



*Wastewater and Surface Water  
Management  
Annual Financial Report  
For the fiscal year ended December 31, 2018  
Prepared by the Finance Department*



**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management**

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# *Independent Auditor's Report*

## **Report of Independent Auditors**

Honorable Mayor and City Council  
City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management  
Tacoma, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management (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 the Division as of December 31, 2018 and 2017, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 52 through 61 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019, on our consideration of the City of Tacoma, Environmental Services, Wastewater and Surface Water Management'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 22, 2019

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# *Management's Discussion and Analysis*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Management's Discussion and Analysis**  
**December 31, 2018 and 2017**

**Introduction**

The following discussion and analysis of City of Tacoma Wastewater and Surface Water Management Division'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 City of Tacoma Wastewater and Surface Water Management Division's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

**Financial Highlights**

- Total net position is \$458.8 million at December 31, 2018 compared to \$434.6 million and \$422.1 million at year-end 2017 and 2016, respectively.
- Operating revenues were \$115.8 million in 2018, \$110.0 million in 2017 and \$104.3 million in 2016.
- Cash and equity in pooled investments was \$185.3 million at December 31, 2018 compared to \$113.9 million in 2017 and \$114.4 million in 2016.

## Financial Analysis – Condensed Statements of Net Position

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

	2018	December 31, 2017 (As Restated)	2016
Current, restricted, and other assets	\$ 208,495,085	\$ 131,273,925	\$ 131,654,327
Net capital assets	594,655,680	582,197,274	575,975,737
Total assets	803,150,765	713,471,199	707,630,064
Deferred outflows of resources	8,258,947	14,059,142	14,723,782
Total assets and deferred outflows of resources	\$ 811,409,712	\$ 727,530,341	\$ 722,353,846
Long-term liabilities	\$ 297,917,406	\$ 248,303,125	\$ 256,177,254
Other liabilities	22,029,267	17,244,929	18,355,075
Total liabilities	319,946,673	265,548,054	274,532,329
Deferred inflows of resources	32,624,240	27,350,085	25,766,997
Total liabilities and deferred inflows of resources	352,570,913	292,898,139	300,299,326
Net position:			
Net investment in capital assets	410,745,328	386,408,990	392,364,966
Restricted	14,663,136	14,335,157	14,542,374
Unrestricted	33,430,335	33,888,055	15,147,180
Total net position	458,838,799	434,632,202	422,054,520
Total liabilities, deferred inflows of resources, and net position	\$ 811,409,712	\$ 727,530,341	\$ 722,353,846

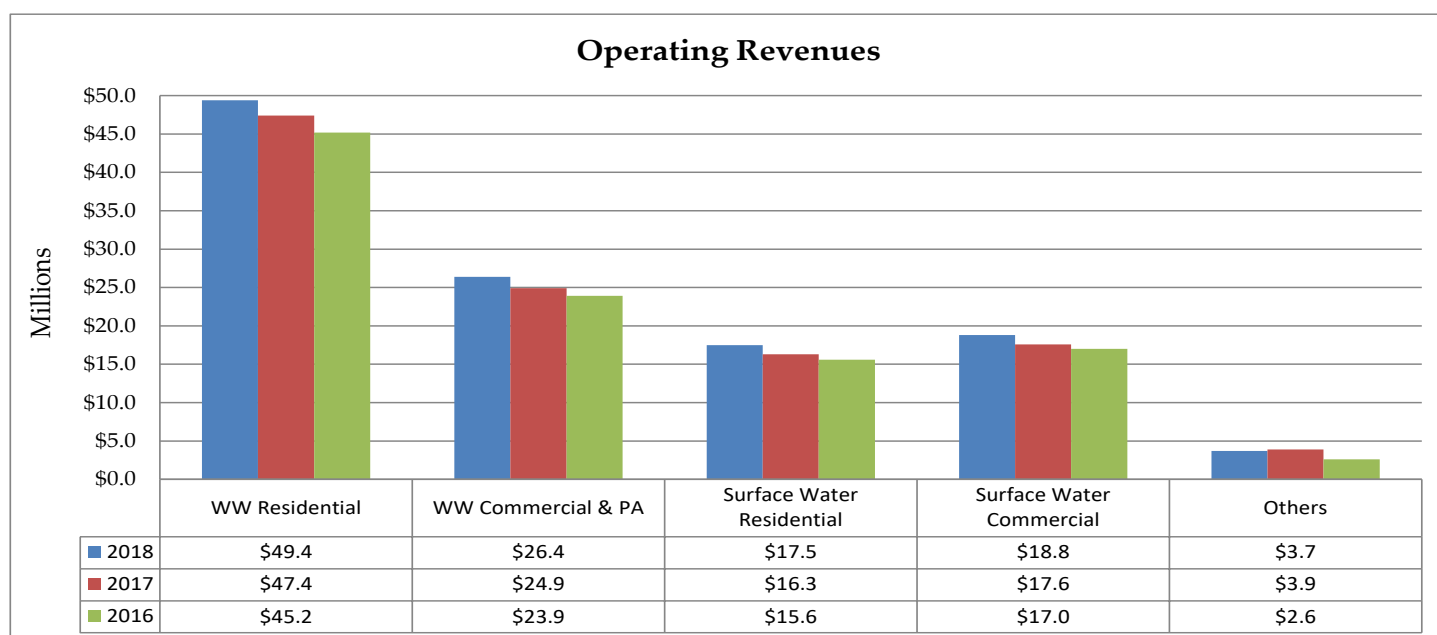
The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$458.8 million in 2018, compared to \$434.6 million in 2017, and \$422.1 million in 2016. The Division's net position increased by \$24.2 million to \$458.8 million in 2018 compared to an increase of \$12.5 million to \$434.6 million in 2017 and an increase of \$12.8 million to \$422.1 million in 2016. However, the largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The net investment in capital assets component of net position was \$410.7 million in 2018, compared to \$386.4 million for 2017 and \$392.4 million for 2016. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Division's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division's net position is \$14.7 million for 2018, compared to \$14.3 million in 2017, and \$14.5 million in 2016 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$33.4 million for 2018, \$33.9 million for 2017, and \$15.1 million for 2016 is unrestricted.

## Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year ended December 31,		
	2018	2017 (As Restated)	2016
Operating revenues	\$ 115,817,015	\$ 110,041,372	\$ 104,279,617
Operating expenses	83,751,684	89,346,698	84,577,168
Net operating income	32,065,331	20,694,674	19,702,449
Nonoperating revenues (expenses)	(4,522,281)	(4,808,373)	(4,843,543)
Increase (decrease) in net position before transfers	27,543,050	15,886,301	14,858,906
Capital contributions	5,568,353	4,470,024	5,957,003
Transfers	(8,904,806)	(7,778,643)	(8,065,437)
Increase in net position	24,206,597	12,577,682	12,750,472
Net position - beginning of year	434,632,202	422,054,520	409,304,048
Net position - ending	\$ 458,838,799	\$ 434,632,202	\$ 422,054,520

### Operating revenues

The following graph provides a comparison of operating revenues for the three years.

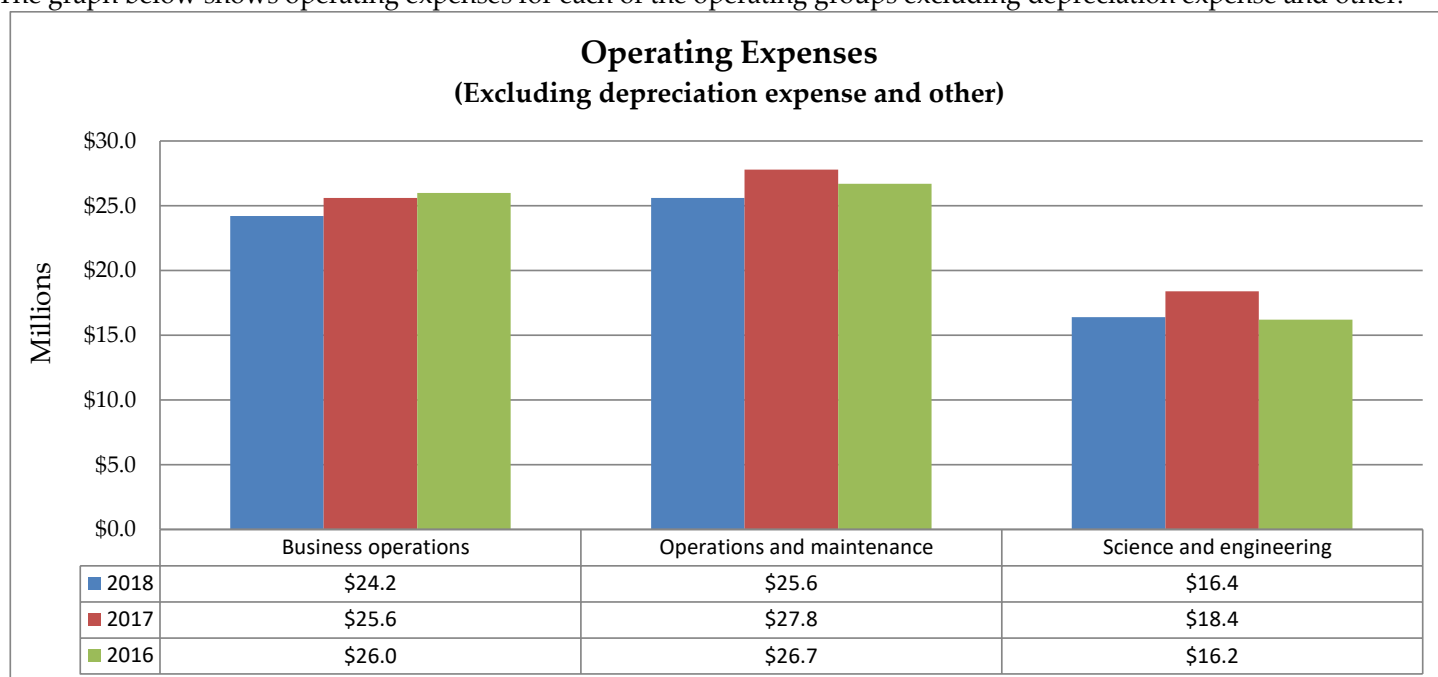


Operating revenues were \$115.8 million in 2018 compared to \$110.0 million in 2017 and \$104.3 million in 2016. The approved average rate increases for Wastewater were 4.5% for 2018 compared to 5.5% for 2017 and 6.0% for 2016. The average rate increases for Surface Water were 5.5% for 2018, 2017, and 2016. The rate increases went into effect January 1<sup>st</sup> of each year.

Wastewater residential revenues increased \$2.0 million (4%) in 2018 compared to \$2.2 million (5%) in 2017, and Wastewater commercial and public authority (PA) revenues increased \$1.5 million (6%) compared to \$1.0 million (4%) in 2017. Surface Water residential increased \$1.2 million (8%) in 2018 compared to \$662,000 (4%) in 2017 and Surface Water commercial increased \$1.2 million (7%) in 2018 compared to \$610,000 (4%) in 2017. The reason for these increases was due in part to rate increases and increase in customer accounts. Other revenues decreased \$168,000 (4%) compared to a \$1.3 million (51%) increase in 2017.

## Operating expenses

The graph below shows operating expenses for each of the operating groups excluding depreciation expense and other.



## 2018 Activity

Operating expenses were \$83.8 million in 2018 and \$89.3 million in 2017, a decrease of \$5.5 million.

- Business operation expenses decreased \$1.4 million. The significant events were:
  - Labor expense including all payroll associated costs decreased \$1.7 million. Of this decrease, \$1.2 million was related to entries for pension expenses and \$787,000 for Other Post-Employment Benefits (OPEB). The remaining difference of \$287,000 is related to multiple small increases within salaries & wages and pension contributions.
  - Stock purchases increased \$184,000 primarily due to increased purchases for sawdust, black bark, and sand used for Tagro operations.
  - Bad debts expense increased \$162,000 due to increased aged accounts receivable.
- Operations and maintenance expenses decreased \$2.2 million. The significant events were:
  - Labor expense including all payroll associated costs decreased \$2.4 million primarily due to a \$3.0 million decrease of pension expenses, which was allocated based upon last year's labor expenses of each division. The remaining difference of \$600,000 is related to multiple small increases within salaries & wages and pension contributions.
  - Fleet maintenance charges allocated through the Plan Maintenance (PM) orders increased \$262,000.
  - Repair and maintenance service decreased \$195,000 primarily due to a 5 year maintenance contract payment of \$151,000 in 2017 for the Atlas Copco's compressor service for Plant 1 and 3.
- Science and engineering expenses decreased \$2.0 million. The significant events were:
  - Labor expense including all payroll associated costs decreased \$1.8 million. Of this decrease, \$2.8 million was related to entries for pension expenses. Secondary labor charges allocated to capital projects and outside activities increased \$625,000 due in part to reduced spending on capital projects. The remaining difference of \$375,000 is related to multiple small increases within salaries & wages and pension contributions.
  - Environmental liabilities decreased \$617,000 due to re-measured anticipated monitoring costs for the Foss Waterway for next 10 years and new clean-up expected costs in the Olympic View Resource Area (OVRA).
  - Software license and maintenance increased \$171,000 due in part to E-Builder's management software for a centralized project management system.

### 2017 Activity

Operating expenses were \$89.3 million in 2017 and \$84.6 million in 2016, an increase of \$4.7 million.

- Business operation expenses decreased \$433,000. The significant events were:
  - Costs associated with the capital lease for the Center for Urban Waters (CUW) building decreased \$553,000 due to the termination of the capital lease agreement.
  - Vehicle expenses decreased \$280,000 due to no additional charges for vehicles maintained by Fleet.
  - Administrative and General (A&G) charges allocated to capital projects increased \$450,000 due to the adjusted A&G charge rate from 4% to the 7% and 6% increase for the Wastewater and Surface Water constructed capital respectively. The A&G charges for the Wastewater and Surface Water purchased capital decreased from 4% to 3%.
  - Labor expense including all payroll associated costs increased \$444,000. Of this increase, \$835,000 was related to entries for pension expenses and OPEB. This increase was offset by multiple small decreases within salaries & wages and pension contributions.
  - Assessment charges from other departments, including Customer Service and IT, increased \$310,000 for their internal services.
- Operations and maintenance expenses increased \$1.0 million. The significant events were:
  - Labor expenses including all payroll associated costs increased \$862,000. Of this increase, \$392,000 related to pension expense and there was a decrease of \$322,000 related to the secondary labor charges allocated to capital projects and outside activities due in part to reduced spending on capital projects.
  - Repair and maintenance service increased \$218,000, which includes the Atlas Copco's compressor service for Plant 1 and 3, and Great Floors LLC's new carpeting expense for the engineering building.
- Science and engineering expenses increased \$2.3 million. The significant events were:
  - Environmental liabilities increased \$1.3 million due to anticipated increase in monitoring costs for the Foss Waterway and new clean-up expected in the Olympic View Resource Area (OVRA).
  - Repair & maintenance services contract increased \$591,000 due to the new Center for Urban Water (CUW) building management and maintenance service contract with Kidder Mathew.
  - Pension expense increased \$390,000.

### **Capital Assets**

Capital assets increased \$12.5 million in 2018 compared to \$6.2 million in 2017. (See Note 4.)

### 2018 Activity

Capital assets increased \$12.5 million over the prior year. Buildings reported \$191.7 million similar to last year of \$191.8 million. Machinery and equipment increased \$450,000: \$2.9 million of assets were disposed according to the result of physical inventory, \$187,000 was disposed for TPU pay-stations, and \$3.9 million of assets were capitalized primarily due to the 40<sup>th</sup> Street Green Infrastructure project. Transmission lines and other improvements increased \$14.7 million: 9,474 feet of donated lines were recorded for \$2.4 million, 19,783 feet of old lines were retired at the historical cost of \$76,000, and 25,300 feet of new replacement lines and extended sewer lines were recorded for \$12.4 million. Accumulated depreciation increased \$14.2 million and construction in progress increased \$11.2 million.

### 2017 Activity

Capital assets increased \$6.2 million over the prior year. Buildings decreased \$7.2 million mainly due to the reclassification of \$7.4 million for the 3-Screw Press Dewatering System as heavy equipment. Machinery and equipment increased \$12.4 million primarily due to the reclassification of \$7.4 million, and the capitalization of the Plant Control System upgrade project for \$4.7 million. Transmission lines and other improvements increased \$14.1 million: 4,945 feet of donated lines were recorded for \$1.2 million, 27,485 feet of old lines were retired at the historical cost of \$102,000, and 20,019 feet of new replacement lines and extended sewer lines were recorded for \$10.0 million. The Gravel Pit Expansion project was capitalized at \$3.0 million as other improvements. Accumulated depreciation increased \$16.0 million and construction in progress increased \$2.1 million.

## **Debt Administration**

At December 31, 2018, the Division had \$300.6 million outstanding in long-term debt: \$40.6 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and the remaining balance is senior parity bonds debt. This compares to \$239.0 million in 2017 and \$248.7 million in 2016.

In October 2018, the Division defeased total \$34.3 million of the outstanding 2006 and 2011 Sewer Revenue and Refunding Bonds with cash to reduce debt service and trigger springing-forward bond covenants allowing the required bond reserves for the 2016 Series A and B Revenue Refunding Bonds to be zero, thus freeing up these bond reserves to debt service and allowing future debt required reserves to be zero. In November 2018, the 2018 Sewer Revenues Bonds were issued in the amount of \$100.9 million to finance capital improvements and pay costs of issuance.

The rating agencies maintained the Division's underlying credit ratings on parity bonds of Aa2, AA+, and AA+ from Moody's, Standard & Poor's, and Fitch respectively.

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

## **Debt Service Coverage**

The bonds coverage ratio is calculated by dividing net revenue by debt service as defined by bonds covenants. The SRF loans are junior lien debt and excluded from the debt service in the bonds coverage ratio calculation.

The Division is required by its bond covenants to maintain a debt service coverage ratio of 1.3. The debt service coverage ratio is 4.28 at the end of 2018. This compares to a ratio of 3.30 in 2017 and 2.98 in 2016.

## **2019 - 2020 Budgets and Rates**

The approved average rate increases for 2019 and 2020 are 4.0% for Wastewater and 3.5% for Surface Water. These rate increases were determined after considering many internal and external factors impacting the Sewer Utility Systems' maintenance and operation such as revenues, expenditures, debt service obligations, and certain future capital needs, as well as planned growth, and utility services obligation, and forecasted cash flows.

The 2019 - 2020 biennium budgets for Wastewater are \$79.8 million and \$83.4 million for operating revenues and \$51.1 million and \$52.5 million for operating expenditures respectively. The Surface Water 2019 - 2020 biennium budgets are \$36.8 million and \$38.1 million for operating revenues and \$21.6 million and \$19.3 million for operating expenditures respectively. The 2019 - 2020 biennium budgets for capital expenditures are \$35.2 million and \$27.3 million for Wastewater and \$23.4 million and \$27.7 million for Surface Water respectively.

## **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 the City of Tacoma Wastewater and Surface Water Management's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information. The financial statements have been independently audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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

**Request for Information**

The Wastewater and Surface Water Management Division's (the Division) financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interest parties. For questions concerning any of the information provided in this report or requests for additional financial information, please contact the City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.



# *Financial Statements*

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Net Position**

	December 31,	
	2018	2017 (As Restated)
<b>ASSETS</b>		
Current assets:		
Cash and equity in pooled investments	\$ 70,166,144	\$ 98,418,103
Accounts receivable, net	7,235,888	7,021,354
Unbilled revenues	8,263,787	6,970,787
Conservation loan fund receivables	211,795	139,339
Due from other funds	97,971	1,075
Due from other governments	815,226	822,875
Inventory	1,098,786	1,242,457
Prepayments	226,836	220,432
Restricted cash and equity in pooled investments:		
Debt service funds	6,977,290	1,058,386
Construction funds	103,531,351	56,387
Total restricted cash and equity in pooled investments	110,508,641	1,114,773
Total current assets	198,625,074	115,951,195
Non-current assets:		
Restricted cash and equity in pooled investments:		
Debt reserves	4,672,034	14,335,157
Net pension asset	4,409,368	-
Conservation loan fund receivables	600,784	705,836
Prepayments	187,825	281,737
Capital assets:		
Land and easements	23,696,173	23,656,972
Buildings	191,724,902	191,776,652
Machinery and equipment	210,276,727	209,826,286
Transmission lines and other improvements	423,336,124	408,641,330
Computer software	9,280,373	8,940,494
Less: accumulated depreciation	(282,874,826)	(268,677,931)
Construction work in progress	19,216,207	8,033,471
Total capital assets, net	594,655,680	582,197,274
Total non-current assets	604,525,691	597,520,004
<b>TOTAL ASSETS</b>	<b>803,150,765</b>	<b>713,471,199</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow - loss on refunding bonds	2,286,799	2,903,923
Deferred outflows - OPEB	317,474	84,482
Deferred outflows - pensions	5,654,674	11,070,737
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>8,258,947</b>	<b>14,059,142</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 811,409,712</b>	<b>\$ 727,530,341</b>

*The accompanying notes are an integral part of the financial statements.*

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Net Position**

	December 31,	
	2018	2017 (As Restated)
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 5,640,825	\$ 3,264,951
Accrued wages payable and compensated absences payable	1,134,303	874,180
Accrued taxes payable	862,940	861,772
Due to other funds	556,492	732,084
Due to other governments	599,028	550,486
Accrued environmental liability	1,222,334	885,673
Accrued State Revolving Fund loan interest payable	184,878	202,410
Current portion of State Revolving Fund loan	3,938,863	3,867,742
Current portion of revenue bonds payable	6,072,917	4,606,250
Unearned revenues	402,631	340,995
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	552,083	418,750
Accrued revenue bond interest payable	852,723	639,636
Deposit in lieu of bond	9,250	-
Total current liabilities	22,029,267	17,244,929
Noncurrent liabilities:		
Long-term debt - revenue bonds, net	253,410,173	189,545,478
Long-term accrued compensated absences	2,757,749	2,979,424
Long-term accrued environmental liability	1,012,500	840,000
Long-term State Revolving Fund loan	36,635,931	40,574,795
Net pension liability	-	10,569,592
Net OPEB liability	4,101,053	3,793,836
Total noncurrent liabilities	297,917,406	248,303,125
<b>TOTAL LIABILITIES</b>	<b>319,946,673</b>	<b>265,548,054</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - gain on refunding bonds	54,135	72,695
Deferred inflows - OPEB	64,332	-
Deferred inflows - pensions	7,505,773	2,277,390
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>32,624,240</b>	<b>27,350,085</b>
<b>NET POSITION</b>		
Net investment in capital assets	410,745,328	386,408,990
Restricted for:		
Bond reserves	4,672,034	14,335,157
Debt service	5,572,484	-
Deposit in lieu of bond	9,250	-
Net pension asset	4,409,368	-
Unrestricted	33,430,335	33,888,055
<b>TOTAL NET POSITION</b>	<b>458,838,799</b>	<b>434,632,202</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 811,409,712</b>	<b>\$ 727,530,341</b>

*The accompanying notes are an integral part of the financial statements.*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	December Year-to-Date	
	2018	2017 (As Restated)
<b>OPERATING REVENUES</b>		
Wastewater residential	\$ 49,438,938	\$ 47,391,548
Wastewater commercial and public authorities	26,381,317	24,944,393
Surface water residential	17,502,634	16,266,964
Surface water commercial	18,794,271	17,570,865
Other revenues	3,699,855	3,867,602
Total operating revenues	<u>115,817,015</u>	<u>110,041,372</u>
<b>OPERATING EXPENSES</b>		
Business operations	24,179,386	25,586,686
Operations and maintenance	25,576,452	27,777,106
Science and engineering	16,398,104	18,405,783
Other	34,448	372,195
Depreciation	17,563,294	17,204,928
Total operating expenses	<u>83,751,684</u>	<u>89,346,698</u>
Net operating income	<u>32,065,331</u>	<u>20,694,674</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment and other earnings	1,757,313	934,126
Interest expenses and other related costs	(8,919,756)	(8,304,851)
Amortization of bond premium and gain/loss on refunding	877,705	950,634
Other nonoperating revenues	1,857,497	1,630,204
Gain or (loss) on sale/disposal of capital assets	(95,040)	(18,486)
Total nonoperating revenues (expenses)	<u>(4,522,281)</u>	<u>(4,808,373)</u>
Net income before contributions and transfers	<u>27,543,050</u>	<u>15,886,301</u>
Capital contributions and grants	5,568,353	4,470,024
Transfer in from other funds	583,011	1,218,305
Transfer out to other funds	(42,000)	(61,125)
Gross earnings tax	(9,445,817)	(8,935,823)
Total contributions and transfers	<u>(3,336,453)</u>	<u>(3,308,619)</u>
CHANGE IN NET POSITION	24,206,597	12,577,682
NET POSITION - JANUARY 1	434,632,202	422,054,520
NET POSITION - DECEMBER 31	<u>\$ 458,838,799</u>	<u>\$ 434,632,202</u>

*The accompanying notes are an integral part of the financial statements.*

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**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Cash Flows**

	Year Ended December 31,	
	2018	2017 (As Restated)
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 113,696,634	\$ 109,162,279
Payments to suppliers	(29,418,073)	(33,141,679)
Payments to employees	(35,453,197)	(33,347,198)
Payments for taxes	(1,823,650)	(1,778,479)
Other operating or non-operating revenues (expenses)	1,527,476	1,489,077
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>48,529,190</b>	<b>42,384,000</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfer in from other funds	437,959	350,000
Transfer out to other funds	(9,452,587)	(8,934,138)
Operating grants received	304,295	45,114
Principal paid on noncapital debt	(591,600)	(567,675)
Funds place in escrow for bond defeasance	(27,453,088)	-
Interest paid on noncapital debt	(1,677,871)	(1,810,819)
Contributions and donations	19,520	50
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(38,413,372)</b>	<b>(10,917,468)</b>
<b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:</b>		
Transfer in from other funds	145,052	868,305
Transfer out to other funds	(42,000)	(61,125)
Acquisition and construction of capital assets	(27,757,610)	(23,829,592)
Principal payments on capital debt	(15,168,054)	(8,060,326)
Bonds refunding costs	5,340,964	-
Interest and issuance costs paid on capital debt	(6,904,270)	(6,530,218)
Proceeds from the issuance of revenue bonds	100,945,000	-
Gain (Loss) on bonds defeasance	(150,361)	-
Contributions and donations	3,146,361	4,614,172
Cash proceeds from sale of capital assets	28,680	35,700
Insurance recoveries	21,893	10,718
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<b>59,605,655</b>	<b>(32,952,366)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	1,757,313	934,125
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>1,757,313</b>	<b>934,125</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<b>71,478,786</b>	<b>(551,709)</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	<b>113,868,033</b>	<b>114,419,742</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<b>\$ 185,346,819</b>	<b>\$ 113,868,033</b>

*The accompanying notes are an integral part of the financial statements.*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Cash Flows**

	Year Ended December 31,	
	2018	2017 (As Restated)
RECONCILIATION OF OPERATING INCOME		
TO NET CASH PROVIDED (USED)		
BY OPERATING ACTIVITIES:		
Net operating income	\$ 32,065,331	\$ 20,694,674
Adjustments to reconcile operating income to net cash		
provided by operating activities:		
Depreciation expense	17,563,294	17,204,928
Other non-operating revenues (expenses)	1,561,924	1,861,272
Pension expense (credits)	(4,334,514)	2,663,509
Net OPEB expense (credits)	138,557	925,519
Cash provided from changes in operating		
assets and liabilities:		
Accounts receivable, net of allowance	(214,534)	246,434
Accrued unbilled revenue	(1,293,000)	(698,000)
Due from other funds	(96,896)	84,003
Inventory	143,671	(213,892)
Prepayments	87,508	99,366
Accounts payable	2,375,874	232,331
Conservation loan fund receivables	32,596	(108,186)
Accrued wages and compensated absences payable	260,123	24,111
Accrued taxes payable	7,934	(64,175)
Deposit in lieu of bonds	9,250	-
Due to other funds	(175,592)	(1,120,134)
Due to other governments	48,542	(677,882)
Accrued environmental liability	336,661	585,673
Unearned revenues	61,636	16,504
Long-term accrued environmental liability	172,500	540,000
Long-term accrued compensated absences	(221,675)	87,945
Total adjustments	16,463,859	21,689,326
NET CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES	\$ 48,529,190	\$ 42,384,000
NONCASH INVESTING, CAPITAL, AND		
FINANCING ACTIVITIES		
Donated capital assets	\$ 2,422,257	\$ 1,250,802

*The accompanying notes are an integral part of the financial statements.*

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# *Notes to Financial Statements*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Notes to Financial Statements**  
**For the years ended December 31, 2018 and 2017**

**NOTE 1 OPERATIONS**

**OPERATIONS OF THE WASTEWATER AND SURFACE WATER MANAGEMENT DIVISION** - The Wastewater and Surface Water Management Division (the Division) is presented as an enterprise fund within the Environmental Services Department under the provisions of the City of Tacoma's (the City) Charter and is included in the City's Comprehensive Annual Financial Report.

The Division is responsible for the planning, design, construction, operation, and maintenance of the wastewater and surface water facilities owned by the City. In addition to providing wastewater service within the City, the Division provides sewage treatment and disposal services by contract to the towns of Fife, Ruston, and Fircrest, and portions of Pierce County.

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 and, additionally, must pay gross earnings tax to the City. These transactions are required to be arms-length transactions by law.

**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 accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

**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 9 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.

## Wastewater and Surface Water Management Notes to Financial Statements

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.

The Division adopted GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, during fiscal year 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**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 issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City’s daily obligations is maintained by investing a portion of the City’s Investment Pool in the LGIP and in certificates of deposit with East West Bank, Opus Bank, and Home Street Bank.

The Division’s equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 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.

## **Wastewater and Surface Water Management Notes to Financial Statements**

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

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

**ACCOUNTS RECEIVABLE AND UNBILLED REVENUE** - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed, which is included in accounts receivable.

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

**INTERFUND AND INTERGOVERNMENTAL TRANSACTIONS** - Unsettled transactions between entities at year end are recorded as due to or due from either other funds or other governmental units as appropriate.

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

**RESTRICTED ASSETS** - In accordance with bond covenants, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds, and customer deposits.

**BOND PREMIUM AND GAIN/LOSS ON REFUNDING** - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Gains or losses on bond refunding represent the difference between reacquisition price and the carrying value of the old debt and are amortized on a straight-line basis over the applicable bond period, and are presented as deferred outflows on the statement of net position.

**CAPITAL ASSETS AND DEPRECIATION** - Capital assets consist of utility plant and are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of capital assets contributed is recorded at donated fair value. The cost of maintenance and repairs is charged to expense as incurred while the costs of improvements, additions and major renewals that extend the life of an asset are capitalized.

Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method based upon estimated useful lives of the assets. 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.

## Wastewater and Surface Water Management Notes to Financial Statements

The estimated useful lives range as follows:

	Years
Collection and Transmission Mains	75
Structures and Improvements	50
Land Improvements	25
Intangible Plant	7 - 20
Equipment	3 - 20

**CONSTRUCTION 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.

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

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

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

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

**RATE STABILIZATION FUND** - The Division has established a rate stabilization account to better match revenues and expenses which may reduce volatility 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.

## **Wastewater and Surface Water Management Notes to Financial Statements**

**OPERATING REVENUES** - Revenues are derived from providing wastewater and surface water services. Wastewater services include the collection and treatment of wastewater to produce clean water and biosolids that are then used to produce TAGRO, planting soil amendments. Wastewater rates are based on volume of flow and strength. Total suspended solids (TSS) and biological oxygen demand (BOD) are strength determinants. Customers are billed on bi-monthly or monthly billing cycles.

Surface water services include flooding and erosion control, pollution prevention and control, environmental cleanup and restoration, and street drainage. Surface water rates are based on the area of the parcels and level of development with reductions for direct discharge and approved detention systems.

The rate structure is designed to meet the Division's needs and obligations on a cost-of-service basis while adhering to legal requirements. These legal requirements include computing rates on a reasonable basis, charging rates uniformly within classes, and using the revenues for utility and regulatory purposes. In addition, there may be laws imposed by the State, City Charter or to meet grant or bonds requirements.

The City has a parity bonds ordinance that it will establish, maintain and collect rates or charges in connection with the ownership and operation of the utility that will be fair and nondiscriminatory and adequate to provide gross revenues sufficient for 1) the payment of the principal and interest on all parity bonds and all amounts that the City is obligated to set aside in the bonds fund, 2) the proper operation and maintenance of the utility, 3) the payment of any and all amounts that the City may now or hereafter become obligated to pay from gross revenues.

**NON-OPERATING REVENUES AND EXPENSES** – The Division reports transactions not directly related to primary services as non-operating revenues and expenses. Significant items include investment and rental income and interest expense.

**TAXES** - The City charges the Division a gross earnings tax at the rate of 8.0%, which was reported as a transfer. In addition, the Division pays a 3.852% public utility tax to the State on wastewater collection revenues and the 1.5% business and occupation tax to the State on wastewater transmission and treatment and surface water service revenues. The Division is exempt from payment of federal income tax.

**NET POSITION** - The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as 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 bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are reported as 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 consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

## **Wastewater and Surface Water Management Notes to Financial Statements**

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

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

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

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

**USE OF ESTIMATES** - The preparation of the financial statements in conformity with GAAP 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, environmental liabilities, depreciation, Other Post Employment Benefits (OPEB Liability), self-insurance liabilities, net pension liability 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, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

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

### **NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE**

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

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

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

## Wastewater and Surface Water Management Notes to Financial Statements

- 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 of City's investments in TIP are provided by Interactive Data.

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

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

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

Debt Securities:	As of			
	12/31/2017	Level 1	Level 2	Level 3
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	\$ 796,215,449	\$ -	\$ 796,215,449	\$ -

The Division's share of the City's investments shown in the table above is 17.46% and 12.30% as of December 31, 2018 and 2017.



## Wastewater and Surface Water Management Notes to Financial Statements

### NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2018 and 2017 follows:

	2017	Additions	Retirements	Transfers & Adjustments	2018
Capital assets, not being depreciated:					
Land and easements	\$ 23,656,972	\$ 39,201	\$ -	\$ -	\$ 23,696,173
Construction work in progress	8,033,471	27,727,812	-	(16,545,076)	\$ 19,216,207
Total capital assets, not being depreciated	31,690,443	27,767,013	-	(16,545,076)	42,912,380
Capital assets, being depreciated:					
Buildings	191,776,652	-	-	(51,750)	191,724,902
Machinery and equipment	209,826,286	21,025	(3,425,537)	3,854,953	210,276,727
Transmission lines and other improvements	408,641,330	2,383,057	(95,042)	12,406,779	423,336,124
Computer software	8,940,494	-	(8,756)	348,635	9,280,373
Total capital assets, being depreciated	819,184,762	2,404,082	(3,529,335)	16,558,617	834,618,126
Less: accumulated depreciation	(268,677,931)	(17,563,294)	3,366,399	-	(282,874,826)
Total capital assets, being depreciated, net	550,506,831	(15,159,212)	(162,936)	16,558,617	551,743,300
Total capital assets, net	\$ 582,197,274	\$ 12,607,801	\$ (162,936)	\$ 13,541	\$ 594,655,680
	2016	Additions	Retirements	Transfers & Adjustments	2017
Capital assets, not being depreciated:					
Land and easements	\$ 23,575,775	\$ 81,197	\$ -	\$ -	\$ 23,656,972
Construction work in progress	5,959,480	22,972,646	(372,196)	(20,526,459)	8,033,471
Total capital assets, not being depreciated	29,535,255	23,053,843	(372,196)	(20,526,459)	31,690,443
Capital assets, being depreciated:					
Buildings	198,993,226	-	-	(7,216,574)	191,776,652
Machinery and equipment	197,382,112	-	(733,610)	13,177,784	209,826,286
Transmission lines and other improvements	394,550,841	-	(619,712)	14,710,201	408,641,330
Computer software	8,225,336	-	-	715,158	8,940,494
Total capital assets, being depreciated	799,151,515	-	(1,353,322)	21,386,569	819,184,762
Less: accumulated depreciation	(252,711,033)	(17,204,928)	1,238,030	-	(268,677,931)
Total capital assets, being depreciated, net	546,440,482	(17,204,928)	(115,292)	21,386,569	550,506,831
Total capital assets, net	\$ 575,975,737	\$ 5,848,915	\$ (487,488)	\$ 860,110	\$ 582,197,274

The total amount of interest cost incurred and capitalized is \$516,040 for 2018 and \$396,220 for 2017.

**Wastewater and Surface Water Management  
Notes to Financial Statements**

**NOTE 5 LONG-TERM DEBT**

Long-term debt activity for the years ended December 31, 2018 and 2017 follows:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Due within One Year</u>
Revenue bonds	\$ 180,740,000	\$ 100,945,000	\$ 39,345,000	\$ 242,340,000	\$ 6,625,000
Plus: Unamortized premium	13,830,478	7,044,242	3,179,547	17,695,173	-
State Revolving Fund loans	44,442,537	-	(3,867,743)	40,574,794	3,938,863
Total long-term debt	<u>\$ 239,013,015</u>	<u>\$ 107,989,242</u>	<u>\$ 38,656,804</u>	<u>\$ 300,609,967</u>	<u>\$ 10,563,863</u>

	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Due within One Year</u>
Revenue bonds	\$ 185,570,000	\$ -	\$ (4,830,000)	\$ 180,740,000	\$ 5,025,000
Plus: Unamortized premium	14,925,359	-	(1,094,881)	13,830,478	-
State Revolving Fund loans	48,240,536	-	(3,797,999)	44,442,537	3,867,742
Total long-term debt	<u>\$ 248,735,895</u>	<u>\$ -</u>	<u>\$ (9,722,880)</u>	<u>\$ 239,013,015</u>	<u>\$ 8,892,742</u>

## Wastewater and Surface Water Management Notes to Financial Statements

The Division's long-term debt at December 31, 2018 and 2017 consists of the following payable from revenues of the Division.

<b>Parity bond, senior lien:</b>	2018	2017
2006 Revenue and Refunding Bonds, portions of the outstanding bonds with a par value of \$12,935,000 were refunded with proceeds from the 2016B Revenue Refunding Bonds. Following the 2016 payment, the remaining outstanding balance is \$5,000 due in 2036. The remaining bond has an interest rate of 5.125% and preserves a reserve surety policy in the amount of \$3,033,407. The outstanding balance of \$5,000 was defeased with cash in October 2018.	\$ -	\$ 5,000
2011 Revenue and Refunding Bonds, with interest rates ranging from 4.00% to 5.00%, due in yearly installments of \$2,765,000 to \$4,205,000 between 2022 and 2031. Original par value \$34,315,000 with a call date of December 1, 2021. Purpose was to refund the 2001 Series A bonds and pay the costs of issuance. The outstanding balance of \$34,315,000 was defeased with cash in October 2018.	-	34,315,000
2015 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$1,245,000 to \$9,485,000 between 2016 and 2045. Original par value \$109,300,000 with a call date of June 1, 2025. Purpose was to (a) finance a portion of the costs of the Division's capital improvement program, (b) to refund a portion of the outstanding 2006 Revenue and Refunding Bonds, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the bonds.	104,600,000	106,365,000
2016A Revenue Refunding Bonds, with interest rates ranging from 1.75% to 5%, due in yearly installments of \$525,000 to \$2,010,000 between 2016 and 2038. Original par value \$31,855,000 with a call date of June 1, 2026. Purpose was to advance refund of the TES Properties, 2009 Lease Revenue Bonds and contemporaneously terminate the capital lease agreement with TES Properties. Proceeds were also used to fund the bond reserve and pay issuance costs.	29,345,000	30,355,000
2016B Revenue Refunding Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$2,165,000 to \$2,605,000 between 2017 and 2021. Purpose was to refund a portion of the 2006 Revenue and Refunding Bonds and issuance costs.	7,450,000	9,700,000
2018 Revenue Bonds, with interest rates ranging from 3% to 5% due in yearly installments of \$3,322,000 to \$8,256,000 between 2019 and 2048. Purpose was to finance capital improvements and pay costs of issuance.	100,945,000	-
<b>Total parity bonds, senior lien</b>	242,340,000	180,740,000

**Wastewater and Surface Water Management  
Notes to Financial Statements**

**Junior lien debt:**

State Revolving Fund loans DOE L040006A & DOE L040006B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$2,297,662 to \$4,532,452 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant Upgrade project.	40,252,430	44,098,030
State Revolving Fund loan 2011 DOEL1000007, with an interest rate of 2.9% in semi-annual installments of \$21,511 to \$31,346 through 2030; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$473,806 to reimburse a portion of costs related to surface water line retrofit projects.	322,364	344,507
Total junior lien debt	40,574,794	44,442,537
Total outstanding debt	282,914,794	225,182,537
Less:		
Current portion	(10,563,863)	(8,892,742)
Plus: Unamortized premium	17,695,173	13,830,478
Total long-term debt	\$ 290,046,104	\$ 230,120,273

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2019	\$ 10,563,863	\$ 10,963,633	\$ 21,527,496
2020	10,966,393	10,569,009	21,535,402
2021	11,360,363	10,172,789	21,533,152
2022	11,355,803	9,821,162	21,176,965
2023	11,687,745	9,498,919	21,186,664
2024-2028	62,343,830	41,222,035	103,565,865
2029-2033	52,596,797	29,983,758	82,580,555
2034-2038	52,400,000	18,209,925	70,609,925
2039-2043	32,465,000	9,855,150	42,320,150
2044-2048	27,175,000	2,861,800	30,036,800
	\$ 282,914,794	\$ 153,158,180	\$ 436,072,974

**Wastewater and Surface Water Management  
Notes to Financial Statements**

In October 2018, the Division used \$36,870,275 of cash to defease \$34,320,000 of the outstanding 2006 and 2011 Sewer Revenue and Refunding Bonds, resulting in a loss of \$150,361 as summarized below.

<u>Defeased Bonds</u>	Amount of debt	Total cash transferred to escrow	Gain/Loss on cash defeasance
2006 Sewer Revenue and Refunding Bonds	\$ 5,000	\$ 7,635	\$ 975
2011 Sewer Revenue and Refunding Bonds	34,315,000	36,862,640	(151,336)
	<u>\$ 34,320,000</u>	<u>\$ 36,870,275</u>	<u>\$ (150,361)</u>

The bonds were defeased to reduce debt service and trigger springing-forward bond covenants allowing the required bond reserves for the 2016 Series A and B Revenue and Refunding Bonds to be zero, thus freeing up these bond reserves to debt service and allowing future debt required reserves to be zero.

Those funds were deposited in an irrevocable trust with an escrow agent to purchase United States Treasury Securities – State and Local Government Series (SLGS) to provide for the future debt service payments on the bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the statement of net position.

The cash flow requirements on the old bonds prior to this transaction were \$34,320,000 in principle and \$14,835,713 in interest from 2019 through 2036.

The Division’s revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2018 or 2017.

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

<u>Issue</u>	<u>Amount</u>
Sewer Revenue Refunding bonds, 2006 and 2011	\$ 34,320,000
Sewer Revenue Refunding Bonds, Series 2016 A (TES Properties Lease Revenue Bonds 2009)	31,055,000
	<u>\$ 65,375,000</u>

**NOTE 6 INSURANCE**

The major risks to the Division are flooding, recontamination, 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.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City’s self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division’s premium payments totaled \$404,842 for 2018 and 2017. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

## **Wastewater and Surface Water Management Notes to Financial Statements**

The City maintains an excess general liability policy with limits of \$20 million any one occurrence, subject to a self-insured retention of \$3 million and a \$20 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with retention of \$1 million each occurrence plus an additional \$250,000 of total loss each 12 month policy period. The City carries property coverage with a maximum single occurrence limit of \$500 million with a sublimit of \$150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies is \$255,516 in 2018 and \$249,987 in 2017.

### **NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM**

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

Tacoma Employee's Retirement System  
3628 South 35<sup>th</sup> Street  
Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at [www.cityoftacoma.org/retirement](http://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 Revised Code of Washington 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.

## Wastewater and Surface Water Management Notes to Financial Statements

The breakdown of membership as of December 31, 2018 (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	2,948
Total membership	6,059

**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.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 41.54 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.

## Wastewater and Surface Water Management Notes to Financial Statements

**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*: Level percent Open periods 25 year amortization period* 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

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

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

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

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



## Wastewater and Surface Water Management

### Notes to Financial Statements

**TARGET ALLOCATION** - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting 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 Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

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

**SENSITIVITY ANALYSIS** - The following presents the Division's proportionate share of the collective net pension liability of the System, calculated using the discount rate of 7%, as well as what the Division's net pension liability (asset) 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)	\$ 17,927,700	\$ (4,409,368)	\$ (23,075,069)

## Wastewater and Surface Water Management Notes to Financial Statements

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	\$ (2,443,320)	\$ -
Changes of assumptions	-	2,689,670
Net Difference Between Projected and Actual Earnings	(5,059,737)	-
Changes in Employer Proportion	(2,716)	3,126
Contributions Made Subsequent to the Measurement Date	-	2,961,878
<b>Total</b>	<b>\$ (7,505,773)</b>	<b>\$ 5,654,674</b>

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	\$ (345,318)
2020	(60,946)
2021	(2,281,135)
2022	(2,012,153)
2023	(113,425)
Thereafter	-
	<u>\$ (4,812,977)</u>

The proportionate share of the Wastewater & Surface Water Division is 11.21% of total System's pension liability as of December 31, 2018 and 11.38% as of December 31, 2017. The proportionate share was based on the actual contributions for the year.

### NOTE 8 OTHER POST EMPLOYMENT BENEFITS

**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.

## Wastewater and Surface Water Management Notes to Financial Statements

**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. Note that GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

There have been no significant changes between January 1, 2017 (valuation date) and 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.

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%
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Demographic Assumptions:	Eligibility: Disability - Five years of service are required for non-service connected disability.
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Continue on the next page

## Wastewater and Surface Water Management Notes to Financial Statements

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

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

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

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

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

**CHANGES OF ASSUMPTIONS** – The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

**OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES** – At December 31, 2018 the Division reporting a liability of \$4,101,053 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 1.81326% as compared to 1.85726% at December 31, 2017. For the year ended December 31, 2018 the participating Division recognized an OPEB expense of \$138,557.

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	-	140,690
Changes in Employer Proportion	(2,606)	79,575
Differences in Contributions	(61,726)	2,668
Contributions Made Subsequent to the Measurement Date	-	94,541
<b>Total</b>	<b>\$ (64,332)</b>	<b>\$ 317,474</b>

**Wastewater and Surface Water Management  
Notes to Financial Statements**

The Division reported \$94,541 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	\$		3,512
2020			3,512
2021			3,512
2022			3,512
2023			3,512
Thereafter			351
			17,911
	\$		17,911

**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	\$ 4,663,745	\$ 4,101,053	\$ 3,634,581

**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	\$ 3,608,573	\$ 4,101,053	\$ 4,690,568

**EXCISE TAX FOR HIGHT 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.

## Wastewater and Surface Water Management Notes to Financial Statements

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 9 RESTATEMENTS OF 2017 BALANCES

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

Revised balances are shown in the following schedule:

	<u>As Previously Reported</u>	<u>Restatement Adjustment</u>	<u>As Restated</u>
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB	\$ -	\$ 84,482	\$ 84,482
NONCURRENT LIABILITIES			
Net OPEB liability	2,968,581	825,255	3,793,836
NET POSITION - End of year	435,372,975	(740,773)	434,632,202
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Business operations	\$ 24,845,913	\$ 740,773	\$ 25,586,686

## **Wastewater and Surface Water Management Notes to Financial Statements**

### **NOTE 10 ENVIRONMENTAL LIABILITIES**

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree, effective December 30, 1997. The stated value of the City's settlement was approximately \$7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction was completed on four projects and the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016.

The City provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree were fulfilled. In the Trustees response, they indicated that monitoring of Place of Circling Waters needed to be complete before the Consent Decree could be closed out. Included in the financial statements for the years 2018 and 2017 is liabilities of \$196,673. This amount will carry over until the Consent Decree can be closed out. Now that the monitoring was completed, it is currently anticipated the closeout will occur in 2019.

Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources.

OLYMPIC VIEW RESOURCE AREA - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long term monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys. A report of these findings was submitted to EPA in early 2017 along with a Contingency Planning Proposal. The City began implementation of this Contingency Planning Proposal in 2017. Included in the financial statements for the years 2018 and 2017 are liabilities of \$1,050,662 and \$1,129,000 respectively.

FOSS CONSENT DECREE - The City completed the first ten years of post-construction monitoring under the Foss Consent Decree in 2016 and is currently working with the Environmental Protection Agency to finalize the monitoring plan for the next ten years. Under this Long Term Monitoring Plan developed in accordance with the Foss Consent Decree, the City will have an obligation for continued monitoring until at least 2028. The results of this monitoring may result in additional limited cleanup efforts in the future. Included in the financial statements for the years 2018 and 2017 are liabilities of \$987,500 and \$400,000 respectively.

COAL-GAS SITE AGREED ORDER - In 1993 the City became a party to an agreed order with the State Department of Ecology under MTCA (RCW 70.105D.050(1)) for the clean-up of the coal-gas properties located at the head of the Foss Waterway just south of the cable stay bridge below the SR 705 spur. The City is one of several potentially liable parties (PLPs) that are signatories to this agreed order. The agreed order, and subsequent amendments, provided for interim measures to control the coal-tar from migrating from this site into the Foss Waterway but did not provide for final clean-up or closure of the site. In early-2016 the other PLPs contacted the City of Tacoma regarding monitoring of the wells on the site, which they subsequently did on several occasions with Ecology authorization.

## **Wastewater and Surface Water Management Notes to Financial Statements**

In mid-2016, Ecology contacted the City and other parties to initiate the negotiations of a new Agreed Order which would address final closure of the Coal Gas Site by completion of a Remedial Investigation/Feasibility Study (RI/FS) and development of a draft Cleanup Plan (dCAP) for the site. The City's role and cost obligation should be limited. This new Agreed Order was fully executed in 2018 and work has commenced.

### **NOTE 11 COMMITMENTS AND CONTINGENCIES**

**LITIGATION AND CLAIMS** - Because of the nature of its activities, the Division is subject to various pending and threatened legal actions which arise in the ordinary course of business. The Division believes, based on the information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the Division, but could be material to results of operations or cash flows for a particular annual period.



## *Required Supplementary Information*

## Wastewater and Surface Water Management 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	11.21%	11.38%	11.66%	11.65%
Employer's proportion share of net pension liability (asset)	(\$4,409,368)	\$10,569,592	\$10,094,045	(\$1,119,219)
Employer's covered payroll **	\$26,516,978	\$25,955,557	\$26,960,556	\$25,070,695
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-16.63%	40.72%	37.44%	-4.46%
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	\$2,961,878	\$2,745,272	\$2,753,194	\$2,650,121
Contributions in relation to the contractually required employer contribution	(2,961,878)	(2,745,272)	(2,753,194)	(2,650,121)
Employer contribution deficiency (excess)	-	-	-	-
Employer's covered employee payroll	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556
Employer contribution as a percentage of covered-employee payroll	10.77%	10.35%	10.61%	9.83%

\* 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.

\*\* Due to implementation of GASB 82, the division's covered employee payroll has been restated for fiscal years 2016 and 2015 to confirm with GASB 82.

**Wastewater and Surface Water Management  
Required Supplementary Information**

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	1.86%	1.81%
Employer's proportion share of collective OPEB liability	\$4,101,053	\$3,793,836
Employer's covered-employee payroll	\$27,513,166	\$26,221,707
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	14.91%	14.47%

*\* 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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*Unaudited Supplemental Information*

## Wastewater and Surface Water Management Unaudited Supplemental Information

City of Tacoma, Washington Revenue and Refunding Bonds, Series 2015  
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016A  
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016B

*The following continuing disclosure information for 2018 is provided in accordance with SEC Rule 15c2-12(b)(5)*

### Wastewater and Surface Water Management Audited Financial Statements

Reference Financial Statements Section

### Outstanding Sewer Bonds

Reference Note 5 in Notes to Financial Statements

### Debt Service Coverage

	2017 (As Restated)	2018
Parity Bond Debt Service Coverage Ratio	3.30	4.28
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.42	3.13

### Number of Customers by Type of Service

The System's number of customers by type of service is shown in the table below.

Year	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract <sup>(1)</sup>	Total	Residential	Commercial/ Industrial	Total
2017	58,859	3,764	14,236	76,859	59,751	11,083	70,834
2018	59,094	3,793	13,903	76,790	59,774	11,283	71,057

<sup>(1)</sup> Includes customers located in the city of Fife, the town of Ruston, the city of Fircrest and in certain areas of Pierce County served pursuant to interlocal agreements between the City and those jurisdictions.

### Revenues by Service

The Systems revenues are shown in the following table.

	2017	2018
Wastewater:		
Residential	\$ 47,391,548	\$ 49,438,938
Commercial and public authorities	24,944,393	26,381,317
Other revenues	3,075,703	2,625,858
Surface Water:		
Residential	16,266,964	17,502,634
Commercial	17,570,865	18,794,271
Other revenues	791,899	1,073,997
Total operating revenues	\$ 110,041,372	\$ 115,817,015

## Top Ten Customers

The System's ten largest customers for 2018 are shown in the following table.

Customer Name	Amount	Percent of 2018 Operating Revenues <sup>(1)</sup>
Port of Tacoma	\$ 2,622,536	2.26%
Tacoma School District	1,770,363	1.53%
City of Tacoma	1,542,997	1.33%
Metro Parks	1,149,045	0.99%
Darling International Inc	1,124,473	0.97%
Puyallup Tribe	1,009,994	0.87%
Pierce County Facilities	623,585	0.54%
Multicare	534,180	0.46%
St Joseph Medical	467,213	0.40%
BNSF Railway	465,118	0.40%
<b>Total</b>	<b>\$ 11,309,504</b>	<b>9.75%</b>
<sup>(1)</sup> Total system revenue	\$ 115,817,015	

## Wastewater and Surface Water Rates

### Wastewater Rates

The monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

	2017 <sup>(1) (4)</sup>	2018 <sup>(1)</sup>
<b>Residential</b>		
Monthly fixed charge	\$ 23.88	\$ 24.96
Flow charge <sup>(2)</sup>	4.47	4.68
<b>Commercial</b>		
Monthly fixed charge	\$ 11.40	\$ 11.92
Flow charge <sup>(3)</sup>	6.22-13.47	6.50-14.08

<sup>(1)</sup> Rates are effective January 1 of each year.

<sup>(2)</sup> Per 100 cubic feet of water consumed.

<sup>(3)</sup> The flow charges for commercial customers per 100 cubic feet of water consumption vary depending on the user group. The present rates contain eight different user groups as established pursuant to Tacoma Municipal Code Chapter 12.08.

<sup>(4)</sup> 2017 rates corrected.

There is no fee for connection to the wastewater component of the System, except for the "in lieu of" assessment charge to properties that were not previously assessed for the cost of the transmission system under a local improvement district or a prior sanitary sewer improvement.

### Surface Water Rates

Surface water rates are comprised of a fixed charge, plus an area charge per 500 square feet, depending on development type and whether the property is on the waterfront. The monthly rates for surface water service, as adopted by the Council, are shown in the following table.

Category of Development	2017 <sup>(1)</sup>		2018 <sup>(1)</sup>	
	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 7.17	\$ 0.1371	\$ 7.65	\$ 0.1422
Undeveloped-area in excess of one acre	7.17	0.0608	7.65	0.0616
Light development	7.17	0.4150	7.65	0.4350
Moderate development	7.17	0.5786	7.65	0.6071
Heavy development	7.17	0.8312	7.65	0.8724
Very Heavy development	7.17	1.1091	7.65	1.1650
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 7.17	\$ 0.2793	\$ 7.65	\$ 0.2865
Undeveloped area in excess of one acre	7.17	0.0608	7.65	0.0616
Light development	7.17	0.8441	7.65	0.8812
Moderate development	7.17	1.1506	7.65	1.2054
Heavy development	7.17	1.6890	7.65	1.7684
Very Heavy development	7.17	2.2526	7.65	2.3619

<sup>(1)</sup> Rates are effective January 1 of each year.

Single family residences are placed in the moderate classification of development. Rates for single family residential parcels in excess of 15,000 square feet are based on the moderate development rate for the first 15,000 square feet and at the undeveloped rate (one acre or less) for the remainder. All other customers are charged based on the customer's level of development and measured area of the premises.



**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Net Position**

	Wastewater		Surface Water	
	December 31,		December 31,	
	2018	2017	2018	2017
		(As Restated)		(As Restated)
<b>ASSETS</b>				
Current assets:				
Cash and equity in pooled investments	\$ 57,464,514	\$ 59,162,444	\$ 12,701,630	\$ 39,255,659
Accounts receivable, net	5,081,182	5,117,516	2,154,706	1,903,838
Unbilled revenues	5,336,787	4,614,787	2,927,000	2,356,000
Conservation loan fund receivables	211,795	139,339	-	-
Due from other funds	10,842	1,251	87,129	(176)
Due from other governments	-	-	815,226	822,875
Inventory	1,098,786	1,242,457	-	-
Prepayments	226,836	220,345	-	87
Restricted cash and equity in pooled investments:				
Debt service funds	4,767,270	601,172	2,210,020	457,214
Construction funds	49,687,885	28,650	53,843,466	27,737
Total restricted cash and equity in pooled investments	<u>54,455,155</u>	<u>629,822</u>	<u>56,053,486</u>	<u>484,951</u>
Total current assets	<u>123,885,897</u>	<u>71,127,961</u>	<u>74,739,177</u>	<u>44,823,234</u>
Non-current assets:				
Restricted cash and equity in pooled investments:				
Debt reserves	4,640,000	10,081,491	32,034	4,253,666
Net pension asset	2,983,298	-	1,426,070	-
Conservation loan fund receivables	600,784	705,836	-	-
Prepayments	187,825	281,737	-	-
Capital assets:				
Land and easements	12,012,788	11,993,188	11,683,385	11,663,784
Buildings	189,753,996	189,805,746	1,970,906	1,970,906
Machinery and equipment	196,909,536	196,107,223	13,367,191	13,719,063
Transmission lines and other improvements	225,221,892	222,543,527	198,114,232	186,097,803
Computer software	5,379,794	5,140,169	3,900,579	3,800,325
Less: accumulated depreciation	(229,650,837)	(218,728,389)	(53,223,989)	(49,949,542)
Construction work in progress	12,956,448	2,104,560	6,259,759	5,928,911
Total capital assets, net	<u>412,583,617</u>	<u>408,966,024</u>	<u>182,072,063</u>	<u>173,231,250</u>
Total non-current assets	<u>420,995,524</u>	<u>420,035,088</u>	<u>183,530,167</u>	<u>177,484,916</u>
<b>TOTAL ASSETS</b>	<u>544,881,421</u>	<u>491,163,049</u>	<u>258,269,344</u>	<u>222,308,150</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow - loss on refunding bonds	849,361	998,689	1,437,438	1,905,234
Deferred outflows - OPEB	278,085	67,351	39,389	17,131
Deferred outflows - pensions	3,825,850	7,553,493	1,828,824	3,517,244
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>4,953,296</u>	<u>8,619,533</u>	<u>3,305,651</u>	<u>5,439,609</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 549,834,717</u>	<u>\$ 499,782,582</u>	<u>\$ 261,574,995</u>	<u>\$ 227,747,759</u>

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Net Position**

	Wastewater December 31,		Surface Water December 31,	
	2018	2017 (As Restated)	2018	2017 (As Restated)
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 4,051,997	\$ 1,619,953	\$ 1,588,828	\$ 1,644,998
Accrued wages payable and compensated absences payable	823,841	624,435	310,462	249,745
Accrued taxes payable	594,380	596,567	268,560	265,205
Due to other funds	262,324	282,256	294,168	449,828
Due to other governments	599,028	550,486	-	-
Accrued environmental liability	-	-	1,222,334	885,673
Accrued State Revolving Fund loan interest payable	184,878	202,410	-	-
Current portion of State Revolving Fund loan	3,916,070	3,845,599	22,793	22,143
Current portion of revenue bonds payable	3,655,172	2,769,566	2,417,745	1,836,684
Unearned revenues	268,421	227,330	134,210	113,665
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	332,288	251,779	219,795	166,971
Accrued revenue bond interest payable	489,809	349,393	362,914	290,243
Deposit in lieu of bond	9,250	-	-	-
Total current liabilities	<u>15,187,458</u>	<u>11,319,774</u>	<u>6,841,809</u>	<u>5,925,155</u>
Noncurrent liabilities:				
Long-term debt - revenue bonds, net	148,376,502	107,821,849	105,033,671	81,723,629
Long-term accrued compensated absences	2,288,084	2,314,865	469,665	664,559
Long-term accrued environmental liability	-	-	1,012,500	840,000
Long-term State Revolving Fund loan	36,336,361	40,252,431	299,570	322,364
Net pension liability	-	7,211,565	-	3,358,027
Net OPEB liability	3,732,518	3,441,518	368,535	352,318
Total noncurrent liabilities	<u>190,733,465</u>	<u>161,042,228</u>	<u>107,183,941</u>	<u>87,260,897</u>
<b>TOTAL LIABILITIES</b>	<u>205,920,923</u>	<u>172,362,002</u>	<u>114,025,750</u>	<u>93,186,052</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - gain on refunding bonds	22,737	30,532	31,398	42,163
Deferred inflows - OPEB	61,726	-	2,606	-
Deferred inflows - pensions	5,078,270	1,553,849	2,427,503	723,541
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>22,162,733</u>	<u>18,584,381</u>	<u>10,461,507</u>	<u>8,765,704</u>
<b>NET POSITION</b>				
Net investment in capital assets	270,814,021	255,273,386	139,931,307	131,135,604
Restricted for:				
Bond reserves	4,640,000	10,081,491	32,034	4,253,666
Debt service	3,945,173	-	1,627,311	-
Deposit in lieu of bond	9,250	-	-	-
Net pension asset	2,983,298	-	1,426,070	-
Unrestricted	39,359,319	43,481,322	(5,928,984)	(9,593,267)
<b>TOTAL NET POSITION</b>	<u>321,751,061</u>	<u>308,836,199</u>	<u>137,087,738</u>	<u>125,796,003</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 549,834,717</u>	<u>\$ 499,782,582</u>	<u>\$ 261,574,995</u>	<u>\$ 227,747,759</u>

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	Wastewater		Surface Water	
	December Year-to-Date		December Year-to-Date	
	2018	2017	2018	2017
		(As Restated)		(As Restated)
<b>OPERATING REVENUES</b>				
Wastewater residential	\$ 49,438,938	\$ 47,391,548	\$ -	\$ -
Wastewater commercial and public authorities	26,381,317	24,944,393	-	-
Surface water residential	-	-	17,502,634	16,266,964
Surface water commercial	-	-	18,794,271	17,570,865
Other revenues	2,625,858	3,075,703	1,073,997	791,899
Total operating revenues	<u>78,446,113</u>	<u>75,411,644</u>	<u>37,370,902</u>	<u>34,629,728</u>
<b>OPERATING EXPENSES</b>				
Business operations	16,756,304	18,264,634	7,423,082	7,322,052
Operations and maintenance	22,198,684	23,659,280	3,377,768	4,117,826
Science and engineering	7,014,877	8,144,975	9,383,227	10,260,808
Other	-	372,021	34,448	174
Depreciation	13,614,758	13,297,930	3,948,536	3,906,998
Total operating expenses	<u>59,584,623</u>	<u>63,738,840</u>	<u>24,167,061</u>	<u>25,607,858</u>
Net operating income	<u>18,861,490</u>	<u>11,672,804</u>	<u>13,203,841</u>	<u>9,021,870</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment and other earnings	1,092,154	513,649	665,159	420,477
Interest expenses and other related costs	(5,348,083)	(4,733,711)	(3,571,673)	(3,571,140)
Amortization of bond premium and gain/loss on refunding	444,330	472,236	433,375	478,398
Other nonoperating revenues	1,519,794	1,470,165	337,703	160,039
Gain or (loss) on sale/disposal of capital assets	(61,316)	(35,440)	(33,724)	16,954
Total nonoperating revenues (expenses)	<u>(2,353,121)</u>	<u>(2,313,101)</u>	<u>(2,169,160)</u>	<u>(2,495,272)</u>
Net income before contributions and transfers	<u>16,508,369</u>	<u>9,359,703</u>	<u>11,034,681</u>	<u>6,526,598</u>
Capital contributions and grants	2,731,685	1,816,687	2,836,668	2,653,337
Transfer in from other funds	116,552	6,697,319	466,459	7,405,287
Transfer out to other funds	-	(6,186,982)	(42,000)	(6,758,444)
Gross earnings tax	(6,441,744)	(6,133,153)	(3,004,073)	(2,802,670)
Total contributions and transfers	<u>(3,593,507)</u>	<u>(3,806,129)</u>	<u>257,054</u>	<u>497,510</u>
CHANGE IN NET POSITION	12,914,862	5,553,574	11,291,735	7,024,108
NET POSITION - JANUARY 1	308,836,199	303,282,625	125,796,003	118,771,895
NET POSITION - DECEMBER 31	<u>\$ 321,751,061</u>	<u>\$ 308,836,199</u>	<u>\$ 137,087,738</u>	<u>\$ 125,796,003</u>

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Cash Flows**

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
		(As Restated)		(As Restated)
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 77,392,457	\$ 74,617,924	\$ 36,304,177	\$ 34,544,355
Payments to suppliers	(19,887,966)	(24,427,513)	(9,530,107)	(8,714,166)
Payments to employees	(24,279,950)	(23,199,228)	(11,173,247)	(10,147,970)
Payments for taxes	(1,293,191)	(1,269,240)	(530,459)	(509,239)
Other operating or non-operating revenues (expenses)	1,517,563	1,480,533	9,913	8,544
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>33,448,913</b>	<b>27,202,476</b>	<b>15,080,277</b>	<b>15,181,524</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Transfer in from other funds	-	-	437,959	350,000
Transfer out to other funds	(6,447,791)	(6,132,210)	(3,004,796)	(2,801,928)
Operating grants received	-	-	304,295	45,114
Principal paid on noncapital debt	-	-	(591,600)	(567,675)
Funds place in escrow for bond defeasance	-	-	(27,453,088)	-
Interest paid on noncapital debt	-	-	(1,677,871)	(1,810,819)
Contributions and donations	260	-	19,260	50
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(6,447,531)</b>	<b>(6,132,210)</b>	<b>(31,965,841)</b>	<b>(4,785,258)</b>
<b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:</b>				
Transfer in from other funds	116,552	6,697,319	28,500	7,055,287
Transfer out to other funds	-	(6,186,982)	(42,000)	(6,758,444)
Acquisition and construction of capital assets	(16,765,677)	(14,776,780)	(10,991,933)	(9,052,812)
Principal payments on capital debt	(13,732,044)	(868,660)	(1,436,010)	(7,191,666)
Bonds refunding costs	2,418,076	419,872	2,922,888	(419,872)
Interest and issuance costs paid on capital debt	(5,194,859)	(4,742,912)	(1,709,411)	(1,787,306)
Proceeds from the issuance of revenue bonds	49,575,000	-	51,370,000	-
Gain (Loss) on bonds defeasance	(31,980)	-	(118,381)	-
Contributions and donations	2,174,755	1,816,687	971,606	2,797,485
Cash proceeds from sale of capital assets	28,680	-	-	35,700
Insurance recoveries	3,873	5,424	18,020	5,294
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<b>18,592,376</b>	<b>(17,636,032)</b>	<b>41,013,279</b>	<b>(15,316,334)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income	1,092,154	513,649	665,159	420,476
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>1,092,154</b>	<b>513,649</b>	<b>665,159</b>	<b>420,476</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<b>46,685,912</b>	<b>3,947,883</b>	<b>24,792,874</b>	<b>(4,499,592)</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	<b>69,873,757</b>	<b>65,925,874</b>	<b>43,994,276</b>	<b>48,493,868</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<b>\$ 116,559,669</b>	<b>\$ 69,873,757</b>	<b>\$ 68,787,150</b>	<b>\$ 43,994,276</b>

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Cash Flows**

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
		(As Restated)		(As Restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Net operating income	\$ 18,861,490	\$ 11,672,804	\$ 13,203,841	\$ 9,021,870
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	13,614,758	13,297,930	3,948,536	3,906,998
Other non-operating revenues (expenses)	1,517,563	1,852,554	44,361	8,718
Pension expense (credits)	(2,942,799)	1,815,226	(1,391,715)	848,283
Net OPEB expense (credits)	141,992	1,079,221	(3,435)	(153,702)
Cash provided from changes in operating assets and liabilities:				
Accounts receivable, net of allowance	36,334	202,897	(250,868)	43,537
Accrued unbilled revenue	(722,000)	(642,000)	(571,000)	(56,000)
Due from other funds	(9,591)	83,262	(87,305)	741
Inventory	143,671	(213,892)	-	-
Prepayments	87,421	89,421	87	9,945
Accounts payable	2,432,044	(838,106)	(56,170)	729,920
Conservation loan fund receivables	32,596	232,331	-	-
Accrued wages and compensated absences payable	199,406	8,860	60,717	15,251
Accrued taxes payable	3,858	(64,076)	4,076	(99)
Deposit in lieu of bonds	9,250	-	-	-
Due to other funds	(19,932)	(826,236)	(155,660)	(293,898)
Due to other governments	48,542	(677,882)	-	-
Accrued environmental liability	-	-	336,661	585,673
Unearned revenues	41,091	11,003	20,545	5,501
Long-term accrued environmental liability	-	-	172,500	540,000
Long-term accrued compensated absences	(26,781)	119,159	(194,894)	(31,214)
Total adjustments	14,587,423	15,529,672	1,876,436	6,159,654
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 33,448,913	\$ 27,202,476	\$ 15,080,277	\$ 15,181,524
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 556,670	\$ 522,989	\$ 1,865,587	\$ 727,813



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