planned for the future. The increase affected Source of Supply by \$0.3 million, Treatment by \$0.1 million, and Admin & General by \$0.4 million.

Depreciation expense increased by \$0.2 million (0.9%) in 2017 due to a net increase in depreciable assets of \$15.5 million during 2016.

In 2017, adjustments related to pension items resulted in an increase in expense of \$0.6 million. This expense was allocated across the Division causing increases in labor expense as follows: Source \$0.1 million, Treatment \$0.1 million, Distribution \$0.3 million, and Admin & General \$0.1 million.

The remaining \$0.9 million was not attributable to a specific project but an overall increase in various expenses.

The following table highlights Tacoma Water's operating expenses for 2018 – 2016.

Operating Expenses					
(In thousands)					
Category	2018	2017 (As Restated)	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Production Expense					
Source of Supply	\$ 7,878	\$ 7,657	\$ 7,541	\$ 221	\$ 116
Water Treatment	6,548	7,144	6,794	(596)	350
Total Production Expense	14,426	14,801	14,335	(375)	466
Power Pumping Expense	598	558	559	40	(1)
Transmission & Storage Expense	2,493	2,633	2,770	(140)	(137)
Distribution Expense	12,305	14,691	13,882	(2,386)	809
Customer Accounting & Service	5,240	5,017	4,830	223	187
Taxes	5,274	4,776	4,639	498	137
Depreciation	26,118	24,038	23,823	2,080	215
Administrative & General	10,830	11,222	10,518	(392)	704
Total Operating Expenses	\$ 77,284	\$ 77,736	\$ 75,356	\$ (452)	\$ 2,380

Capital Assets

Tacoma Water invests in a broad range of utility assets and at the end of 2018 had \$871.0 million in net utility plant, a decrease of \$2.5 million from 2017.

Plant in Service increased \$23.8 million compared to 2017. This increase is primarily due to the increase of \$12.0 million in cast iron mains, \$3.8 million in services, pipes and accessories, \$2.7 million in meters, \$1.4 million in hydrants, \$1.5 million in the permanent decant facility, and \$1.0 million in structure and improvements for pipeline number 1 at Deep Creek. Also in 2018, 10.6 net miles of water main were added or replaced and construction was completed on 27 private contracts resulting in 10.9 net miles.

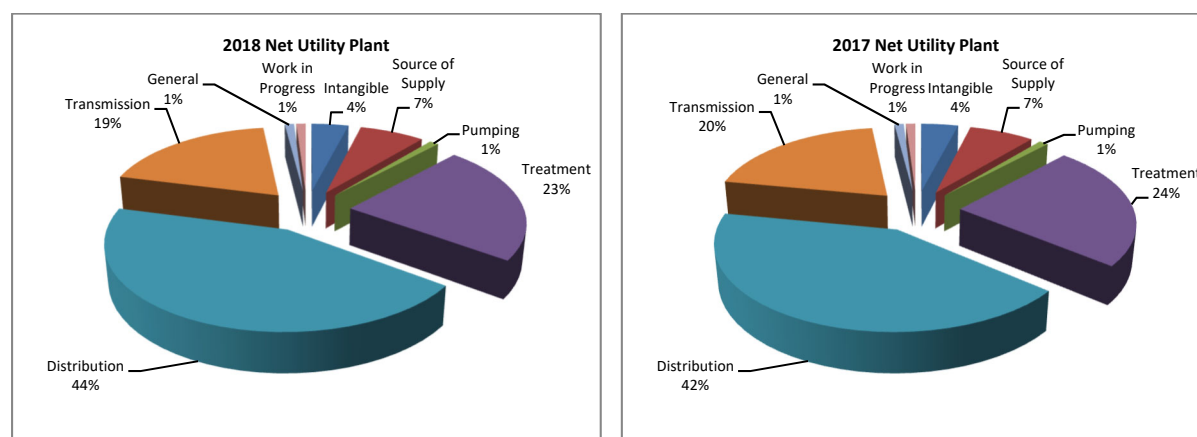
At the end of 2017 Tacoma Water had \$873.5 million in net utility plant, a decrease of \$6.0 million from 2016. Plant in Service increased \$24.4 million compared to 2016. In 2017, 9.5 miles of water main were added or replaced and construction was completed on 25 private contracts resulting in 7.34 miles. The \$21.8 million increase in accumulated depreciation is due to the net increase in Plant in Service in 2016 of \$15.5 million.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for 2018 – 2016.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2018	2017	2016	18/17 Increase (Decrease)	17/16 Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 37,358	\$ 36,922	\$ 36,581	\$ 436	\$ 341
Source of Supply Plant	57,048	58,872	60,348	(1,824)	(1,476)
Pumping Plant	5,488	5,362	5,448	126	(86)
Water Treatment Plant	200,493	210,052	206,273	(9,559)	3,779
Transmission Plant	170,388	172,672	176,439	(2,284)	(3,767)
Distribution Plant	379,876	365,830	361,693	14,046	4,137
General Plant	12,834	11,907	12,194	927	(287)
Construction Work In Progress	7,523	11,902	20,572	(4,379)	(8,670)
Total	<u>\$ 871,008</u>	<u>\$ 873,519</u>	<u>\$ 879,548</u>	<u>\$ (2,511)</u>	<u>\$ (6,029)</u>

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investments in 2018 and 2017.



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

Debt Administration

At December 31, 2018 Tacoma Water had outstanding revenue bond obligations of \$376.5 million (net of unamortized bond premiums), a decrease of \$7.9 million compared to 2017. As of year-end 2017, the Utility had outstanding revenue bond obligations of \$384.4 million (net of unamortized bond premiums), a decrease of \$7.8 million compared to 2016.

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 3.24, 2.33, and 2.29 in 2018, 2017 and 2016 respectively.

At the end of 2018, Tacoma Water had an outstanding State loan balance of \$85.6 million compared to \$92.6 million in 2017 and \$99.5 million in 2016.

Additional information on Tacoma Water's long-term debt can be found in Note 5 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.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

	DECEMBER 31,	
	2018	2017 (As Restated)
ASSETS AND DEFERRED OUTFLOWS		
UTILITY PLANT		
In Service, at Original Cost	\$1,122,191,727	\$1,098,436,212
Less - Accumulated Depreciation	(258,706,369)	(236,819,423)
Total	863,485,358	861,616,789
Construction Work In Progress	7,523,075	11,901,984
Net Utility Plant	871,008,433	873,518,773
NON-UTILITY PROPERTY	492,963	492,963
SPECIAL FUNDS		
Construction Funds	24,023,847	32,591,351
Debt Service Funds	3,829,716	4,366,165
Bond Reserve Funds	22,001,861	21,969,849
System Development Charge Fund	68,588,649	61,645,713
Other Cash & Equity in Pooled Investments	41,560,872	33,389,300
Total Special Funds	160,004,945	153,962,378
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	62,263,679	59,076,540
Accounts Receivable	5,677,615	5,312,300
(Net of Allowance for Doubtful Accounts		
of \$235,119 in 2018 and \$526,979 in 2017)		
BABs Interest Subsidies Receivable	300,223	298,940
Accrued Unbilled Revenues	5,930,220	5,457,221
Materials and Supplies	2,469,505	2,403,305
Interfund Receivable	756,845	69,262
Prepayments.....	2,061,872	1,239,676
Total Current Assets	79,459,959	73,857,244
OTHER ASSETS		
Regulatory Asset-Public Fire Protection Fees	-	456,635
Regulatory Asset-Surcharges	1,230,816	1,353,795
Net Pension Asset	3,438,481	-
Total Other Assets	4,669,297	1,810,430
TOTAL ASSETS	1,115,635,597	1,103,641,788
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	1,176,183	1,363,428
Deferred Outflows for Pensions	4,409,587	8,671,039
Deferred Outflows for OPEB	295,709	79,421
Total Deferred Outflows of Resources	5,881,479	10,113,888
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$1,121,517,076</u>	<u>\$1,113,755,676</u>

The accompanying notes are an integral part of these financial statements

	DECEMBER 31,	
	2018	2017 (As Restated)
NET POSITION, LIABILITIES AND DEFERRED INFLOWS		
NET POSITION		
Net Investment in Capital Assets	\$449,840,004	\$445,995,256
Restricted for:		
Water Capital and System Development Charge	64,770,212	50,149,083
Debt Service Funds	1,995,011	2,506,278
Net Pension Asset	3,438,481	-
Unrestricted	61,694,649	58,195,864
Total Net Position	581,738,357	556,846,481
LONG-TERM DEBT		
Revenue Bonds	368,866,796	377,995,249
Public Works Trust Fund Loans	17,314,465	20,011,236
Drinking Water State Revolving Fund Loan	61,381,554	65,612,800
Total Long-Term Debt	447,562,815	463,619,285
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	14,538,017	13,378,017
Current Maturities of Long-Term Liabilities	176,932	181,355
Accrued Taxes	1,819,063	1,556,338
Accrued Expenses and Contracts Payable	1,952,946	1,369,234
Salaries, Wages and Fringe Benefits Payable	800,231	725,775
Interest Payable	1,834,705	1,859,887
Customers' Deposits	343,367	356,929
Interfund Payables	1,565,741	1,096,829
Total Current Liabilities	23,031,002	20,524,364
LONG-TERM LIABILITIES		
Muckleshoot Agreements	6,585,519	6,762,451
Customer Advances for Construction	6,779,253	5,905,910
Unearned Revenue	7,270,183	7,609,819
Long-Term Accrued Compensated Absences	2,197,439	2,068,503
Net Pension Liability	-	8,278,522
Net OPEB Liability	3,780,897	3,492,067
Other Long-Term Liabilities	1,089,901	1,289,085
Total Long-Term Liabilities	27,703,192	35,406,357
TOTAL LIABILITIES	498,297,009	519,550,006
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
Deferred Inflows for Pensions	5,853,098	1,783,742
Deferred Inflows for OPEB	53,165	-
Total Deferred Inflows of Resources	41,481,710	37,359,189
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,121,517,076	\$1,113,755,676

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
OPERATING REVENUES		
Sale of Water	\$86,047,481	\$79,999,893
Other Operating Revenues	11,467,031	10,059,774
Contract Resource Obligation Revenues	4,426,947	4,584,754
Total Operating Revenues	101,941,459	94,644,421
OPERATING EXPENSES		
Operations	15,396,131	17,881,176
Production	14,426,404	14,801,501
Administrative and General	16,069,679	16,239,293
Depreciation	26,117,843	24,038,103
Taxes	5,273,751	4,776,164
Total Operating Expenses	77,283,808	77,736,237
Net Operating Income	24,657,651	16,908,184
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	3,876,762	1,762,813
Other	3,215,049	1,216,295
Interest on Long-Term Debt (Net of AFUDC)	(20,600,723)	(19,675,339)
Amortization of Premium and Loss on Refunding ..	1,331,209	1,354,254
Total Non-Operating Expenses	(12,177,703)	(15,341,977)
Net Income Before Capital Contributions and Transfers	12,479,948	1,566,207
Capital Contributions		
Cash	11,114,722	5,510,752
Donated Fixed Assets	5,326,027	3,627,682
Federal BAB Subsidies	3,596,241	3,582,475
Transfers		
City of Tacoma Gross Earnings Tax	(7,695,412)	(7,143,861)
Transfer to/from Other Funds	70,350	51,000
CHANGE IN NET POSITION	24,891,876	7,194,255
NET POSITION - BEGINNING OF YEAR	556,846,481	549,652,226
TOTAL NET POSITION - END OF YEAR	<u>\$581,738,357</u>	<u>556,846,481</u>

The accompanying notes are an integral part of these financial statements

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$101,669,197	\$95,231,637
Cash Paid to Suppliers	(23,224,687)	(21,982,429)
Cash Paid to Employees	(26,247,978)	(26,055,764)
Taxes Paid	(5,011,026)	(4,712,302)
Net Cash From Operating Activities	47,185,506	42,481,142
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	70,350	51,000
Transfer Out for Gross Earnings Tax	(7,695,412)	(7,143,861)
Net Cash From Non-Capital Financing Activities	(7,625,062)	(7,092,861)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(19,129,503)	(14,041,704)
Principal Payments on Long-Term Debt	(13,378,017)	(13,153,019)
Principal Payments on Muckleshoot LT Liability ...	(181,355)	(185,889)
Interest Paid	(19,777,878)	(20,053,586)
BABs Federal Interest Subsidies	3,594,958	3,581,515
Contributions in Aid of Construction	11,114,722	5,510,752
System Development Charges & Other LT Liabilities.	334,524	1,417,379
Net Cash From Capital and Related Financing Activities	(37,422,549)	(36,924,552)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	3,876,762	1,762,813
Other Net Non-Op Revenues and Expenses	3,215,049	1,216,295
Net Cash From Investing Activities	7,091,811	2,979,108
Net Change in Cash and Equity in Pooled Investments	9,229,706	1,442,837
Cash & Equity in Pooled Investments at January 1 ...	213,038,918	211,596,081
Cash & Equity in Pooled Investments at December 31 .	\$222,268,624	\$213,038,918

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

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$24,657,651	\$16,908,184
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	26,117,843	24,038,103
Pension (Credits) Expense	(3,386,195)	2,075,803
OPEB (Credits) Expense	125,707	27,997
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(838,314)	(476,036)
Interfund Receivables	(687,583)	38,708
Regulatory Asset-Public Fire Protection Fees	456,635	840,366
Regulatory Asset-Surcharges.....	122,979	215,682
Materials and Supplies	(66,200)	(61,757)
Prepayments	(822,196)	(121,614)
Accrued Taxes	262,725	63,862
Salaries, Wages and Fringe Benefits Payable	74,456	45,128
Long-Term Accrued Compensated Absences	128,936	(359,872)
Customers' Deposits	(13,562)	7,204
Accrued Expenses and Contracts Payable	583,712	(178,556)
Interfund Payables	468,912	(582,060)
Total Adjustments	22,527,855	25,572,958
Net Cash From Operating Activities	<u>\$47,185,506</u>	<u>\$42,481,142</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$160,004,945	\$153,962,378
Cash and Equity in Pooled Investments in Operating Funds	62,263,679	59,076,540
Cash and Equity in Pooled Investments at December 31	<u>\$222,268,624</u>	<u>\$213,038,918</u>

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

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

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 Comprehensive Annual Financial Report (CAFR) of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations such as system expansion, issuance of bonds and 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 supplies water to approximately 103,116 customers and had 247 employees as of December 31, 2018. 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. Tacoma Water is organized functionally as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Asset and Information Management, and Water Finance and Analytics.

WATER DISTRIBUTION ENGINEERING – To plan, forecast and model distribution system expansion and renewal and replacements; engineer, design, and oversee construction of mains, hydrants, services, meters, pressure reducing valves and pressure zones; provide excellent customer service and key account management; support growth and development through coordination, permitting and contracting; promote water conservation through outreach and customer programs.

WATER DISTRIBUTION OPERATIONS – To effectively operate and maintain the various components of the distribution system including mains, hydrants, valves, services and meters; to respond to and repair main breaks and leaks; to install new services and hydrants as needed for development; to manage the warehouse and materials purchasing; to provide customer service for outages and all other water service issues; to oversee and manage the apprenticeship program; and to provide effective leadership for Tacoma Water's safety program.

WATER QUALITY – To manage, operate and maintain the Green River Filtration Facility, Headworks, and Watershed, assure natural resource management of Water utility lands including the Watershed, provide for fish and wildlife habitat management, install, operate and maintain water treatment equipment within the system, respond to all matters relating to water quality from the source to the customer, monitor for contaminants to assure regulatory compliance, coordinate changing water system security needs and participate in shaping water quality legislation and regulations.

WATER SUPPLY – Designs, constructs, operates and maintains the following of the City's water supply structures: transmission mains and appurtenances, rights-of-ways, wells, pump stations and other mechanical/electrical equipment, storage tanks and reservoirs, pressure reducing stations, Tacoma Water buildings and properties, communication and telemetry systems (including the Water Control Center), corrosion control facilities, and administers water rights and tracks water system security issues, while overseeing and managing Tacoma Water's emergency preparedness and coordinating with outside agencies.

WATER ASSET AND INFORMATION MANAGEMENT – Prepares system and strategic plans, supports Tacoma Water's Geographic Information System and Hydraulic Model operating technologies, promotes use and maturity of TPU information technologies, and oversees asset management implementation which incorporates risk, levels of service, and lifecycle costs into the Tacoma Water decision making process.

WATER FINANCE AND ANALYTICS – Is responsible for the utility's long range financial plan, rate and charge development, budget development and reporting, and rate and financial policies. This group provides financial, supply and demand, and customer analytics and reports to support decision-making by executive management, policymakers and the RWSS Partners. It also develops and administers special retail and wholesale water supply agreements in pursuit of the utility's strategic objectives. Starting in 2018, the group set up a Programs and Analytics group that is currently engaged in enterprise efforts to improve the organization's maturity in the areas of performance management and analytics.

REGIONAL WATER SUPPLY SYSTEM – The Regional Water Supply System (RWSS) is a partnership formed by Tacoma, the City of Kent, Covington Water District and Lakehaven Utility 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 has a 15/36 Participant Share and each of the others have a 7/36 Participant Share. A Participant Share represents a Participant's proportional right to receive water delivered by the Second Supply Project and represents a Participant's obligation to pay project costs, including Fixed and Variable Operation & Maintenance Costs, Initial Project Construction Costs and ongoing Capital Expenditures. Tacoma, consistent with the Project Agreement, is the owner and operator of the Second Supply Project.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION – The financial statements of the Division are prepared under the accrual basis of accounting in accordance with 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 State Auditor's Office.

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, East West Bank and Opus Bank.

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

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

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the 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 2A7 fund and is collateralized by short-term legal investments.

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 31st.

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

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

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.

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.

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

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.

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
Pumping 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.

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

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.

REGULATORY ASSETS – The Division has deferred Public Fire Protection Fees, Hyada Surcharges, Andrain Surcharges and Curran Road Surcharges to future periods matching the time when the revenues and expenses 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.

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.

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.

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 1.5% 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 liabilities is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

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

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

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

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

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

USE OF ESTIMATES – The preparation of the financial statements in conformity with 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, accrued compensated absences, depreciation, Other Post Employment Benefit (OPEB), pension, self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

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.

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

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. Specifically, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. Requirements were also established for note disclosures and required supplemental information. The Division has made the required

adjustments as prescribed by GASB Statement No. 75. As a result of this implementation the Net OPEB Obligation was replaced by the total OPEB Liability resulting in a restatement of the December 31, 2017 balances. For further information, please see Note 12 Restatements of 2017 Balances.

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

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

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

The fair value evaluations are provided by Interactive Data.

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

Tacoma Water's share of the City Investments shown in the table above is 20.94% and 23.01% for 2018 and 2017.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 UTILITY PLANT

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

	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Intangible Plant	\$ 36,922,339	\$ 661,712	\$ (226,071)	\$ -	\$ 37,357,980
Source of Supply Plant	85,952,371	214,174	-	-	86,166,545
Pumping Plant	9,702,016	371,417	-	-	10,073,433
Water Treatment Plant	242,847,739	243,886	-	-	243,091,625
Transmission Facilities	229,573,258	1,503,770	-	-	231,077,028
Distribution Facilities	456,556,957	20,004,147	(1,278,794)	-	475,282,310
General Plant	36,881,532	2,373,846	(144,687)	32,115	39,142,806
Total Water Plant in Service	1,098,436,212	25,372,952	(1,649,552)	32,115	1,122,191,727
Less Accumulated Depreciation	(236,819,423)	(26,117,843)	1,423,481	2,807,416	(258,706,369)
	861,616,789	(744,891)	(226,071)	2,839,531	863,485,358
Construction Work in Progress	11,901,984	23,367,912	-	(27,746,821)	7,523,075
Net Utility Plant	\$ 873,518,773	\$ 22,623,021	\$ (226,071)	\$ (24,907,290)	\$ 871,008,433

	Balance December 31, 2016	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2017
Intangible Plant	\$ 36,581,485	\$ 561,168	\$ (220,314)	\$ -	\$ 36,922,339
Source of Supply Plant	85,484,873	467,498	-	-	85,952,371
Pumping Plant	9,543,873	158,143	-	-	9,702,016
Water Treatment Plant	230,820,998	12,026,741	-	-	242,847,739
Transmission Facilities	230,989,672	7,250	(1,423,664)	-	229,573,258
Distribution Facilities	444,794,626	12,355,245	(592,914)	-	456,556,957
General Plant	35,782,039	1,107,115	-	(7,622)	36,881,532
Total Water Plant in Service	1,073,997,566	26,683,160	(2,236,892)	(7,622)	1,098,436,212
Less Accumulated Depreciation	(215,021,698)	(24,038,103)	2,005,998	234,380	(236,819,423)
	858,975,868	2,645,057	(230,894)	226,758	861,616,789
Construction Work in Progress	20,571,782	20,188,617	-	(28,858,415)	11,901,984
Net Utility Plant	\$ 879,547,650	\$ 22,833,674	\$ (230,894)	\$ (28,631,657)	\$ 873,518,773

Total Water Plant in Service includes non-depreciable assets of \$60,017,820 for 2018 and \$59,468,271 for 2017. The total amount of interest incurred and capitalized is \$468,833 for 2018 and \$492,012 for 2017.

NOTE 5 LONG-TERM DEBT

The Division's Long-term Liabilities are primarily for the purpose of capital improvements. Long-term debt activities for 2018 and 2017 were as follows:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Revenue Bonds	\$ 372,400,000	\$ -	\$ (6,450,000)	\$ 365,950,000	\$ 7,610,000
Plus: Unamortized Premium	12,045,249	-	(1,518,453)	10,526,796	-
Net Revenue Bonds	384,445,249	-	(7,968,453)	376,476,796	7,610,000
Public Works Trust Fund Loans	22,708,007	-	(2,696,771)	20,011,236	2,696,771
Drinking Water State Revolving Fund Loans	69,844,046	-	(4,231,246)	65,612,800	4,231,246
Total Long-Term Debt	<u>\$ 476,997,302</u>	<u>\$ -</u>	<u>\$ (14,896,470)</u>	<u>\$ 462,100,832</u>	<u>\$ 14,538,017</u>
	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Revenue Bonds	\$ 378,625,000	\$ -	\$ (6,225,000)	\$ 372,400,000	\$ 6,450,000
Plus: Unamortized Premium	13,665,146	-	(1,619,897)	12,045,249	-
Net Revenue Bonds	392,290,146	-	(7,844,897)	384,445,249	6,450,000
Public Works Trust Fund Loans	25,404,777	-	(2,696,770)	22,708,007	2,696,771
Drinking Water State Revolving Fund Loans	74,075,293	-	(4,231,247)	69,844,046	4,231,246
Total Long-Term Debt	<u>\$ 491,770,216</u>	<u>\$ -</u>	<u>\$ (14,772,914)</u>	<u>\$ 476,997,302</u>	<u>\$ 13,378,017</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

SENIOR LIEN BONDS

	2018	2017
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
2010A Water System Revenue Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$3,935,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000 Current Portion: \$4,100,000	21,890,000	25,825,000
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 \$290,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000 Current Portion: \$300,000	1,955,000	2,245,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SENIOR LIEN BONDS CONTINUED

	<u>2018</u>	<u>2017</u>
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 6)		
Original Issue: \$44,245,000	44,245,000	44,245,000
Current Portion: \$0		
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	74,355,000	74,355,000
Current Portion: \$0		
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 \$765,000 to \$6,425,000 through 2032. (See Note 6)		
Original Issue: \$64,795,000	59,400,000	60,165,000
Current Portion: \$1,690,000		
2015A Water System Refunding Bonds with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,460,000 to \$2,025,000 through 2025.		
Original Issue: \$16,645,000	12,340,000	13,800,000
Current Portion: \$1,520,000		
2015B Water System Refunding Bonds with interest rate of 1.15%, final installment due in the amount of \$1,785,000 in 2017.		
Original Issue: \$6,365,000	-	-
Current Portion: \$0		
Subtotal Sr. Lien Debt	\$ 365,950,000	\$ 372,400,000
Unamortized Premium	10,526,796	12,045,249
Less Current Portion of Revenue Bond Debt	(7,610,000)	(6,450,000)
Long-term Portion of Revenue Bond Debt	<u>\$ 368,866,796</u>	<u>\$ 377,995,249</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

Year	Principal	Interest
2019	7,610,000	18,428,169
2020	7,950,000	18,094,669
2021	8,355,000	17,703,369
2022	8,725,000	17,333,569
2023	8,695,000	16,900,619
2024-2028	51,255,000	77,539,644
2029-2033	65,815,000	63,457,699
2034-2038	91,620,000	42,676,369
2039-2043	115,925,000	15,516,808
	<u>\$ 365,950,000</u>	<u>\$ 287,650,915</u>

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, 2018.

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.

JUNIOR LIEN DEBT

	2018	2017
Public Works Trust Fund Loans		
2001 Public Works Trust Fund pre-construction loan for the Second Supply Project (SSP) Howard Hanson Dam Additional Storage Project, with interest of .5% per annum, due in yearly installments of \$52,632 through 2021.	\$ 157,894	\$ 210,526
2001 Public Works Trust Fund construction loan for the SSP, with interest of .5% per annum, due in yearly installments of \$533,333 through 2021.	1,600,000	2,133,334
2002 Public Works Trust Fund pre-construction loan for Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$54,180 through 2021.	162,538	216,718

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2018	2017
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.	2,125,000	2,656,250
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.	320,175	373,538
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.	2,964,706	3,335,294
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.	5,458,699	6,004,569
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.	7,222,222	7,777,778
Drinking Water State Revolving Fund Loans		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,052 through 2021.	483,158	644,211
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,108 through 2028.	2,151,084	2,366,192
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	5,139,231	5,506,318
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	4,242,000	4,545,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	<u>2018</u>	<u>2017</u>
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.	4,873,263	5,177,842
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,524 through 2033.	1,822,855	1,944,378
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.	5,151,000	5,454,000
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.	10,302,000	10,908,000
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.	10,302,000	10,908,000
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.	10,302,000	10,908,000
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.	<u>10,844,211</u>	<u>11,482,105</u>
Subtotal Junior Lien Debt	85,624,036	92,552,053
Less Current Portion of Debt	<u>(6,928,017)</u>	<u>(6,928,017)</u>
Long-term Portion of Junior Lien Debt	<u><u>\$ 78,696,019</u></u>	<u><u>\$ 85,624,036</u></u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Scheduled principal maturities of junior lien debt and interest payments are as follows:

Year	Principal	Interest
2019	6,928,017	1,009,163
2020	6,928,017	935,624
2021	6,928,017	862,086
2022	6,126,820	788,548
2023	5,595,570	722,237
2024-2028	27,023,222	2,659,816
2029-2033	20,272,005	1,172,391
2034-2035	5,822,368	119,150
	<u>\$ 85,624,036</u>	<u>\$ 8,269,015</u>

NOTE 6 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 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 7 SIGNIFICANT CUSTOMER

Contracted sales to WestRock CP LLC accounted for 8.0% and 7.9% of Tacoma Water's total water sales in 2018 and 2017, respectively. There were no outstanding accounts receivables from WestRock at year-end 2018 or 2017.

Tacoma Water has contracted with WestRock to supply certain quantities of water at a specified rate through July 31, 2020.

NOTE 8 FLEET SERVICES FUND

Tacoma Water pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Water in 2018 and 2017 were \$3,585,220 and \$3,354,191, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on Fund investments for the year to their customers. In 2018 and 2017, Fleet Services returned 75% of the

interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2018 and 2017 were \$50,160 and \$38,840, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 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 2018 and 2017. Assets in the Self-Insurance Fund total \$7.9 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

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

Other insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current property insurance policy has a deductible of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. General government obtains coverage on general government's buildings and property within buildings with a limit of \$500,000 and a retention of \$150,000 with exceptions. For the Department there is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$250,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate. The general government general liability and public official liability policies provide \$20 million of excess coverage with a \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12-month policy period.

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)

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

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

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

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are

covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

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

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

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

Membership – Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, 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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$ 13,980,247	\$ (3,438,481)	\$ (17,994,231)

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

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (1,905,333)	\$ -
Changes of assumptions	-	2,097,439
Net Difference Between Projected and Actual Earnings	(3,945,647)	-
Changes in Employer Proportion	(2,118)	2,438
Contributions Made Subsequent to the Measurement Date	-	2,309,710
Total	\$ (5,853,098)	\$ 4,409,587

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 four years.

Amounts will be recognized in pension expense as follows:

2019	\$ (269,283)
2020	(47,526)
2021	(1,778,858)
2022	(1,569,102)
2023	(88,452)
Thereafter	-
	<u>\$ (3,753,221)</u>

The proportionate share of the Water Division is 8.74% of total System's pension liability as of December 31, 2018 and 8.91% as of December 31, 2017. The proportionate share was based on the actual contributions for the year.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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

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

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Valuation Date:	January 1, 2017
Census Date:	January 1, 2017
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate:	3.44% for pay-as-you-go funding
Medical Cost Trend:	2017 9.10%
	2018 6.40%
	2019 5.80%
	2020 5.30%
	2030 5.40%
	2040 5.50%
	2050 5.20%
	Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.
Economic Assumptions - Discount Rate (Liabilities):	3.44%
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). <ul style="list-style-type: none">• 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 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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

At December 31, 2018 the Division reporting a liability of \$3,780,897 for its proportionate share of the collective total OPEB liability of \$220.8 million. The OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017. At December 31, 2016 the participating Division's proportion was 1.66903% as compared to 1.71227% at December 31, 2017. For the year ended December 31, 2018 the participating Division recognized an OPEB expense of \$125,707.

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

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ -
Changes of assumptions	-	129,706
Changes in Employer Proportion	-	75,639
Differences in Contributions	(53,165)	-
Contributions Made Subsequent to the Measurement Date	-	90,364
Total	\$ (53,165)	\$ 295,709

The Division reported \$90,364 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	\$ 25,255
2020	\$ 25,255
2021	\$ 25,255
2022	\$ 25,255
2023	\$ 25,255
Thereafter	\$ 2,529
	<u>\$ 128,804</u>

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

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

	1% Decrease 2.44%	Current Discount Rate 3.44%	1% Increase 4.44%
Net OPEB liability	\$ 4,299,662	\$ 3,780,897	\$ 3,350,842

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

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

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB liability	\$ 3,326,864	\$ 3,780,897	\$ 4,324,391

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

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

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

NOTE 12 RESTATEMENTS OF 2017 BALANCES

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

Revised balances are shown in the following schedule:

	As Previously Reported	Restatement Adjustment	As Restated
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows for OPEB	\$ -	\$ 79,421	\$ 79,421
NONCURRENT LIABILITIES			
Net OPEB Liability	3,542,492	(50,425)	3,492,067
NET POSITION - End of year	556,716,635	129,846	556,846,481
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Administrative and General	\$ 16,369,139	\$ (129,846)	\$ 16,239,293

NOTE 13 ACQUISITION OF WATER ASSOCIATION

The Curran Road Mutual Water Association (Curran Road) provided services to more than 620 customers in the vicinity of 128th Street East and Canyon Road East in Pierce County. Curran Road was a Tacoma Water wholesale customer and had received all of its water from Tacoma Water since the 1940's. As a requirement of the Washington State Department of Health, Curran Road was due to develop a new water system plan. In-lieu of developing a water system plan and securing financing to make system improvements, Curran Road requested Tacoma Water acquire the Curran Road service area and provide direct retail service to its members.

In 2017, Tacoma Water acquired Curran Road and over a period of 8-10 years will replace more than 6-miles of asbestos cement water main and complete other system improvements. The asbestos main will be abandoned in place and no liability has been recorded for remediation. The estimated cost of this water system improvement work is \$12 million, which will be paid for by those customers within the boundaries of the Curran Road water system through a customer surcharge over an estimated 33-year period, in accordance with the City Council's Expansion Policy.

The acquired balances of Curran Road's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the beginning of the period, were determined on the basis of carrying values reported in their financial statements as of December 31, 2017. Tacoma Water acquired \$196,000 in current assets and \$4,316 in capital assets.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Capital Improvements – The financial requirement for Tacoma Water's 2017-2018 biennial Capital Improvement program is approximately \$48.1 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2018 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$9.1 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*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	8.74%	8.91%	8.99%	9.17%
Employer's proportion share of net pension liability (asset)	(\$3,438,481)	\$8,278,522	\$7,788,151	(\$881,279)
Employer's covered payroll	\$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	-16.44%	40.94%	36.83%	-4.17%
Plan fiduciary net position as a percentage the total pension liability	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Contractually required employer contribution	\$2,309,710	\$2,150,205	\$2,124,252	\$2,086,719
Contributions in relation to the contractually required employer contribution	(2,309,710)	(2,150,205)	(2,124,252)	(2,086,719)
Employer contribution deficiency (excess)	-	-	-	-
Employer's covered employee payroll	\$21,819,996	\$20,914,658	\$20,220,795	\$21,148,347
Employer contribution as a percentage of covered-employee payroll	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*

	Fiscal Year Ended December 31st,	
	2018	2017
Employer's proportion of the collective OPEB liability as a percentage	1.71%	1.67%
Employer's proportion share of collective OPEB liability	\$3,780,897	\$3,492,067
Employer's covered-employee payroll	\$21,819,996	\$20,432,705
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	17.33%	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.*

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

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

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

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

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

	2018	2017 (As Restated)	2016	2015
STATEMENTS OF NET POSITION				
ASSETS				
Utility Plant - Net	\$871,008,433	\$873,518,773	\$879,547,650	\$884,721,107
Special Funds & Non-Util Prop	160,497,908	154,455,341	157,320,446	143,802,732
Current Assets	79,459,959	73,857,244	68,927,643	64,476,112
Other Assets	4,669,297	1,810,430	2,866,478	4,689,200
Total Assets	1,115,635,597	1,103,641,788	1,108,662,217	1,097,689,151
Deferred Outflows	5,881,479	10,113,888	10,623,174	4,002,699
TOTAL ASSETS AND DEFERRED OUTFLOWS .	1,121,517,076	1,113,755,676	1,119,285,391	1,101,691,850
 NET POSITION	 581,738,357	 556,846,481	 549,652,226	 542,501,823
LIABILITIES AND EQUITY				
Long-Term Debt	447,562,815	463,619,285	478,617,199	478,400,742
Current Liabilities	23,031,002	20,524,364	20,986,727	18,261,548
Long-Term Liabilities	27,703,192	35,406,357	33,932,418	26,021,937
Total Liabilities	498,297,009	519,550,006	533,536,344	522,684,227
Deferred Inflows	41,481,710	37,359,189	36,096,821	36,505,800
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,121,517,076	\$1,113,755,676	\$1,119,285,391	\$1,101,691,850
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential and Domestic	\$56,391,501	\$52,539,643	\$50,742,135	\$48,263,128
Commercial and Industrial	19,056,277	17,408,529	17,558,905	17,233,617
Special Rate-WestRock/Other	6,873,675	6,322,195	5,845,719	5,951,348
Municipal	-	-	-	-
Wholesale	3,253,029	3,069,448	3,971,839	5,192,149
Unbilled	472,999	660,078	(137,857)	318,945
Total Water Sales	86,047,481	79,999,893	77,980,741	76,959,187
Other Operating Revenues	15,893,978	14,644,528	14,820,869	21,179,637
Total Operating Revenues	101,941,459	94,644,421	92,801,610	98,138,824
 OPERATING EXPENSES				
Operation and Maintenance	45,892,214	48,921,970	46,894,363	41,804,233
Taxes	5,273,751	4,776,164	4,639,031	4,681,114
Depreciation	26,117,843	24,038,103	23,822,527	17,102,664
Total Operating Expenses	77,283,808	77,736,237	75,355,921	63,588,011
NET OPERATING INCOME (LOSS)	24,657,651	16,908,184	17,445,689	34,550,813
NON-OPERATING REVENUES (EXPENSES)				
Other Income	3,215,049	1,216,295	(221,125)	(30,042)
Interest Income	3,876,762	1,762,813	1,826,299	1,112,850
Gain from Disposition of Property	-	-	-	-
Interest Charges (Net)	(19,269,514)	(18,321,085)	(19,000,536)	(16,677,645)
Net Income (Loss) Before Contributions & Transfers	12,479,948	1,566,207	50,327	18,955,976
Total Capital Contributions	16,440,749	9,138,434	10,274,030	9,052,674
Grants & Federal BAB Subsidies	3,596,241	3,582,475	3,579,107	3,609,706
Transfers Out	(7,625,062)	(7,092,861)	(6,753,061)	(6,873,467)
CHANGE IN NET POSITION	\$24,891,876	\$7,194,255	\$7,150,403	\$24,744,889

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

2014	2013	2012	2011	2010	2009
\$872,083,357	\$813,050,518	\$722,852,270	\$661,153,297	\$636,592,771	\$604,657,775
146,933,170	157,311,979	161,863,075	214,619,106	240,132,895	133,949,294
58,737,269	63,568,675	56,407,560	31,403,521	30,200,303	35,753,843
3,769,208	4,679,599	5,300,185	4,664,090	4,654,608	3,654,494
1,081,523,004	1,038,610,771	946,423,090	911,840,014	911,580,577	778,015,406
1,587,851	1,813,858	1,764,332	2,056,555.00	-	-
1,083,110,855	1,040,424,629	948,187,422	913,896,569	911,580,577	778,015,406
516,673,245	480,288,973	449,858,136	425,932,810	417,695,083	412,592,671
483,542,005	455,876,975	401,465,338	419,800,757	421,228,553	292,165,406
20,767,576	42,478,805	35,106,590	18,201,697	20,548,451	15,167,938
26,552,582	26,204,429	26,181,911	19,385,858	52,108,490	58,089,391
530,862,163	524,560,209	462,753,839	457,388,312	493,885,494	365,422,735
35,575,447	35,575,447	35,575,447	30,575,447.00	-	-
\$1,083,110,855	\$1,040,424,629	\$948,187,422	\$913,896,569	\$911,580,577	\$778,015,406
\$44,655,076	\$40,928,355	\$38,737,505	\$36,730,275	\$35,503,069	\$36,695,919
15,406,078	13,507,899	12,478,932	11,868,976	11,703,099	11,467,636
5,801,842	5,242,359	5,031,760	4,774,237	3,798,922	4,153,327
-	445,844	383,385	400,322	364,357	380,267
3,718,315	3,519,409	2,090,430	1,625,163	1,530,116	1,776,686
121,346	468,030	416,986	478,594	(648,438)	187,966
69,702,657	64,111,896	59,138,998	55,877,567	52,251,125	54,661,801
28,617,297	32,007,524	21,541,733	9,526,467	10,735,630	9,331,955
98,319,954	96,119,420	80,680,731	65,404,034	62,986,755	63,993,756
37,993,563	35,906,356	32,602,452	32,821,611	34,453,742	34,055,463
3,779,373	3,918,944	3,485,243	3,106,516	3,142,772	3,093,311
16,783,698	16,072,243	15,262,686	14,389,681	14,474,964	13,845,799
58,556,634	55,897,543	51,350,381	50,317,808	52,071,478	50,994,573
39,763,320	40,221,877	29,330,350	15,086,226	10,915,277	12,999,183
537,052	(1,246,053)	288,182	(12,371)	33,795	497,331
1,718,226	807,466	2,320,753	3,141,374	2,370,993	1,955,385
-	-	-	-	-	26,100
(11,911,850)	(14,141,036)	(14,462,441)	(14,867,263)	(15,175,660)	(9,076,156)
30,106,748	25,642,254	17,476,844	3,347,966	(1,855,595)	6,401,843
8,670,639	7,175,575	7,834,345	9,250,677	9,713,596	7,120,993
3,959,446	3,535,426	3,840,767	4,006,209	2,355,132	244,683
(6,352,561)	(5,922,418)	(5,226,630)	(4,960,736)	(5,110,721)	(5,185,152)
\$36,384,272	\$30,430,837	\$23,925,326	\$11,644,116	\$5,102,412	\$8,582,367

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
REGIONAL WATER SUPPLY SYSTEM

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2018	2017	2016	2015
ASSETS				
Utility Plant - Net	\$270,292,252	\$279,190,310	\$287,187,547	\$295,780,351
Current Assets	10,420,340	10,442,765	10,395,435	9,274,080
Total Assets	280,712,592	289,633,075	297,582,982	305,054,431
Deferred Outflows	224,106	240,210	256,313	272,417
TOTAL ASSETS AND DEFERRED OUTFLOWS .	280,936,698	289,873,285	297,839,295	305,326,848
 NET POSITION	167,469,986	174,701,516	180,852,158	186,712,448
LIABILITIES AND EQUITY				
Long-Term Debt	109,899,314	112,594,314	114,364,416	116,113,730
Current Liabilities	2,558,764	1,564,360	1,601,549	1,496,773
Total Liabilities	112,458,078	114,158,674	115,965,965	117,610,503
Deferred Inflows	1,008,634	1,013,095	1,021,172	1,003,897
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	280,936,698	289,873,285	297,839,295	305,326,848
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
CRO - Debt Service	\$5,610,671	\$5,554,208	\$5,582,030	\$6,047,314
CRO - O&M	3,764,605	3,858,622	3,858,714	2,840,435
CRO - Capital	93,191	202,255	483,498	7,621,901
Other Operating Revenue	-	-	0	1,675
Total Operating Revenues	9,468,467	9,615,085	9,924,242	16,511,325
 OPERATING EXPENSES				
Operation and Maintenance	3,718,890	3,881,686	3,871,737	2,864,326
Depreciation	9,199,706	8,266,685	8,263,267	4,582,300
Total Operating Expenses	12,918,596	12,148,371	12,135,004	7,446,626
NET OPERATING INCOME (LOSS)	(3,450,129)	(2,533,286)	(2,210,762)	9,064,699
NON-OPERATING REVENUES (EXPENSES)				
Other Income	-	-	-	(120,564)
Interest Income	182,850	91,554	87,696	64,497
Interest Charges (Net)	(4,907,255)	(4,697,999)	(4,715,565)	(4,072,780)
Net Income (Loss) Before Contributions & Transfers	(8,174,534)	(7,139,731)	(6,838,631)	4,935,852
Total Capital Contributions	129,958	179,156	456,685	(2,924,135)
Grants & Federal BAB Subsidies	813,046	809,933	808,775	802,190
Transfers Out	-	-	(287,119)	-
CHANGE IN NET POSITION	(\$7,231,530)	(\$6,150,642)	(\$5,860,290)	\$2,813,907

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

2014	2013	2012	2011	2010	2009
\$293,110,553	\$264,883,717	\$223,896,711	\$203,938,358	\$207,242,527	\$206,708,069
11,321,557	20,473,681	41,256,611	55,640,447	59,811,400	15,845,604
304,432,110	285,357,398	265,153,322	259,578,805	267,053,927	222,553,673
288,520	304,624	-	-	1,194,533	807,387
304,720,630	285,662,022	265,153,322	259,578,805	268,248,460	223,361,060
183,898,541	154,285,209	136,200,206	132,830,089	138,246,799	142,801,029
117,798,157	120,006,348	122,882,652	124,045,739	124,890,764	77,694,584
1,993,880	10,436,851	5,253,742	1,931,325	5,110,897	2,865,447
119,792,037	130,443,199	128,136,394	125,977,064	130,001,661	80,560,031
1,030,052	933,614	816,722	771,652	-	-
304,720,630	285,662,022	265,153,322	259,578,805	268,248,460	223,361,060
\$6,008,599	\$6,208,432	\$6,272,476	\$6,239,797	\$5,119,047	\$4,293,912
2,706,023	2,740,645	2,478,238	1,778,186	2,732,956	2,517,129
15,132,508	18,535,695	5,665,557	274,081	1,301,346	(339,930)
-	-	-	-	-	-
23,847,130	27,484,772	14,416,271	8,292,064	9,153,349	6,471,111
2,735,246	2,895,385	2,510,085	2,485,977	2,458,379	2,629,850
4,542,912	4,505,158	4,495,971	4,482,820	4,426,113	4,792,037
7,278,158	7,400,543	7,006,056	6,968,797	6,884,492	7,421,887
16,568,972	20,084,229	7,410,215	1,323,267	2,268,857	(950,776)
(18,732)	(373,899)	-	-	-	-
114,387	51,743	407,622	396,391	861,775	184,332
(880,966)	(2,665,310)	(4,901,784)	(7,574,948)	(4,833,300)	(3,918,240)
15,783,661	17,096,763	2,916,053	(5,855,290)	(1,702,668)	(4,684,684)
13,024,297	148,865	(414,376)	(508,791)	(4,593,787)	8,085,876
805,374	799,296	868,328	868,328	306,327	-
-	40,079	112	79,043	1,435,898	(12,181,224)
\$29,613,332	\$18,085,003	\$3,370,117	(\$5,416,710)	(\$4,554,230)	(\$8,780,032)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS

UTILITY PLANT

In Service, at Original Cost
Less - Accumulated Depreciation
Total
Construction Work In Progress
Net Utility Plant

	WATER		RWSS		TACOMA WATER STATEMENTS	
	W/O	RWSS			ADJUSTMENTS	
\$	778,123,795	\$	344,067,932	\$	-	\$ 1,122,191,727
	(183,768,496)		(74,937,873)		-	(258,706,369)
	594,355,299		269,130,059		-	863,485,358
	6,360,882		1,162,193		-	7,523,075
	600,716,181		270,292,252		-	871,008,433

NET UTILITY PROPERTY

	492,963	-	-	-	-	492,963
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SPECIAL FUNDS

Construction Funds
Debt Service Funds
Bond Reserve Funds
System Development Charge Fund
Other Cash & Equity in Pooled Investments
Total Special Funds

	24,023,847	-	-	-	-	24,023,847
	3,481,010	-	-	-	-	3,481,010
	13,592,334	-	-	-	-	13,592,334
	68,588,649	-	-	-	-	68,588,649
	40,570,704	-	-	-	-	40,570,704
	150,256,544	8,758,233	990,168	990,168	-	160,004,945

CURRENT ASSETS

Operating Funds Cash & Equity in
Pooled Investments
Accounts Receivable
(Net of Allowance for Doubtful Accounts
of \$526,979 in 2017)
BABs Interest Subsidies Receivable
Accrued Unbilled Revenues
Materials and Supplies
Interfund Receivable
Prepayments

	62,263,679	990,168	(990,168)	62,263,679
	5,208,357	469,258	-	5,677,615
	205,429	94,794	-	300,223
	5,930,220	-	-	5,930,220
	2,469,505	-	-	2,469,505
	716,424	40,421	-	756,845
	1,994,406	67,466	-	2,061,872
	78,788,020	1,662,107	(990,168)	79,459,959

OTHER ASSETS

Regulatory Asset - Surcharges
Pension Asset
Total Other Assets

	1,230,816	-	-	1,230,816
	3,438,481	-	-	3,438,481
	4,669,297	-	-	4,669,297

DEFERRED OUTFLOWS OF RESOURCES

Unamortized Losses on Refunding Bonds
Pension Contributions
OPEB
Total Deferred Outflows

	952,077	224,106	-	1,176,183
	4,409,587	-	-	4,409,587
	295,709	-	-	295,709
	5,657,373	224,106	-	5,881,479

TOTAL ASSETS AND DEFERRED OUTFLOWS

\$	840,580,378	\$	280,936,698	\$	-	\$ 1,121,517,076
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NET POSITION, LIABILITIES AND DEFERRED INFLOWS

NET POSITION

Invested in Capital Assets, Net of Related Debt
 Restricted for:
 Water Capital and System Development Charge
 Debt Service Funds
 Net Pension Asset
 Unrestricted
 Total Net Position

	WATER W/O RWSS	RWSS	ADJUSTMENTS	WATER STATEMENTS
	\$ 282,803,433	\$ 167,036,571	\$ -	\$ 449,840,004
	64,770,212	-	-	64,770,212
	2,091,643	(96,632)	-	1,995,011
	3,438,481	-	-	3,438,481
	61,164,602	530,047	-	61,694,649
	414,268,371	167,469,986	-	581,738,357

LONG-TERM DEBT

Revenue Bonds
 Public Works Trust Fund Loans
 Drinking Water State Revolving Fund Loan
 Total Long-Term Debt

	258,967,482	109,899,314	-	368,866,796
	17,314,465	-	-	17,314,465
	61,381,554	-	-	61,381,554
	337,663,501	109,899,314	-	447,562,815

CURRENT LIABILITIES

Current Maturities of Long-Term Debt
 Current Maturities of Long-Term Liabilities
 Accrued Taxes
 Accrued Expenses and Contracts Payable
 Salaries, Wages and Fringe Benefits Payable
 Interest Payable
 Customers' Deposits
 Interfund Payables
 Total Current Liabilities

	12,548,017	1,990,000	-	14,538,017
	176,932	-	-	176,932
	1,819,063	-	-	1,819,063
	1,952,992	(46)	-	1,952,946
	800,231	-	-	800,231
	1,389,369	445,336	-	1,834,705
	343,367	-	-	343,367
	1,442,267	123,474	-	1,565,741
	20,472,238	2,558,764	-	23,031,002

LONG-TERM LIABILITIES

Muckleshoot Agreements
 Customer Advances for Construction
 Unearned Revenue
 Long-Term Accrued Compensated Absences
 Pension Liability
 OPEB Liability
 Other Long-Term Liabilities
 Total Long-Term Liabilities

	6,585,519	-	-	6,585,519
	6,779,253	-	-	6,779,253
	6,261,549	1,008,634	-	7,270,183
	2,197,439	-	-	2,197,439
	-	-	-	-
	3,780,897	-	-	3,780,897
	1,089,901	-	-	1,089,901
	26,694,558	1,008,634	-	27,703,192

DEFERRED INFLOWS OF RESOURCES

Rate Stabilization
 Pension Contribution
 OPEB Contribution
 Total Inflows of Resources

	35,575,447	-	-	35,575,447
	5,853,098	-	-	5,853,098
	53,165	-	-	53,165
	41,481,710	-	-	41,481,710

TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS

	\$ 840,580,378	\$ 280,936,698	\$ -	\$ 1,121,517,076
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
OPERATING REVENUES				
Sale of Water	\$ 86,047,481	\$ -	\$ -	\$ 86,047,481
Other Operating Revenues	11,467,031	-	-	11,467,031
Contract Resource Obligation Revenues	-	9,468,467	(5,041,520)	4,426,947
Total Operating Revenues	97,514,512	9,468,467	(5,041,520)	101,941,459
OPERATING EXPENSES				
Operations	15,266,824	129,307	-	15,396,131
Production	11,043,590	3,382,814	-	14,426,404
Administrative and General	20,904,430	206,769	(5,041,520)	16,069,679
Depreciation	16,918,137	9,199,706	-	26,117,843
Taxes	5,273,751	-	-	5,273,751
Total Operating Expenses	69,406,732	12,918,596	(5,041,520)	77,283,808
Net Operating Income	28,107,780	(3,450,129)	-	24,657,651
NON-OPERATING REVENUES (EXPENSES)				
Interest Income	3,693,912	182,850	-	3,876,762
Other	3,215,049	-	-	3,215,049
Interest on Long-Term Debt	(14,344,528)	(5,408,168)	-	(19,752,696)
Amortization of Premium and Loss on Refunding	642,312	688,897	-	1,331,209
Interest Charged to Construction	(660,043)	(187,984)	-	(848,027)
Total Non-Operating Expenses	(7,453,298)	(4,724,405)	-	(12,177,703)
Net Income Before Capital Contributions and Transfers	20,654,482	(8,174,534)	-	12,479,948
Capital Contributions				
Cash	10,984,764	129,958	-	11,114,722
Donated Fixed Assets	5,326,027	-	-	5,326,027
Federal BABs Subsidies	2,783,195	813,046	-	3,596,241
Transfers				
City of Tacoma Gross Earnings Tax	(7,695,412)	-	-	(7,695,412)
Transfer to/from Other Funds	70,350	-	-	70,350
CHANGE IN NET POSITION	32,123,406	(7,231,530)	-	24,891,876
TOTAL NET POSITION - BEGINNING OF YEAR	382,144,965	174,701,516	-	556,846,481
TOTAL NET POSITION - END OF YEAR	\$ 414,268,371	\$ 167,469,986	\$ -	\$ 581,738,357

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2019	5,620,000	13,092,833	1,990,000	5,335,336	26,038,169
2020	5,850,000	12,852,833	2,100,000	5,241,836	26,044,669
2021	6,150,000	12,560,333	2,205,000	5,143,036	26,058,369
2022	6,410,000	12,297,633	2,315,000	5,035,935	26,058,568
2023	6,240,000	11,977,133	2,455,000	4,923,486	25,595,619
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	4,300,364	25,894,924
2027	5,085,000	11,003,926	5,700,000	4,027,936	25,816,862
2028	5,265,000	10,730,811	5,970,000	3,741,451	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	3,124,854	25,515,431
2031	5,835,000	9,852,652	6,880,000	2,855,021	25,422,673
2032	6,050,000	9,524,667	6,660,000	2,572,446	24,807,113
2033	11,915,000	9,184,597	4,495,000	2,298,427	27,893,024
2034	12,360,000	8,502,115	4,655,000	2,045,763	27,562,878
2035	12,820,000	7,794,144	4,830,000	1,784,105	27,228,249
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	4,689,020	5,570,000	637,703	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>\$260,350,000</u>	<u>\$217,768,029</u>	<u>\$105,600,000</u>	<u>\$69,882,886</u>	<u>\$653,600,915</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER
without RWSS
FUNDS AVAILABLE FOR DEBT SERVICE

	2018	2017 (As Restated)	2016	2015	2014
Total Income	\$113,090,167	\$98,305,474	\$94,688,383	\$92,203,086	\$86,134,608
Less: Operating Exp	52,488,595	54,846,779	52,762,243	48,438,968	43,722,021
Income Available for Debt Service	<u>\$60,601,572</u>	<u>\$43,458,695</u>	<u>\$41,926,140</u>	<u>\$43,764,118</u>	<u>\$42,412,587</u>
Bond Redemption	5,413,750	5,216,251	5,140,416	4,873,754	5,551,250
Bond Interest	13,290,645	13,447,439	13,156,254	13,913,407	14,303,864
Debt Service Payable	<u>\$18,704,395</u>	<u>\$18,663,690</u>	<u>\$18,296,670</u>	<u>\$18,787,161</u>	<u>\$19,855,114</u>
Times Debt Service Covered	3.24	2.33	2.29	2.33	2.14

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER SALES - 2018

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
RESIDENTIAL AND DOMESTIC SERVICE						
Inside City						
Single and Multiple House	55,685	4,635,865	\$ 23,982,528	27.9%	9.50	18.8%
Multiple Unit Dwellings	3,241	1,639,423	\$ 5,929,340	6.9%	3.36	6.6%
Parks & Irrigation Services	181	97,823	\$ 423,989	0.5%	0.20	0.4%
Private Fire Services	108	267	\$ 84,541	0.1%	0.00	0.0%
	59,215	6,373,378	\$ 30,420,398	35.4%	13.06	25.8%
Outside City						
Single and Multiple Houses	35,093	3,723,820	\$ 20,434,839	23.7%	7.63	15.0%
Multiple Unit Dwellings	1,874	1,063,764	\$ 4,707,007	5.5%	2.18	4.3%
Parks & Irrigation Services	263	161,658	\$ 791,449	0.9%	0.33	0.7%
Private Fire Services	78	9	\$ 37,808	0.0%	0.00	0.0%
	37,308	4,949,251	\$ 25,971,103	30.1%	10.14	20.0%
COMMERCIAL AND INDUSTRIAL SERVICE						
Inside City						
Large Volume Service	2	369,802	\$ 659,584	0.8%	0.76	1.5%
General Service	3,760	2,309,439	\$ 8,631,507	10.0%	4.73	9.3%
Parks & Irrigation Services	391	453,048	\$ 1,876,733	2.2%	0.93	1.8%
Private Fire Services	1,072	7,826	\$ 2,499,705	2.9%	0.02	0.0%
	5,225	3,140,115	\$ 13,667,529	15.9%	6.44	12.6%
Outside City						
Large Volume Service	4	632,210	\$ 1,346,677	1.6%	1.30	2.6%
General Service	1,015	528,686	\$ 2,259,547	2.6%	1.08	2.1%
Parks & Irrigation Services	103	155,288	\$ 727,229	0.9%	0.32	0.6%
Private Fire Services	230	1,450	\$ 1,055,295	1.2%	0.00	0.0%
	1,352	1,317,634	\$ 5,388,748	6.3%	2.70	5.3%
WESTROCK	1	7,800,282	\$ 6,873,675	8.0%	15.99	31.5%
WHOLESALE	15	1,184,264	\$ 3,253,029	3.8%	2.43	4.8%
Unbilled Revenue			\$ 472,999	0.5%		
TOTAL WATER SALES	103,116	24,764,924	\$ 86,047,481	100.0%	50.76	100.0%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2018

Tacoma Water System:

Average daily delivery exclusive of pulp mill	38.64	MG
Average daily delivery of pulp mill	16.01	MG
Total average daily delivery	54.65	MG

Maximum daily production	7/27/2018	89.48	MG
Minimum daily production	2/7/2018	29.98	MG

Total water produced in 2018*	19,949	MG
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Regional Water Supply System (RWSS):

Total average daily delivery	11.61	MG
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Average daily consumption per single family residential service (Inside City)	169.9	GPD
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Miles of transmission and wells supply mains - 28" to 96" diameter (includes North Fork wells system)	150	mi
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Miles of distribution mains - 2" to 24" in diameter	1,270.35	mi
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Fire Hydrants (Inside)	6,131	
Fire Hydrants (Outside)	4,871	

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 55 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 2018

FEDERAL

Social Security (FICA)		<u>\$1,632,391</u>
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STATE OF WASHINGTON

Retail Sales Tax	774,749	
Utilities and Business Activities Tax	<u>4,600,477</u>	
Total		5,375,226

COUNTY

Real Property	<u>47,992</u>	
Total		47,992

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	7,695,412	
City of Fircrest Administrative Fee	7,016	
City of Lakewood Administrative Fee	6,214	
City of Puyallup Administrative Fee	20,310	
City of University Place Administrative Fee	<u>626,555</u>	
		<u>8,355,507</u>

TOTAL TAXES		<u>\$15,411,116</u>
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Taxes as a % of Non-CRO Revenues of \$97,514,512 ..		15.80%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$531,566
Pensions	\$2,302,935
Medical Insurance	\$3,931,610
Dental Insurance	\$346,893

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$7,113,004</u>
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2018 WATER RATES

			READY TO SERVE CHARGE PER MONTH	
			INSIDE TACOMA	OUTSIDE TACOMA
METER SIZE				
5/8	inch	.....	\$22.05	\$26.46
3/4	inch	.....	\$33.08	\$39.70
1	inch	.....	\$55.13	\$66.16
1-1/2	inch	.....	\$110.25	\$132.30
2	inch	.....	\$176.40	\$211.68
3	inch	.....	\$330.75	\$396.90
4	inch	.....	\$551.25	\$661.50
6	inch	.....	\$1,102.50	\$1,323.00
8	inch	.....	\$1,764.00	\$2,116.80
10	inch	.....	\$2,535.75	\$3,042.90
12	inch	.....	\$3,720.94	\$4,465.13

			CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET	
			INSIDE TACOMA	OUTSIDE TACOMA
<u>Residential Service</u>				
Each 100 cubic ft. of water consumption during the winter months of October through May			\$1.895	\$2.274
First 500 cubic ft. of water consumption per month during the summer months of June through September			\$1.895	\$2.274
Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September			\$2.369	\$2.843
<u>Commercial and Industrial</u>				
General Service			\$2.123	\$2.548
Large Volume Service (over 65,000 cubic feet annually)			\$1.782	\$2.138
<u>Parks and Irrigation Service</u>				
Each 100 cubic feet of water consumption			\$3.485	\$4.182

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. 28423 and were effective January 1, 2018.

Residential service rate for outside Tacoma does not include Fircrest, Puyallup, University Place, and Lakewood.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2018 FIRE PROTECTION RATES

RATES FOR PRIVATE FIRE PROTECTION SERVICE ON A SEPARATE METER INSIDE THE CITY OF TACOMA ARE AS FOLLOWS:

METER SIZE		MONTHLY CHARGE	WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
2	inch	\$26.07	2.99
3	inch	\$37.96	2.99
4	inch	\$63.42	2.99
6	inch	\$142.25	2.99
8	inch	\$253.24	2.99
10	inch	\$396.11	2.99
12	inch	\$633.57	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

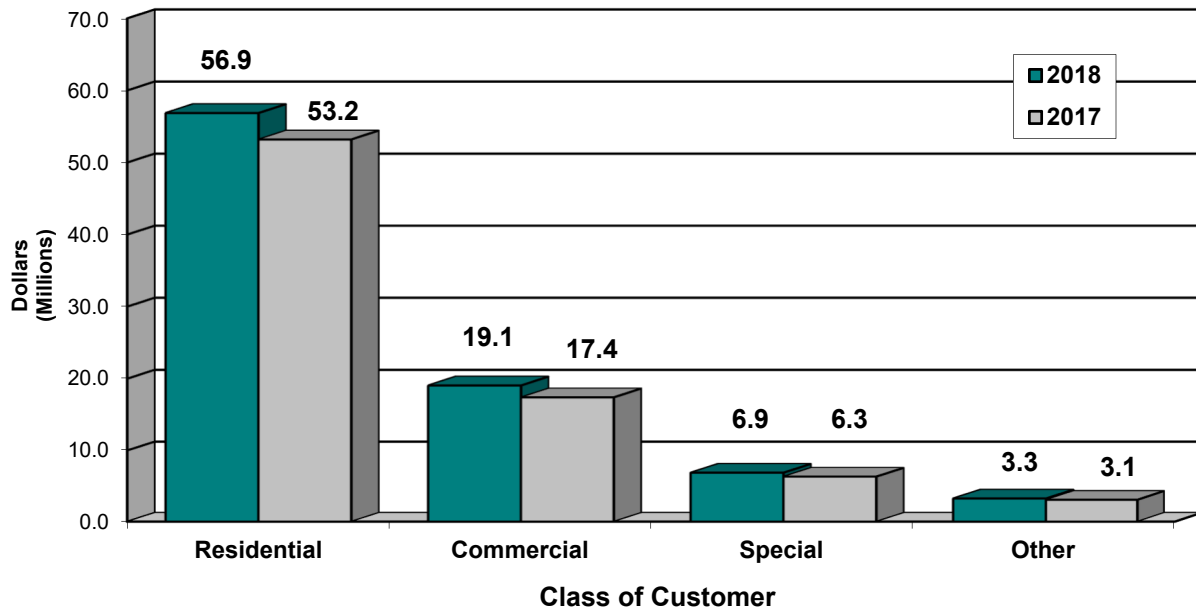
The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

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:

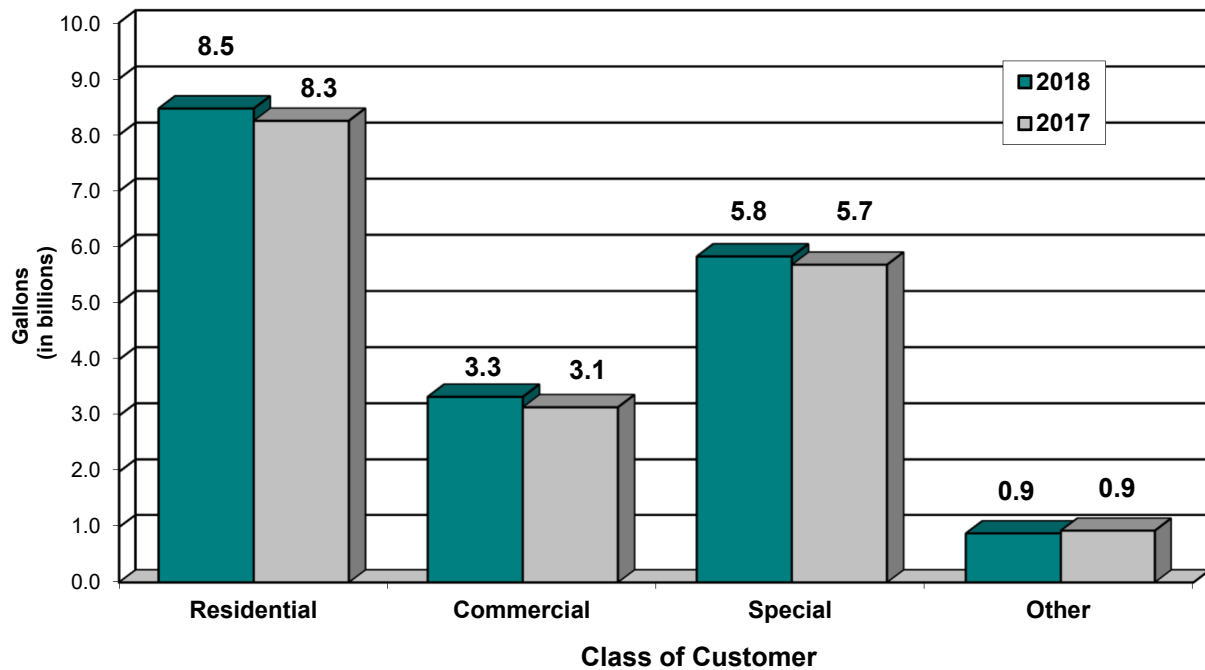
Outside City, other contract.....	\$4.752
Fircrest Franchise.....	\$4.752
Lakewood, Puyallup, and University Place Franchises...	\$4.752

The Fire Protection Rates were established by Ordinance No. 28423 and were effective January 1, 2018.

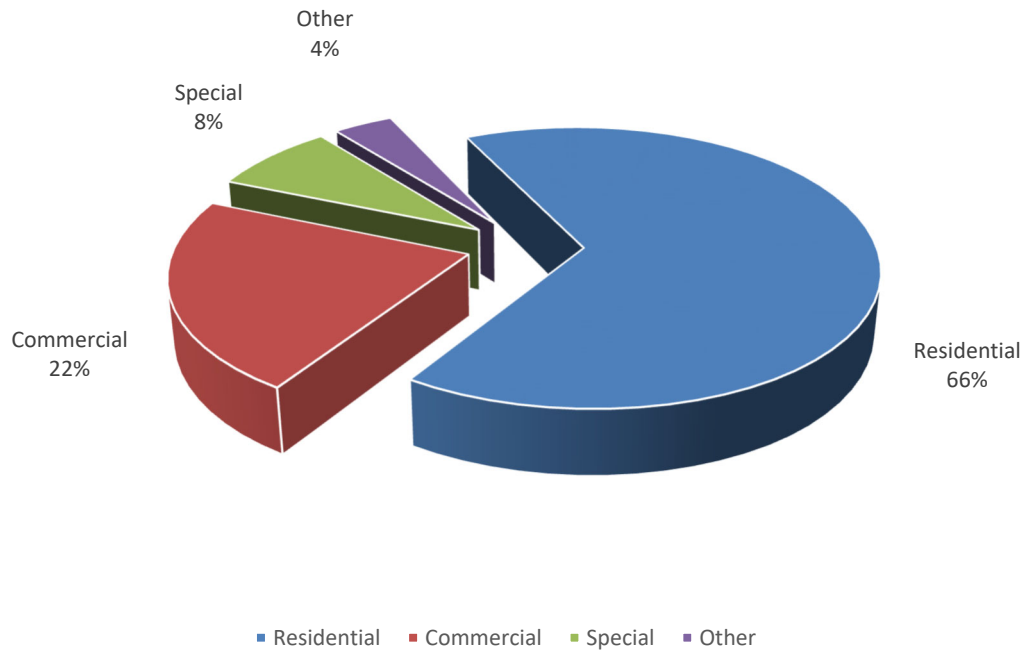
WATER SALES
Year to Date - December 2018 & 2017



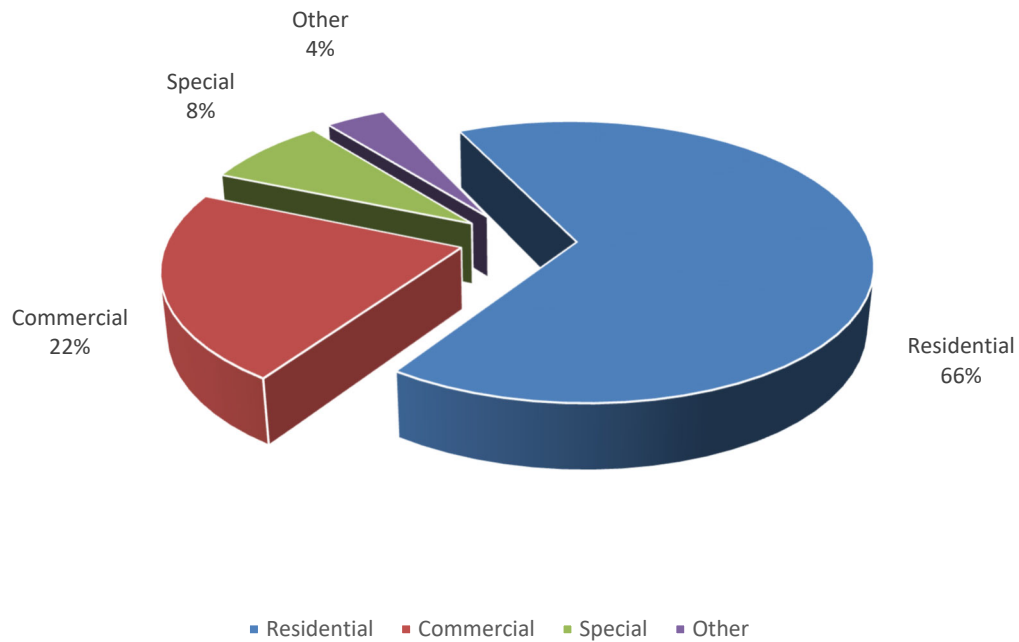
WATER CONSUMPTION
Year to Date - December 2018 & 2017



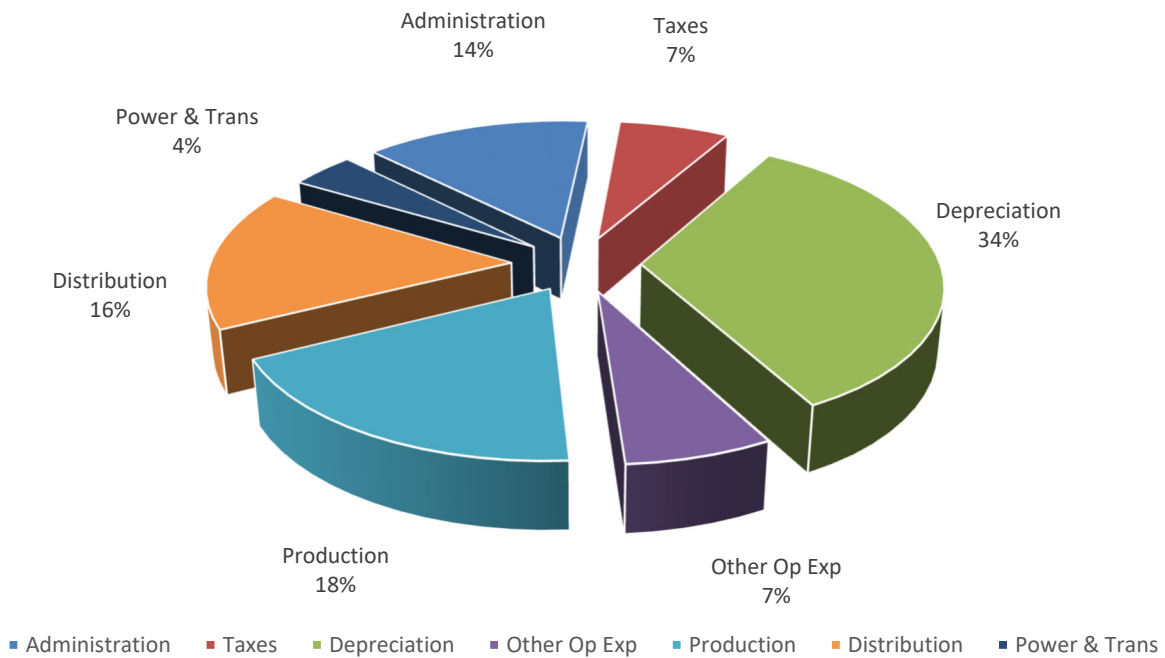
WATER SALES
Year to Date - December 2018
(\$86,047,481)



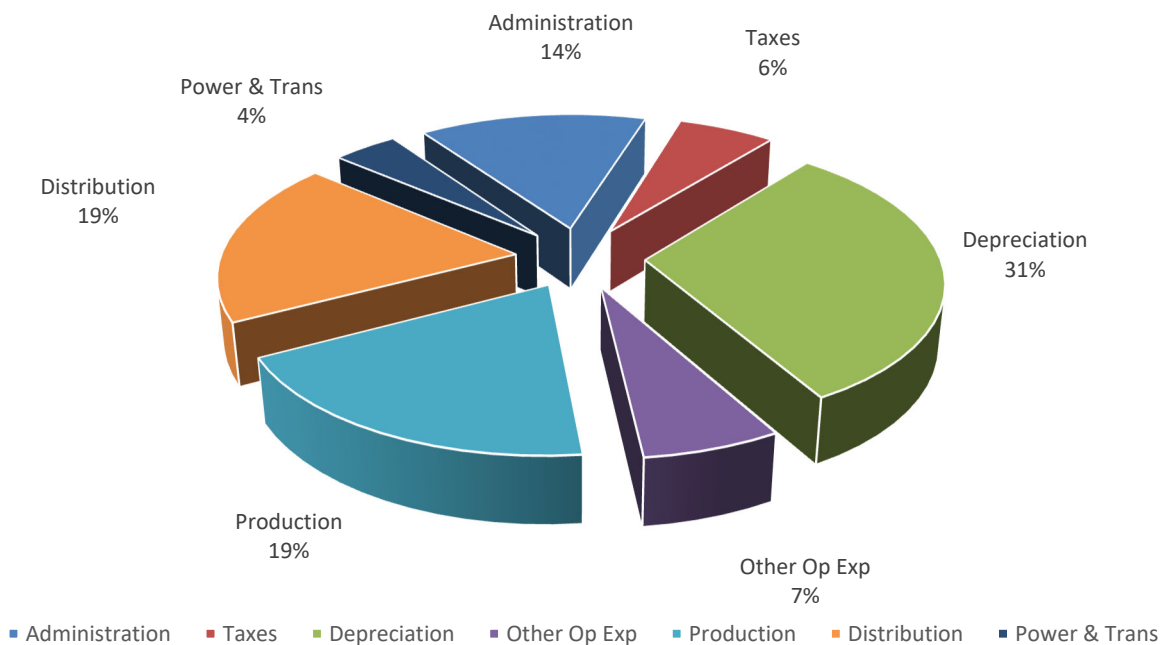
WATER SALES
Year to Date - December 2017
(\$79,999,893)



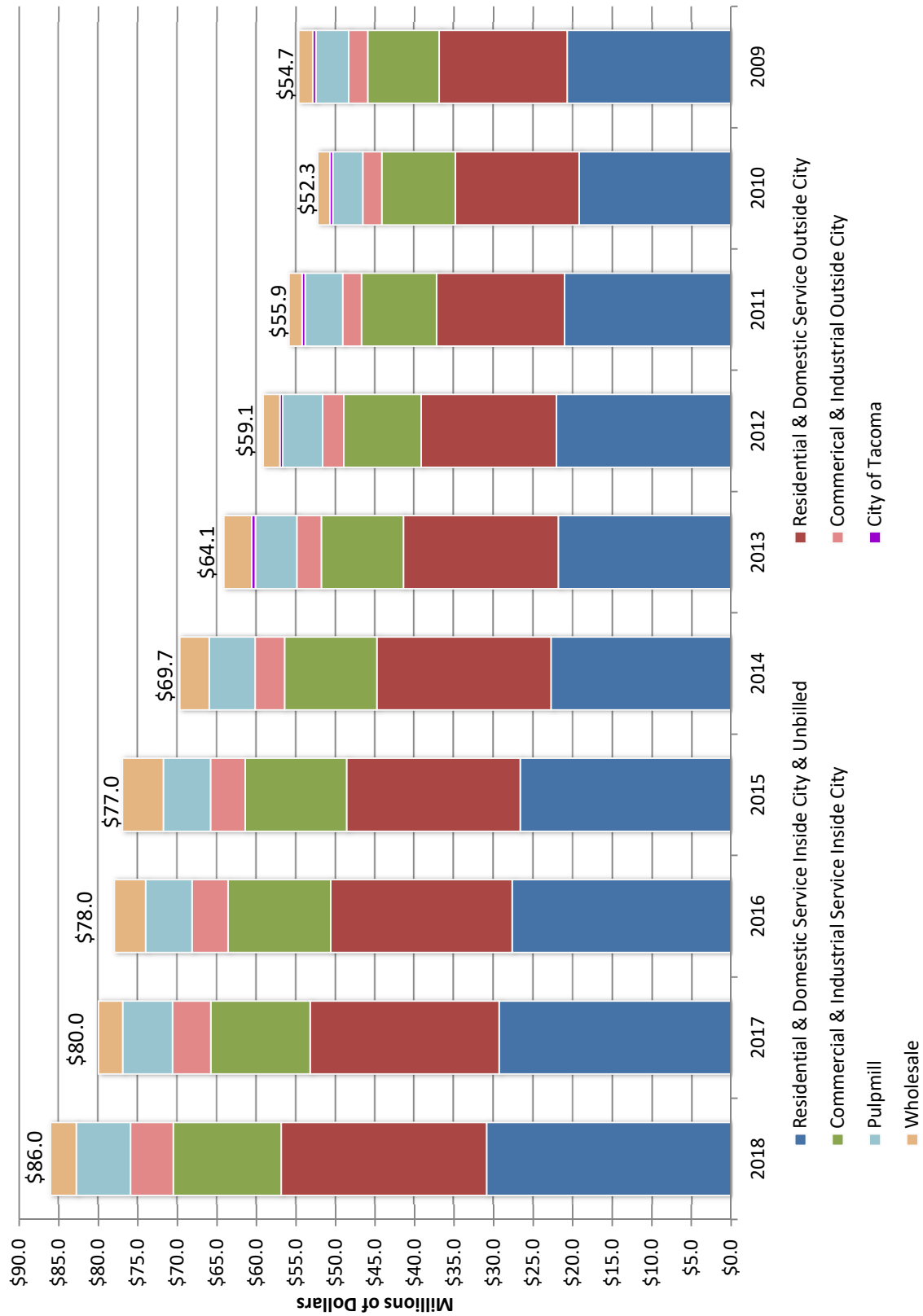
TOTAL OPERATING EXPENSES
Year to Date - December 2018
(\$77,283,808)



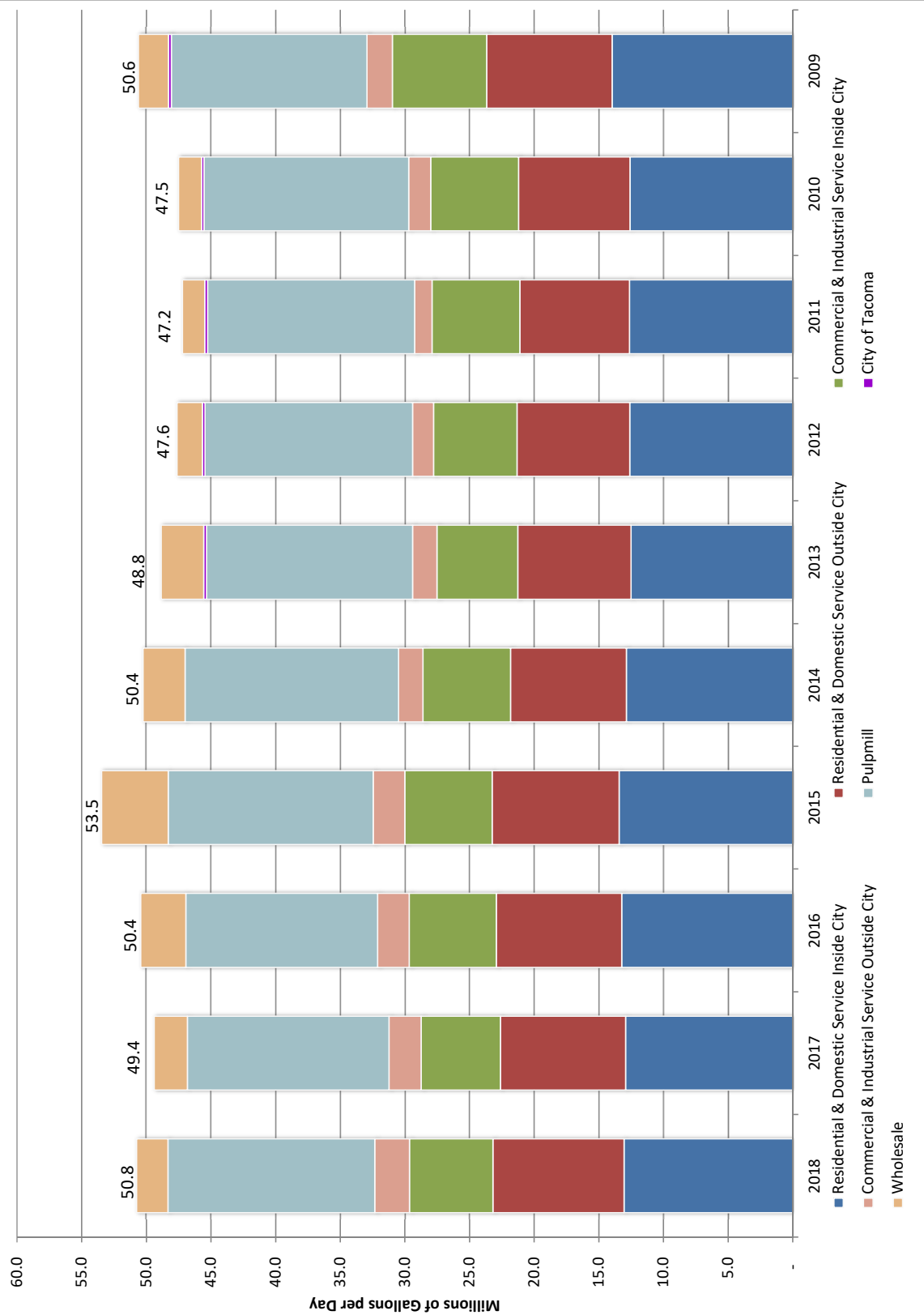
TOTAL OPERATING EXPENSES
Year to Date - December 2017
(\$77,736,237)



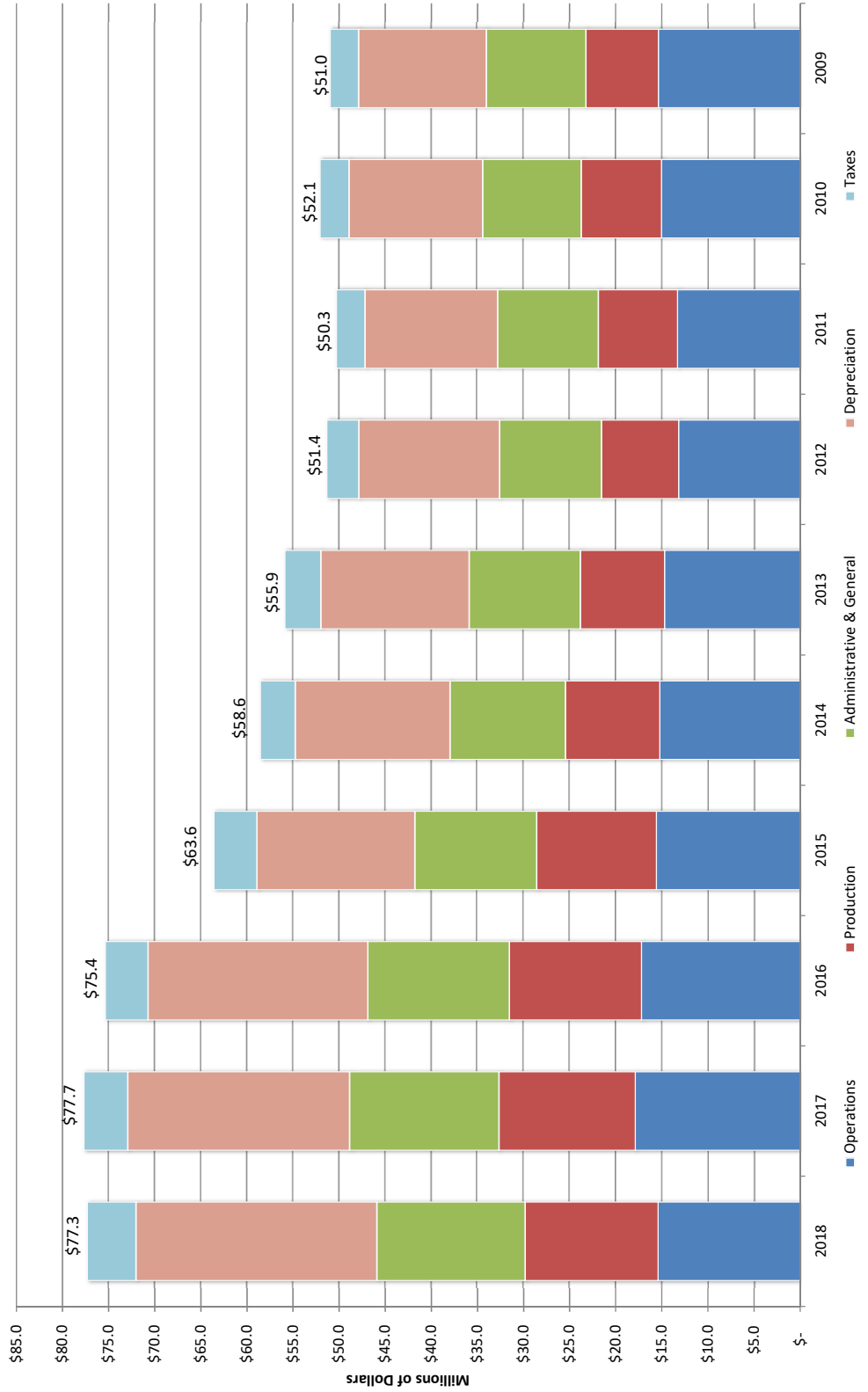
TEN-YEAR SUMMARY OF WATER SALES (MILLIONS OF \$)



TEN-YEAR SUMMARY OF WATER DEMAND (MGD)



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





2018 SUPERINTENDENT'S REPORT

I am pleased to share with you the Tacoma Water Superintendent's Report for 2018. It has been a very busy year with a lot of accomplishments. I am most excited to share with you the continuing work we have done to focus on the safety of our employees. Safety is of utmost importance to me – I believe we work to live and not live to work. Any accident or injury is one too many – we should go home to our families and friends the same way we came to work that day. In order for us to meet our mission to provide clean, reliable water now and in the future, we must have a workforce at work and able to do their work in a sustainable manner.

As we began 2018 we identified safety as one of our core values for the first time and put renewed focus on improving our safety culture – making it top of mind and the first thing we think of as we go about our work. All of our meetings now begin with a safety moment; field crews openly talk about hazards; we proactively conduct safety audits to identify hazards and correct them. In our recent employee survey, over 90% of our employees acknowledge safety as a high priority. The best part about this safety culture improvement is that it is being led by staff throughout the organization. I am very pleased and encouraged by the progress made in 2018 and hope to only improve going forward.

While we are always managing our budget, in any even numbered year like 2018 we develop the next biennial budget that, in this case, will be used for 2019-2020. A tremendous amount of work goes into assembling a 2-year budget. It is the culmination of planning for staffing, operations and maintenance activities, capital spending, needed asset renewals and improvements, coupled with any rate adjustments needed to collect the revenue to support the budget. Once the draft budget and rate proposals were developed, we worked diligently to share it with the public in an unprecedented way to receive feedback on the proposal. We attended over 40 public meetings and enjoyed sharing the work we do to provide drinking water to the community. Thank you for supporting our work and confirming your confidence in us to execute this on your behalf.

In the following report you will have the opportunity to hear about the work each section has been focused on in 2018 to make everything we do work in concert with one another. You will see some overlap in those things that we work on together and hear some of the behind the scene details. I wanted to take the opportunity to highlight two large multi-year efforts now underway – Workforce Connect and the TPU Advanced Meter projects.

The project kick-off for Workforce Connect occurred in 2018, along with much preparation to ensure a successful outcome for Tacoma Water and the City. This project will not only replace our aging mobile workforce management tool, but will bring much needed new functionality to advance our work initiation, execution and data capture. Consider how far mobile technology has come since 2003, the year our current mobile work tool was released; for reference the first iPhone was released in 2007! The first release on the new platform will be for our utility locators in early 2019; followed by a more substantial release scheduled later in 2019 for mobile work order management for field staff.

The TPU Advanced Meter project saw a lot of progress in 2018 with the development of detailed project requirements and the selection of a suite of vendors to provide the requested solutions. This project will continue for several more years, as it is a large effort that will include replacing all of our existing residential water meters with new meters capable of remote communication. This

will facilitate monthly billing, better customer understanding for how their water is used, as well as advanced leak detection capabilities to name a few key benefits. A customer portal will be deployed as part of the project to enhance customer interactions with TPU. As you can imagine the scope of the project is quite large; so stay tuned for more information as progress is made.

ASSET & INFORMATION MANAGEMENT

Strategy Management

2018 marked the sixth year of formal strategy management at Tacoma Water. As we entered 2018, our 2012 Strategic Plan had been largely implemented from 2013 – 2017. We recognized that development of a new five-year plan to replace the 2012 Strategic Plan would occur in 2019, giving time for orientation of both the new Water Superintendent and Utilities Director. To create strategic focus for 2018, the Effective Utility Management framework was used to identify gaps which were represented as themes on our 2018 map: community understanding and support; workforce development; operational innovation; and operational optimization.

A total of 6 initiatives were completed this year. Although this isn't as many as some prior years, there are two initiatives underway mentioned earlier that are large multi-year efforts – specifically Workforce Connect and the TPU Advanced Meter project. In an effort to improve alignment across TPU and the City of Tacoma, we initiated strategic coordination with Tacoma Power, Environmental Services and Tacoma 2025. We also initiated the work to develop a new 2020 strategic plan as well as implement overall program improvements.

In 2018 in response to the Strategic Plan, Tacoma Water hired a dedicated Knowledge Management Administrator. This role is focused on development of a standardized approach and organization for Tacoma Water records management, systems and tools to manage our knowledge assets (SharePoint restructure), and capturing and auditing our business processes.

Key Projects

Asset and Information Management staff typically plays a key role in support of various projects for the operating units of the utility. This year was no different as the two large scale transformational projects, Workforce Connect and the TPU Advanced Meter project, as well as other initiatives required assistance from staff.

For the TPU Advanced Meter project, staff was actively involved in the procurement process to select through a competitive process the vendors who will deliver the various components of the project. In addition, staff played a key role in the analysis of meter data to develop a sound meter replacement strategy for all 105,000 water meters.

Tacoma Water staff is serving in key leadership roles, product owner and co-sponsor, for the Workforce Connect project. Staff participated in development of user stories, a means of gathering technical requirements for the project as well as working to promote consistency in work process and data collection for all sections and assets.

Asset Management

Asset and Information Management hired a consultant for a week long workshop (involving staff at all levels of Tacoma Water, as well as staff from Tacoma Power, Environmental Services and IT) to identify short term and long term strategies/efforts for improving SAP work management functionality for tracking and reporting on maintenance efforts. Tacoma Water's Planning and Scheduling Steering Team then prioritized the identified items to guide future work efforts related to our SAP environment. In conjunction with this same team, Asset Management staff developed more detailed work management work flows to cover notification creation, planning, scheduling, execution and work order closeout.

The Functional Location Improvement Project (FLIP) also was approved and commenced in 2018. This project is to develop a new functional location structure in SAP that supports improved work management and reporting. Essentially it is a restructuring of our asset hierarchy for consistency across all of Tacoma Water.

In 2018 Tacoma Water partnered with Tacoma Power to provide Institute of Asset Management training to TPU Staff. The management team attended a 4-hour training; 28 people attended a 1-day training; and 7 people (including the Superintendent and both Deputy Superintendents) attended the 5-day certificate course.

To mark the 10th anniversary of our formal asset management project, Tacoma Water completed the 2018 Asset Management Customer Value benchmarking exercise. We participated in this globally recognized asset management benchmarking 10 years ago, and undertook participation in the 2018 cohort to understand our current state and identify our asset management roadmap for the next 10 years.

Geographical Information System (GIS)

We are excited to report a number of items related to Tacoma Water's GIS, BlueWave. For the first time all distribution order cards used to document field construction activities (including water services, water main and more) are mapped and there is no backlog. GIS staff completed the BlueWave secure sockets layer (SSL) project to ensure a secure encrypted connection between web browser and server known as a secure HTTPS connection. Finally, work was done to review the consistency/synchronization of water asset data in SAP, our work management software, and BlueWave, our GIS. A current state analysis was conducted, and a first step toward improved reconciliation was launched. An automated master data QA/QC process was developed and runs weekly, improving awareness, management and reduction of inconsistencies in our data.

WATER QUALITY

Lead and Copper Corrosion Control

Following the Lead Response in 2016, the Water Quality Section proceeded with bringing in a consulting team of nationally recognized experts to evaluate Tacoma's corrosion control treatment. Following extensive testing in 2017, a revised Corrosion Control Recommendation Study was completed and approved by the Washington Department of Health (WDOH). This report established new optimized corrosion control treatment requirements for all of Tacoma Water's sources, including groundwater for the first time.

Sanitary Survey Inspection

In September 2018, WDOH completed a Sanitary Survey inspection of Tacoma Water's water distribution related facilities. This distribution focused inspection is generally conducted every 5-years, and did not include the Green River Filtration Facility (GRFF) which was last inspected in 2016 and is generally inspected every 3-years. The findings from WDOH focused primarily on two topics with potential Water Quality impacts. Development of a plan for pressurization of Pipeline 1 was identified, as well as addressing some identified potential contamination risks at some reservoir and air valve locations. Tacoma Water has provided our plan to address these identified findings to WDOH.

PFAS Sampling

In response to national and regional concerns, voluntary testing for manmade perfluorinated chemicals known as PFAS was conducted at individual groundwater wells and the Green River. This sampling detected levels of these PFAS compounds that were above the Health Advisory Level established by EPA at a single well (Well 10C) where unfluoridated water was provided via a spigot on the well building. As a result, this well was immediately taken out of service and Tacoma Water worked with both State and County health officials to develop and delivery health advisory messages to the public that may have accessed water from this well. This event generated some brief local media interest from newspapers and TV.

GRFF Optimization and Training

Staff from the Green River Filtration Facility (GRFF) completed a 15 month Performance Based Training program hosted by WDOH along with other major utilities in the state including: Seattle, Everett, City of Bellingham, Pasco, City of Richland, Skagit PUD, City of Anacortes and Yakima. This program was designed to create a collaborative group from which other operators can gain knowledge and valuable experience on lessons learned and best practices. In addition, the GRFF was also awarded a Bronze Certificate of Achievement under the WDOH Treatment Optimization Program (TOP) for 3 years of outstanding performance. The GRFF has met the TOP optimization criteria continuously since it officially went on line in 2015.

Emergency Response Drill – Green River spill response drill

In May 2018, a three-day emergency drill was conducted at the Tacoma Water intake structure with BNSF, Department of Ecology, Environmental Protection Agency, Coast Guard and several emergency response agencies. This drill simulated a spill response in the Green River, just upstream of Tacoma Water's intake, and included deployment of booms that would be used in an actual spill response.

Restructure of Watershed / Environmental Programs Teams

The Watershed Operations and Environmental Programs work groups were consolidated under a single Assistant Division Manager. Two new Operations Managers were selected to lead each of these workgroups, and each has been working to rebuild their staffing to full strength.

Property Management

Staff in the consolidated Watershed and Environmental Programs group were involved in a number of property related efforts for Tacoma Water in 2018. Notable among these efforts included projects related to the Pipeline 4 Trail, the Deep Creek Pipeline 1 Protection Project, and the future Fish Restoration Facility property which is part of the 1995 Settlement Agreement with the Muckleshoot Indian Tribe. In addition, the remediation of the McMillin 100 Acre Woods site was completed, which was previously sold to Pierce County Parks and Recreation.

North Fork Wellfield Strategy / North Fork 7 replacement

Following the recommendations established in the North Fork Well System Strategy Plan, Tacoma Water moved forward with the replacement of the pump and motor for North Fork Well 7. The contract award, vendor coordination, submittal review, and site preparation were completed; however, manufacturing delays by the vendor prevented installation in 2018. It is anticipated that the new pump and motor will be installed and in service by the end of Q1 2019, which will restore a critical element of the overall Green River supply.

Operating Guidelines /Dashboard Development with Water Supply

In order to enhance coordination and reporting from the Water Quality and Water Supply Operations groups, an Operating Guidelines Document was developed that can be used with several other documents to identify key operating considerations for both the GRFF and in-town supply requirements, to guide decision-making. A communication protocol (weekly huddle style meeting) was selected and implemented, that will keep parties informed of operational conditions. In addition, a conceptual Dashboard reporting several key operating parameters of interest to Operating personnel at various locations was developed and agreed to. Further implementation of this dashboard is planned in 2019.

WATER SUPPLY

Integrated Water Resource Plan

Tacoma Water owns and operates a diverse and complex mix of water resources, ranging from the Green River to an array of groundwater wells located in the City and Pierce County. In 2018 our Resource Planning & Operations group completed an Integrated Resource Plan (IRP) demonstrating the reliability and value of that diverse set of resources well into the future, despite the ever-growing threat of climate change, and with the expectation of a growing, thriving community. The resource plan is incorporated into the larger Water System Plan, and together this work demonstrates the capability of the Utility to meet the wide range of regulatory and public expectations it faces. This capability, however, does come with the need for long-term, consistent investment in the resources, infrastructure, practices and planning required to deliver water.

Water Shortage Response

A Water Shortage Response Plan was completed in 2018 to accompany the IRP. The value of the Green River surface water supply is that in the majority of Pacific Northwest years, it yields more water than is needed both for water supply and a healthy fishery. Our IRP modeling and our experience tells us that there will be infrequent years, however, when the combination of snow and rain is well below normal. These drought years require a structured, well developed response. *Entering* the Water Shortage Response Plan in these years is a prudent and expected step to ensure we meet both our obligations for drinking water, and our obligations to the natural environment. It includes an array of options to both augment supply and curb demand through several stages, and its use represents an important element of overall supply planning.

Seismic resilience

A significant challenge facing all cities on the west coast, and across a spectrum of infrastructure, is seismic resilience. Tacoma Water completed a vulnerability assessment highlighting this issue in 2015 & 2016, and began the long road of implementation. The current state of our older transmission pipelines means that following a seismic event like a rupture in the Cascadia Subduction Zone fault, these supply lines from the Green River will be severed, and transmission moving water from McMillin Reservoir into Tacoma will likely also be lost. We have determined that the fastest way to restore some supply to Tacoma will be from the more local groundwater. Major progress occurred in 2018 to analyze and scope seismic improvement work at three key

groundwater facilities, and at Water's Operations Building. This work laid the foundation for large design and construction projects that are launching in 2019.

Emergency Management

Tacoma Water, in conjunction with Tacoma Power, and the City of Tacoma worked to coordinate and improve utility-wide emergency planning. Recognizing that supply-chain interruption of fuel will be a critical threat in a regional emergency, the Utilities and the City jointly drilled an event to control and access the refueling station on South Lawrence Street. This exercise highlighted several lessons learned. Beyond this exercise, the combined TPU team has charted a broad range of emergency management issues for future work.

Aging infrastructure

The IRP highlighted the capability of the water resource portfolio, but does so under the stated expectation that the infrastructure required to deliver that resource is reliable. Currently there are pumps, motors, pipes and electrical equipment that are 50 to 90 years old. Some of that remains in effective operating condition, while other components are at the end of, or beyond their service life. In 2018, a significant amount of prioritization of need was initiated, and this work continues.

Executing asset management

Over the past several years, the development of the asset management program has included a move from standing orders for work on assets that are "lumped" to discrete work orders for each maintenance activity. This has led to a much more robust understanding of maintenance needs, costs, and evolved prioritization and management of schedules and tasks. This change from largely reactive maintenance to dominantly planned maintenance has been an enormous cultural shift. In 2018, over 3,000 discrete maintenance work orders were completed by Water Supply personnel, repairing a wide array of infrastructure, and providing key preventative maintenance. Work has been planned and scheduled to improve staff assignments and asset maintenance records. This approach to work has also been initiated in other Sections of Water, and will continue to develop, and be better enabled by current technology projects, including Workforce Connect.

Pipeline 1

This 27 mile long transmission pipeline is the original conduit alignment bringing water from the Green River to our large storage facility McMillin reservoir on the South Hill of Puyallup. From this location, the hydraulics of our largely gravity supply system is set. In 2018, two major assessment projects were launched to evaluate the hydraulics and condition of Pipeline 1, involving the deployment of instrumentation, and the use of a new acoustical sensor technology "in a ball" called a SmartBall that travelled down the pipeline. We now have a better understanding of how the hydraulics in the pipeline operate, and have identified several pipeline leaks that will be repaired. While some segments of this pipeline have been renewed in the last decade, the majority of the pipeline is 50 to 80 years old. The age itself isn't necessarily the problem, but rather the fact that it was not designed to operate as it now must, and much of it is highly vulnerable to seismic failure. Identifying long-term solutions for Pipeline 1 will be a priority in 2019.

Electrical and Telecommunications Systems

Like all modernizing utilities, the complex operations of the Tacoma Water system depend on strong electrical, communications, and control systems. In 2018 substantial improvements were made to improve backup electrical power systems at key pumping & treatment facilities and the Water Control Center. Water collaborated with Tacoma Power to plan improvements to our radio and microwave systems, and substantial upgrades were completed for system-wide controls in multiple locations.

DISTRIBUTION OPERATIONS AND ENGINEERING

Lead Gooseneck Replacement Project

Distribution Engineering, Distribution Operations and Asset & Information Management collaborated to develop a Lead Gooseneck Replacement Plan to replace 1,215 suspected lead goosenecks from the distribution system within five years. The project's objectives will complete the work in a geographically equitable manner, provide relevant regular communication to staff and public, and involve a coordinated effort with area partners in an effort to minimize disruptions to staffing levels and planned work.

Through 2018, the gooseneck project has exceeded our goal of resolving 608 suspected lead gooseneck locations by either being removed or verified not to have a gooseneck by staff.

System Acquisition

In late 2017, Tacoma Water took over system operation of the Curran Road Mutual Water Association water system. In 2018, we dedicated staff resources to ensure that the transition of our new customers to our system was smooth. We provided education pieces, answered questions, and responded to invoicing and customer concerns. Improvements to the acquired water system began with the first design work and main replacement projects being completed. These improvements will be spread out over the next 8-10 years.

Conservation and Efficiency Programs

Tacoma Water's new 2018-2027 conservation plan was approved by the Public Utility Board and City Council. In 2018, our conservation program attended 14 community events, totaling over 1,500 conversations about conservation with our customers. We gave out over 200 water-efficient showerheads and over 500 faucet aerators. The focus this year was planning the new peak season demand reduction programming.

Customer/Stakeholder Relationships

In collaboration with Marketing Communications, a strategy document was developed detailing modes of communication to address customer segments and messaging. Staff met regularly to optimize the execution of the plan and begin work to establish deliberate communication channels with those customer segments.

The Customer Support group serves our development community via phone, online, and in person services. These customer touch points were evaluated for ways to improve operations and the customer experience of the development community. In 2019, hours of operation will be adjusted after outreach to stakeholders is complete.

Sound Transit

In 2018, final plans for the Tacoma Link Light Rail system were submitted and approved for construction. A workshop was held to educate staff about the project specifics and safety. In addition, a hands-on training to become familiar with materials and tools that would be used on the project was held for the Distribution Operations field crews. Services and water main work will begin in 2019 on this high profile community project.

Main Replacement Program

Nearly 11 miles of new distribution main were added to the system and 27 design plans were completed for new developments. We continue to use and refine our distribution mains economic model to prioritize projects. The development and installation of major projects such as Sound Transit, Tehaleh, City subarea plans, and improvements to the acquired Curran Road Mutual Water Association system will be our focus over the coming years.

New Services

The Customer Support Group continued to execute at a high level to meet the developer demand for the construction of schools, short plats, shopping centers, restaurants, residential homes and apartments. The workload production statistics match the sentiment around the Puget Sound region regarding economic development for new business and real estate. In 2018, we created approximately 860 fixed fee orders, which was near the average from 2004-2008, and is about triple the amount from the low of 297 in 2010. The number of time and material orders dramatically increased over 50% of the year's past. While we pulled back from the recording breaking 250 water availability letters from 2017, we did issue 208 beating previous years' performance. We commented on over 1,370 permits, which is almost 20% more than year's past. Private development work in the City and County remains strong.

Locating technology upgraded equipment

In 2018, Tacoma Water staff performed over 28,000 infrastructure locates. In order to provide the tools and accuracy needed to keep up with demand; ground penetrating radar (GPR) equipment was purchased and integrated into operations. The GPR unit will be used for locating non-ferrous infrastructure, including plastic, asbestos cement, concrete, high density polyethylene and polyvinyl chloride which represents approximately 197 miles of our system. Within our service area non-ferrous structures exist mainly in acquired systems in Pierce County, University Place and Federal Way.

Operations

In 2018, the system experienced 28 main breaks (2.2 breaks/100 miles of pipe/year). This is less than last year's 52 main breaks (4.1 breaks/100 miles of pipe/year), and is well below the industry recommended target of 15 breaks/100 miles of pipe/year and reflects a highly reliable water system.

Flushing

The unidirectional flush teams cleaned 253 miles of main in 2018, approximately 20% of the distribution system. Additionally, 2,147 dead end mains were flushed.

H2O TO GO – Water Bottle Refill Stations

In 2018, Tacoma Water partnered with the City of Tacoma Public Works Department to install its second combination water bottle refill station-drinking fountain near South 38th Street and Yakima Ave as part of the Lincoln District Revitalization. The project goal is to communicate the value of Tacoma's water to customers by linking tap water to the Green River, to promote thoughtful and efficient water use and water as a renewable resource. Further installations are planned for 2019 and beyond with additional partners that include Metro Parks Tacoma and Tacoma Pierce County Health Department.

FINANCE AND ANALYTICS

Budget and Rate Development

On November 20th, the City Council unanimously approved Water's budget and cost of service rates for the 2019-2020 biennium. The approval of this package marked the culmination of an intensive policymaker and public review process that included more than 45 meetings with numerous customer groups, franchise cities, neighborhood councils and members of the community. Through this process, we worked to achieve alignment with policymakers, and ensure that we gave them ample opportunity to consider the policy implications of our budget and rate proposals and understand how, together, they support the strategic direction of the utility.

The \$228 million biennial budget reflects thousands of hours of work done by Tacoma Water staff to make the most effective use of ratepayer dollars, and includes:

- a. Developing robust "business case" analyses for \$61 million of capital projects
- b. Remit a total of \$29 million of federal, state and local taxes and franchise fees
- c. Support \$53 million of debt service on outstanding revenue bonds and low-interest state loans
- d. Support 291 employees in the delivery of clean, reliable water to our service area every day

The rate proposal that supports this budget includes two 2.5% average rate adjustments per year, with class-specific adjustments each year between -3.2% and 4.9%. Average residential customers will see bill impacts of approximately \$1 per month for each of these adjustments, which will be implemented on January 1, 2019 and January 1, 2020. As a part of these adjustments, Tacoma Water will stop identifying public fire protection separately on customer bills. The rate design will still send a signal to customers to use water wisely, while continuing to pursue policy objectives of rate and revenue stability.

Wholesale Pricing Strategy Project

Tacoma Water continued work on innovative wholesale pricing methods in 2018, with the objective of increasing net revenue while managing supply risk. Market pricing concepts, as well as changes to the status quo "embedded cost" pricing approach, were discussed with wholesale customers in preparation for policymaker review in early 2019.

Adaptive Insights Reporting Platform Deployment

In 2018, the Financial Stewardship team deployed a tool called Adaptive Insights across Tacoma Water to improve the visibility and timeliness of expense reporting. This platform will enable stakeholders across Tacoma Water to view the enterprise capital project portfolio status, including scope, schedule, and budget, understand the causes of projects that are off track, and ensure that all stakeholders are looking at the same version of the truth. It will do the same for operations and maintenance expenses, and will facilitate regular discussions with cost center managers and improve proactive expense management.

Performance Management

The Programs and Analytics group hired one employee in 2018 to begin building an enterprise organizational performance management platform for Tacoma Water. The purpose of this work is to help the organization improve alignment behind common goals and targets, monitor performance against those targets, and identify the need to make course corrections along the way. Ultimately, this platform will increase the capacity of the organization to continuously improve the way it does business. It should also help individual employees see their role in contributing to the success of the organization as a whole, and improve our ability to execute against our strategic plan. The bulk of the work done in 2018 involved the introduction of performance management concepts to the organization, assessing our maturity across the various

dimensions of performance management, and establishing a roadmap towards our desired level of maturity in upcoming years.

Analytics Strategy and Ops Analytics Use Case

The Programs and Analytics group completed significant work in 2018 to develop a roadmap for analytics maturity at Tacoma Water. Working with other departments within Tacoma Water and across TPU and the City, this group engaged in formalizing an Analytics Steering Committee that is comprised of members from UTS, Power, Water, and ITD. It has developed enterprise communications to improve organizational understanding of the value of data management and analytics. This group has also provided leadership and analytical support to a project involving two analytics use cases – power natural resources, and water quality. This project has yielded critical insights into the current state of analytics maturity within Tacoma Water and across City Government, enabled the organization to collaboratively make investments in analytical infrastructure, and set the table for TPU to formalize a strategy around data management and analytics. The group has also engaged heavily in the City's deployment of SAP HANA, aiding in the formation of a project plan and project management.

THANK YOU FOR THIS OPPORTUNITY TO SHARE WHAT HAS BEEN HAPPENING AT TACOMA WATER IN 2018. WE LOOK FORWARD TO THE 2019 REPORT TO CONTINUE THE CONVERSATION!



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