

WASTEWATER AND SURFACE WATER MANAGEMENT

# 2021

ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended **December 31, 2021**  
Prepared by the Finance Department

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City of Tacoma, Washington  
Environmental Services Department

# Wastewater and Surface Water Management

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# Financial Data

## **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 Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management (the Division) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2021 and 2020, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Financial Reporting Entity***

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of City of Tacoma, Washington, as of December 31, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2022, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington  
May 19, 2022



# Management Discussion and Analysis

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Management's Discussion and Analysis**  
**December 31, 2021 and 2020**

## **Introduction**

The following management 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, 2021, 2020, and 2019. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2021 and 2020, 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 \$502.8 at December 31, 2021 compared to \$490.1 million and to \$474.8 million at year-end 2020 and 2019, respectively.
- Operating revenues were \$123.2 million in 2021, \$119.0 million in 2020, and \$116.9 million in 2019.
- Cash and equity in pooled investments was \$164.0 million at December 31, 2021 compared to \$170.6 million in 2020 and \$180.4 million in 2019.

## 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.

	<b>December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current, restricted, and other assets	\$ 185,629,525	\$ 205,659,002	\$ 198,967,967
Net capital assets	662,015,051	623,394,016	605,220,487
Total assets	847,644,576	829,053,018	804,188,454
Deferred outflows of resources	14,880,795	9,896,598	20,103,675
Total assets and deferred outflows of resources	<u>\$ 862,525,371</u>	<u>\$ 838,949,616</u>	<u>\$ 824,292,129</u>
Non-current liabilities	\$ 302,676,266	\$ 288,049,238	\$ 300,543,999
Current liabilities	29,126,545	27,039,733	20,131,901
Total liabilities	331,802,811	315,088,971	320,675,900
Deferred inflows of resources	27,944,741	33,802,772	28,853,934
Total liabilities and deferred inflows of resources	<u>359,747,552</u>	<u>348,891,743</u>	<u>349,529,834</u>
Net position:			
Net investment in capital assets	409,094,387	422,355,570	412,290,574
Restricted	4,672,034	6,523,335	4,672,034
Unrestricted	89,011,398	61,178,968	57,799,687
Total net position	<u>502,777,819</u>	<u>490,057,873</u>	<u>474,762,295</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 862,525,371</u>	<u>\$ 838,949,616</u>	<u>\$ 824,292,129</u>

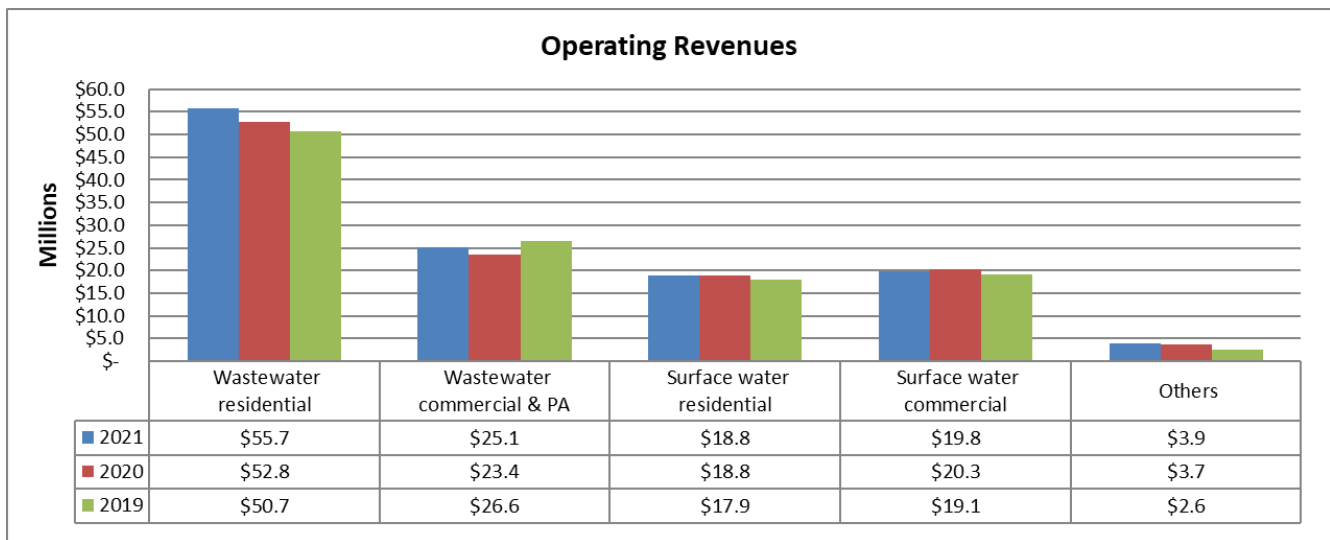
The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$502.8 million in 2021, compared to \$490.1 million in 2020 and \$474.8 million in 2019. The Division's net position increased by \$12.7 million in 2021 compared to an increase of \$15.3 million in 2020 and an increase of \$16.0 million in 2019. 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 \$409.1 million in 2021, compared to \$422.4 million in 2020, and \$412.3 million in 2019. 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 \$4.7 million, compared to \$6.5 million in 2020, and \$4.7 million in 2019 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$89.0 million for 2021, \$61.2 million for 2020, and \$57.8 million for 2019 is unrestricted.

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

	December Year-to-Date		
	2021	2020	2019
Operating revenues	\$ 123,221,392	\$ 119,026,415	\$ 116,918,923
Operating expenses	95,926,367	93,741,240	92,734,467
Net operating income	27,295,025	25,285,175	24,184,456
Nonoperating expenses	(8,934,391)	(2,564,825)	(2,007,517)
Increase in net position before transfers	18,360,634	22,720,350	22,176,939
Capital contributions	5,544,308	3,568,051	4,123,876
Transfers	(11,184,996)	(10,992,823)	(10,377,319)
Increase in net position	12,719,946	15,295,578	15,923,496
Net position - Beginning of year	490,057,873	474,762,295	458,838,799
Net position - Ending	<u>\$ 502,777,819</u>	<u>\$ 490,057,873</u>	<u>\$ 474,762,295</u>

### Operating revenues

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

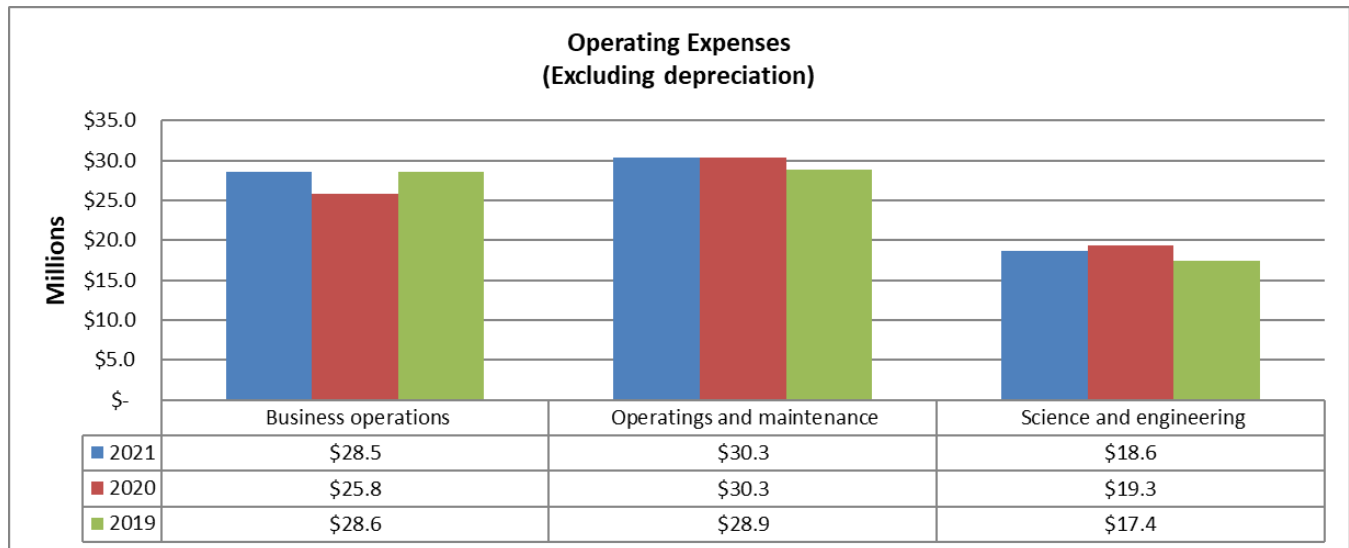


Operating revenues were \$123.2 million in 2021 compared to \$119.0 million in 2020 and \$116.9 million in 2019. The approved average rate increases for Wastewater were 1.5% for 2021 and 4.0% for 2020 and 2019. The approved average rate increases for Surface Water were 1.5% for 2021 and 3.5% for 2020 and 2019. The rate increases went into effect January 1<sup>st</sup> of each year.

Wastewater residential revenues increased \$2.9 million or 5.5% in 2021 compared to \$2.1 million or 4.1% in 2020 and Wastewater commercial and public authority (PA) revenues increased \$1.7 million or 7.3% in 2021 compared to \$3.2 million decrease or 12.0% in 2020. The 2021 increases were due in part to a rate increase and increased customer numbers. Surface Water residential decreased \$47,000 or 0.3% in 2021 compared to \$942,000 increase or 5.3% in 2020. Surface Water commercial decreased \$502,000 or 2.5% in 2021 compared to \$1.1 million increase or 5.8% in 2020. The 2021 decrease was mainly due to billing adjustment for Port of Tacoma. Other revenues increased \$189,000 or 5.1% in 2021 compared to \$1.2 million increase or 45.3% in 2020.

## Operating expenses

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



### 2021 Activity

Operating expenses were \$95.9 million in 2021 and \$93.7 million in 2020, an increase of \$2.2 million.

- Business operation expenses increased \$2.7 million. The significant events were:
  - Labor expense including all payroll associated costs increased \$1.0 million mainly due to the increase in Western Metal Pension withdrawal expenses of \$846,000. The remaining difference of \$154,000 was related to multiple small increases within salaries and wages and pension contributions.
  - Bad debts increased \$1.2 million due to an increase in aged accounts receivable.
  - Administrative and General (A&G) credit allocated to capital projects increased \$539,000 due in part to more spending on capital projects.
  - Assessment charges from other departments, including Customer Service and IT, increased \$851,000 for their services.
  - The remaining difference of \$188,000 is related to multiple small increases in other expenses.
- Operations and maintenance expenses decreased \$2,000. The significant events were:
  - Operating supplies increased \$352,000 due in part to increases in Transmission, Electrical & Instrumentation, and Plant #3 maintenance and operation.
  - Fleet charges allocated through the Plan Maintenance (PM) orders decreased \$173,000.
  - Inventory reclaim account decreased \$116,000, which was used to readjust inventory counts in SAP based on the physical inventory.
  - The remaining difference of \$65,000 is related to multiple small decreases in other expenses.
- Science and engineering expenses decreased \$744,000. The significant events were:
  - External contract services decreased \$2.6 million primarily due to the completion of the Hosmer Holding Basin maintenance project in 2020.
  - Environmental liability adjustment increased \$2.0 million primarily due to the identified maintenance issues requiring repair, and additional modeling of site conditions along with repair alternatives analysis, design and eventual construction in 2023 for the Foss Waterway.
  - Legal expense increased \$330,000 due to the Tupper Mack Wells PLLC's legal service including Kitsap County 401 Certification Appeal, the Administrative Procedure Act (APA) petition for review, and all other services.
  - The remaining difference of \$474,000 is related to multiple small decreases in other expenses.

## 2020 Activity

Operating expenses were \$93.7 million in 2020 and \$92.7 million in 2019, an increase of \$1.0 million.

- Business operation expenses decreased \$2.8 million. The significant events were:
  - Labor expense including all payroll associated costs decreased \$2.9 million mainly due to the decrease in Western Metal Pension withdrawal expenses of \$3.3 million. The remaining difference of \$400,000 was related to multiple small increases within salaries and wages and pension contributions.
  - Administrative and General (A&G) credit allocated to capital projects increased \$706,000 due in part to more spending on capital projects.
  - Bad debts increased \$1.2 million due to an increase in aged accounts receivable.
  - The remaining difference of \$394,000 is related to multiple small decreases in other expenses.
- Operations and maintenance expenses increased \$1.4 million. The significant events were:
  - Labor expense including all payroll associated costs increased \$860,000 primarily due to pay increases in 2020.
  - Inventory reclaim account increased \$312,000, which was used to readjust inventory counts in SAP based on the physical inventory.
  - Operating supplies increased \$227,000 due in part to increases in repair and maintenance costs for Plant 1 and Pump station.
- Science and engineering expenses increased \$1.9 million. The significant events were:
  - Labor expense including all payroll associated costs increased \$743,000 primarily due to pay increases in 2020.
  - External contract services increased \$1.8 million primarily due to the Hosmer Holding Basin maintenance project with Glacier Environmental Services.
  - Environmental liability adjustment decreased \$1.5 million due to the completion of the cap material replenishment project in 2020 and re-measurement of the anticipated monitoring cost for the Olympic View Resource Area (OVRA).
  - The remaining difference of \$857,000 is related to multiple small increases in other expenses.

## **Nonoperating revenues (expenses)**

Net nonoperating expenses were \$8.9 million in 2021 and \$2.6 million in 2020, an increase of \$6.3 million. The significant events were:

- Investment income/ (loss) decreased \$5.5 million primarily due to less interest income and an unrealized loss of \$4.0 million in GASB 31.
- Other nonoperating revenues decreased \$2.1 million mainly due to no contribution from the Pierce County Flood Control Zone District in 2021 compared to \$1.6 million in 2020 for the Hosmer Holding Basin Maintenance Phase 2 project.

## **Contributions and transfers**

Capital contributions increased \$1.8 million mainly due to donated sewer lines from Sound Transit Commuter Rail and all various donors.

## Capital Assets

Net capital assets increased \$38.6 million in 2021 compared to \$18.2 million in 2020 (See Note 4.)

### 2021 Activity

Net capital assets increased \$38.6 million over the prior year. Transmission lines and other improvements increased \$22.4 million: 4,903 feet of donated lines were recorded for \$3.6 million, 42,093 feet of old lines were retired at the historical cost of \$161,000, 65,911 feet of new replacement lines and extended sewer lines were recorded for \$15.5 million, and 441 feet of Washington State Department of Transportation (WSDOT)'s construction under I-5 sewer line were recorded for \$3.5 million. All other assets in different categories increased \$2.3 million. Accumulated depreciation increased \$18.0 million and construction in progress increased \$31.9 million.

### 2020 Activity

Net capital assets increased \$18.2 million over the prior year. Land and easements increased \$1.4 million mainly due to the Union Pacific Railroad easements. Buildings increased \$17.7 million: \$17.9 million increased for reclassified assets from machinery and equipment, and transmission lines and other improvements, \$1.6 million decreased for disposed assets per physical inventory, and \$1.4 million increased for the Sedimentation Tank #1 & #2 projects. Machinery and equipment decreased \$14.7 million: \$12.8 million decreased for reclassified assets to buildings, \$2.8 million decreased for disposed assets per physical inventory, and \$900,000 increased for vehicles purchased through Fleet and various equipment. Transmission lines and other improvements increased \$6.9 million: 2,166 feet of donated lines were recorded for \$1.5 million, 74,118 feet of old lines were retired at the historical cost of \$300,000, 28,169 feet of new replacement lines and extended sewer lines were recorded for \$11.0 million, and \$5.3 million was decreased for reclassified assets to buildings. Accumulated depreciation increased \$14.5 million and construction in progress increased \$21.2 million.

## Debt Administration

At December 31, 2021, the Division had \$294.3 million outstanding in long-term debt: \$43.5 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and Certificate of Participation (COP) loan. The remaining balance is senior parity bonds debt. This compares to \$289.6 million in 2020 and \$288.9 million in 2019.

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 2.83 at the end of 2021. This compares to a ratio of 2.98 in 2020 and 3.03 in 2019.

## **2021 and 2022 Rates**

The approved average rate increases for 2021 are 1.5% for Wastewater and Surface Water and 2.0% for 2022. These rates were reduced from the previously planned rate increases of 3.5% for each year for Wastewater and 3.0% for each year for Surface Water due to the economic impacts on customers from the COVID-19 Pandemic. These rate decreases were determined after considering many internal and external factors impacting the Sewer Utility Systems' maintenance and operation such as revenues, expenses, debt service and debt financing needs, capital improvement plans, equity, affordability, and economic considerations.

## **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 interested 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

	<b>As of December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Current assets:		
Cash and equity in pooled investments	\$ 128,553,421	\$ 101,520,308
Accounts receivable, net	9,871,102	9,404,260
Unbilled revenues	8,255,787	7,675,787
Conservation loan fund receivables	101,945	123,536
Loan receivable	236	12,711,377
Due from other governments	177,675	237,692
Inventory	2,361,970	2,145,521
Prepayments	268,190	277,655
Restricted cash and equity in pooled investments:		
Debt service funds	1,375,595	1,405,277
Construction funds	29,410,397	62,975,331
Total restricted cash and equity in pooled investments	<u>30,785,992</u>	<u>64,380,608</u>
Total current assets	<u>180,376,318</u>	<u>198,476,744</u>
Non-current assets:		
Restricted cash and equity in pooled investments:		
Debt reserves	4,672,034	4,672,034
Net pension asset	-	1,847,284
Conservation loan fund receivables	581,173	662,940
Capital assets:		
Land and easements	25,301,414	25,205,157
Buildings	214,168,069	213,368,244
Machinery and equipment	200,112,868	199,438,768
Transmission lines and other improvements	471,896,335	449,462,863
Computer software	10,114,946	9,466,301
Less: accumulated depreciation	(332,225,102)	(314,254,868)
Construction work in progress	72,646,521	40,707,551
Total capital assets, net	<u>662,015,051</u>	<u>623,394,016</u>
Total non-current assets	<u>667,268,258</u>	<u>630,576,274</u>
<b>TOTAL ASSETS</b>	<u>847,644,576</u>	<u>829,053,018</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - loss on refunding bonds	3,218,686	3,424,042
Deferred outflows - OPEB	1,900,944	992,025
Deferred outflows - pensions	9,761,165	5,480,531
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>14,880,795</u>	<u>9,896,598</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 862,525,371</u>	<u>\$ 838,949,616</u>

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

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

	<b>As of December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 12,647,475	\$ 11,188,879
Accrued wages payable and compensated absences payable	1,489,539	1,409,975
Accrued taxes payable	200,723	189,701
Due to other governments	780,000	780,000
Accrued environmental liability	215,000	147,500
Accrued State loan interest payable	156,370	167,676
Current portion of Capital COP loan	565,000	525,000
Current portion of State Revolving Fund loan	4,277,789	4,085,363
Current portion of revenue bonds payable	6,595,416	6,668,750
Current portion of pension withdrawal liability	311,960	-
Unearned revenues	511,678	467,595
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	599,584	606,250
Accrued revenue bonds interest payable	776,011	799,027
Deposit in lieu of bond	-	4,017
Total current liabilities	<u>29,126,545</u>	<u>27,039,733</u>
Non-current liabilities:		
Long-term debt - revenue bonds, net	228,539,811	236,865,882
Long-term debt - Capital COP loan	11,705,000	12,270,000
Long-term State Revolving Fund loan	26,934,360	28,583,345
Long-term WIFIA loan	15,049,415	-
Long-term accrued compensated absences	3,315,960	3,270,411
Long-term accrued environmental liability	2,321,000	1,144,500
Net pension liability	7,218,043	-
Net OPEB liability	3,856,262	2,635,160
Pension withdrawal liability	3,736,415	3,279,940
Total noncurrent liabilities	<u>302,676,266</u>	<u>288,049,238</u>
<b>TOTAL LIABILITIES</b>	<u>331,802,811</u>	<u>315,088,971</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - gain on refunding bonds	-	17,014
Deferred inflows - OPEB	1,400,106	1,746,124
Deferred inflows - pensions	1,544,635	7,039,634
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>27,944,741</u>	<u>33,802,772</u>
<b>NET POSITION</b>		
Net investment in capital assets	409,094,387	422,355,570
Restricted for:		
Bond reserves	4,672,034	4,672,034
Deposit in lieu of bond	-	4,017
Net pension asset	-	1,847,284
Unrestricted	89,011,398	61,178,968
<b>TOTAL NET POSITION</b>	<u>502,777,819</u>	<u>490,057,873</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 862,525,371</u>	<u>\$ 838,949,616</u>

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

	<b>For Year ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>OPERATING REVENUES</b>		
Wastewater residential	\$ 55,680,516	\$ 52,822,791
Wastewater commercial and public authorities	25,063,853	23,366,944
Surface water residential	18,787,968	18,835,178
Surface water commercial	19,759,436	20,261,316
Other revenues	3,929,619	3,740,186
Total operating revenues	<u>123,221,392</u>	<u>119,026,415</u>
<b>OPERATING EXPENSES</b>		
Business operations	28,454,873	25,762,591
Operations and maintenance	30,321,322	30,323,439
Science and engineering	18,561,319	19,305,171
Depreciation	18,588,853	18,350,039
Total operating expenses	<u>95,926,367</u>	<u>93,741,240</u>
Net operating income	<u>27,295,025</u>	<u>25,285,175</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income/(loss)	(1,088,659)	4,413,480
Interest expenses and other related costs	(10,391,313)	(10,979,923)
Amortization of bond premium and gain/loss on refunding	942,727	969,167
CARES grant	-	230,999
Other nonoperating revenues	1,583,548	3,668,621
Other nonoperating expenses	-	(181,085)
Gain or (loss) on sale/disposal of capital assets	19,306	(686,084)
Total nonoperating expenses	<u>(8,934,391)</u>	<u>(2,564,825)</u>
Net income before contributions and transfers	<u>18,360,634</u>	<u>22,720,350</u>
Capital contributions and grants	5,544,308	3,568,051
Transfer in from other funds	-	22,260
Transfer out to other funds	(1,172,500)	(1,266,500)
Gross earnings tax	(10,012,496)	(9,748,583)
Total contributions and transfers	<u>(5,640,688)</u>	<u>(7,424,772)</u>
CHANGE IN NET POSITION	12,719,946	15,295,578
NET POSITION - JANUARY 1	490,057,873	474,762,295
NET POSITION - DECEMBER 31	<u>\$ 502,777,819</u>	<u>\$ 490,057,873</u>

*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

	<b>For Year ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 118,990,586	\$ 115,233,633
Payments to suppliers	(33,920,680)	(28,946,681)
Payments to employees	(38,710,678)	(36,046,089)
Payments for taxes	(2,160,677)	(2,029,039)
Net cash from operating activities	44,198,551	48,211,824
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfer in from other funds	391,187	-
Transfer out to other funds	(11,184,996)	(11,196,168)
Operating grants received	623,125	2,173,168
CARES grant received	-	230,999
Principal paid on noncapital debt	(681,863)	(650,325)
Interest paid on noncapital debt	(373,235)	(405,752)
Contributions and donations	-	117,072
Net cash from noncapital financing activities	(11,225,782)	(9,731,006)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Transfer in from other funds	-	22,260
Acquisition and construction of capital assets	(49,985,060)	(35,887,902)
Principal payments on capital debt	(11,275,457)	(10,316,067)
Interest and issuance costs paid on capital debt	(10,029,859)	(10,516,729)
Proceeds from capital debt	30,438,775	44,169
Contributions and donations	1,135,793	1,947,648
Cash proceeds from sale of capital assets	84,864	202,277
Insurance recoveries	4,344	5,750
Net cash from capital financing activities	(39,626,600)	(54,498,594)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income (loss)	(1,088,659)	4,413,480
Nonoperating income	1,180,987	1,786,601
Net cash from investing activities	92,328	6,200,081
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>		
	(6,561,503)	(9,817,695)
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>		
	170,572,950	180,390,645
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>		
	\$ 164,011,447	\$ 170,572,950

*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

	<b>For Year ended December 31</b>	
	<b>2021</b>	<b>2020</b>
RECONCILIATION OF OPERATING INCOME		
TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating income	\$ 27,295,025	\$ 25,285,175
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	18,588,853	18,350,039
Expense capital project costs	62,050	96,374
Pension expense (credits)	(710,306)	391,559
Net OPEB expense (credits)	(33,835)	(219,494)
Pension withdrawal expense	768,435	-
Cash from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	(466,842)	(1,884,134)
Accrued unbilled revenue	(580,000)	61,000
Inventory	(216,449)	(717,587)
Prepayments	9,465	65,791
Accounts payable	(2,041,404)	7,174,348
Conservation loan fund receivables	103,358	110,891
Accrued wages and compensated absences payable	79,564	337,658
Accrued taxes payable	11,022	47,321
Deposit in lieu of bonds	(4,017)	4,017
Due to other governments	-	60,000
Accrued environmental liability	67,500	(1,618,557)
Unearned revenues	44,083	10,254
Long-term accrued environmental liability	1,176,500	(47,500)
Long-term accrued compensated absences	45,549	704,669
Total adjustments	<u>16,903,526</u>	<u>22,926,649</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 44,198,551</u>	<u>\$ 48,211,824</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	<u>\$ 3,852,437</u>	<u>\$ 1,620,403</u>

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

Notes to Financial Statements  
Years Ended December 31, 2021 and 2020

**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 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 2021, the Division implemented the following new accounting and reporting standard issued by the Governmental Accounting Standards Board (GASB):

**GASB Statement No. 98 - *The Annual Comprehensive Financial Report***. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The Division has applied the effective accounting and financial reporting provisions as prescribed by GASB Statement No. 98.

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

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



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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2021 and 2020 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the 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 uncollectible accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31, 2021, and 2020.

**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. Allowance for Uncollectible accounts was \$7,104,248 and \$4,726,283 as of December 31, 2021, and 2020, respectively.

**LOAN RECEIVABLE** – Loan receivable represents the amounts held by State of Washington relating to the Local Agency Financing Lease, Series 2020C, entered into by and between the State of Washington and the City of Tacoma. Loan Receivable will be decreasing on a cost reimbursement basis. Interest earned on the money held by State of Washington is recorded as a loan receivable and an interest income in the year earned.

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

**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, are recorded as offset to long-term debt, and are presented in the statement of net position. 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 in the statement of net position.

**DEBT ISSUANCE COSTS** - Debt issuance costs are recognized as expenses when incurred.

**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.

The estimated useful lives range as follows:

	<u>Years</u>
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.

**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 an expense in the year earned.

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

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

**RATE STABILIZATION 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.

**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, and 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.

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

Debt Securities	As of			
	12/31/2020	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 371,578,276	\$ -	\$ 371,578,276	\$ -
U.S. Agency Securities	491,827,203	-	491,827,203	-
Supranational Securities	10,065,910	-	10,065,910	-
Municipal Bonds	11,664,518	-	11,664,518	-
Corporate Securities	62,803,670	-	62,803,670	-
	<u>\$ 947,939,577</u>	<u>\$ -</u>	<u>\$ 947,939,577</u>	<u>\$ -</u>

The Division's share of the City's investments shown in the table above is 13.62 % and 15.21% as of December 31, 2021 and 2020.

**Notes to the Financial Statements (continued)**

**NOTE 4 CAPITAL ASSETS**

A summary of the balances and changes in capital assets for 2021 and 2020 follows:

	<u>2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp; Adjustments</u>	<u>2021</u>
Capital assets, not being depreciated:					
Land and easements	\$ 25,205,157	\$ 93,448	\$ -	\$ 2,809	\$ 25,301,414
Construction work in progress	40,707,551	49,923,383	-	(17,984,413)	72,646,521
Total capital assets, not being depreciated	<u>65,912,708</u>	<u>50,016,831</u>	<u>-</u>	<u>(17,981,604)</u>	<u>97,947,935</u>
Capital assets, being depreciated:					
Buildings	213,368,244	-	-	799,825	214,168,069
Machinery and equipment	199,438,768	-	(375,442)	1,049,542	200,112,868
Transmission lines and other improvements	449,462,863	7,258,614	(161,361)	15,336,219	471,896,335
Computer software	9,466,301	-	(147,373)	796,018	10,114,946
Total capital assets, being depreciated	<u>871,736,176</u>	<u>7,258,614</u>	<u>(684,176)</u>	<u>17,981,604</u>	<u>896,292,218</u>
Less: accumulated depreciation	<u>(314,254,868)</u>	<u>(18,588,852)</u>	<u>618,618</u>	<u>-</u>	<u>(332,225,102)</u>
Total capital assets, being depreciated, net	<u>557,481,308</u>	<u>(11,330,238)</u>	<u>(65,558)</u>	<u>17,981,604</u>	<u>564,067,116</u>
Total capital assets, net	<u>\$ 623,394,016</u>	<u>\$ 38,686,593</u>	<u>\$ (65,558)</u>	<u>\$ -</u>	<u>\$ 662,015,051</u>
	<u>2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp; Adjustments</u>	<u>2020</u>
Capital assets, not being depreciated:					
Land and easements	\$ 23,853,122	\$ 165,941	\$ -	\$ 1,186,094	\$ 25,205,157
Construction work in progress	19,460,899	35,791,527	-	(14,544,875)	40,707,551
Total capital assets, not being depreciated	<u>43,314,021</u>	<u>35,957,468</u>	<u>-</u>	<u>(13,358,781)</u>	<u>65,912,708</u>
Capital assets, being depreciated:					
Buildings	195,685,067	-	(1,687,715)	19,370,892	213,368,244
Machinery and equipment	214,154,846	-	(2,775,734)	(11,940,344)	199,438,768
Transmission lines and other improvements	442,526,066	1,454,461	(286,841)	5,769,177	449,462,863
Computer software	9,307,245	-	-	159,056	9,466,301
Total capital assets, being depreciated	<u>861,673,224</u>	<u>1,454,461</u>	<u>(4,750,290)</u>	<u>13,358,781</u>	<u>871,736,176</u>
Less: accumulated depreciation	<u>(299,766,758)</u>	<u>(18,350,039)</u>	<u>3,861,929</u>	<u>-</u>	<u>(314,254,868)</u>
Total capital assets, being depreciated, net	<u>561,906,466</u>	<u>(16,895,578)</u>	<u>(888,361)</u>	<u>13,358,781</u>	<u>557,481,308</u>
Total capital assets, net	<u>\$ 605,220,487</u>	<u>\$ 19,061,890</u>	<u>\$ (888,361)</u>	<u>\$ -</u>	<u>\$ 623,394,016</u>

**NOTE 5 LONG-TERM DEBT**

Long-term debt activity for the years ended December 31, 2021 and 2020, follows:

	2020	Additions	Reductions	2021	Due within One Year
Revenue bonds	\$ 228,760,000	\$ -	\$ (7,275,000)	\$ 221,485,000	\$ 7,195,000
Plus: Unamortized premium	15,380,882	-	(1,131,071)	14,249,811	-
State Revolving Fund loans	32,668,708	2,700,761	(4,157,320)	31,212,149	4,277,789
State COP loan	12,795,000	-	(525,000)	12,270,000	565,000
WIFIA loan	-	15,049,415	-	15,049,415	-
<b>Total long-term debt</b>	<b>\$ 289,604,590</b>	<b>\$ 17,750,176</b>	<b>\$ (13,088,391)</b>	<b>\$ 294,266,375</b>	<b>\$ 12,037,789</b>

	2019	Additions	Reductions	2020	Due within One Year
Revenue bonds	\$ 235,715,000	\$ -	\$ (6,955,000)	\$ 228,760,000	\$ 7,275,000
Plus: Unamortized premium	16,536,846	-	(1,155,964)	15,380,882	-
State Revolving Fund loans	36,635,931	44,169	(4,011,392)	32,668,708	4,085,363
State COP loan	-	12,795,000	-	12,795,000	525,000
<b>Total long-term debt</b>	<b>\$ 288,887,777</b>	<b>\$ 12,839,169</b>	<b>\$ (12,122,356)</b>	<b>\$ 289,604,590</b>	<b>\$ 11,885,363</b>

The Division's long-term debt at December 31, 2021 and 2020 consists of the following payable from revenues of the Division.

<b>Parity bond, senior lien:</b>	2021	2020
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.	98,820,000	100,835,000
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.	26,060,000	27,205,000
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. This was fully paid as of December 31, 2021.	-	2,605,000
2018 Revenue Bonds, with interest rates ranging from 3% to 5% due in yearly installments of \$3,422,000 to \$8,256,000 between 2019 and 2048. Purpose was to finance capital improvements and pay costs of issuance.	96,605,000	98,115,000

Notes to the Financial Statements (continued)

	2021	2020
<b>Parity bond, senior lien (Continued):</b>		
2020 Revenue Bond was placed with US Environmental Protection Agency (EPA) in accordance with a Water Infrastructure Finance and Innovation Act (WIFIA) loan agreement, which evidences the City's repayment obligations. Total \$15,026,875 was reimbursed through the WIFIA loan, with an interest rate of 1.2%, due in yearly installments of \$647,817 from 2026 through 2054. Interest will be accrued until 2025 and the first payment starts in 2026. The interest of \$22,540 was accrued in 2021.	15,049,415	-
Total parity bonds, senior lien	236,534,415	228,760,000
<b>Junior lien debt:</b>		
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 ("CTP") Upgrade project.	28,287,222	32,348,432
State Revolving Fund loan 2011 DOE L1000007, 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.	251,954	276,107
State Revolving Fund loan 2021 DOE EL210166, with an interest rate of 1.2% in semi-annual installments of \$73,684 through 2041; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$2,626,625 to reimburse a portion of costs related to the design of the CTP Electrical Distribution System Replacement projects.	2,554,668	-
Local Agency Financing Lease, Series 2020C, known as "Capital (COP) Loan", with an interest rate of approximately 2.12% with annual debt service payments of between \$751,861 and \$787,088 through 2040; this debt is junior lien and is secured by net operating revenue. The issuance costs are included in the interest rate. The proceeds of up to \$12,700,000 to be received on a cost reimbursement basis for Energy Management Project expenditures.	12,270,000	12,795,000
The division entered into a \$2,800,000 State Revolving Fund loan agreement with the Department of Ecology on a cost reimbursement basis for the Larchmont Permeable Neighborhood project effective 7/1/2019, and \$5.0 million for the Madison District Green Infrastructure project effective 7/1/2018. In 2021, total \$44,929 and \$73,376 have been reimbursed for the Larchmont and Madison District projects, respectively.	118,305	44,169
Total junior lien debt	43,482,149	45,463,708
Total outstanding debt	280,016,564	274,223,708
Less:		
Current portion	(12,037,789)	(11,885,363)
Plus: Unamortized premium	14,249,811	15,380,882
Total long-term debt	\$282,228,586	\$277,719,227



The City entered into a WIFIA Loan Agreement for up to \$20.9 million (including capitalized interest) (the “WIFIA Loan”) with the United States Environmental Protection Agency (EPA), an agency of the United States of America, to provide financing for the Central Wastewater Treatment Plant electrical distribution replacement project (“the Project”). The WIFIA Loan is evidenced by the 2020 WIFIA Bond. This Bond is secured by net revenues and amounts in the Bond Fund. The 2020 WIFIA Bond was issued as a draw down bond in an aggregate principal amount of not to exceed \$20.0 million for project costs (excluding capitalized interest) solely to pay costs of the Project. The 2020 WIFIA Bond has a final maturity date of December 1, 2054, unless paid earlier, with annual principal payment dates beginning on December 1, 2026 and yearly installments of \$647,817. The 2020 WIFIA Bond bears interests at a rate of 1.20% per annum, payable semiannually on each June 1 and December 1. The 2020 WIFIA Bond is subject to prepayment at the option of the City at any time at par plus accrued interest to the date of prepayment.

As of December 31, 2021, annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2022	\$ 12,037,789	\$ 10,073,631	\$ 22,111,420
2023	12,376,142	9,744,585	22,120,727
2024	12,766,047	9,341,217	22,107,264
2025	13,197,536	8,906,961	22,104,497
2026	13,336,291	8,682,657	22,018,948
2027-2031	61,195,549	36,377,617	97,573,166
2032-2036	66,177,270	24,212,661	90,389,931
2037-2041	40,135,317	13,376,241	53,511,558
2042-2046	35,641,108	5,872,457	41,513,565
2047-2051	11,255,791	720,895	11,976,686
2052-2054	1,897,724	45,727	1,943,451
	<u>\$ 280,016,564</u>	<u>\$ 127,354,649</u>	<u>\$ 407,371,213</u>

As of December 31, 2021, there were no bonds defeased in substance. Total \$34,320,000 of outstanding Sewer Revenue Refunding bonds, 2006 and 2011, in the market was called and paid off through the escrow account on December 1, 2021.

**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 \$40,000 for 2021 and \$400,776 for 2020. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City purchased a Fiduciary Liability policy with a limit of \$5.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City’s employee retirement plans. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess

Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.0 million per occurrence and an additional \$250,000 of total loss in excess of the self-insured retention. Such additional \$250,000 deductible may be satisfied by loss from one or more occurrences. Coverage also has a Cybersecurity policy with a limit of \$2.0 million.

General Government maintains Property insurance policy that covers its buildings and contents within the buildings and motor vehicles while on insured premises with a limit of \$500.0 million per occurrence. A deductible of \$150,000 per occurrence applies to the building and contents except a deductible of \$250,000 for water damage claims while a deductible of \$10,000 applies to motor vehicles. Excess liability policies provide coverage for Wrongful Acts, General liability, and Automobile liability with a \$5.0 million retention for claims other than those related to law enforcement. Law enforcement liability claims is self-insured in 2021. The coverage also provides Aviation Liability - Unmanned Aircraft liability for drones with a limit of \$1.0 million.

The Division's cost for these policies is \$451,957 in 2021 and \$340,566 in 2020.

#### **NOTE 7 WESTERN METAL INDUSTRY PENSION FUND**

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

The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010 and subsequently updated it on July 24, 2012 and December 9, 2016.

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

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

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

On December 3, 2019, the Tacoma City Council approved the collective bargaining agreements for the following groups; the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma General Unit, and District Lodge 160, Local Lodge 282 covering Wastewater Treatment Plant Maintenance Supervisors' Unit. Contained in this agreement was a call for cessation of the participation in the Plan. The contributions submitted for the December 31, 2019, payroll was the final contributions made on behalf of the employees in this unit. As of December 31, 2021, there were no employees participating in the plan.

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

There were no contribution rates applicable for 2021 and 2020. There were no contributions in 2021 and 2020.

There is currently no schedule to amortize the unfunded liability for the employees who are remaining within the Plan and the system is currently functioning on a pay-as-you-go basis.

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

As of December 31, 2021, the Division reported a liability of \$4,048,375 for its proportionate share of the collective total withdrawal liability of \$17,525,433 compared to \$3,279,940 at December 31, 2020. The current portion of the withdrawal liability is \$311,960 as of December 31, 2021 and there was no current liability as of December 31, 2020. At December 31, 2021 and 2020, the Division's proportion was 23.1% and 23.3%, respectively. For the year ended December 31, 2021, the Division recognized a withdrawal expense of \$846,425.

On January 26, 2022, the City submitted an appeal over the liability calculation subject to the Employee Retirement Income Security Act of 1974 (ERISA). The outcome of the appeal is uncertain at the time of the report issuance and may affect the liability amount.

#### **NOTE 8 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)**

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

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

Or the TERS ACFR may be downloaded from the TERS website at [www.cityoftacoma.org/retirement](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 RCW and Chapter 1.30 of the Tacoma City Code.

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

The breakdown of membership as of December 31, 2020 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,653
Terminated vested and other terminated participants	790
Active members:	
City of Tacoma	2,740
Pierce Transit	10
South Sound 911	2
Tacoma-Pierce County Health Department	285
Total active members	3,037
Total membership	6,480

**Membership** - Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighters, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments.

**Benefits** - There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, “service retirement”, is a product of the member’s average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member’s age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

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

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

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

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

Measurement Date	December 31, 2020
Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> <li>• Level percent</li> <li>• Open periods</li> <li>• 25 year amortization period*</li> <li>• 3.25% amortization growth rate</li> </ul>
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	105% of the Male and 100% of the Femal PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration Data 1957-2017.

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

**Benefit and Assumption Changes** - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2021, valuation date and December 31, 2020, the measurement date. Therefore, no adjustments were needed from the January 1, 2021, actuarial valuation date to the calculated liabilities as of December 31, 2020, measurement date for reporting date of December 31, 2021. There were no changes between the January 1, 2020, and January 1, 2021, valuation dates.

**Target Allocations** - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2020. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2019.

Asset Class	Target	Long-term Expected
	Allocation	Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	1.30%
US Bank/ Leveraged Loans	3.0%	2.39%
US Long Government Bonds	3.0%	1.75%
High Yield Bonds	6.0%	3.10%
Emerging Market Debt	5.0%	2.65%
Global Equity	34.5%	5.55%
Private Real Estate	10.0%	6.20%
Private Equity	10.0%	6.95%
Master Limited Partnerships	4.0%	7.30%
Timber	1.5%	6.15%
Infrastructure	2.0%	6.25%
Agriculture	1.5%	3.72%
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.65%
Portfolio 30 year Arithmetic Rate of Return		7.13%
Portfolio 30 year Geometric Rate of Return		6.58%
Portfolio Standard Deviation		10.89%
Long-Term Expected Rate of Return, net of investment expenses		6.75%

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability (asset)	\$31,953,222	\$7,218,043	\$(13,396,222)

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

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (1,010,644)	\$ 1,306,361
Changes of assumptions	-	5,367,899
Net Difference Between Projected and Actual Earnings	(529,217)	-
Changes in Employer Proportion	(4,774)	98
Contributions Made Subsequent to the Measurement Date	-	3,086,807
Total	\$ (1,544,635)	\$ 9,761,165

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next five years.

Amounts will be recognized in pension expense as follows:

2022	\$	753,449
2023		2,511,217
2024		(827,445)
2025		2,114,263
2026		578,239
	\$	5,129,723

At December 31, 2021, the Division reported a pension liability of \$7,218,043 for its proportionate share of the total System, compared to a pension asset of \$1,847,284 at December 31, 2020. The proportionate share of the Power Division is 10.41% of total System’s pension liability as of December 31, 2021, and 9.93% as of December 31, 2020. The proportionate share was based on the actual contributions for the year as of December 31, 2021 and 2020.

**NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)**

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

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2021 for non-LEOFF 1 members includes 3,531 active participants, 562 vested terminated participants, 192 retirees and surviving spouses, and 130 spouses of current retirees. The membership as of January 1, 2020 for LEOFF 1 members includes 1 active participant and 370 retirees.

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

**Actuarial Assumptions and Other Inputs** - The valuation date is January 1, 2021 for non-LEOFF 1 members and January 1, 2020 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, 2020. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2021.

The H.R. 1865 Further Consolidated Appropriations Act, 2020 became Law on December 20, 2019. This act repeals the excise tax for high cost or “Cadillac” health plans completely and removes the Health Insurer Fee permanently beginning in 2021. The total OPEB liability as of the December 31, 2020, measurement date reflects this change.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2021, and January 1, 2020, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Notes to the Financial Statements (continued)

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Valuation Date: January 1, 2021  
 Census Date: January 1, 2021  
 Actuarial Cost Method: Individual Entry Age Normal Cost Method  
 Demographic Assumptions: Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:  
 Discount Rate: 2.12% for pay-as-you-go funding  
 Medical Cost Trend:

2021	6.00%
2022	5.50%
2023	5.00%
2030	4.70%
2040	4.90%
2050	4.90%
2060	4.70%

Note that the trend for year 2021 reflects the percent by which 2022 medical costs are expected to exceed 2021 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.00% in 2074 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

Economic Assumptions -  
 Discount Rate (Liabilities): 2.12%  
 Demographic Assumptions: Eligibility:  
 Disability - Five years of service are required for non-service connected disability.

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

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

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

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

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

**Changes of Assumptions:** The discount rate was updated to 2.12% from 2.74%. 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, 2021 the Division reported a liability of \$3,856,262 for its proportionate share of the collective total OPEB liability of \$229.3 million compared to \$2,635,160 at December 31, 2020. At December 31, 2021, the participating Division's proportion was 1.68203% as compared to 1.26434% at December 31, 2020. For the year ended December 31, 2021, the participating Division recognized an OPEB credit of \$33,835.

At December 31, 2021, 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	\$ (41,265)	\$ 5,811
Changes of assumptions	(161,945)	430,601
Changes in Employer Proportion	(1,118,142)	1,271,651
Differences in Contributions	(78,754)	55,275
Contributions Made Subsequent to the Measurement Date	-	137,606
Total	<u>\$ (1,400,106)</u>	<u>\$ 1,900,944</u>

The Division reported \$137,606 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2022	\$ (34,798)
2023	(34,798)
2024	(60,444)
2025	176,145
2026	187,253
Thereafter	129,874
	<u>\$363,232</u>

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

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

	1% Decrease 1.12%	Current Discount Rate 2.12%	1% Increase 3.12%
Net OPEB liability	\$ 4,363,703	\$ 3,856,262	\$ 3,432,239

**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 5.00%	Current Trend Rates 6.00%	1% Increase 7.00%
Net OPEB liability	\$ 3,391,699	\$ 3,856,262	\$ 4,409,086

**NOTE 10 ENVIRONMENTAL LIABILITIES**

**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 and a cap material replenishment project was designed and subsequently implemented in 2020 under EPA oversight. Because contaminated material was left in place under a cap at the site, long-term monitoring is expected to continue on a periodic basis in perpetuity. The results of this monitoring may result in additional limited maintenance efforts in the future. Included in the financial statements for the years 2021 and 2020 are liabilities of \$420,000 and \$475,000, respectively.

**FOSS CONSENT DECREE** – Under the current long-term Monitoring Plan developed in accordance with the Foss Consent Decree, the City has an obligation for continued monitoring through 2028. It is expected that another long-term Monitoring Plan will be developed following completion of monitoring under the current plan. Because contaminated material is left in place under caps in the waterway, some level of periodic monitoring will continue in perpetuity. Erosion in two areas was identified and requires maintenance to protect the integrity of the remedy. The basis of design evaluation began in 2021, design is continuing in 2022, and construction of the maintenance project is planned for 2023/2024. Ongoing monitoring may result in additional limited maintenance efforts in the future. Included in the financial statements for the years 2021 and 2020 are liabilities of \$2,116,000 and \$817,000, respectively.

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.

**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 cleanup or closure of the site.

In mid-2016, Ecology contacted the City and other potentially liable 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. Other parties are performing the work under the Agreed Order, and the City's role and cost obligation should be limited. This new Agreed Order was fully executed on September 13, 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.

**NOTE 12 – COVID-19 PANDEMIC**

The COVID-19 pandemic is ongoing, and the duration and severity of the crisis are uncertain. The City and the Division took aggressive budget actions in early 2020 to manage the impacts of COVID-19. The actions included, but are not limited to, the following: reduction of 2020 revenue projections, eliminated discretionary spending, cancelled planned projects, established purchasing and contract freezes, established a hiring freeze, put certain staff on temporary furloughs and did targeted lay-offs. During the 2021-2022 budget development process the City took quick action to reduce the expenses through program eliminations, reduced hiring, and temporary furloughs to address the projected revenue losses. In 2021, the City's tax revenues performed better than projections and the City was able to return funding for a limited number of one-time programs and investments. The City and the Division will continue to monitor the community impacts of COVID-19 and remain flexible on responding to community needs.

The Division and the City has been operating under a utility shut-off moratorium since March 2020 due to the COVID-19 pandemic. In March 2020, the City Mayor issued an emergency rule that prohibits utility shutoff due to nonpayment of fees and charges for residential and commercial customers during the City Mayor's emergency proclamation. The State issued a similar moratorium on disconnecting electric, water and other utility services due to nonpayment and charging fees for late payment or reconnection for certain utilities. The State-wide moratorium on disconnections for nonpayment terminated on September 30, 2021. The City moratorium ended on March 31, 2022. Effective April 1, 2022, late fees and other collection processes resumed.

Subsequent to the moratorium end date on March 31, 2022, City utility customer with an outstanding balance incurred during the months of the COVID-19 pandemic was placed on an automatic, interest free, 24-month installment plan. The City has been encouraging customers to take advantage of current relief assistance dollars and is developing long-term payment programs. The City anticipates that it will be able to address delinquencies using those tools and does not expect that accounts receivable will be a primary driver for future rate increases.

While the aggregate amount of outstanding receivables is greater than prior years, the amount is not expected to have a material impact on the Division and the City.

**NOTE 13 SUBSEQUENT EVENTS**

In Mid-May of 2022, the City expects to receive approximately \$30.4 million, the second tranche of funds from the American Rescue Plan Act (“ARPA”). Based on allocation projections, the City expects to receive approximately \$60.9 million in ARPA assistance, of which approximately \$30.5 million was received in May of 2021. ARPA provides \$350 billion to help states, counties, cities and tribal governments cover increased expenditures, replenish lost revenue and mitigate economic harm from the COVID-19 pandemic. Funds received under the ARPA may be used for authorized purposes relating to mitigating the fiscal effects of the COVID-19 pandemic, including responding to the public health emergency, providing governmental services, and making certain infrastructure investments, among other purposes. The City will monitor and apply for additional Federal and State support for expenses related to responding to the COVID-19 pandemic if and as such relief becomes available.

On March 23, 2022, Sewer (Surface Water and Wastewater) issued \$86,425,000 in Revenue bonds to provide funds necessary to finance and/or reimburse the City for costs associated with the construction, improvement and equipping of the utility. The proceeds are expected to be used to finance the following capital improvements to the surface water utility: pipe replacement, main extensions, holding facility improvements for the surface water collection system, pump station upgrades and repairs and additional projects identified through the asset management process. Also, the proceeds are expected to be used to finance the following capital improvements to the wastewater utility: large trunk replacement and improvements, bio-tower replacement and improvements, digester rehabilitation, sediment tank upgrades, upgrades to pump station facilities and additional projects identified through the asset management process. The reserve fund requirement for the bonds is zero. The bonds will be redeemed over the next 30 years.

# Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years\*

	As of Measurement Date December 31,						
	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	10.41%	9.93%	11.14%	11.21%	11.38%	11.66%	11.65%
Employer's proportion share of net pension liability (asset)	\$7,218,043	(\$1,847,284)	\$13,029,876	(\$4,409,368)	\$10,569,592	\$10,094,045	(\$1,119,219)
Employer's covered payroll **	\$28,273,875	\$26,635,524	\$27,513,166	\$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	25.53%	-6.94%	47.36%	-16.63%	40.72%	37.44%	-4.46%
Plan fiduciary net position as a percentage the total pension liability	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years\*

	Fiscal Year Ended December 31,						
	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$3,086,807	\$2,842,985	\$3,111,579	\$2,961,878	\$2,745,272	\$2,753,194	\$2,650,121
Contributions in relation to the contractually required employer contribution	(3,086,807)	(2,842,985)	(3,111,579)	(2,961,878)	(2,745,272)	(2,753,194)	(2,650,121)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-
Employer's covered employee payroll	\$28,721,956	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556
Employer contribution as a percentage of covered-employee payroll	10.75%	10.06%	11.68%	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.

Proportionate Share of the Collective OPEB Liability Last 10 Years\*

	As of Measurement Date December 31,				
	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	1.68%	1.26%	1.25%	1.86%	1.81%
Employer's proportion share of collective OPEB liability	\$3,856,262	\$2,635,160	\$2,555,057	\$4,101,053	\$3,793,836
Employer's covered-employee payroll**	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$26,221,707
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	13.64%	9.89%	9.29%	15.47%	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.

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

**Notes to Required Supplementary Information  
For the Fiscal Year Ended December 31, 2021**

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

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

**Changes of Assumptions:** The discount rate was updated to 2.12% from 2.74%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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# Supplemental Information (Unaudited)

Wastewater and Surface Water Management  
 Unaudited Supplemental Information  
**City of Tacoma, Washington Sewer 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**  
**City of Tacoma, Washington Sewer Revenue Bonds, Series 2018**

*The following continuing disclosure information for 2021 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**

	<b>2020</b>	<b>2021</b>
Parity Bond Debt Service Coverage Ratio	2.98	2.83
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.32	2.13

**Number of Customers by Type of Service**

<b>Year</b>	<b>Wastewater</b>				<b>Surface Water</b>		
	<b>Residential</b>	<b>Commercial/ Industrial</b>	<b>Contract<sup>(1)</sup></b>	<b>Total</b>	<b>Residential</b>	<b>Commercial/ Industrial</b>	<b>Total</b>
2020	59,578	3,795	15,924	79,297	59,819	11,416	71,235
2021	59,771	3,794	15,924	79,297	59,914	11,404	71,318

<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**

	<b>2020</b>	<b>2021</b>
Wastewater:		
Residential	\$ 52,822,791	\$ 55,680,516
Commercial and wholesale	23,366,944	25,063,853
Other revenues	3,690,936	3,815,903
Surface Water:		
Residential	18,835,178	18,787,968
Commercial	20,261,316	19,759,436
Other revenues	49,250	113,716
<b>Total operating revenues</b>	<b>\$ 119,026,415</b>	<b>\$ 123,221,392</b>

## Top Ten Customers

Customer Name	Amount	Percent of 2021 Operating Revenues <sup>(1)</sup>
Port of Tacoma	\$ 2,905,590	2.36%
Tacoma School District	1,668,301	1.35%
City of Tacoma	1,655,062	1.34%
Puyallup Tribe	951,847	0.77%
Metro Parks	874,798	0.71%
Darling International Inc	680,125	0.55%
Salishan	553,296	0.45%
Multicare	518,918	0.42%
Westridges Apartments	515,452	0.42%
BNSF Railway	493,940	0.40%
<b>Total</b>	<b>\$ 10,817,329</b>	<b>8.77%</b>

<sup>(1)</sup> Total system revenue \$ 123,221,392

## 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.

	2020 <sup>(1)</sup>	2021 <sup>(1)</sup>
<b>Residential</b>		
Monthly fixed charge	\$ 26.91	\$ 27.32
Flow charge <sup>(2)</sup>	5.07	5.15
<b>Commercial</b>		
Monthly fixed charge	\$ 13.00	\$ 13.39
Flow charge <sup>(3)</sup>	\$7.02-\$14.70	\$7.24-\$15.15

<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.

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	2020 <sup>(1)</sup>		2021 <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	\$ 8.36	\$ 0.1493	\$ 8.61	\$ 0.1508
Undeveloped-area in excess of one acre	8.36	0.0614	8.61	0.0621
Light development	8.36	0.4770	8.61	0.4818
Moderate development	8.36	0.6693	8.61	0.6760
Heavy development	8.36	0.9572	8.61	0.9668
Very Heavy development	8.36	1.2819	8.61	1.2948
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 8.36	\$ 0.2921	\$ 8.61	\$ 0.2951
Undeveloped area in excess of one acre	8.36	0.0614	8.61	0.0621
Light development	8.36	0.9324	8.61	0.9418
Moderate development	8.36	1.2886	8.61	1.3015
Heavy development	8.36	1.8824	8.61	1.9013
Very Heavy development	8.36	2.5216	8.61	2.5469

<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.

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

	Wastewater		Surface Water	
	As of December 31,		As of December 31,	
	2021	2020	2021	2020
<b>ASSETS</b>				
Current assets:				
Cash and equity in pooled investments	\$ 90,961,827	\$ 70,543,933	\$ 37,591,594	\$ 30,976,375
Accounts receivable, net	7,401,772	7,069,945	2,469,330	2,334,315
Unbilled revenues	5,689,787	4,827,787	2,566,000	2,848,000
Conservation loan fund receivables	101,945	123,536	-	-
Loan receivable	236	12,711,377	-	-
Due from other governments	-	-	177,675	237,692
Inventory	2,361,970	2,145,521	-	-
Prepayments	268,190	277,655	-	-
Restricted cash and equity in pooled investments:				
Debt service funds	765,754	822,687	609,841	582,590
Construction funds	-	23,556,623	29,410,397	39,418,708
Total restricted cash and equity in pooled investments	765,754	24,379,310	30,020,238	40,001,298
Total current assets	107,551,481	122,079,064	72,824,837	76,397,680
Non-current assets:				
Restricted cash and equity in pooled investments:				
Debt reserves	4,640,000	4,640,000	32,034	32,034
Net pension asset	-	1,363,742	-	483,542
Conservation loan fund receivables	581,173	662,940	-	-
Capital assets:				
Land and easements	13,313,483	13,266,759	11,987,931	11,938,398
Buildings	212,303,524	211,503,699	1,864,545	1,864,545
Machinery and equipment	179,608,809	179,399,437	20,504,059	20,039,331
Transmission lines and other improvements	263,780,000	246,380,329	208,116,335	203,082,534
Computer software	5,881,726	5,548,488	4,233,220	3,917,813
Less: accumulated depreciation	(266,943,322)	(253,249,267)	(65,281,780)	(61,005,601)
Construction work in progress	48,112,233	26,217,656	24,534,288	14,489,895
Total capital assets, net	456,056,453	429,067,101	205,958,598	194,326,915
Total non-current assets	461,277,626	435,733,783	205,990,632	194,842,491
<b>TOTAL ASSETS</b>	<b>568,829,107</b>	<b>557,812,847</b>	<b>278,815,469</b>	<b>271,240,171</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - loss on refunding bonds	2,021,935	2,147,063	1,196,751	1,276,979
Deferred outflows - OPEB	889,559	263,428	1,011,385	728,597
Deferred outflows - pensions	7,160,735	4,045,956	2,600,430	1,434,575
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>10,072,229</b>	<b>6,456,447</b>	<b>4,808,566</b>	<b>3,440,151</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 578,901,336</b>	<b>\$ 564,269,294</b>	<b>\$ 283,624,035</b>	<b>\$ 274,680,322</b>

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

	Wastewater		Surface Water	
	As of December 31,		As of December 31,	
	2021	2020	2021	2020
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 6,582,422	\$ 9,071,399	\$ 6,065,053	\$ 2,117,480
Accrued wages payable and compensated absences payable	1,118,205	1,063,709	371,334	346,266
Accrued taxes payable	144,998	131,245	55,725	58,456
Due to other governments	780,000	780,000	-	-
Accrued environmental liability	-	-	215,000	147,500
Accrued State loan interest payable	156,370	167,676	-	-
Current portion of Capital COP loan	565,000	525,000	-	-
Current portion of State Revolving Fund loan	4,252,926	4,061,210	24,863	24,153
Current portion of revenue bonds payable	3,520,820	4,008,707	3,074,596	2,660,043
Current portion of pension withdrawal liability	305,208	-	6,752	-
Unearned revenues	333,255	304,544	178,423	163,051
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	320,075	364,428	279,509	241,822
Accrued revenue bonds interest payable	445,679	458,259	330,332	340,768
Deposit in lieu of bond	-	4,017	-	-
Total current liabilities	<u>18,524,958</u>	<u>20,940,194</u>	<u>10,601,587</u>	<u>6,099,539</u>
Non-current liabilities:				
Long-term debt - revenue bonds, net	134,317,381	138,705,924	94,222,430	98,159,958
Long-term debt - Capital COP loan	11,705,000	12,270,000	-	-
Long-term State Revolving Fund loan	26,588,964	28,287,222	345,396	296,123
Long-term WIFIA loan	15,049,415	-	-	-
Long-term accrued compensated absences	2,669,490	2,654,336	646,470	616,075
Long-term accrued environmental liability	-	-	2,321,000	1,144,500
Net pension liability	5,295,115	-	1,922,928	-
Net OPEB liability	2,091,924	1,375,803	1,764,338	1,259,357
Pension withdrawal liability	3,655,540	3,279,940	80,875	-
Total noncurrent liabilities	<u>201,372,829</u>	<u>186,573,225</u>	<u>101,303,437</u>	<u>101,476,013</u>
<b>TOTAL LIABILITIES</b>	<u>219,897,787</u>	<u>207,513,419</u>	<u>111,905,024</u>	<u>107,575,552</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	-	7,146	-	9,868
Deferred inflows - OPEB	1,252,722	1,618,935	147,384	127,189
Deferred inflows - pensions	1,133,135	5,196,951	411,500	1,842,683
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>19,385,857</u>	<u>23,823,032</u>	<u>8,558,884</u>	<u>9,979,740</u>
<b>NET POSITION</b>				
Net investment in capital assets	262,079,118	279,616,955	147,015,269	142,738,615
Restricted for:				
Bond reserves	4,640,000	4,640,000	32,034	32,034
Deposit in lieu of bond	-	4,017	-	-
Net pension asset	-	1,363,742	-	483,542
Unrestricted	72,898,574	47,308,129	16,112,824	13,870,839
<b>TOTAL NET POSITION</b>	<u>339,617,692</u>	<u>332,932,843</u>	<u>163,160,127</u>	<u>157,125,030</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 578,901,336</u>	<u>\$ 564,269,294</u>	<u>\$ 283,624,035</u>	<u>\$ 274,680,322</u>

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

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2021	2020	2021	2020
<b>OPERATING REVENUES</b>				
Wastewater residential	\$ 55,680,516	\$ 52,822,791	\$ -	\$ -
Wastewater commercial and public authorities	25,063,853	23,366,944	-	-
Surface water residential	-	-	18,787,968	18,835,178
Surface water commercial	-	-	19,759,436	20,261,316
Other revenues	3,815,903	3,690,936	113,716	49,250
Total operating revenues	<u>84,560,272</u>	<u>79,880,671</u>	<u>38,661,120</u>	<u>39,145,744</u>
<b>OPERATING EXPENSES</b>				
Business operations	19,064,456	17,367,819	9,390,417	8,394,772
Operations and maintenance	26,542,867	26,476,055	3,778,455	3,847,384
Science and engineering	8,642,374	8,780,668	9,918,945	10,524,503
Depreciation	14,215,023	14,158,539	4,373,830	4,191,500
Total operating expenses	<u>68,464,720</u>	<u>66,783,081</u>	<u>27,461,647</u>	<u>26,958,159</u>
Net operating income	<u>16,095,552</u>	<u>13,097,590</u>	<u>11,199,473</u>	<u>12,187,585</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income/(loss)	(672,005)	2,604,231	(416,654)	1,809,249
Interest expenses and other related costs	(6,304,299)	(6,769,463)	(4,087,014)	(4,210,460)
Amortization of bond premium and gain/loss on refunding	429,665	440,764	513,062	528,403
CARES grant	-	135,961	-	95,038
Other nonoperating revenues	1,162,287	1,888,784	421,261	1,779,837
Other nonoperating expenses	-	(88,246)	-	(92,839)
Gain or (loss) on sale/disposal of capital assets	35,797	(650,208)	(16,491)	(35,876)
Total nonoperating expenses	<u>(5,348,555)</u>	<u>(2,438,177)</u>	<u>(3,585,836)</u>	<u>(126,648)</u>
Net income before contributions and transfers	<u>10,746,997</u>	<u>10,659,413</u>	<u>7,613,637</u>	<u>12,060,937</u>
Capital contributions and grants	2,798,156	1,467,734	2,746,152	2,100,317
Transfer in from other funds	-	-	-	22,260
Transfer out to other funds	-	(117,450)	(1,172,500)	(1,149,050)
Gross earnings tax	(6,860,304)	(6,609,324)	(3,152,192)	(3,139,259)
Total contributions and transfers	<u>(4,062,148)</u>	<u>(5,259,040)</u>	<u>(1,578,540)</u>	<u>(2,165,732)</u>
CHANGE IN NET POSITION	6,684,849	5,400,373	6,035,097	9,895,205
NET POSITION - JANUARY 1	<u>332,932,843</u>	<u>327,532,470</u>	<u>157,125,030</u>	<u>147,229,825</u>
NET POSITION - DECEMBER 31	<u>\$ 339,617,692</u>	<u>\$ 332,932,843</u>	<u>\$ 163,160,127</u>	<u>\$ 157,125,030</u>

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

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2021	2020	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 81,137,021	\$ 77,008,601	\$ 37,853,565	\$ 38,225,032
Payments to suppliers	(28,247,886)	(16,969,369)	(5,672,794)	(11,977,312)
Payments to employees	(28,315,634)	(26,266,492)	(10,395,044)	(9,779,597)
Payments for taxes	(1,494,362)	(1,386,296)	(666,315)	(642,743)
Net cash from operating activities	<u>23,079,139</u>	<u>32,386,444</u>	<u>21,119,412</u>	<u>15,825,380</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Transfer in from other funds	295,175	-	96,012	-
Transfer out to other funds	(6,860,304)	(6,815,020)	(4,324,692)	(4,381,148)
Operating grants received	-	-	623,125	2,173,168
CARES grant received	-	135,961	-	95,038
Principal paid on noncapital debt	-	-	(681,863)	(650,325)
Interest paid on noncapital debt	-	-	(373,235)	(405,752)
Contributions and donations	(101,252)	101,252	-	15,820
Net cash from noncapital financing activities	<u>(6,666,381)</u>	<u>(6,577,807)</u>	<u>(4,660,653)</u>	<u>(3,153,199)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>				
Transfer in from other funds	-	-	-	22,260
Acquisition and construction of capital assets	(35,937,011)	(26,272,437)	(14,048,049)	(9,615,465)
Principal payments on capital debt	(9,031,301)	(8,168,195)	(2,244,156)	(2,147,872)
Interest and issuance costs paid on capital debt	(6,305,645)	(6,700,938)	(3,724,214)	(3,815,791)
Proceeds from capital debt	30,364,640	-	74,135	44,169
Contributions and donations	624,500	801,005	612,545	1,146,643
Cash proceeds from sale of capital assets	84,864	202,277	-	-
Insurance recoveries	2,526	5,750	1,818	-
Net cash from capital financing activities	<u>(20,197,427)</u>	<u>(40,132,538)</u>	<u>(19,327,921)</u>	<u>(14,366,056)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income	(672,005)	2,604,231	(416,654)	1,809,249
Nonoperating income	1,261,012	1,781,784	(80,025)	4,817
Net cash from investing activities	<u>589,007</u>	<u>4,386,015</u>	<u>(496,679)</u>	<u>1,814,066</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<b>(3,195,662)</b>	<b>(9,937,886)</b>	<b>(3,365,841)</b>	<b>120,191</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	<b>99,563,243</b>	<b>109,501,129</b>	<b>71,009,707</b>	<b>70,889,516</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<b><u>\$ 96,367,581</u></b>	<b><u>\$ 99,563,243</u></b>	<b><u>\$ 67,643,866</u></b>	<b><u>\$ 71,009,707</u></b>

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

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2021	2020	2021	2020
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Net operating income	\$ 16,095,552	\$ 13,097,590	\$ 11,199,473	\$ 12,187,585
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation expense	14,215,023	14,158,539	4,373,830	4,191,500
Expense capital project costs	62,050	-	-	96,374
Pension expense (credits)	(519,738)	248,225	(190,568)	143,334
Net OPEB expense (credits)	(276,223)	(390,624)	242,388	171,130
Pension withdrawal expense	680,808	-	87,627	-
Cash from changes in operating assets and liabilities:				
Accounts receivable, net of allowance	(331,827)	(1,629,495)	(135,015)	(254,639)
Accrued unbilled revenue	(862,000)	166,000	282,000	(105,000)
Inventory	(216,449)	(717,587)	-	-
Prepayments	9,465	65,791	-	-
Accounts payable	(5,988,977)	6,364,306	3,947,573	810,042
Conservation loan fund receivables	103,358	110,891	-	-
Accrued wages and compensated absences payable	54,496	247,063	25,068	90,595
Accrued taxes payable	13,753	35,452	(2,731)	11,869
Deposit in lieu of bonds	(4,017)	4,017	-	-
Due to other governments	-	60,000	-	-
Accrued environmental liability	-	-	67,500	(1,618,557)
Unearned revenues	28,711	6,678	15,372	3,576
Long-term accrued environmental liability	-	-	1,176,500	(47,500)
Long-term accrued compensated absences	15,154	559,598	30,395	145,071
Total adjustments	<u>6,983,587</u>	<u>19,288,854</u>	<u>9,919,939</u>	<u>3,637,795</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 23,079,139</u>	<u>\$ 32,386,444</u>	<u>\$ 21,119,412</u>	<u>\$ 15,825,380</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 1,878,481	\$ 666,729	\$ 1,973,956	\$ 953,674



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.