

**NEW ISSUE  
BOOK-ENTRY ONLY  
NOT BANK QUALIFIED**

**Moody's Rating: Aa2  
S&P's Rating: AA+  
Fitch's Rating: AA+  
See "RATINGS"**

*In the opinion of Pacifica Law Group LLP, Bond Counsel, assuming compliance with certain covenants of the City, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.*



**CITY OF TACOMA, WASHINGTON**  
**\$109,300,000**  
**SEWER REVENUE AND REFUNDING BONDS, 2015**

**DATED: Date of Initial Delivery**

**DUE: December 1, as shown on inside cover**

The City of Tacoma, Washington (the "City"), Sewer Revenue and Refunding Bonds, 2015 (the "Bonds"), will be issued as fully registered bonds in the name of Cede & Co., as Registered Owner and as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof within a maturity. Purchasers will not receive certificates representing their interest in the Bonds. See "THE BONDS."

The Bonds bear interest payable semiannually on each June 1 and December 1 to maturity, beginning June 1, 2015. The principal of and interest on the Bonds are payable by the fiscal agency of the state of Washington (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar will make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described herein under Appendix E—"Book-Entry System."

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption."

The Bonds are being issued to provide the funds necessary (a) to finance a portion of the costs of the City's capital improvement program for its combined municipal sewer system (the "System"), (b) to advance refund and defease a portion of the City's outstanding Sewer Revenue and Refunding Bonds, 2006, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the Bonds. See "USE OF PROCEEDS."

**Maturity Dates, Principal Amounts, Interest Rates, Yields, Prices and CUSIP Numbers on Inside Cover**

The Bonds are secured by a pledge of the Gross Revenues of the System after payment of Costs of Maintenance and Operation (as further defined herein, the "Net Revenues") and ULID Assessments, if any. The lien of the Bonds on Net Revenues and ULID Assessments is equal to the lien securing the Outstanding Parity Bonds (as defined herein) and superior to any other liens and charges of any kind. The City has reserved the right to issue additional bonds and other obligations on a parity of lien with the Bonds and the Outstanding Parity Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

**THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE ONLY FROM THE BOND FUND. THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY OR THE STATE OF WASHINGTON (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY OR OF THE STATE, OR OF ANY POLITICAL SUBDIVISION OF THE STATE, NOT SPECIFICALLY PLEDGED BY THE BOND ORDINANCE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."**

The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

*The Bonds are offered by the Underwriters when, as and if issued, subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. A form of Bond Counsel's opinion is attached hereto as Appendix B. Certain matters will be passed upon for the Underwriters by their counsel, Foster Pepper PLLC, Seattle, Washington. It is anticipated that the Bonds in definitive book-entry form will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about March 18, 2015.*

**J.P. Morgan**

**Siebert Brandford Shank & Co., LLC**

Dated: February 11, 2015

**CITY OF TACOMA, WASHINGTON**  
**\$109,300,000**  
**SEWER REVENUE AND REFUNDING BONDS, 2015**

<b>Maturity Year December 1</b>	<b>Principal Amounts</b>	<b>Interest Rates</b>	<b>Yields</b>	<b>Prices</b>	<b>CUSIP<sup>(2)</sup> Nos.</b>
2016	\$ 1,245,000	3.000%	0.46%	104.302	873545GJ0
2017	1,690,000	4.000	0.69	108.847	873545GK7
2018	1,765,000	5.000	0.98	114.581	873545GL5
2019	1,845,000	4.000	1.21	112.715	873545GM3
2020	1,920,000	5.000	1.46	119.300	873545GN1
2021	2,015,000	4.000	1.69	114.578	873545GP6
2022	2,055,000	5.000	1.93	121.873	873545GQ4
2023	2,160,000	3.000	2.12	106.958	873545GR2
2024	2,220,000	3.125	2.28	107.315	873545GS0
2025	2,290,000	3.125	2.41	106.430 <sup>(1)</sup>	873545GT8
2026	2,365,000	3.250	2.53	106.436 <sup>(1)</sup>	873545GU5
2027	2,435,000	5.000	2.63	121.083 <sup>(1)</sup>	873545GV3
2028	2,565,000	5.000	2.74	119.993 <sup>(1)</sup>	873545GW1
2029	2,690,000	5.000	2.79	119.501 <sup>(1)</sup>	873545GX9
2030	2,820,000	5.000	2.84	119.012 <sup>(1)</sup>	873545GY7
2031	2,960,000	5.000	2.89	118.525 <sup>(1)</sup>	873545GZ4
2032	8,040,000	5.000	2.94	118.040 <sup>(1)</sup>	873545HA8
2033	8,440,000	4.000	3.39	105.220 <sup>(1)</sup>	873545HB6
2034	8,775,000	4.000	3.43	104.868 <sup>(1)</sup>	873545HC4
2035	9,130,000	4.000	3.47	104.517 <sup>(1)</sup>	873545HD2
2036	9,485,000	4.000	3.50	104.254 <sup>(1)</sup>	873545HE0

\$12,190,000, 4.000% Term Bond, due December 1, 2040 (Yield 3.58% and Price 103.559<sup>(1)</sup>), CUSIP<sup>(2)</sup> No. 873545HF7

\$18,200,000, 4.000% Term Bond, due December 1, 2045 (Yield 3.64% and Price 103.040<sup>(1)</sup>), CUSIP<sup>(2)</sup> No. 873545HG5

<sup>(1)</sup> Priced to the par call date of June 1, 2025.

<sup>(2)</sup> CUSIP is a registered trademark of the American Bankers Association. These CUSIP numbers were provided by CUSIP Global Services and are not intended to create a database and do not serve in any way as a substitute for the CUSIP Global Services. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The City takes no responsibility for the accuracy of such CUSIP numbers.

**CITY OF TACOMA, WASHINGTON**  
**747 MARKET STREET**  
**TACOMA, WASHINGTON 98402**  
**(253) 591-5000**  
**www.cityoftacoma.org\***

**MAYOR AND TACOMA CITY COUNCIL**

**Elected Officials**

<b>Name</b>	<b>Position</b>	<b>Term Expires</b>
Marilyn Strickland	Mayor	December 31, 2017
David Boe	Deputy Mayor	December 31, 2015
Victoria Woodards	Councilmember	December 31, 2017
Lauren Walker	Councilmember	December 31, 2015
Anders Ibsen	Councilmember	December 31, 2015
Robert Thoms	Councilmember	December 31, 2017
Marty Campbell	Councilmember	December 31, 2017
Joe Lonergan	Councilmember	December 31, 2017
Ryan Mello	Councilmember	December 31, 2015

**City Officials**

T.C. Broadnax	City Manager
Andrew Cherullo	Finance Director
Teresa Sedmak	City Treasurer
Elizabeth A. Pauli	City Attorney
Doris Sorum	City Clerk

**City Environmental Services Department**

Michael P. Slevin III, P.E.	Environmental Services Director
John O'Loughlin, P.E.	Environmental Services Assistant Director

**Bond and Disclosure Counsel**

Pacifica Law Group LLP  
Seattle, Washington

**Financial Advisor**

Piper Jaffray & Co.  
Seattle, Washington

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\* The City's website is not part of this Official Statement, and investors should not rely on information presented in the City's website in determining whether to purchase the Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

No dealer, broker, sales representative or other person has been authorized by the City or the Underwriters to give any information or to make any representations with respect to the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

No quotations from or summaries or explanations of the provisions of laws or documents herein purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds. The cover page hereof and appendices attached hereto are part of this Official Statement.

The information set forth or included in this Official Statement has been provided by the City and from other sources believed by the City to be reliable but is not guaranteed as to accuracy or completeness and it is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof.

Certain statements contained in this Official Statement reflect not historical facts but are forecasts and “forward-looking statements.” The forecasts, projections, and estimates are based upon expectations and assumptions that existed at the time such forecasts, projections, and estimates were prepared. No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Such risks and uncertainties include, among others, general economic conditions, change in political conditions, weather conditions, social and economic conditions, regulatory initiatives, and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. All estimates, projections, forecasts, assumptions and other forward-looking statements speak only as of the date they were prepared and are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement.

The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, in reliance upon a specific exemption contained in such act. The Bonds may, however, be subject to registration or qualification under the securities laws of various states, and may not be transferred in violation of such state laws. The registration or qualification of the Bonds in accordance with applicable provisions of the securities laws of the states in which the Bonds have been registered or qualified, if any, and exemption from registration or qualification in other states, shall not be regarded as a recommendation thereof. No state nor any state or federal agency has passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

The Underwriters have provided the following three sentences for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. In connection with this offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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## OFFICIAL STATEMENT

### CITY OF TACOMA, WASHINGTON \$109,300,000 SEWER REVENUE AND REFUNDING BONDS, 2015

#### INTRODUCTION

The City of Tacoma, Washington (the “City”), a municipal corporation duly organized and existing under the laws of the State of Washington (the “State”), furnishes this Official Statement in connection with the offering of \$109,300,000 aggregate principal amount of Sewer Revenue and Refunding Bonds, 2015 (the “Bonds”).

The Bonds are to be issued pursuant to Ordinance No. 28278, adopted by the City Council (the “Council”) on January 13, 2015 (the “Bond Ordinance”), and under and in accordance with the City Charter and the laws and provisions of the State, including chapters 39.46, 35.92 and 39.53 of the Revised Code of Washington (“RCW”). Capitalized terms not otherwise defined herein shall have the meanings set forth in Appendix A—“FORM OF THE BOND ORDINANCE.”

This Official Statement provides information concerning the City, the Bonds and the City’s municipal sewer system, which is comprised of two separate utilities: Wastewater Management and Surface Water Management (together, the “System”). The Bonds are secured by a pledge of the Gross Revenues of the System after payment of Costs of Maintenance and Operation (as further defined herein, the “Net Revenues”) and utility local improvement district (“ULID”) assessments (“ULID Assessments”), if any. The Bonds are issued with a lien on Net Revenues on a parity with the following System obligations:

- Sewer Revenue and Refunding Bonds, 2006 (the “2006 Bonds”) currently outstanding in the aggregate principal amount of \$54,950,000, a portion of which will be refunded with proceeds of the Bonds;
- Sewer Revenue Refunding Bonds, 2011 (the “2011 Bonds”) currently outstanding in the aggregate principal amount of \$34,315,000; and
- The City’s obligation to pay monthly rent under the Project Lease Agreement dated as of February 1, 2009, between TES Properties and the City (the “Project Lease”), delivered in connection with the TES Properties Lease Revenue Bonds, 2009 (the “Lease Obligation”), currently outstanding in the aggregate principal amount of \$34,370,000. See “DEBT INFORMATION—Lease Obligation.”

The 2006 Bonds, the 2011 Bonds, and the Lease Obligation are collectively referred to herein as the “Outstanding Parity Bonds.” See “DEBT INFORMATION” herein. The City has reserved the right in the Bond Ordinance to issue additional bonds (“Future Parity Bonds”) and other obligations on a parity of lien on Net Revenues with the Outstanding Parity Bonds and the Bonds upon satisfaction of certain conditions. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Parity Bonds.” The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are collectively referred to herein as the “Parity Bonds.”

The Bonds are special revenue obligations of the System. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

#### THE BONDS

##### General

The Bonds will be dated their date of delivery and will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof within a maturity. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement and will bear interest from their date, payable on June 1, 2015 and semiannually thereafter on December 1 and June 1 of each year, at the rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

The Bonds will be issued in registered form, initially registered in the name Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the Bonds will be made initially in book-entry form only and purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners or bond owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” will mean the person for whom a DTC participant acquires an interest in the Bonds. See Appendix E—“BOOK-ENTRY SYSTEM.”

**Bond Registrar**

The City has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee (the “Committee”). Pursuant to chapter 43.80 RCW, the Committee designates one or more fiscal agencies for bonds issued within the State. The State’s fiscal agent, currently U.S. Bank National Association (the “Bond Registrar”), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar.

To pay the principal of and interest on the Bonds when due, the City will remit money from the City’s Sewer Revenue Bond Fund (the “Bond Fund”) to the Bond Registrar. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Bond Fund” herein. The Bond Registrar is obligated to remit such payments to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds as described in Appendix E—“BOOK-ENTRY SYSTEM.” In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds will be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated office of the Bond Registrar; provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal amount of Bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

**Redemption**

*Optional Redemption.* The Bonds maturing in years December 1, 2016 through 2024, inclusive, are not subject to optional redemption prior to maturity. The Bonds maturing on or after December 1, 2025 are subject to redemption at the option of the City, in whole or in part (and if in part, with maturities to be selected by the City) on any date on or after June 1, 2025 at a price equal to 100 percent of the principal amount to be redeemed, without premium, plus accrued interest, if any, to the date fixed for redemption.

*Mandatory Sinking Fund Redemption.* In addition to optional redemption, the Bonds maturing on December 1, 2040 (the “2040 Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in part in authorized denomination on December 1, in the years 2037 through 2040, inclusive, at a redemption price equal to the principal amount thereof and accrued interest thereon, if any, to the date fixed for redemption, as set forth in the following table:

(December 1)	Amounts
2037	\$ 2,870,000
2038	2,985,000
2039	3,105,000
2040*	3,230,000

\*Maturity



In addition to optional redemption, the Bonds maturing on December 1, 2045 (the “2045 Term Bonds” and together with the 2040 Term Bonds, the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in part in authorized denomination on December 1, in the years 2041 through 2045, inclusive, at a redemption price equal to the principal amount thereof and accrued interest thereon, if any, to the date fixed for redemption, as set forth in the following table:

(December 1)	Amounts
2041	\$ 3,360,000
2042	3,495,000
2043	3,635,000
2044	3,780,000
2045*	3,930,000

\*Maturity

If the City redeems Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for the Term Bonds in the manner to be determined by the City or, if no such determination is made, on a *pro-rata* basis.

*Selection of Bonds for Redemption.* For as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a maturity to be redeemed shall be made by DTC in accordance with its operational procedures then in effect. If the Bonds are no longer held in uncertificated form, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the Bond Ordinance. If the City redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bond by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then-unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations authorized in the Bond Ordinance.

*Notice of Redemption.* For so long as the Bonds are held in uncertificated form, notice of redemption (which notice may be conditional) shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. Thereafter (if the Bonds are no longer held in uncertificated form), notice of redemption shall be given in the manner as provided in the Bond Ordinance. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

On or prior to any redemption date, unless any condition to such redemption has not been satisfied or waived or notice of such redemption has been rescinded, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The City retains the right to rescind any redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected registered owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

If an unconditional notice of redemption has been given and not rescinded, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and, if the Bond Registrar then holds sufficient funds to pay such Bonds at the redemption price, then from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice,

such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as provided in the Bond Ordinance. All Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued

**Open Market Purchase**

The City has reserved the right at any time and at any price to purchase any of the Bonds from amounts in the Sewer Fund available for such purchase.

**Defeasance**

In the event that the City, to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, cash or noncallable “Government Obligations,” as defined in chapter 39.53 RCW, as it may be amended, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bond. The owner of a Bond so provided for shall cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive payment of principal, premium, if any, and interest from the Bond Fund or such special account, and such Bond shall be deemed to be not outstanding under the Bond Ordinance.

As currently defined in chapter 39.53 RCW, the term “Government Obligations” means (a) direct obligations of or obligations the principal and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (b) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-import Bank of the United States, federal land banks or the Federal National Mortgage Association; (c) public housing bonds and project notes fully secured by contracts with the United States; and (d) obligations of financial institutions insured by the Federal Deposit Insurance Corporation to the extent insured or guaranteed as permitted under any other provision of State law.

**USE OF PROCEEDS**

**Purpose**

The Bonds are being issued (a) to finance a portion of the costs of the City’s capital improvement program for the System, as described under “THE SYSTEM—Capital Improvement Program,” (b) to refund a portion of the City’s outstanding 2006 Bonds for debt service savings, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the Bonds. See “Refunding Plan” on the following page.

**Sources and Uses of Funds**

The table below sets forth the sources and uses of funds in connection with the issuance of the Bonds and the plan of refunding.

<b>Sources of Funds</b>	
Principal Amount of the Bonds	\$ 109,300,000
Original Issue Premium	9,177,376
Total Sources:	\$ 118,477,376
<b>Uses of Funds</b>	
Construction Fund Deposit	\$ 70,000,000
Escrow Deposit	42,950,043
Reserve Fund Deposit	4,903,792
Costs of Issuance <sup>(1)</sup>	623,541
Total Uses:	\$ 118,477,376

<sup>(1)</sup> Includes legal fees, rating agency fees, printing costs, escrow fees, Financial Advisor fees, Underwriters’ discount, additional proceeds, and other costs associated with the issuance of the Bonds.

**Refunding Plan**

The City will use a portion of the proceeds of the Bonds to advance refund and defease the following callable maturities of the 2006 Bonds (as identified below, the “Refunded Bonds”). After the refunding of the Refunded Bonds, \$15,560,000 in aggregate principal amount of the 2006 Bonds will remain outstanding.

**Refunded Bonds**

<b>Maturity Years (December 1)</b>	<b>Principal Amounts</b>	<b>Interest Rates</b>	<b>Call Date (100% of Par)</b>	<b>CUSIP Numbers</b>
2017	\$ 405,000	5.000%	12/1/2016	873545FK8
2018	430,000	5.000	12/1/2016	873545FL6
2019	445,000	4.550	12/1/2016	873545FM4
2020	465,000	5.000	12/1/2016	873545FN2
2021	490,000	5.000	12/1/2016	873545FP7
2022	470,000	4.500	12/1/2016	873545FQ5
2023	495,000	4.500	12/1/2016	873545FR3
2024	515,000	4.625	12/1/2016	873545FS1
2026 <sup>(1)</sup>	1,105,000	4.625	12/1/2016	873545FT9
2031 <sup>(1)</sup>	3,245,000	4.750	12/1/2016	873545FU6
2033 <sup>(1)</sup>	11,625,000	5.000	12/1/2016	873545FV4
2035 <sup>(1)</sup>	12,815,000	5.000	12/1/2016	873545FW2
2036	6,885,000	5.125	12/1/2016	873545FX0

<sup>(1)</sup> Term Bond.

A portion of the proceeds of the Bonds will be escrowed to the redemption date for the Refunded Bonds on December 1, 2016, at which time the Refunded Bonds will be redeemed at a price of par plus accrued interest to the date of redemption.

From a portion of the proceeds of the Bonds, the City will purchase certain direct non-callable United States Government Obligations (“Acquired Obligations”). These Acquired Obligations will be deposited in the custody of U.S. Bank National Association, Seattle, Washington (the “Refunding Trustee”). The maturing principal of the Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will provide payment of:

- (a) interest and principal on the Refunded Bonds when due up to and including December 1, 2016; and

- (b) on December 1, 2016, the redemption price (100%) of the Refunded Bonds.

The Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will irrevocably be pledged to and held in trust for the benefit of the owners of the Refunded Bonds by the Refunding Trustee, pursuant to an escrow deposit agreement to be executed by the City and the Refunding Trustee.

### **Verification of Mathematical Calculations**

Grant Thornton LLP will verify the accuracy of the mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Government Obligations, to be placed together with other escrowed money in the escrow account to pay when due, pursuant to the call for redemption, the principal of and interest on the Refunded Bonds. The verification will also confirm the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not “arbitrage bonds” as defined by Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”).

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **Pledge of Net Revenues**

The City has pledged as security for the payment of the principal of and interest and premium, if any, on all Parity Bonds, including the Bonds, subject to the provisions of the Bond Ordinance restricting or permitting the application thereof:

- (a) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance,
- (b) Net Revenues and ULID Assessments, if any, and
- (c) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom.

The City does not currently have any utility local improvement districts outstanding. See “Utility Local Improvement Districts” herein. The pledge of Net Revenues, money and assets credited to the Sewer Fund and Bond Fund and ULID Assessments constitutes a statutory lien and charge on Net Revenues, the Sewer Fund and Bond Fund and ULID Assessments superior to all other charges of any kind or nature.

State law provides that the owner of a bond, such as the Bonds, the payment of which is pledged from a special fund has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a city to set aside and pay into the special fund, such as the Bond Fund, the amount that a city is obligated to set aside and pay therein.

“Net Revenues” are defined in the Bond Ordinance to mean, for any period, the excess of Gross Revenues over Costs of Maintenance and Operation for such period, excluding from the computation of Gross Revenues (a) ULID Assessments, (b) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights or facilities of the System, or (c) gains or losses resulting from the early extinguishment of debt.

“Gross Revenues” are defined in the Bond Ordinance to mean (a) all revenues received for the use of the System, (b) revenues received from the sale of by-products from a treatment facility of the System or from any other source for rental, use or services rendered by the System, (c) ULID Assessments, (d) the proceeds received by the City from the sale or other disposition of any of the properties of the System, (e) investment income earned on money held in any fund or account of the City in connection with the ownership and operation of the System, including any bond redemption funds, and (f) federal or state reimbursement of operating expenses to the extent that such expenses are included as Costs of Maintenance and Operation, but excluding (i) insurance proceeds, (ii) investment income irrevocably pledged to the payment of any specific sewer revenue bonds of the City refunded or defeased pursuant to a plan of refunding adopted by the City, (iii) investment income earned on money in any rebate fund, and (iv) grants, gifts or donations. Amounts withdrawn from the Rate Stabilization Fund shall increase Gross Revenues for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Fund shall reduce Gross Revenues for the period during which they are deposited. See “Rate Stabilization Fund.”

“Costs of Maintenance and Operation” means all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, insurance premiums and administrative expenses and reasonable pro-rata budget charges for services provided to the System by City departments, but excludes (a) payments for debt service or into debt service reserve accounts or funds, (b) costs of capital additions to or replacements of the System, (c) money necessary to pay extraordinary legal claims and judgments against the System or amortized payments to the City’s self-insurance fund with respect to extraordinary claims and judgments, (d) depreciation, (e) City taxes (or payments to the City in lieu of taxes) upon the properties and earnings of the System, and (f) any Rebate Amount.

**The Bonds are special revenue obligations of the System. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City.**

### **Flow of Funds**

A special fund of the City has been created and designated the “Sewer Fund.” The City has covenanted and agreed that so long as any of the Parity Bonds are outstanding it will pay into the Sewer Fund all Gross Revenues exclusive of ULID Assessments and earnings on money and investments in any construction fund, the Rate Stabilization Fund, the Bond Fund, and any rebate fund, which may be retained in such funds or accounts or transferred to other funds or accounts as permitted or required by the Bond Ordinance.

The amounts on deposit in the Sewer Fund will be used only for the following purposes and in the following order of priority:

- (a) to pay or provide for Costs of Maintenance and Operation;
- (b) to make all payments required to be made into the Interest Account in the Bond Fund or to make any Payments under a Parity Payment Agreement;
- (c) to make all payments required to be made into the Principal Account and the Term Bond Retirement Account in the Bond Fund;
- (d) to make all payments pursuant to a reimbursement agreement ranking on a parity of lien with the Parity Bonds and entered into in connection with a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility with respect to the Reserve Fund, and *after the Outstanding Parity Bonds are fully redeemed, refunded or defeased*, into any other reserve fund created in the future for the payment of debt service on Parity Bonds; provided that, if there is not sufficient money to make all payments under reimbursement agreements, the payments will be made on a pro-rata basis;
- (e) to make all payments required to be made into the Reserve Fund, and *after the Outstanding Parity Bonds are fully redeemed, refunded or defeased*, into any other reserve fund created in the future for the payment of debt service on Parity Bonds;
- (f) to make all payments required to be made into any special fund or account created to pay or secure the payment of obligations issued having a lien upon amounts in the Sewer Fund junior and inferior to the lien thereon for the principal of and interest on the Parity Bonds;
- (g) to pay any taxes (or payments in lieu of taxes) upon the System payable to the City; and
- (h) to make payments into the Rate Stabilization Fund or for any lawful purpose of the City related to the System.

### **Bond Fund**

The Bond Fund will be used solely for the purposes of paying the principal of, premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to maturity in the manner provided in the Bond Ordinance or in any ordinance authorizing the issuance of a series of Parity Bonds. The City has irrevocably obligated itself to set aside and to pay into the Bond Fund all ULID Assessments and out of the Sewer Fund certain fixed amounts sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on the Bonds and all other Parity Bonds outstanding when due. The Bond Fund contains four funds and accounts: the Interest

Account, the Principal Account, the Term Bond Retirement Account, and the Reserve Fund. At the option of the City, separate funds and accounts may be created in the Bond Fund for the purpose of paying or securing the payment of principal, premium, if any, and interest on any series of Parity Bonds. The fixed amounts to be paid into the Bond Fund will be made into those funds and accounts in the following order of priority:

*Interest Account.* In the case of all Parity Bonds, no later than the day prior to the date on which an installment of interest is due on any Parity Bonds, the City will transfer from the Sewer Fund to the Interest Account an amount (together with other money as is on hand and available in such Account) equal to the installment of interest then due on all outstanding Parity Bonds.

*Principal Account and Term Bond Retirement Account.* No later than the day prior to the date upon which an installment of principal on Parity Bonds that are Serial Bonds is due, the City will transfer from the Sewer Fund to the Principal Account an amount (together with such other money as is on hand and available in such Account) equal to the installment of principal then due on all outstanding Parity Bonds that are Serial Bonds.

No later than the day prior to the date upon which the principal amount of Term Bonds required to be purchased or redeemed in that year (the "Sinking Fund Requirement") is due, the City will transfer from the Sewer Fund to the Term Bond Retirement Account an amount (together with such other money as is available and on hand in such account) equal to the Sinking Fund Requirement for such date.

*Reserve Fund.* The Reserve Fund has been established in the Bond Fund to serve as a common reserve securing the repayment of the Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds secured by the Reserve Fund (the "Covered Bonds"). *After the Outstanding Parity Bonds are fully redeemed, refunded or defeased,* the City may create separate reserve funds and establish separate Reserve Fund Requirements, if any, to secure the payment of the principal of and interest on Parity Bonds. The City has covenanted in the Bond Ordinance that, at the time of issuance of the Bonds, the amount on deposit in the Reserve Fund, which may include cash, insurance or letters or credit, as further described below, will satisfy the Reserve Fund Requirement for the Parity Bonds.

"Reserve Fund Requirement" is defined in the Bond Ordinance as the dollar amount to be calculated with respect to all Covered Bonds and, *after the Outstanding Parity Bonds are fully redeemed, refunded or defeased,* separately with respect to other Parity Bonds.

(a) With respect to Covered Bonds, the Reserve Fund Requirement means as of any date an amount equal to the lesser of (1) the Maximum Annual Debt Service for Covered Bonds then outstanding, (2) 125% of average Annual Debt Service for Covered Bonds then outstanding, or (3) 10% of the initial face amount of the Covered Bonds then outstanding; provided, however, that the dollar amount required to be contributed, if any, as a result of the issuance of a series of Future Parity Bonds shall not be greater than the maximum dollar amount permitted by the Code to be allocated to a reserve fund from tax-exempt bond proceeds without requiring a balance to be invested at a restricted yield (the "Maximum Reserve Requirement"). If the dollar amount required to be contributed at the time of issuance of a series of Future Parity Bonds exceeds the Maximum Reserve Requirement, then the amount required to be contributed shall be equal to the Maximum Reserve Requirement.

(b) *After the Outstanding Parity Bonds are fully redeemed, refunded or defeased,* with respect to other series of Parity Bonds, the Reserve Fund Requirement shall be equal to the amount, if any, specified in the ordinance authorizing the issuance of such Parity Bonds.

"Annual Debt Service" includes the interest, principal and any Sinking Fund Requirements due on all Parity Bonds in a calendar year, calculated as provided in the Bond Ordinance.

As of January 1, 2015, the City had \$5,423,910 in cash and investments and Qualified Insurance in the form of a surety policy in the amount of \$3,033,407 from Financial Guaranty Insurance Company ("FGIC") delivered in connection with the issuance of the 2006 Bonds. The Qualified Insurance originally issued by FGIC has been reinsured by National Public Finance Guaranty Corp. and will terminate on the earlier of the scheduled final maturity date of the 2006 Bonds (December 1, 2036) or the date on which no 2006 Bonds are deemed outstanding. The City expects to deposit a portion of the proceeds of the Bonds into the Reserve Fund in the amount necessary, together with the surety policy and other funds on deposit therein, to satisfy the Reserve Fund Requirement on the date of issuance of the Bonds (\$13,361,110). See "USE OF PROCEEDS."

The City has further covenanted that if it issues any Future Parity Bonds that are Covered Bonds, it will deposit proceeds from the Future Parity Bonds or approximately equal monthly payments into the Reserve Fund from money in the Sewer Fund so that, within five years from the date of issuance of the Future Parity Bonds or by the final maturity of the Future Parity Bonds, whichever occurs first, the amount in the Reserve Fund will equal the Reserve Fund Requirement. See “Future Parity Bonds.”

At any time, the City is permitted to substitute Qualified Insurance or a Qualified Letter of Credit for the money and investments in the Reserve Fund or may substitute money and investments for Qualified Insurance or a Qualified Letter of Credit in accordance with the Bond Ordinance. The face amount of that Qualified Insurance or Qualified Letter of Credit must be at least equal to the amount of the money or investments for which the Qualified Insurance or Qualified Letter of Credit is substituted. Valuation of the amount in the Reserve Fund and all subaccounts therein will be made by the City on each December 31 and may be made on any other date. Valuation must be at the market value of the obligations in the Reserve Fund and the subaccounts (including accrued interest); provided, that investments which mature within one year will be valued at their maturity value.

On receipt of a notice of cancellation of any Qualified Letter of Credit or Qualified Insurance or upon notice that the entity providing the Qualified Letter of Credit or Qualified Insurance no longer meets the requirements specified in the Bond Ordinance, the City has covenanted to substitute a Qualified Letter of Credit or Qualified Insurance in the amount required to make up the deficiency created in the Reserve Fund, or in the alternative to make approximately equal monthly deposits of Net Revenues so that within 36 succeeding calendar months such amount, together with other money and investments on deposit in the Reserve Fund, to equal the Reserve Fund Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective.

If at any time the money and value of Permitted Investments in the Reserve Fund exceeds the amount of money and value of Permitted Investments then required to be maintained in the Reserve Fund, the excess may be transferred to the Sewer Fund.

If there is a deficiency in the Interest Account, Principal Account or Term Bond Retirement Account in the Bond Fund, the City will make up such deficiency promptly from the Reserve Fund by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Fund, if necessary, in amounts that will provide cash in the Reserve Fund sufficient to make up the deficiency. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City then will draw from any Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility in an amount sufficient to make up the deficiency. Such a draw will be made at such times and under such circumstances as the agreement for the Qualified Letter of Credit or Qualified Insurance provides. The City has covenanted and agreed that any deficiency created in the Reserve Fund by reason of any withdrawal therefrom for payment into the Interest Account, Principal Account or Term Bond Retirement Account will be made up from money in the Sewer Fund first available after providing for the required payments into the Interest Account, Principal Account and Term Bond Retirement Account and after providing for payments under a reimbursement agreement entered into by the City; provided, *after the Outstanding Parity Bonds are fully redeemed, refunded or defeased*, any such deficiency shall be made up within 12 months of such deficiency.

When a series of Covered Bonds is refunded in whole or in part, money may be withdrawn from the Reserve Fund to pay or provide for the payment of refunded Covered Bonds; provided that immediately after such withdrawal there must remain in or be credited to the Reserve Fund money and Permitted Investments in an amount equal to the Reserve Fund Requirement or as much thereof as is then required to be maintained.

At the option of the City, money in the Bond Fund may be invested and reinvested as permitted by law. At the City’s option, earnings on investments in the Bond Fund may be retained in the Bond Fund or transferred to the Sewer Fund, except that earnings on investments in the Reserve Fund will be applied first to remedy any deficiency in the Reserve Fund.

If necessary, money in each of the subaccounts established in the Bond Ordinance may be used to pay Rebate Amounts to the extent that the Rebate Amounts are directly attributable to earnings on such subaccount.

#### **Rate Stabilization Fund**

A special fund of the City designated the “Rate Stabilization Fund” (the “Rate Stabilization Fund”) has been established in the Sewer Fund. In accordance with the priorities set forth above under “Flow of Funds,” the City may from time to time deposit Net Revenues into the Rate Stabilization Fund and may from time to time withdraw amounts therefrom to

enhance rate stability or for other lawful purposes of the City related to the System. As of December 1, 2014, the balance in the Rate Stabilization Fund was \$25,000,000. See "Rate Covenant."

### **Future Parity Bonds**

The City reserves the right to issue Future Parity Bonds from time to time as may be required for any lawful purpose of the City relating to the System, including but not limited to acquiring, constructing and installing additions and improvements to and extensions of the System, acquiring necessary equipment for the System, or making necessary renewals, replacements or repairs and capital improvements to the System and refunding any outstanding indebtedness.

The City has covenanted that Future Parity Bonds will be issued only upon compliance with the following conditions:

- (a) At the times of the issuance of the Future Parity Bonds there may not be any deficiency in the Bond Fund or in any of the funds or accounts therein.
- (b) With respect to Covered Bonds, the ordinances authorizing the issuance of the Future Parity Bonds must require that the following amounts will be paid into the Reserve Fund in the Bond Fund:
  - (i) from the proceeds of such Future Parity Bonds, an amount such that the amount on deposit in the Reserve Fund, allowing for any amount covenanted in an ordinance authorizing the issuance of outstanding Parity Bonds to be paid into the Reserve Fund over five years, is equal to the Reserve Fund Requirement, or
  - (ii) from the Sewer Fund in approximately equal monthly payments, such amounts and at such times so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity established for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Fund an amount equal to the Reserve Fund Requirement.

Upon the issuance of any series of Future Parity Bonds, the City will recalculate the Reserve Fund Requirement, which will become effective as of the date of recalculation.

- (c) If the Future Parity Bonds are being issued to pay costs incurred or to be incurred for purposes other than refunding purposes, there must be on file with the City Clerk either:
  - (i) a certificate of the Finance Director of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed Future Parity Bonds, as determined from the financial statements of the System, was not less than 1.30 times Maximum Annual Debt Service minus the amount of ULID Assessments due in that year and not delinquent ("Maximum Adjusted Annual Debt Service") on all outstanding Parity Bonds and the proposed Future Parity Bonds; provided, *after all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows:* a certificate of the Finance Director of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the bonds then proposed to be issued, as determined from the financial statements of the System, were not less than 1.25 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued.

In issuing such certificate the Finance Director shall reflect in the certificate the Net Revenues he or she estimates would have been collected in such 12 month period if the Council at any time on or prior to the date of delivery of the bonds proposed to be issued had adopted any adjustment in the rates, fees and charges collected by the City for the services to the System if such new rates, fees and charges had been in effect for the entire 12 month period, or

- (ii) a certificate of an Engineer or a Certified Public Accountant (the "Accountant") showing that the "Adjusted Net Revenues" (as described below) for each calendar year during the life of the bonds proposed to be issued will equal at least 1.30 times Maximum



Adjusted Annual Debt Service on all outstanding Parity Bonds and the proposed Future Parity Bonds; provided, *after all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows:* a certificate of an Engineer or an Accountant showing that the Adjusted Net Revenues for each calendar year during the life of the bonds proposed to be issued will equal at least 1.25 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued.

“Adjusted Net Revenues” will be the Net Revenues for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of the proposed Future Parity Bonds (the “Base Period”) as adjusted by such Engineer or Accountant to take into consideration changes in Net Revenues estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the proposed Future Parity Bonds, will be outstanding:

- (1) the additional Net Revenues that would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of the Base Period and effective within 12 months had been in force during the full Base Period;
- (2) the additional Net Revenues that would have been received if any facility of the System that became fully operational after the beginning of the Base Period had been so operating for the entire Base Period;
- (3) the additional Net Revenues estimated by the Engineer or Accountant to be received as a result of any additions and improvements to and extensions of any facilities of the System which (a) are under construction at the time of such certificate or (b) will be constructed or acquired from the proceeds of the Future Parity Bonds to be issued;
- (4) the additional Net Revenues that would have been received if any customers added to the System during the Base Period or subsequent thereto were customers for the entire Base Period; and
- (5) ninety percent of the additional Net Revenues estimated by such Engineer or Accountant to be derived from the new customers that will be added to the System in the first 12 months after the completion of the construction of the improvements to be made thereto or from acquisitions out of the proceeds of the sale of such Future Parity Bonds.

The Engineer or Accountant may rely upon financial statements of the System, certified by the Finance Director, showing income and expenses for the period upon which the same is based. The financial statements must be attached to the Engineer’s or Accountant’s certificate.

*After all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased,* for purposes satisfying the requirements for the issuance of Future Parity Bonds, Annual Debt Service for any Fiscal Year or calendar year shall exclude receipts of the City that are not included in Gross Revenues of the System and that are legally available to pay debt service on Parity Bonds, including without limitation federal interest subsidy payments, designated as such by the City (“Debt Service Offsets”) that have been received or are expected to be received in such Fiscal Year or calendar year.

*Refunding Bonds.* If any Future Parity Bonds are issued for refunding purposes, and the refunding results in a present value monetary saving to the City and does not require an increase of more than \$5,000 in debt service payments to be paid in any fiscal or calendar year thereafter than would have been paid in the same period for Annual Debt Service on the bonds being refunded, then certification of sufficient Net Revenues will not be required.

*Junior Lien Obligations.* Nothing in the Bond Ordinance prevents the City from issuing bonds, notes, warrants, or other obligations payable from and secured by a lien and charge junior to the lien and charge of the Parity Bonds.

The City has complied, or will have complied at the closing of the Bonds, with the requirements summarized above for issuance of the Bonds.

## Rate Covenant

The City has covenanted in the Bond Ordinance that so long as the Bonds are outstanding it will establish, maintain and collect rates or charges in connection with the ownership and operation of the System that will be fair and nondiscriminatory and adequate to provide Gross Revenues sufficient for:

- (a) the payment of the principal of and interest on all Parity Bonds (for which payment has not otherwise been provided) and all amounts that the City is obligated to set aside in the Bond Fund,
- (b) the proper operation and maintenance of the System, and
- (c) the payment of any and all amounts that the City may now or hereafter become obligated to pay from Gross Revenues.

The City has further covenanted to establish, maintain and collect rates or charges in connection with the ownership and operation of the System sufficient to provide Net Revenues in any calendar year after the date of issuance of the Bonds in an amount equal to at least 1.30 times the Adjusted Annual Debt Service (the “Rate Covenant”). “Adjusted Annual Debt Service” is defined as Annual Debt Service minus an amount equal to ULID Assessments due in that year and not delinquent and any Capitalized Interest to be paid with respect to Parity Bonds. *After all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased*, the Rate Covenant shall require rates and charges to be sufficient to provide Net Revenues in any calendar year in an amount equal to at least 1.25 times the Adjusted Annual Debt Service.

For the purposes of calculating the Rate Covenant, any amount that has been withdrawn from the Rate Stabilization Fund in a Fiscal Year and deposited into the Sewer Fund will be added to Gross Revenues of that Fiscal Year, and any amount withdrawn from the Sewer Fund and deposited into the Rate Stabilization Fund will be subtracted from Gross Revenues. *After all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased*, credits to or from the Rate Stabilization Fund that occur within 90 days after the end of a Fiscal Year may be treated as occurring within such Fiscal Year.

*After all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased*, for purposes satisfying the Rate Covenant, Annual Debt Service for any Fiscal Year or calendar year shall exclude Debt Service Offsets that have been received or are expected to be received in such Fiscal Year or calendar year.

## Additional Covenants

The City has covenanted in the Bond Ordinance to maintain the properties of the System in good repair, working order, and condition; to sell or otherwise dispose of the System in its entirety only if provision is made for the payment, redemption or retirement of all Parity Bonds then outstanding, and in part only upon satisfaction of certain conditions; to insure (or self-insure) the properties of the System; to not provide sanitary and storm sewage collection and disposal service to any customer free of charge unless otherwise permitted by law or City legislation; to keep proper books of account of the System; and to satisfy certain other covenants for the benefit of the owners of the Bonds. See Appendix A—“FORM OF THE BOND ORDINANCE” for a complete description of these and other covenants agreed to by the City for the benefit of the owners of the Bonds.

## Utility Local Improvement Districts

The City has no ULIDs with assessments currently outstanding. However, the City has reserved the right to create ULIDs in the future and to issue Future Parity Bonds to finance improvements within a ULID, consistent with the certain conditions set forth in the Bond Ordinance. In such event, ULID Assessments will be paid directly into the Bond Fund.

*General Description.* Under State law (chapter 35.43 RCW), a city may establish ULIDs to pay in whole or in part the costs of certain improvements and may levy special assessments on all property specially benefited by any such improvement, with the amount of the assessment based on the special benefit to each parcel within the district. A city must permit each property owner to pay its assessment in full within a 30 day prepayment period and to pay the remaining outstanding balance in annual installments of principal and interest.

*Lien of Assessments.* State law (chapter 35.50 RCW) provides that assessments will be a lien on the property assessed from the time the assessment roll is placed in the hands of the county treasurer for collection, and that interest and

penalty shall be included in and become part of the assessment lien, which lien is paramount to all other liens theretofore or thereafter created except the lien for general property taxes. The manner in which delinquent assessments may be foreclosed is set forth in chapter 35.50 RCW. Foreclosure proceedings may be initiated if on the first day of January two installments of any assessment are delinquent, or if the final installment has been delinquent for more than one year. Property foreclosed upon is sold by the city, and the laws governing appeals from general tax foreclosure judgments apply similarly to appeals from judgments obtained in a local improvement assessment lien foreclosure action. Proceeds of the sale of any property foreclosed upon in the manner required by law up to the amount of the unpaid assessment and interest and penalties thereon, are deposited into and become a part of the Bond Fund.

*Impact of State Homestead Exception Upon Local Improvement District Financing.* Chapter 6.13 RCW permits any head of a family to protect a certain portion of the homestead (residence) from forced sale. In 1982, the Washington State Court of Appeals held, in *City of Algona v. Sharp, et al.*, that the filing for a homestead exemption before a scheduled foreclosure sale of residential property valued at less than the statutory homestead exemption (currently \$125,000) effectively exempted the subject property from a forced sale to enforce collection of delinquent local improvement district assessments. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

### **Parity Payment Agreements**

The City has reserved the right in the Bond Ordinance to enter into written agreements from time to time with a qualified counterparty for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes (a "Payment Agreement"). A payment ("Payment") under a Payment Agreement may be on parity with the Parity Bonds if the Payment Agreement satisfies the requirements for Future Parity Bonds described in the Bond Ordinance, taking into consideration regularly scheduled Payments and receipts (if any) under the Payment Agreement. The City does not currently have any Payment Agreements outstanding. See Appendix A—"FORM OF THE BOND ORDINANCE" for a description of the conditions that must be satisfied prior to the execution of a Parity Payment Agreement and other related provisions.

Nothing described above will preclude the City from entering into Payment Agreements with a claim on Net Revenues junior to that of the Bonds. Furthermore, nothing described above will preclude the City from entering into obligations on a parity with the Bonds in connection with the use of Payment Agreements or similar instruments if the City obtains an opinion of Bond Counsel that the obligations of the City under the Payment Agreements or similar instruments are consistent with the Bond Ordinance.

### **Reimbursement Obligations**

If the City elects to meet the requirements of the Bond Ordinance with respect to the Reserve Fund as to any issue of Parity Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement, the City may contract with the entity providing the Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

If the City additionally elects to secure any issue of Variable Interest Rate Bonds through the use of a letter of credit, insurance or other equivalent credit enhancement, the City may contract with the entity providing such letter of credit, insurance or other equivalent credit enhancement that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds; provided, that the payments due under the reimbursement agreement are such that if the reimbursement obligation were a series of Future Parity Bonds, such Future Parity Bonds could be issued in compliance with the provisions concerning the same.

### **Additional Terms of the Bond Ordinance**

The Bond Ordinance sets forth provisions related to amending the Bond Ordinance, with and without the consent of owners of Parity Bonds. See Appendix A—"FORM OF THE BOND ORDINANCE" for provisions related amendments and other terms of the Bonds, including certain springing provisions that will take effect after the Outstanding Parity Bonds are no longer outstanding.

## DEBT INFORMATION

### Description of Outstanding Parity Bonds

Following the issuance of the Bonds and the refunding of the Refunded Bonds, the City will have the following Parity Bonds outstanding.

Series	Dated Date	Maturity Date (December 1)	Authorizing Ordinance	Original Principal Amount	Outstanding Principal Amount
2006 Bonds	6/29/2006	2036	27490	\$ 55,000,000	\$ 15,560,000
Lease Obligation <sup>(1)</sup>	2/12/2009	2038	27677 <sup>(2)</sup>	37,840,000	34,370,000
2011 Bonds	10/12/2011	2031	28015	34,315,000	34,315,000
The Bonds	3/18/2015	2045	28278	109,300,000	109,300,000
Total				\$ 236,455,000	\$ 193,545,000

<sup>(1)</sup> See "Lease Obligation" below. Outstanding principal amount; excludes the interest component of the Lease Obligation.

<sup>(2)</sup> As amended by Ordinance No. 27783.

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### Schedule of Parity Bond Debt Service

The following table shows the scheduled debt service for the Outstanding Parity Bonds and the Bonds, excluding the Refunded Bonds.

#### SCHEDULE OF PARITY BOND DEBT SERVICE

Year <sup>(2)</sup>	Outstanding Parity Bonds <sup>(1)</sup>		The Bonds		Total <sup>(3)</sup>
	Principal	Interest	Principal	Interest	
2015	\$ 780,000	\$ 4,249,755	\$ —	\$ 3,199,923	\$ 8,229,678
2016	3,430,000	4,218,555	1,245,000	4,553,250	13,446,805
2017	3,190,000	4,055,155	1,690,000	4,515,900	13,451,055
2018	3,340,000	3,904,105	1,765,000	4,448,300	13,457,405
2019	3,500,000	3,743,705	1,845,000	4,360,050	13,448,755
2020	3,660,000	3,584,912	1,920,000	4,286,250	13,451,162
2021	3,845,000	3,401,912	2,015,000	4,190,250	13,452,162
2022	3,820,000	3,209,662	2,055,000	4,109,650	13,194,312
2023	4,010,000	3,018,662	2,160,000	4,006,900	13,195,562
2024	4,210,000	2,818,162	2,220,000	3,942,100	13,190,262
2025	4,390,000	2,638,162	2,290,000	3,872,725	13,190,887
2026	4,585,000	2,444,262	2,365,000	3,801,163	13,195,425
2027	4,825,000	2,208,562	2,435,000	3,724,300	13,192,862
2028	5,070,000	1,960,512	2,565,000	3,602,550	13,198,062
2029	5,325,000	1,699,837	2,690,000	3,474,300	13,189,137
2030	5,605,000	1,426,037	2,820,000	3,339,800	13,190,837
2031	5,890,000	1,135,819	2,960,000	3,198,800	13,184,619
2032	1,780,000	830,787	8,040,000	3,050,800	13,701,587
2033	1,880,000	730,662	8,440,000	2,648,800	13,699,462
2034	1,985,000	624,912	8,775,000	2,311,200	13,696,112
2035	2,095,000	513,256	9,130,000	1,960,200	13,698,456
2036	2,220,000	395,412	9,485,000	1,595,000	13,695,412
2037	2,340,000	270,563	2,870,000	1,215,600	6,696,163
2038	2,470,000	138,938	2,985,000	1,100,800	6,694,738
2039	—	—	3,105,000	981,400	4,086,400
2040	—	—	3,230,000	857,200	4,087,200
2041	—	—	3,360,000	728,000	4,088,000
2042	—	—	3,495,000	593,600	4,088,600
2043	—	—	3,635,000	453,800	4,088,800
2044	—	—	3,780,000	308,400	4,088,400
2045	—	—	3,930,000	157,200	4,087,200
<b>Total<sup>(3)</sup></b>	<b>\$ 84,245,000</b>	<b>\$ 53,222,309</b>	<b>\$ 109,300,000</b>	<b>\$ 84,588,210</b>	<b>\$ 331,355,519</b>

<sup>(1)</sup> Includes the 2006 Bonds, the 2011 Bonds, and the Lease Obligation. Excludes the Refunded Bonds.

<sup>(2)</sup> Based on Fiscal Years ending December 31.

<sup>(3)</sup> Totals may not foot due to rounding.

### Lease Obligation

Pursuant to Ordinance No. 27677, as amended by Ordinance No. 27783, the City approved a project lease agreement (the “Project Lease”) with TES Properties and issuance by TES Properties of \$37,840,000 aggregate principal amount of its Lease Revenue Bonds, 2009 (the “TES Properties Bonds”). TES Properties is a single purpose Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation. The TES Properties Bonds were issued by TES Properties, on behalf of the City, pursuant to an Indenture of Trust dated as of February 1, 2009 (the “Indenture”) to finance the costs of designing and constructing an office and laboratory building (the “Urban Waters Building”) for occupancy by the City’s Environmental Services Department and other tenants.

Under the terms of the Project Lease, the City is obligated to make monthly rental payments (referred to herein as the “Lease Obligation”) which will be deposited with the trustee under the Indenture and used to pay principal of and interest on the TES Properties Bonds when due. The Lease Obligation under the Project Lease constitutes a revenue obligation of the System with a lien on Net Revenues on a parity with the 2006 Bonds, the 2011 Bonds, the Bonds and any Future Parity Bonds. The Lease Obligation was deemed by the City to be a “Future Parity Bond” within the meaning of the ordinances authorizing the issuance of such Parity Bonds. The TES Properties Bonds are also secured by and payable from amounts on deposit in a debt service reserve fund held by the trustee that was funded at the time of issuance of the TES Properties Bonds with proceeds of such bonds. The debt service reserve fund held by the trustee under the Indenture secures payment of the principal of and interest on the TES Properties Bonds, and does not secure the City’s Lease Obligation or the other Parity Bonds.

For accounting purposes, the City has allocated the Lease Obligation, including all revenue, costs and cash requirements, proportionally to the System and the City’s solid waste utility system on a pro-rata basis. As of December 31, 2014, the allocation was adjusted to approximately 84.5% to the System, and 15.5% to the City’s solid waste utility system. Prior to December 31, 2014, the allocation was approximately 80% to the System, and 20% to the City’s solid waste utility system. These allocations may be further adjusted from time to time. These utilities include their pro-rata share of the capital lease and lease obligation for the Urban Waters Building in their respective financial statements. For purposes of this Official Statement, however, all calculations involving Parity Bond debt service include the full Lease Obligation due under the Project Lease.

**Subordinate Lien Obligations**

The City retains the right to issue revenue obligations with a subordinate lien on Net Revenues. The City currently has the following subordinate lien obligations from the Washington State Department of Ecology (“DOE”) outstanding (amounts are rounded to the nearest dollar):

**OUTSTANDING SUBORDINATE LIEN OBLIGATIONS  
AS OF DECEMBER 1, 2014**

<u>Loan Name</u>	<u>Loan Amount Received</u>	<u>Date Issued</u>	<u>Outstanding Principal</u>	<u>Interest Rate</u>	<u>Final Loan Payment Due</u>
DOE L1000007	\$ 473,806	6/2011	\$ 407,213	2.90%	12/2030
DOE L040006A	53,491,420	8/2007	38,908,010	1.5	4/2028
DOE L040006B	21,686,847	4/2008	16,317,468	2.6	4/2028
Total Outstanding			\$ 55,632,691		

The DOE loans are low-interest loans from the State for repair, replacement, rehabilitation, reconstruction and improvements to water, sewer, and storm water systems. These loans constitute a lien and charge on Net Revenues junior and subordinate to the lien and charge of Parity Bonds. The related loan agreements provide that, upon an event of default, the State may declare the loan immediately due and payable. This remedy is, however, made expressly subject to the prior lien and charge of then outstanding Parity Bonds.

**Debt Payment Record**

The City has promptly met all debt service payments on outstanding obligations. No refunding bonds have been issued to avoid an impending default.

**Future Financing**

Other than the Bonds, the City has no authorized but unissued bonds secured by Net Revenues outstanding. The City does not expect to issue bonds secured by Net Revenues in the next 12 months.

**THE SYSTEM**

**General Information**

The System assumed responsibility for the operation and maintenance of the City’s wastewater collection, treatment and disposal facilities in 1951. In 1979, the System took over operation and maintenance of the City’s surface water system. The current System serves the entire area within the City limits. In addition to providing wastewater service within the

City, the System provides sewage treatment and disposal services to customers located in city of Fife, the town of Ruston, the city of Fircrest and in certain areas of Pierce County pursuant to interlocal agreements between the City and those jurisdictions. The interlocal agreements terminate between 2015 and 2050.

The System is comprised of two separate utilities, Wastewater Management and Surface Water Management, which are administered within the City's Environmental Services Department (the "Department"). Wastewater Management and Surface Water Management are presented together as an enterprise fund within the Department under the provisions of the City Charter and are included in the City's Comprehensive Annual Financial Report. The Department is responsible for the planning, design, construction, operation, and maintenance of the facilities comprising the System and the City's solid waste utility. The Department manages surface water generated within the City as well as surface water that flows into the System from areas outside the City. For management and employee information for the City and the Department, see "THE CITY OF TACOMA."

### **Facilities**

Wastewater facilities consist of approximately 700 miles of sewer pipes, two treatment plants, 47 pump stations, and associated equipment and facilities.

Surface water facilities serve the area within the corporate limits of the City and consist of approximately 440 miles of pipe, 10,000 manholes, 18,000 catch basins, three major regional detention basins, three major pump stations, 456 acres of "open space" land, and an extensive network of ditches (200 miles), culverts, and other natural drainage courses.

The City has undertaken an asset management program to maintain and replace facilities comprising the System. See "Capital Improvement Program" herein.

### **Wastewater Treatment Plant Capacity and Permitting**

The City's two wastewater treatment plants are permitted under the National Pollutant Discharge Elimination System ("NPDES") (discharge) system administered pursuant to the federal Clean Water Act. The NPDES system is administered in the State by DOE pursuant to delegation rules set forth in the federal regulations.

*Central Treatment Plant.* The Central Treatment Plant's most recent NPDES permit became effective on November 1, 2010 and is scheduled to expire on October 31, 2015. The City expects to submit an application for the next permit for this plant on or before May 1, 2015. The plant has a permitted maximum monthly treatment capacity of 60 million gallons per day ("mgd") and a peak wet season daily flow of 150 mgd. In 2013 and 2014, the average daily flow to this treatment plant was 19 mgd and 22 mgd, respectively, and the peak daily flow was 53 mgd and 89 mgd, respectively.

*North End Treatment Plant.* The North End Treatment Plant's ("NETP") most recent NPDES permit expired on June 30, 2014. The permit renewal application was submitted on March 31, 2014 to DOE. The NETP will continue to operate under the lapsed permit until DOE issues a new permit. The permit specifies a temporary maximum monthly permitted treatment capacity of 8.0 mgd and has no peak flow limit. The temporary maximum monthly treatment capacity is in place while the City completes the process to rerate the plant to reflect its increased capacity. The City incorporated the results of the rerating study into the most recent NPDES permit application. In 2013 and 2014, the average flow to this treatment plant was 4 mgd and 5 mgd, respectively, and the peak daily flow was 12 mgd and 18 mgd, respectively.

### **Surface Water Permitting**

The surface water utility's management of its municipal stormwater system has been regulated under a Phase I Municipal Stormwater NPDES permit since 1995. The City is currently operating under its fourth Stormwater NPDES permit, which has an effective date of August 1, 2013. The latest permit was appealed to the Pollution Control Hearings Board by several of the permittees, excluding the City, and a modified permit was issued on January 16, 2015 and is scheduled to expire on July 31, 2018. The modified permit includes some minor modifications to basin planning and some low impact development technologies.

The City's Stormwater NPDES permit regulates discharges from the municipal storm sewer system to receiving waters. It requires the City to implement a stormwater management program aimed at reducing pollutants in municipal stormwater to the "maximum extent practicable." The City meets this requirement through inspections and enforcement to prevent and control stormwater impacts, public education regarding good stormwater management

practices, operation and maintenance of the municipal stormwater system, and reporting, among others. Unlike NPDES permits based on point sources such as industrial permits, the City's Stormwater NPDES permit does not impose end-of-pipe pollutant limits.

### **Rates and Charges and Billing**

Rates charged by the System are not subject to control by any federal or State agency. The establishment of rates for wastewater and surface water services is within the exclusive jurisdiction of the Council, subject to a requirement of State law that fair and nondiscriminatory rates must be fixed to produce revenue adequate to pay for operation and maintenance and to meet all debt service requirements payable from such revenue. Rate ordinances must be approved by a minimum of five affirmative votes of the nine-member Council. The City has never failed to adopt rates sufficient to allow the System to meet its payment obligations. United States Environmental Protection Agency ("EPA") user charge regulations also require the establishment of rates sufficient to meet operation and maintenance expenses and to allocate rates according to usage.

Since 1994, the Department has increased public participation in the rate setting process through the group known as the Environmental Services Commission or "ESC". The ESC provides the City Manager and Council with a full description of issues, concerns and perspectives associated with proposed rate increases from the customers' viewpoint. The ESC consists of 13 voting representatives of industry groups, large industrial customers, other local government customers, and residential customers. In addition to the 13 voting members, the ESC includes two non-voting members representing DOE and the Tacoma Pierce County Health Department. Meetings are typically scheduled once per month during the rate development process and at other times as needed.

With the exception of certain large commercial customers, who receive a separate monthly bill, System customers receive a single bimonthly City bill that includes charges for the City's sewer, water, electric, surface water, and solid waste services and make a single payment for these services. Payments are received by the City Treasurer, who distributes them to the appropriate fund for each utility. If a customer payment is insufficient to cover the total amount due and payable under the combined utility bill, the payment is distributed on a pro-rata basis to each utility fund unless an objection to a specific utility is raised. If the payment is pro-rated to all utilities, lack of payment can result in termination of electric and water service. If an objection is raised concerning a specific utility and payment to that utility is excluded, the full payments will be distributed to the other utilities. If payment is excluded from the wastewater, surface water or solid waste charges where they are combined with water, then nonpayment can result in termination of water service or a lien being placed on the property. Liens for delinquent and unpaid rates and charges for sewer service, related penalties, and connection charges, including interest thereon, are superior to all other liens and encumbrances except general property taxes and special assessments (RCW 35.67.200 *et seq*). Such lien may be foreclosed upon in the manner provided by chapter 35.67 RCW.

### **Rates and Charges**

*System Rates and Charges.* The City completed a rate model update in 2014 for the 2015 through 2020 planning period, and the City's current rate ordinance includes adopted rate increases for each of the years 2015 and 2016 as recommended. Increases of for each of the years 2017 through 2020 are projected but not adopted by the Council. An update will be developed in 2016 for years 2017 through 2022. See "Historical and Projected Rate Adjustments" below. The City may adjust rates for certain customers, such as for low-income customers or local governments receiving services under interlocal agreements with the City.



*Wastewater Rates.* The 2015 and 2016 monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

<b>MONTHLY WASTEWATER RATES</b>		
	<b>2015<sup>(1)</sup></b>	<b>2016<sup>(1)</sup></b>
<b>Residential</b>		
Monthly fixed charge	\$ 21.50	\$ 22.79
Flow charge <sup>(2)</sup>	4.05	4.30
<b>Commercial</b>		
Monthly fixed charge	\$ 10.22	\$ 10.84
Flow charge <sup>(3)</sup>	5.40-12.35	5.73-13.10

<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.

*Source: City of Tacoma Environmental Services Department*

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 2015 and 2016 monthly rates for surface water service, as adopted by the Council, are shown in the following table.

<b>MONTHLY SURFACE WATER RATES</b>				
<b>Category of Development</b>	<b>2015<sup>(1)</sup></b>		<b>2016<sup>(1)</sup></b>	
	<b>Monthly Fixed Charge</b>	<b>Rate per 500 Square Feet of Premises Area</b>	<b>Monthly Fixed Charge</b>	<b>Rate per 500 Square Feet of Premises Area</b>
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 6.37	\$ 0.1253	\$ 6.73	\$ 0.1322
Undeveloped-area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.3755	6.73	0.3962
Moderate development	6.37	0.5228	6.73	0.5516
Heavy development	6.37	0.7508	6.73	0.7921
Very Heavy development	6.37	1.0009	6.73	1.0560
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 6.37	\$ 0.2572	\$ 6.73	\$ 0.2714
Undeveloped area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.7714	6.73	0.8139
Moderate development	6.37	1.0507	6.73	1.1085
Heavy development	6.37	1.5426	6.73	1.6275
Very Heavy development	6.37	2.0568	6.73	2.1700

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

*Source: City of Tacoma Environmental Services Department*

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.

*Historical and Projected Rate Adjustments.* The following tables show the revenue rate increases from average rate adjustments across customer classes as adopted by Council for the years 2010 through 2016 and as planned but not adopted for the years 2017 through 2020.

**HISTORICAL AND PROJECTED WASTEWATER REVENUE RATE ADJUSTMENTS**

<b>Year</b>	<b>Percentage Change in Revenues</b>
2010	6.2%
2011	4.8
2012	4.8
2013	4.8
2014	4.8
2015	6.0
2016	6.0
2017*	6.0
2018*	6.0
2019*	5.5
2020*	5.5

\* Projected; not approved by Council.

Source: *City of Tacoma Environmental Services Department*

**HISTORICAL AND PROJECTED SURFACE WATER RATE ADJUSTMENTS**

<b>Year</b>	<b>Percentage Change in Revenues</b>
2010	7.8%
2011	5.4
2012	5.4
2013	6.0
2014	6.0
2015	5.5
2016	5.5
2017*	5.3
2018*	5.3
2019*	5.3
2020*	5.3

\* Projected; not approved by Council.

Source: *City of Tacoma Environmental Services Department*

**Comparative Rates**

The following tables show a comparison of typical single family monthly charges of the System in 2014 with the same charges of certain other utilities. Monthly charges may not be directly comparable between agencies. Other agencies may have additional charges to recover capital costs and may partially fund operating costs from other sources.

**SINGLE FAMILY MONTHLY CHARGES—WASTEWATER<sup>(1)</sup>**

	<u>Monthly Charge</u>
Seattle	\$ 71
Bellevue	68
Puyallup	61
Olympia	54
<b>Tacoma</b>	<b>43</b>

<sup>(1)</sup> Charges are shown for 2014. Assumes 600 cubic feet of water consumed, winter quarter water usage.  
 Source: *City of Tacoma Environmental Services Department*

**SINGLE FAMILY MONTHLY CHARGES—SURFACE WATER<sup>(1)</sup>**

	<u>Monthly Charge</u>
Seattle	\$ 27
Bellevue	26
<b>Tacoma</b>	<b>20</b>
Olympia	11
Puyallup	11

<sup>(1)</sup> Charges are shown for 2014. Assumes average parcel of 7,000 square feet with moderate classification of development.  
 Source: *City of Tacoma Environmental Services Department*

**Historical Number of Customers**

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

**HISTORICAL NUMBER OF CUSTOMERS BY TYPE OF SERVICE**

Year	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract <sup>(1)</sup>	Total	Residential	Commercial/ Industrial	Total
2013	57,030	3,728	13,618	74,376	59,381	11,078	70,459
2012	56,860	3,731	13,448	74,039	59,370	11,109 <sup>(2)</sup>	70,479
2011	56,945	3,728	13,418	74,091	63,075	7,469	70,544
2010	56,954	3,751	13,460	74,165	63,174	7,030	70,204
2009	56,925	3,726	13,382	74,033	63,359	7,063	70,422

<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.

<sup>(2)</sup> Starting in 2012, multifamily units of three or more are classified as commercial.

Source: *City of Tacoma Finance Department*

The System's ten largest customers for 2013 are shown in the following table.

**TOP TEN CUSTOMERS - 2013**

<b>Customer Name</b>	<b>Amount</b>	<b>Percent of 2013 Combined Gross Revenues<sup>(1)</sup></b>
Port of Tacoma	\$ 1,843,262	2.17%
Tacoma School District	1,328,737	1.56
City of Tacoma	1,083,655	1.27
Darling International Inc.	666,991	0.78
Tacoma Metropolitan Park District	662,237	0.78
Puyallup Tribe of Indians	583,025	0.69
Pierce County Facilities Management	442,278	0.52
BNSF Railway Company	359,605	0.42
The Geo Group Inc.	351,948	0.41
Multicare Health Systems	336,730	0.40
	<b>\$ 7,658,468</b>	<b>9.00%</b>

<sup>(1)</sup> Based on combined 2013 Gross Revenues for the wastewater and surface water utilities in the amount of \$85,108,081. See "HISTORICAL FINANCIAL RESULTS."

Source: *City of Tacoma Finance Department*

**Capital Improvement Program**

The City is actively pursuing a best management practices Asset Management Program (the "Program") for the System, and has been working over the last several years to start a program which allows the utilities to maximize life of assets both in the ground and at operational plants. The Program has initially identified annual spend rates estimated at approximately \$22 million for wastewater and \$12 million for surface water and replacement schedules for assets over a 100 year asset lifecycle.

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Wastewater Management’s capital improvement program (“CIP”) for 2015 through 2019 is shown below. Total expenditures over this period are projected at \$111.9 million, which will be financed from available Net Revenues, proceeds of the Bonds, proceeds of Future Parity Bonds expected to be issued in 2019, and other available sources. The issuance of such Future Parity Bonds is subject to Council approval.

**WASTEWATER CAPITAL IMPROVEMENT PROGRAM**  
**(\$000s)<sup>(1)</sup>**

<b>Item:</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Collection systems	\$ 4,600	\$ 4,509	\$ 9,037	\$ 9,601	\$ 11,330	\$ 39,077
Equipment	3,163	2,475	2,891	2,753	607	11,889
Facilities	7,500	8,060	3,614	4,024	4,325	27,523
Pump stations	1,300	875	78	1,163	928	4,344
Special projects	321	241	125	130	135	952
Capitalized labor, interest and other <sup>(2)</sup>	5,256	5,550	5,228	5,766	6,309	28,109
Total	<u>\$ 22,140</u>	<u>\$ 21,710</u>	<u>\$ 20,973</u>	<u>\$ 23,437</u>	<u>\$ 23,634</u>	<u>\$ 111,894</u>
<b>Funding:</b>						
Parity Bonds	\$ 17,656	\$ 17,994	\$ 14,350	\$ 0	\$ 21,892	\$ 71,892
Grants	1,000	1,000	1,000	1,000	1,000	5,000
Operating Revenues	3,484	2,716	5,623	22,437	742	35,002
Total	<u>\$ 22,140</u>	<u>\$ 21,710</u>	<u>\$ 20,973</u>	<u>\$ 23,437</u>	<u>\$ 23,634</u>	<u>\$ 111,894</u>

<sup>(1)</sup> Assumes inflation rate of 4% for each of the years 2017 through 2019. Base year is 2016. Totals may not foot due to rounding.

<sup>(2)</sup> Includes project labor and interest and overhead allocated to capital projects from operating activities.

Source: *City of Tacoma Finance Department*

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Surface Water Management’s CIP for 2015 through 2019 is shown below. Total expenditures over this period are projected at \$73 million, which will be financed from available Net Revenues, proceeds of the Bonds, proceeds of Future Parity Bonds expected to be issued in 2019 and other available sources. The issuance of such Future Parity Bonds is subject to Council approval.

**SURFACE WATER CAPITAL IMPROVEMENT PROGRAM**  
**(\$000s)<sup>(1)</sup>**

<b>Item:</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Collection systems	\$ 5,550	\$ 7,500	\$ 7,800	\$ 9,734	\$ 9,281	\$ 39,865
Equipment	360	545	234	806	759	2,704
Facilities	6,000	0	3,640	0	0	9,640
Treatment and low impacts	2,570	2,000	520	541	562	6,193
Special projects	365	285	156	162	169	1,137
Capitalized labor, interest and other <sup>(2)</sup>	2,635	2,692	2,814	2,843	2,763	13,747
Total	<u>\$ 17,480</u>	<u>\$ 13,022</u>	<u>\$ 15,164</u>	<u>\$ 14,086</u>	<u>\$ 13,534</u>	<u>\$ 73,286</u>
<b>Funding:</b>						
Parity Bonds	\$ 16,480	\$ 3,520	\$ 0	\$ 0	\$ 13,534	\$ 33,534
Grants	1,000	750	3,000	0	0	4,750
Operating Revenues	0	8,752	12,164	14,086	0	35,002
Total	<u>\$ 17,480</u>	<u>\$ 13,022</u>	<u>\$ 15,164</u>	<u>\$ 14,086</u>	<u>\$ 13,534</u>	<u>\$ 73,286</u>

(1) Assumes inflation rate of 4% for each of the years 2017 through 2019. Base year is 2016. Totals may not foot due to rounding.

(2) Project labor and interest and overhead allocated to capital projects from operating activities.

Source: City of Tacoma Finance Department

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## HISTORICAL FINANCIAL RESULTS

### Historical Operating Statements

The following tables provide a historical balance sheet and operating results for the System.

#### WASTEWATER AND SURFACE WATER MANAGEMENT BALANCE SHEET (\$000s)<sup>(1)</sup>

	2009	2010	2011	2012	2013
<b>Current Assets</b>					
Cash	\$ 151,975	\$ 143,747	\$ 132,553	\$ 105,099	\$ 79,107
Customer accounts receivable	10,585	11,389	9,452	10,859	11,175
Other receivables	105	121	143	159	174
Due from other funds	472	118	126	15	108
Due from other governments	384	498	723	446	1,086
Other current assets	861	1,014	1,125	969	1,468
<b>Total Current Assets</b>	<u>164,382</u>	<u>156,887</u>	<u>144,122</u>	<u>117,547</u>	<u>93,118</u>
<b>Capital Assets</b>					
Assets in service	536,060	591,155	616,517	647,776	694,861
Construction work in progress	8,160	12,602	14,575	17,997	21,434
Allowance for depreciation	(156,812)	(169,104)	(181,243)	(193,705)	(207,464)
<b>Total Capital Assets</b>	<u>387,408</u>	<u>434,653</u>	<u>449,849</u>	<u>472,068</u>	<u>508,831</u>
<b>Other Noncurrent Assets</b>					
Other	657	3,500	3,476	3,469	3,517
<b>Total Assets</b>	<u>552,447</u>	<u>595,040</u>	<u>597,447</u>	<u>593,084</u>	<u>605,466</u>
<b>Deferred Outflows of Resources</b>					
Unamortized bond refunding costs	1,647	1,446	1,919	1,160	1,098
<b>Total Assets and Deferred Outflows of Resources</b>	<u>554,094</u>	<u>596,486</u>	<u>599,366</u>	<u>594,244</u>	<u>606,564</u>
<b>Current Liabilities</b>					
Accounts payable	1,297	4,404	4,288	4,418	3,624
Accrued wages payable	639	780	823	1,058	1,247
Compensated absences	—	200	170	272	298
Accrued taxes payable	583	768	597	648	690
Deposits payable	559	141	135	110	105
Due other funds	1,103	896	1,089	1,073	1,320
Due other governments	384	426	506	510	491
Unearned revenue	305	169	168	179	188
Bond interest payable	451	441	412	365	365
State revolving loan interest payable	331	316	301	285	269
Capital lease obligation <sup>(2)</sup>	—	534	558	578	602
Current long-term debt - revenue bonds <sup>(3)</sup>	2,330	2,450	2,550	0	0
Current long-term debt - state loan	3,329	3,389	3,469	3,532	3,597
Current environmental liability	549	661	716	966	679
<b>Total Current Liabilities</b>	<u>11,860</u>	<u>15,575</u>	<u>15,782</u>	<u>13,994</u>	<u>13,475</u>
<b>Noncurrent Liabilities</b>					
Long-term bonds	107,549	104,972	102,702	93,822	93,502
Wastewater state revolving loan	69,155	65,766	62,762	59,230	55,633
Capital lease obligation <sup>(2)</sup>	—	29,182	28,624	28,046	27,444
Employee leave benefits	1,752	1,800	1,903	2,444	2,684
Long-term environmental liability	1,423	850	900	550	500
Net OPEB obligation	738	1,006	1,353	1,671	1,968
<b>Total Noncurrent Liabilities</b>	<u>180,617</u>	<u>203,576</u>	<u>198,244</u>	<u>185,763</u>	<u>181,731</u>
<b>Total Liabilities</b>	<u>192,477</u>	<u>219,151</u>	<u>214,026</u>	<u>199,757</u>	<u>195,206</u>
<b>Deferred Inflows of Resources</b>					
Rate Stabilization	22,500	22,500	22,500	25,000	25,000
<b>Net Position</b>					
Net investment in capital assets	293,194	313,069	324,302	345,791	379,250
Restricted for bond reserves	5,263	7,361	7,517	8,227	9,573
Unrestricted	40,660	34,405	31,021	15,469	(2,465)
<b>Total Net Position</b>	<u>339,117</u>	<u>354,835</u>	<u>362,840</u>	<u>369,487</u>	<u>386,358</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 554,094</u>	<u>\$ 596,486</u>	<u>\$ 599,366</u>	<u>\$ 594,244</u>	<u>\$ 606,564</u>

<sup>(1)</sup> Based on audited financial statements. Data for years 2009 through 2012 has been restated to reflect implementation of GASB 65. Figures in table have been rounded.

<sup>(2)</sup> See "DEBT INFORMATION—Lease Obligation."

<sup>(3)</sup> The City did not have a Parity Bond principal payment in 2012 or 2013.

Source: City of Tacoma Finance Department

**WASTEWATER AND SURFACE WATER MANAGEMENT  
HISTORICAL OPERATING RESULTS (\$000s)<sup>(1)</sup>**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Operating Revenues</b>					
Wastewater:					
Residential	\$ 31,888	\$ 33,792	\$ 33,626	\$ 36,263	\$ 37,260
Commercial	11,668	11,631	11,437	12,077	11,762
Public authorities <sup>(2)</sup>	6,699	6,577	6,878	7,310	7,704
Other service revenues	834	627	364	356	333
TAGRO sales <sup>(3)</sup>	297	317	276	281	493
Surface Water:					
Residential	12,124	12,638	12,212	11,883	13,243
Commercial	9,920	10,766	11,451	11,679	14,089
Other service revenue	165	207	256	353	224
<b>Total Operating Revenues</b>	<u>73,595</u>	<u>76,555</u>	<u>76,500</u>	<u>80,202<sup>(4)</sup></u>	<u>85,108</u>
<b>Operating Expenses<sup>(5)</sup></b>					
Transmission	6,553	7,363	7,940	8,041	7,818
Pumping	1,966	2,197	2,204	2,225	1,929
Treatment Plants Operations and Maintenance	16,447	18,503	17,441	18,925	18,812
General Administration:					
Customer Service	2,975	3,356	3,475	3,798	3,826
Engineering	7,126	7,639	10,580	12,302	12,756
Administration	8,176	8,071	8,248	8,662	7,866
Other Tax	1,207	1,382	1,412	1,499	1,447
<b>Total Operating Expenses</b>	<u>44,450</u>	<u>48,511</u>	<u>51,300</u>	<u>55,452</u>	<u>54,454</u>
<b>Net Operating Revenue</b>	29,145	28,044	25,200	24,750	30,654
Non-Operating Revenues <sup>(6)</sup>	4,760	3,264	5,190	2,898	632
Non-Operating Expenses <sup>(7)</sup>	(60)	(61)	(91)	(83)	(119)
<b>Revenue Available for Debt Service</b>	<u>\$ 33,845</u>	<u>\$ 31,247</u>	<u>\$ 30,299</u>	<u>\$ 27,565</u>	<u>\$ 31,167</u>
<b>Parity Bond Debt Service</b>					
Sewer Revenue Bonds	\$ 8,116	\$ 7,744	\$ 7,714	\$ 7,127	\$ 4,377
Lease Obligation <sup>(8)</sup>	—	1,980	2,608	2,611	2,609
<b>Total Parity Bond Debt Service</b>	<u>8,116</u>	<u>9,724</u>	<u>10,322</u>	<u>9,738</u>	<u>6,986</u>
<b>Subordinate Lien Debt Service<sup>(9)</sup></b>	<u>4,638</u>	<u>4,638</u>	<u>4,654</u>	<u>4,670</u>	<u>4,670</u>
<b>Total Parity Bond and Subordinate Lien Debt Service</b>	<u>\$ 12,754</u>	<u>\$ 14,362</u>	<u>\$ 14,976</u>	<u>\$ 14,408</u>	<u>\$ 11,656</u>
<b>Parity Bond Debt Service Coverage Ratio</b>					
After Rate Stabilization Transfer	4.17	3.21	2.94	2.83 <sup>(4)</sup>	4.46
Before Rate Stabilization Transfer	—	—	—	3.09	—
<b>Parity Bond and Subordinate Lien Debt Service Coverage Ratio (after Rate Stabilization Transfer)</b>	2.65	2.18	2.02	1.91	2.67

<sup>(1)</sup> Based on audited financial statements. Figures in table have been rounded.

<sup>(2)</sup> Reflects revenue received from public agencies pursuant to interlocal agreements.

<sup>(3)</sup> Organic soil amendments produced from treated wastewater.

<sup>(4)</sup> Total operating revenues for 2012 have been reduced on a pro-rata basis to reflect a transfer of \$2,500,000 to the Rate Stabilization Fund.

<sup>(5)</sup> Operating Expenses exclude depreciation and environmental clean-up costs.

<sup>(6)</sup> Non-Operating Revenues excludes capital related grant income, gain or loss on sale of property, insurance recoveries and contributions.

<sup>(7)</sup> Non-Operating Expenses excludes interest expense and transfers (including gross earnings taxes).

<sup>(8)</sup> Excludes interest paid on the TES Properties Bonds from proceeds of such bonds. The Lease Obligation is a parity debt but City expects to receive 15.5% of the required debt service from the City's solid waste utility. See "DEBT INFORMATION—Lease Obligation."

<sup>(9)</sup> See "DEBT INFORMATION—Subordinate Lien Obligations."

Source: City of Tacoma Finance Department



## **Management Discussion of Results**

The 2013 audited financial report reflects the change in accounting and restatement of prior years to expense the bond issuance costs and report the “deferred inflows of resources” and the “deferred outflows of resources” balance sheet captions. Operating cash decreased \$20 million primarily due to increased capital expenditures as planned. The Rate Stabilization Fund maintained a balance of \$25 million. The decrease in unrestricted net position is related to debt funding of environmental remediation costs.

Increases in service rates were reflected in an increase in operating revenues of \$5 million or 6%. Operating expenses increased just 1% primarily due to mild weather and fewer emergency repairs. The \$11 million in non-cash contributions and transfers were for the “open space” land transfers to the System to maintain natural habitat for the filtration and flow control of storm water. Preliminary 2014 results are very consistent and no transactions are currently expected to materially impact results.

### **CERTAIN ENVIRONMENTAL MATTERS AND FACTORS AFFECTING THE SYSTEM**

*Prospective purchasers should consult their investment advisors before making any decision as to the purchase of the Bonds. The following discussion, while not setting forth all of the factors affecting the System, contains some of the factors which should be considered, in addition to the other information in this Official Statement, prior to purchasing the Bonds. This section is not meant to be comprehensive or definitive, and there may be other risk factors that will become material in the future. The order in which this information is presented does not necessarily reflect the relative importance of various risks.*

#### **General**

A number of factors affect the operation of the System. Federal, state and local standards and procedures that regulate the operations and environmental impacts of wastewater and surface water systems are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the System will remain subject to the regulations currently in effect, will be in compliance with current or future regulations or will always be able to obtain all required operating permits. Compliance with applicable environmental standards could result in additional capital and operating expenditures and reduced operating and efficiency levels, as well as possible fines, penalties or liabilities for noncompliance.

City officials charged with management of the System report that the City now holds all licenses, permits and approvals necessary for the operation of the System and that the City is in compliance in all material respects with such licenses, permits and approvals.

#### **Operating Results**

A number of factors could impact the results of operations of the System in the future, including a decrease in the number of customers of the System, changes in regional and local economic conditions, regulatory and permit requirements, changes in population, increase in Costs of Maintenance and Operation, and changes in general market conditions. There can be no assurance that the System will be able to maintain the current number of existing users if there are changes in the residential and/or commercial population of the service area.

#### **Actions by Regulatory Agencies**

*Commencement Bay Natural Resource Damages.* The City has resolved federal, state, and tribal natural resource damage assessment (“NRDA”) claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree that became effective on December 30, 1997. The stated value of the City’s settlement is approximately \$7,700,000. Under the Consent Decree (the “NRDA Consent Decree”), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction has been completed on four projects and the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project.

The City currently anticipates closure of the NRDA Consent Decree no sooner than the end of 2016 when the monitoring requirements at the Port’s project are completed. Required monitoring and maintenance of the other City projects is now being performed EarthCorps on behalf of the NRDA trustees. Included in the financial statements for are liabilities of \$272,234 for 2013 and \$310,000 for 2012. Although the City resolved its NRDA liability, the City

indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimis given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources. The City's understanding is a Thea Foss Waterway NRDA settlement between non-City parties and the Commencement Bay Natural Resource Trustees could be reached in 2015.

*Hylebos Waterway Consent Decree.* In 2003, the City of Tacoma – General Government entered a Consent Decree settlement with EPA to resolve any liability it may have had for sediment contamination in the Hylebos Waterway. The majority of the City's potential liability was attributed to municipal storm water discharges. Under the terms of its settlement, the City paid \$459,663 to “cash-out” its liability. This amount included a 50 percent premium, which obligated the City to pay a small percentage (i.e., 0.4397%) of any cost overruns if the remedial action work exceeded the project estimate of \$56,056,407 to complete such work. On January 11, 2012 the City was notified by the Hylebos Performing Party Group that the cost of the Hylebos Waterway remedial action project totaled \$110,991,511. This number has since been adjusted downward, setting the City's share of cost overruns at \$233,029. The City also anticipates making an additional payment to the Hylebos Performing Party Group for around \$63,317, which would fully and finally resolve the City's liability for any post-2012 costs overruns under its 2003 Hylebos Waterway Consent Decree settlement with EPA. The City recorded an expense and liability of \$306,346 as of December 31, 2013.

*Foss Consent Decree.* The City has an obligation under the Foss Consent Decree for continued monitoring until at least 2016. The results of this monitoring may result in additional cleanup efforts in the future. Obligations for future monitoring costs of \$600,000 in 2013 and \$900,000 in 2012 have been recognized in the financial statements as environmental liabilities.

#### **Other Considerations**

*Flood Risk.* In 2014, the Department initiated a floodwall construction project designed to reduce flood risk to the System. The City has been awarded a \$6 million grant to be received over the next six years from the Pierce County Flood Control Zone District Board to build a floodwall around the City's Central Treatment Plant. The floodwall is currently under construction with an estimated completion date of February 2015. This floodwall is expected to provide protection against flooding of the Puyallup River and is keyed into the Corps of Engineer Levy abutting the Central Treatment Plant.

*Water Quality Standards.* In July 2014, the State Governor announced proposed revisions to Human Health Water Quality criteria to be used by DOE in setting State water quality standards. Current criteria are based on nationwide fish consumption rates (“FCR”) that are not seen as representative of the amount of fish and shellfish eaten by State residents. Revising the FCR upward, as proposed, would increase the strictness of water quality standards. The City cannot predict the impact these new standards would have on its operations, which could result in increased costs to the City.

*Seismic and Other Considerations.* The facilities comprising the System are in an area of seismic activity, with occasional earthquakes. The City can give no assurance regarding the effect of an earthquake, a tsunami from seismic activity in the State or in other areas, a volcano or other natural disaster or that proceeds of insurance carried by the Department would be sufficient, if available, to rebuild and reopen the necessary facilities or that such facilities or surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster.

### **THE CITY OF TACOMA**

The City was incorporated in 1884 and utilizes the Council-Manager form of government, which is administered by a City Council under the Constitution and laws of the State and the City Charter. The Council is composed of a Mayor and eight Council members, five of whom are elected from districts that have been apportioned according to population. The three remaining positions are “at-large” positions, nominated and elected City-wide. The Council member positions are for four-years with overlapping terms to allow for the election of four new Council members every two years. The Mayor is elected City-wide for a four-year term and is the presiding officer of the Council. Council members, including the Mayor, can serve no more than 10 consecutive years as a member of the Council, Mayor, or combination thereof.

## City Officials

Current members of the City Council are listed in the following table.

Elected Officials		
Name	Position	Term Expires
Marilyn Strickland	Mayor	December 31, 2017
David Boe	Deputy Mayor	December 31, 2015
Victoria Woodards	Councilmember	December 31, 2017
Lauren Walker	Councilmember	December 31, 2015
Anders Ibsen	Councilmember	December 31, 2015
Robert Thoms	Councilmember	December 31, 2017
Marty Campbell	Councilmember	December 31, 2017
Joe Lonergan	Councilmember	December 31, 2017
Ryan Mello	Councilmember	December 31, 2015

## Administration

The City Manager appoints a Finance Director who supervises the financial and purchasing functions of the City, including the City's accounting system. The Finance Director is responsible for preparing the Comprehensive Annual Financial Report in accordance with generally accepted accounting principles and the instructions of the State Auditor's Office. The Finance Director is responsible for the payment of principal and interest on all bonds issued by the City. The City Manager also appoints a Budget Director of the Office of Management and Budget who, under the Finance Director, is responsible for the preparation and monitoring of the biennial budget, which provides for the servicing of debt and provides for anticipated revenues to meet the estimated costs of expenditures. The budget is presented to the Council for its review and approval and final adoption.

The City Treasurer is responsible for the receipt, custody and disbursement of City funds. The City Treasurer receives all money due and belonging to the City, and keeps a detailed account of the same in the manner prescribed by the Finance Director. The Government Performance and Finance Committee, composed of the Mayor and three council members, is responsible for the financial management and policies of the City.

*T.C. Broadnax, City Manager.* T.C. Broadnax began serving as City Manager of the City on February 13, 2012, with more than 19 years of local government management experience. Prior to joining the City, Mr. Broadnax served as Assistant City Manager of the City of San Antonio, Texas for five years. Prior to his San Antonio experience, he was Assistant City Manager in Pompano Beach, Florida for ten years. Additionally, while in Pompano Beach, Mr. Broadnax was responsible for the oversight of the City's housing and community revitalization agency. As City Manager, Mr. Broadnax is the Chief Executive Officer for the City government.

*Andrew ("Andy") Cherullo, Finance Director.* Andrew Cherullo joined the City in February 2013. Prior to joining the City, he most recently served as the Chief Financial Officer for the Washington State Health Care Authority. Prior to that, Mr. Cherullo served as the Chief Financial Officer for the Massachusetts School Building Authority. He started his career in public finance at the Massachusetts House Ways and Means Committee, where within four years became the Budget Director. As Finance Director for the City, Mr. Cherullo serves as the Chief Financial Officer for the City Manager and the City Council. He is responsible for overseeing the City's financial affairs, including accounting, debt and investment management, procurement and purchasing, and financial reporting. Mr. Cherullo has Bachelor's degrees in Economics and Political Science from the University of Montana and a Master's degree in Economics from Tufts University.

*Teresa Sedmak, City Treasurer.* Teresa Sedmak was sworn in as the City Treasurer in June 2012. In that role, she holds primary responsibility for the receipt and investment of the City's funds and management of the City's debt portfolio. Ms. Sedmak served as the Manager of Debt and Investments for the Regional Transportation District ("RTD") in Denver, Colorado for thirteen years prior to her employment with the City. Previous to her experience at RTD, she served as Vice President at Dominion Capital Group, an investment advisory firm specializing in the investment of public funds including bond proceeds. Ms. Sedmak earned both her Bachelor's and her Master's Degree in Business at the University of Colorado.

*Tadd Wille, Budget Director, Office of Management and Budget.* Tadd Wille was appointed Budget Director for the Office of Management and Budget in September 2012. Before working at the City, Mr. Wille served as an Assistant

Director and Grants Administrator for the City of San Antonio, Office of Management and Budget. Mr. Wille earned both his Bachelor's degree in History and his Master's Degree in Public Administration from Brigham Young University.

### **Management**

The City Manager appoints the Director of the Department who is responsible for the System and the solid waste utility system.

*Michael P. Slevin III, P.E., Environmental Services Director*, was appointed to his position in January 2009. In that position, Mr. Slevin is responsible for management of the Office of Environmental Policy and Sustainability as well as the four divisions that make up the Environmental Services utilities: Operations and Maintenance, Science and Engineering, Business Operations, and Solid Waste Management. Prior to his current position, Mr. Slevin held various positions within the Public Works Department, including interim Public Works Director and Facilities division manager. Mr. Slevin joined the Department of Public Works in 1995. He holds a Bachelor's of Science Degree Summa cum Laude in Civil Engineering from Washington State University and a Master's of Business Administration from the University of Washington. He is a Licensed Professional Civil Engineer in the State.

*John F. O'Loughlin, P.E., Environmental Services Assistant Director*, has worked in the wastewater, surface water and solid waste fields in a multitude of positions for the past 25 years. Mr. O'Loughlin holds a Bachelor's Degree in Chemistry and a Master's Degree in Business Administration - both from the University of Washington. He is a Licensed Professional Engineer in the State.

### **Financial Policies**

The Council approved the System's Financial Management Policy Statement in Resolution No. 35288, passed on September 25, 2001. These policies may be amended by the City Council at any time. The policies set bond covenants, minimum levels of debt service coverage and describe in general terms requirements for rate setting to fund maintenance and operating expenses and capital expenditures.

Over the past five years, the System has informally adopted certain goals as a guide to financial management and rate setting. These goals include rate setting for two-year periods, rates based on cost of service within a customer class (except for the residential class), restrictions on the term of debt, a minimum of 20 percent of capital financed with current revenues, Parity Bond coverage of at least 170 percent, and a minimum of 60 days of operating cash.

### **Budgetary Policies**

The biennial budget is proposed by the City Manager and adopted by the Council with legal budgetary control at the fund level. The City Manager may authorize transfers within funds; however, the Council must approve, by ordinance, any amendments which increase the total for the fund. Any unexpended appropriated balances lapse at the end of the fiscal biennium. These budgetary policies apply to the System.

### **Auditing**

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and RCW 43.09.230. State statutes require audits for cities to be conducted by the Office of the State Auditor. The City complies with the systems and controls prescribed by the Office of the State Auditor and establishes procedures and records which reasonably assure safeguarding of assets and the reliability of financial reporting.

The State Auditor is required to examine the affairs of cities at least once every two years. As discussed below, the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the finance department of the City.

The accounting and reporting policies of the System conform to generally accepted accounting principles for municipal governments. The System's financial statements are audited annually by the Office of the State Auditor and by Moss Adams LLP, an independent firm of certified public accountants. For the Fiscal Years ended December 31, 2013 and 2012, the financial statements of the System, included in Appendix C hereto, were audited by Moss Adams LLP. Since the date of its report, Moss Adams LLP has not provided any services or performed any procedures on the financial

statements of the System for the Fiscal Years ended December 31, 2013 and 2012. Neither the Office of the State Auditor nor Moss Adams LLP has reviewed or participated in the preparation of this Official Statement.

**Pension**

Employees of the System are covered by the Tacoma Employees’ Retirement System (“TERS”), an actuarially funded system administered by the City. The following information is provided on a City-wide basis.

TERS is a cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City, with the exception of police officers, firefighters, Tacoma Rail employees who are covered by other retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of Pierce Transit and the Law Enforcement Support Agency who established membership in TERS when these agencies were still City departments, are also members. The Board of Administration of TERS administers the plan, and benefit provisions are established in accordance with chapter 41.28 RCW and Chapter 1.30 of the Tacoma Municipal Code. The Board of Administration consists of nine members, including the City Mayor, City Administrator, Finance Director, designee of the Director of Utilities, three employees and one retiree. As of December 31, 2013, there were 2,119 retirees and beneficiaries currently receiving benefits, 434 vested terminated members entitled to future benefits and 2,881 active members in TERS.

The System is current in all payments to TERS. Further details about the plan are included in Note 7 to the financial statements attached as Appendix C.

The following table shows the historical City-wide contributions to TERS for the years ended December 31:

<u>Year</u>	<u>City-Wide Contribution</u>
2011	\$ 20,850,233
2012	20,919,787
2013	21,188,984

Covered employees are required by Chapter 1.30 of the Tacoma Municipal Code to contribute a percentage of their gross wages to TERS, and the employer contributes an additional percentage. The contribution rates for the System are provided in the following table:

<u>Applicable Period</u>	<u>Employer Rate</u>	<u>Member Rate</u>	<u>Total Rate</u>
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

The most recent actuarial valuation of TERS was completed as of January 1, 2013 by Milliman. Assumptions include investment earnings of 7.5%, wage growth of 4.00% and price inflation of 3.00%. Since the January 1, 2013 valuation, the Funding Ratio increased from 90.1% to 90.9% using the Actuarial Value of Assets. The TERS Board of Administration has ratified the valuation including the actuarial assumptions. The following provides historical funding information for TERS. This information is based on the most recent actuarial valuation performed, dated January 1, 2013.

<b>TERS Valuations</b> (\$ in millions)						
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (c)=(b)-(a)</b>	<b>Funded Ratio (d)=(a)/(b)</b>	<b>Covered Payroll (e)</b>	<b>UAAL as a Percentage of Covered Payroll (f)=(c)/(e)</b>
1/1/2011	\$ 1,075	\$ 1,133	\$ 58	94.9%	\$ 220	26.5%
1/1/2012	1,068	1,186	117	90.1	219	53.4
1/1/2013	1,187	1,307	120	90.9	211	56.7

Actuarial methods and assumptions used by the Board of Administration of TERS are included in Note 7 to the financial statements attached as Appendix C.

In addition to TERS, City employees participate in the federal social security program. The City withholds the employee contribution from the City employee's wages.

#### **Other Post-Employment Benefits**

In addition to pensions, many state and local governmental employers provide other post-employment benefits ("OPEB") as part of total compensation to attract and retain the services of qualified employees. OPEB includes post-employment health care as well as other forms of post-employment benefits that are provided separately from pension plan benefits. The Governmental Accounting Standards Board ("GASB") issued a standard concerning Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions. The standard provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports. This pronouncement became effective for the City for the Fiscal Year ended December 31, 2007.

The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. Generally accepted accounting principles require that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future. The City funds its OPEB obligation on a pay as you go basis.

The following table shows the annual OPEB cost and net OPEB obligation for three years for the System and the City. This table is based upon a 4.00% interest rate for 2011 and 2012 and 3.75% for 2013.

#### **OTHER POST EMPLOYMENT BENEFITS**

<b>Year Ended</b>	<b>Annual OPEB Cost</b>		<b>Benefits Paid</b>		<b>Net OPEB Obligation</b>	
	<b>City</b>	<b>System</b>	<b>City</b>	<b>System</b>	<b>City</b>	<b>System</b>
12/31/2011	\$ 19,596,420	\$ 470,786	\$ 9,569,648	\$ 124,293	\$ 36,393,620	\$ 1,352,510
12/31/2012	19,469,178	469,633	9,393,431	151,023	46,469,368	1,671,120
12/31/2013	19,528,767	417,168	9,887,334	120,646	56,110,801	1,967,642

For additional information regarding the City's post-employment benefits, see Note 8 to the financial statements attached as Appendix C.

**Taxation**

The Tacoma City Charter allows the City to impose a gross earnings tax not exceeding eight percent on the System revenue. The gross earnings tax currently imposed on the System is eight percent on revenues from operations. Payment of the gross earnings tax is subordinate to the payments required to be made into any fund or funds previously or subsequently created for the payment of the principal of and interest on the Parity Bonds. The System also pays business and occupation taxes and other excise taxes imposed by the State.

**Investment Practices**

The City’s Investment Committee is composed of the Mayor, the Finance Director and the City Treasurer. The City Treasurer invests City funds. The System’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 securities 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 similar to a demand deposit account in that all City departments, including the System, 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 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating , Bankers’ Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (“LGIP”). Daily liquidity requirement to meet the City’s daily obligations is maintained by investing a portion of the City’s Investment Pool in the LGIP.

The System’s investments in that portion of the TIP held in qualified public depositories at December 31, 2013 and 2012 is entirely covered by the Federal Deposit Insurance Corporation (“FDIC”) and the Washington State Public Deposit Protection Commission (“PDPC”).

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’s 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.

As of September 30, 2014, the par value of the City’s investments totaled \$909.159 million. The portfolio was distributed in various types of investment instruments in the following percentages:

Government Agencies	63.17%
U.S. Treasuries	9.47
State Local Government Pool	6.61
Bank Interest-Bearing Accounts	0.79
Bankers Acceptance	0.00
Flexible Repurchase Agreements	0.96
Municipal Securities	19.00

**Insurance**

Historically the System’s risk exposure includes but is not limited to flooding, recontamination, wind damage, chemical spills, and earthquakes. Mitigating controls and emergency and business resumption plans are in place, including the construction of a floodwall around the City’s Central Treatment Plant. See “CERTAIN ENVIRONMENTAL MATTERS AND FACTORS AFFECTING THE SYSTEM—Other Considerations.” To the extent damage or claims exceed insured values, rates may be impacted.

The City has established a Self-Insurance Fund (the “Fund”) to insure the System and other divisions within the City for certain losses arising from personal and property damage claims by third parties. Environmental and tax claims

generally are paid for out of available Gross Revenues and not from the Fund. The System is required to make payments to the Fund to cover claims incurred by the System and administrative expenses of the Fund.

The System’s premium payments totaled \$211,399 for each of the years 2013 and 2012. As risk of loss transfers to the Self-Insurance Fund, the System only recognizes expense for premium payments. Additionally, the City maintains an excess general liability policy with limits of \$15 million, subject to a self-insured retention of \$3 million and a \$30 million dollar aggregate. The City has an excess policy to cover extraordinary workers’ compensation claims with statutory limits and with a \$1 million self-insured retention plus a \$250,000 of total loss each 12 month policy period. The City has a property insurance policy with a limit of \$500 million replacement cost (\$50,000 deductible per occurrence). The City carries property coverage with a maximum single occurrence limit of \$500,000,000 with a sublimit of \$150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The System’s cost for these policies was \$240,859 in 2013 and \$214,230 in 2012.

The System 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 System and not from the Fund.

**Labor Relations**

Wastewater Management and Surface Water Management fund approximately 280 full-time equivalent employees working directly within the utilities. 241 of these employees are represented by one of the labor organizations representing City employees. The City negotiates with those labor organizations through its management negotiating team.

The City enters into a collective bargaining agreement with the Joint Labor Committee concerning negotiable issues, including vacations, sick leave, holidays, life insurance, longevity, medical insurance and other health benefits. Matters that are specific to a particular union, such as wages and other working conditions, are subject to a separate collective bargaining agreement individually negotiated with the unions.

As provided by State law, matters that are delegated by the City Charter to the City’s Civil Service Board, including issues relating to tenure of employment, hiring, recruitment, and termination, are not negotiated at the bargaining table. Additionally, retirement benefits through the TERS have been set historically by the Tacoma Retirement Board, which includes representatives of City employees as well as City management.

The City strives to promote sound labor relations policies that are beneficial both to management and to its employees. This cooperative effort has precluded a significant work stoppage among general government employees for the last several decades.

Bargaining units representing employees of the System are shown in the following table.

<b>Bargaining Unit</b>	<b>Number of Employees</b>	<b>Contract Expiration Date</b>
International Federation of Professional and Technical Engineers (Local 17)	78	12/31/2014 <sup>(1)</sup>
Washington State Council of County and City Employees (Local 120)	1	12/31/2016
International Association of Machinist and Aerospace Workers (“IAM and AW”) (Local 160) (General)	24	12/31/2016
IAM and AW (Local 160) (Supervisors)	3	12/31/2014 <sup>(1)</sup>
Teamsters Local 117 (General)	12	12/31/2014 <sup>(1)</sup>
Teamsters (Local 313) (Sewer)	56	12/31/2017
International Brotherhood of Electrical Workers (“IBEW”) Local 483 (Customer and Field Services)	4	12/31/2014 <sup>(1)</sup>
IBEW 483 (Clerical)	14	12/31/2014 <sup>(1)</sup>
IBEW 483 (Custodians)	3	12/31/2015
IBEW 483 (Supervisors)	2	12/31/2014 <sup>(1)</sup>
IBEW 483 (Water Pollution)	44	12/31/2014 <sup>(1)</sup>

<sup>(1)</sup> Under negotiation.



## INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

Under the City Charter, Tacoma voters may initiate local legislation and City Charter amendments, and modify existing legislation, through powers of initiative and referendum. Under Washington law, the Bond Ordinance may not be a proper subject for a referendum petition. Nonetheless, the referendum period will have expired and the Bond Ordinance will become effective on or before the date of issuance and delivery of the Bonds. As of the date of this Official Statement, no referendum petition has been filed.

In recent years there has been an increase in the number of initiatives and referenda filed in Washington, including state initiatives targeting property taxes imposed by local jurisdictions. The City cannot predict whether this trend will continue, whether any filed initiatives will receive the requisite signatures to be certified to the ballot, and whether such initiatives will be approved by the voters and, if challenged, upheld by the courts.

## TAX MATTERS

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Bonds and the facilities financed and refinanced with proceeds of the Bonds and certain other matters. The City has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the City comply with the above-referenced covenants and, in addition, will rely on representations by the City and its advisors with respect to matters solely within the knowledge of the City and its advisors, respectively, which Bond Counsel has not independently verified. If the City fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing taxability occurs. In rendering its opinion, Bond Counsel has relied on the report of Grant Thornton LLP with respect to the accuracy of certain mathematical calculations.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Bonds, are in many cases required to be reported to the Internal Revenue Service (the “IRS”). Additionally, backup withholding may apply to any such payments made to any owner who is not an “exempt recipient” and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel’s opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel’s legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the City’s compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Bonds. Owners of the Bonds are advised that, if the IRS does audit the Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the owners of the Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

### **Not Bank Qualified**

The City has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code.

### **Proposed Tax Legislation; Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. For example, proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

### **Premium**

An amount equal to the excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on that Bond. A purchaser of a Bond must amortize any premium over that Bond’s term using constant yield principles, based on the Bond’s yield to maturity. As premium is amortized, the purchaser’s basis in the Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such Bonds.

## **CONTINUING DISCLOSURE UNDERTAKING**

In accordance with Section (b)(5) of Securities and Exchange Commission (the “Commission”) Rule 15c2–12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”), the City has agreed in the Bond Ordinance for the benefit of the owners and the Beneficial Owners of the Bonds to provide or cause to be provided to the Municipal Securities Rulemaking Board (“MSRB”) the following annual financial information and operating data for the prior fiscal year (commencing in 2015 for the fiscal year ended December 31, 2014):

- (1) Annual financial statements, which statements may or may not be audited, showing ending fund balances for the System prepared in accordance with Generally Accepted Accounting Principles prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute);
- (2) Principal amount of outstanding Parity Bonds and debt service coverage;
- (3) Rates for the System substantially as provided in the rate ordinance approved by the Council; and

- (4) Number of wastewater and surface water customers.

Items (2) through (4) shall be required only to the extent that such information and data is not included in the information and data provided pursuant to item (1) above.

The information and data described above shall be provided on or before the last day of the ninth month after the end of the City's fiscal year. The City's current fiscal year ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents available to the public on the MSRB's internet website or filed with the Commission.

If not provided as part of the annual financial information discussed above, the City will provide the City's audited annual financial statements prepared in accordance with Generally Accepted Accounting Principles prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to the MSRB.

*Listed Events.* The City agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- principal and interest payment delinquencies;
- non-payment related defaults, if material;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- modifications to the rights of Bondholders, if material;
- optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds, if material;
- rating changes;
- bankruptcy, insolvency, receivership or similar event of the City;
- the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure, without any intent to modify the undertaking as set forth above, the City advises that no credit enhancement, credit or liquidity facilities, or property secure payment of the Bonds.

*Format for Filings with the MSRB.* Until otherwise designated by the MSRB or the Commission, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org) (which is not incorporated into this Official Statement by reference). All notices, financial information and operating data required by the undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to the undertaking must be accompanied by identifying information as prescribed by the MSRB.

*Notification Upon Failure to Provide Financial Data.* The City also agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described above on or prior to the date set forth above.

*Termination/Modification.* The City's obligations to provide annual financial information and notices of listed events will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of the City's undertaking will be null and void if the City (i) obtains an opinion of nationally recognized bond counsel to the

effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (ii) notifies the MSRB of such opinion and the cancellation of the undertaking.

Notwithstanding any other provision of the undertaking, the City may amend the undertaking with an approving opinion of nationally recognized bond counsel and in accordance with the Rule. In the event of any amendment of the undertaking, the City will describe such amendment in the next annual report, and will include a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a listed event, as described above, and (ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

*Bond Owner's Remedies Under This Section.* A Bond Owner's or Beneficial Owner's right to enforce the provisions of the City's undertaking described in this section will be limited to a right to obtain specific enforcement of the City's obligations, and any failure by the City to comply with the provisions of the undertaking will not be an event of default with respect to the Bonds. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any bonds, including persons holding bonds through nominees or depositories.

*Other Ongoing Disclosure Undertakings of the City.* The City has previously entered into continuing disclosure undertakings under the Rule (the "Prior Undertakings"). The City failed to file information regarding assessments levied, collected and uncollected for the years 2007 through 2011 in connection with its Consolidated Local Improvement District No. 60 Bonds. The City filed the missing information in February 2013. The City failed to file certain lodging tax information for years 2009 and 2010. The City filed the missing information in September 2012. Instead of submitting a filing for both downgrades of FSA by Fitch in 2009, the City made a single filing in November 2009 reflecting the second downgrade in October of 2009. The City has provided notice of certain underlying rating changes either through separate notice filings or in its financial statements, some of which may have been done after the deadlines provided for in the Prior Undertakings. The City currently believes it is in compliance with its Prior Undertakings for the previous five years in all material respects.

## **RATINGS**

As noted on the cover page of this Official Statement, Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aa2," "AA+" and "AA+," respectively, to the Bonds. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds. The City does not have any obligation to take any action, other than file a listed event notification, if the ratings on the Bonds are changed, suspended or withdrawn.

## **UNDERWRITING**

The Bonds are being purchased by J.P. Morgan Securities LLC ("JPMS") and Siebert Brandford Shank & Co., LLC (together, the "Underwriters") at a price of \$118,146,205, and will be reoffered at a price of \$118,477,376. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices and yields set forth in this Official Statement, and such initial offering prices and yields may be changed from time to time, by the Underwriters. After the initial public offering, the public offering prices and yields may be varied from time to time.

JPMS has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Siebert Brandford Shank & Co., L.L.C., one of the Underwriters of the Bonds, has entered into a separate agreement with Credit Suisse Securities USA LLC for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Siebert Brandford Shank & Co., L.L.C. will share a portion of its underwriting compensation with respect to the Bonds, with Credit Suisse Securities USA LLC.

#### **FINANCIAL ADVISOR**

The City has retained Piper Jaffray & Co., Seattle, Washington, as financial advisor (the “Financial Advisor”). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. While under contract to the City, the Financial Advisor may not participate in the underwriting of any City debt.

#### **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of Bonds by the City are subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel. A copy of the form of the opinion of Bond Counsel is attached hereto as Appendix B. Pacifica Law Group LLP is also serving as Disclosure Counsel to the City in connection with the issuance of the Bonds.

Certain legal matters will be passed on for the Underwriters by Foster Pepper, PLLC, Seattle, Washington, Counsel to the Underwriters. Any opinion of such firm will be addressed solely to the Underwriters, will be limited in scope, and cannot be relied upon by investors.

#### **LITIGATION**

##### **No Litigation Concerning the Bonds**

There is no litigation pending or threatened in any court (local, state, or federal) to restrain or enjoin the issuance or delivery of the Bonds, or questioning the creation, organization, existence, or title to office of the officers of the Department or the City, the validity or enforceability of the Bond Ordinance, or the proceedings for the authorization, execution, sale, and delivery of the Bonds.

##### **Other Litigation**

Because of the nature of its activities, the City is subject to various pending and threatened legal actions which arise in the ordinary course of business. The City 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 City or the System, but could be material to results of operations or cash flows for a particular annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim. See “CERTAIN ENVIRONMENTAL MATTERS AND FACTORS AFFECTING THE SYSTEM” for a summary of certain actions by regulatory agencies concerning the System.

#### **POTENTIAL CONFLICTS OF INTEREST**

Some or all of the fees of the Underwriters, Underwriters’ Counsel, the Financial Advisor, and Bond Counsel are contingent upon the issuance and sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Financial Advisor in transactions unrelated to the issuance of the Bonds. Foster Pepper PLLC is serving as counsel to the Underwriters and from time to time serves as counsel to the City and as counsel to the Financial Advisor on matters unrelated to the issuance of the Bonds.

#### **LIMITATIONS ON REMEDIES**

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Ordinance are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Ordinance or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Ordinance, the rights and obligations under the Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Pacifica Law Group LLP, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A copy of the form of legal opinion of Bond Counsel is set forth in Appendix B.

**No Acceleration**

Under the Bond Ordinance, a Bond owner cannot require acceleration of debt service on the Bonds upon the occurrence of an event of default. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal or interest on the Parity Bonds, the bond owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between owners of earlier and later maturing Parity Bonds.

**Bankruptcy**

Under current Washington law, local governments, such as the City, may be able to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). A creditor cannot bring an involuntarily bankruptcy proceeding against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code. Taxing districts in the State are expressly authorized to carry out a plan of readjustment if approved by the appropriate court. Should the City become a debtor in a federal bankruptcy proceeding, the owners of the Bonds would continue to have a statutory lien on Net Revenues after the commencement of the bankruptcy case so long as the Net Revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide utility services. The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents, such as the Bond Ordinance. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the Bond Ordinance may not be applicable. If Net Revenues do not constitute "special revenues," there could be delays or reductions in payments by the City with respect to the Bonds.

Furthermore, if the City were to become a debtor in a federal bankruptcy case, the parties (including the Bond Registrar and the holders of the Bonds) may be prohibited from taking any action to collect any amount from the City, to enforce any obligations of the City, or to exercise any remedies unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Bond Registrar from making payments to the holders of the Bonds from funds in the Bond Registrar's possession. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and/or reductions in payments could result.

**OFFICIAL STATEMENT**

At the time of delivery of the Bonds, one or more officials of the City will furnish a certificate stating that to the best of his or her knowledge, this Official Statement, as of its date and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

The preparation and distribution of this Official Statement has been authorized by the City.

THE CITY OF TACOMA, WASHINGTON

By:                                 /s/ Andrew Cherullo                                  
Finance Director

**APPENDIX A**  
**FORM OF THE BOND ORDINANCE**  
**(attached)**

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**ORDINANCE NO. 28278**

AN ORDINANCE of the City of Tacoma, Washington, providing for the issuance and sale of sewer revenue and refunding bonds of the City in the aggregate principal amount of not to exceed \$125,000,000 to refund certain outstanding sewer revenue bonds, to finance the acquisition, construction, and installation of additions and improvements to and equipment for the sewer system, to fund the debt service reserve fund, and to pay costs of issuing the bonds; providing the form and terms of the bonds; and delegating the authority to approve the final terms of the bonds.

WHEREAS the City of Tacoma, Washington (the "City"), now owns, operates, and maintains a municipal sewer system, comprised of Wastewater Management and Surface Water Management (the "System"), and

WHEREAS the City has issued and has outstanding the following sewer revenue bonds and obligations:

Designation	Authorizing Documents	Date of Ordinance	Principal Amount Outstanding as of December 1, 2014
Sewer Revenue and Refunding Bonds, 2006 (the "2006 Bonds")	Ordinance No. 27490 and Substitute Resolution No. 36895	5/16/2006 and 6/20/2006, respectively	\$ 54,950,000
Monthly Rent obligation ("2009 Monthly Rent" (principal component))	Ordinance No. 27677, as amended by Ordinance No. 27783	12/18/2007 and 1/20/2009, respectively	34,370,000
Sewer Revenue Refunding Bonds, 2011 (the "2011 Bonds")	Ordinance No. 28015 and Substitute Resolution No. 38334	9/20/2011 and 9/27/2011, respectively	34,315,000

(The outstanding sewer revenue bonds and the City's obligation to pay 2009 Monthly Rent identified above are referred to as the "Outstanding Parity Bonds" and the authorizing documents identified above are referred to as the "Outstanding Parity Bond Ordinances"), and



WHEREAS the Outstanding Parity Bond Ordinances provide that additional sewer revenue bonds may be issued with a lien on the operating revenue of the System on a parity with the lien of the Outstanding Parity Bonds if certain conditions are met, and

WHEREAS Ordinance No. 27490 provides that the 2006 Bonds may be defeased and/or refunded prior to their stated maturities at the option of the City on or after December 1, 2016, at a price of par plus accrued interest to their date of redemption, and

WHEREAS the City Council (the "Council") has determined that it is in the best interest of the City and its ratepayers to defease and refund all or a portion of the 2006 Bonds maturing on December 1, 2017, through December 1, 2036 (the "Refunding Candidates"), if debt service savings can be achieved, and

WHEREAS the City has adopted capital improvement programs for the System which include certain additions, improvements and extensions to and the equipping of the System as described therein (the "Projects"), and

WHEREAS the Council deems it in the best interest of the City to issue sewer revenue and refunding bonds in the aggregate principal amount of not to exceed \$125,000,000 (the "Bonds") to redeem and defease all or a portion of the Refunding Candidates, to finance and/or reimburse a portion of the costs of the Projects, to fund the debt service reserve fund, and to pay costs of issuing the Bonds, and

WHEREAS the Council wishes to delegate authority to the City Finance Director and Treasurer, or their designee (each, a "Designated Representative")



1 for a limited time, to select the Refunding Candidates to be refunded, if any, and  
 2 to approve the interest rates, maturity dates, redemption terms, principal  
 3 maturities and other terms for the Bonds within the parameters set by this  
 4 ordinance, and

5 WHEREAS the Bonds shall be sold by negotiated sale as set forth herein;

6 Now, Therefore,

7 BE IT ORDAINED BY THE CITY OF TACOMA:  
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\* This Table of Contents is provided for convenience only and is not a part of this ordinance.



Section 1. Definitions and Interpretation of Terms.

(a) Definitions. As used in this ordinance, the following words shall have the following meanings:

“Accreted Value” means, with respect to any Capital Appreciation Bond, as of the time of calculation, the sum of the amount representing the initial principal amount of such bond plus interest accrued, compounded thereon as of the most recent compounding date. With respect to any particular Payment Date, the Accreted Value is the amount set forth on the Accreted Value Table included as part of the form of Capital Appreciation Bond. In the event the Accreted Value of any Capital Appreciation Bond is required to be determined as of a date other than the Payment Date, the Accreted Value shall be determined by adding to the Accreted Value for the next preceding Payment Date the product obtained by multiplying (a) the difference between the Accreted Value for the next Payment Date and the Accreted Value for the next preceding Payment Date, by (b) the ratio obtained by dividing by 180 the number of days elapsed since the next preceding Payment Date (calculated on the basis of a 360-day year of twelve 30-day months).

“Accreted Value Table” means the Accreted Value Table printed on the Capital Appreciation Bonds reflecting the Accreted Value of such Capital Appreciation Bonds as of any Payment Date.

“Acquired Obligations” means noncallable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government.

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“Adjusted Annual Debt Service” means Annual Debt Service minus (a) an amount equal to ULID Assessments due in that year and not delinquent and (b) any Capitalized Interest to be paid with respect to Parity Bonds.

“Adjusted Net Revenues” has the meaning set forth in Section 18 of this ordinance.

“Annual Debt Service” means the amount required to be paid in a calendar year for (a) interest due in such calendar year on all Parity Bonds, (b) principal of all Serial Bonds due in such calendar year, and (c) any Sinking Fund Requirement for such calendar year.

In the case of Variable Interest Rate Bonds, for the purpose of calculating Annual Debt Service, the interest rate thereon shall be calculated on the assumption that such bonds will bear interest during such period at a rate equal to the rate most recently reported by The Bond Buyer as the Bond Buyer Municipal Bond Index for long-term revenue bonds; provided, that if on such date of calculation the interest rate on any Variable Interest Rate Bonds shall then be fixed for a specified period, including pursuant to a Payment Agreement, the interest rate used for such specified period shall be such fixed interest rate. *After all of the Outstanding Parity Bonds are fully redeemed, refunded or defeased, this paragraph shall read as follows:* In the case of Variable Interest Rate Bonds, for the purpose of calculating Annual Debt Service, the interest rate thereon shall be equal to the higher of (i) the average of the SIFMA Municipal Swap Index over the 60-month period immediately preceding the date of computation, or (ii) the average of the SIFMA Municipal Swap Index over the 12-month period immediately preceding the



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1 date of computation, in each case as determined within ten days prior to the date of  
 2 computation, with the principal thereof amortized to provide for essentially level  
 3 annual debt service of principal and interest over such period; provided, that if on  
 4 such date of calculation the interest rate on any Variable Interest Rate Bonds shall  
 5 then be fixed for a specified period, including pursuant to a Payment Agreement,  
 6 the interest rate used for such specified period shall be such fixed interest rate.

8 For purposes of computing Annual Debt Service on any Parity Bonds which  
 9 constitute Balloon Indebtedness, it shall be assumed that the principal of such  
 10 Balloon Indebtedness, together with interest thereon at the rate applicable to such  
 11 Balloon Indebtedness, shall be amortized in equal annual installments over a term  
 12 equal to the lesser of (a) 25 years or (b) the average weighted useful life (expressed  
 13 in years and rounded to the next highest integer) of the properties and assets  
 14 constituting the project (if any) financed out of the proceeds of such Balloon  
 15 Indebtedness.

17 *After all of the Outstanding Parity Bonds are fully redeemed, refunded or*  
 18 *defeased*, for purposes of satisfying the coverage test pursuant to Section 16 or the  
 19 requirements for the issuance of Future Parity Bonds pursuant to Section 18,  
 20 Annual Debt Service for any Fiscal Year or calendar year shall exclude any Debt  
 21 Service Offsets received or expected to be received in such Fiscal Year or calendar  
 22 year.

23 "Balloon Indebtedness" means any series of Parity Bonds more than  
 24 25 percent of the principal of which, in accordance with the terms of such Parity  
 25 Bonds, is due and payable in any one Fiscal Year either by reason of the stated  
 26



1 maturity date of such Parity Bonds or pursuant to a Sinking Fund Requirement;  
 2 provided that with respect to any Parity Bonds issued as Term Bonds, such Bonds  
 3 shall only be treated as Balloon Indebtedness if more than 25 percent of the  
 4 principal thereof is due in any one Fiscal Year pursuant to the applicable Sinking  
 5 Fund Requirement or upon the stated maturity date thereof (assuming that the only  
 6 principal due on the stated maturity date thereof will be the principal remaining  
 7 outstanding after all redemptions have been made pursuant to the applicable  
 8 Sinking Fund Requirement).

9 "Bond Counsel" means an attorney at law or a firm of attorneys, selected by  
 10 the City, of nationally recognized standing in matters pertaining to the tax exempt  
 11 nature of interest on bonds issued by states and their political subdivisions.

12 "Bond Fund" means the Sewer Revenue Bond Fund created by the City for  
 13 the purpose of paying and securing the payment of Parity Bonds.

14 "Bond Obligation" means, as of any given date of calculation, the sum of  
 15 (a) the aggregate principal amount of all outstanding Current Interest Bonds and  
 16 (b) the aggregate Accreted Value of all outstanding Capital Appreciation Bonds  
 17 calculated as of the date of calculation if that date is a Payment Date or as of the  
 18 next preceding Payment Date if the date of calculation is not a Payment Date.

19 "Bond Purchase Contract" means the contract for the purchase of the Bonds  
 20 between the Underwriter and the City, executed pursuant to Section 20.

21 "Bond Register" means the registration books maintained by the Bond  
 22 Registrar for purposes of identifying ownership of the Bonds or the nominee of each  
 23 owner, and such other information as the Bond Registrar shall determine.  
 24  
 25  
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1 "Bond Registrar" means, initially, the fiscal agency of the state of  
 2 Washington, for the purposes of registering and authenticating the Bonds,  
 3 maintaining the Bond Register, effecting transfer of ownership of the Bonds and  
 4 paying interest on and principal of the Bonds.  
 5  
 6 "Bond Year" means each one-year period that ends on the date selected by  
 7 the City. The first and last Bond Years may be short periods. If no date is selected  
 8 by the City before the earlier of the final maturity date of the Bonds or the date that  
 9 is five years after the date of issuance of the Bonds, Bond Years end on each  
 10 anniversary of the date of issue and on the final maturity date of such Bonds.  
 11  
 12 "Bonds" mean the not to exceed \$125,000,000 aggregate principal amount  
 13 of City of Tacoma, Washington, Sewer Revenue and Refunding Bonds, 2015,  
 14 authorized to be issued pursuant to the terms of this ordinance.  
 15  
 16 "Call Date" means the date set forth in the Escrow Deposit Agreement for the  
 17 refunding of the Refunded Bonds.  
 18  
 19 "Capital Appreciation Bonds" mean Parity Bonds, the interest on which  
 20 accrues and compounds, payable at maturity or earlier redemption.  
 21  
 22 "Capitalized Interest" means proceeds (not including accrued interest) of  
 23 Parity Bonds used to pay interest on such Parity Bonds.  
 24  
 25 "Certified Public Accountant" means an independent licensed certified public  
 26 accountant (or firm of certified public accountants) selected by the City.  
 "City" means the City of Tacoma, Washington, a municipal corporation duly  
 organized and existing under and by virtue of the laws of the State.



1 "City Clerk" means the duly appointed and acting City Clerk of the City or the  
 2 successor to the duties of that office.  
 3  
 4 "City Manager" means the duly appointed and acting City Manager of the  
 5 City or the successor to the duties of that office.  
 6  
 7 "Closing" means the date of delivery of the Bonds to the Underwriter.  
 8  
 9 "Code" means the Internal Revenue Code of 1986, as amended, and shall  
 10 include all applicable regulations and rulings relating thereto.  
 11  
 12 "Commission" means the Securities and Exchange Commission.  
 13  
 14 "Construction Fund" means the 2015 Sewer Bond Construction Fund created  
 15 pursuant to Section 9 of this ordinance.  
 16  
 17 "Costs of Maintenance and Operation" means all necessary operating  
 18 expenses, current maintenance expenses, expenses of reasonable upkeep and  
 19 repairs, insurance premiums and administrative expenses and reasonable pro rata  
 20 charges for services provided to the System by City departments, but excludes  
 21 (a) payments for debt service or into debt service reserve accounts or funds,  
 22 (b) costs of capital additions to or replacements of the System, (c) money  
 23 necessary to pay extraordinary legal claims and judgments against the System or  
 24 amortized payments to the City's self-insurance fund with respect to extraordinary  
 25 claims and judgments, (d) depreciation, (e) City taxes (or payments to the City in  
 26 lieu of taxes) upon the properties and earnings of the System, and (f) any Rebate  
 Amount.  
 "Council" means the Council of the City, as the same shall be duly and  
 regularly constituted from time to time.



1 "Covered Bonds" mean the Outstanding Parity Bonds, the Bonds and those  
 2 Future Parity Bonds designated in the Parity Bond Ordinance authorizing their  
 3 issuance as Covered Bonds secured by the Reserve Fund.

4 "Current Interest Bonds" means Parity Bonds, the interest on which is paid  
 5 periodically.

6 "Debt Service Offset" means receipts of the City that are not included in  
 7 Gross Revenues and that are legally available to pay debt service on Parity Bonds,  
 8 including without limitation federal interest subsidy payments, designated as such  
 9 by the City.

10 "Designated Representative" means the City Finance Director and  
 11 Treasurer, or his or her designee. The signature of one Designated Representative  
 12 shall be sufficient to bind the City.

13 "DTC" means The Depository Trust Company, New York, New York.

14 "Engineer" means an independent licensed professional engineer (or firm of  
 15 licensed professional engineers) selected by the City and experienced and skilled in  
 16 the design, construction and operation of sewer systems of comparable size and  
 17 character to the System.

18 "Escrow Deposit Agreement" means the Escrow Deposit Agreement  
 19 between the City and the Refunding Trustee to be dated as of the date of Closing.

20 "Finance Director" means the duly appointed and acting Finance Director of  
 21 the City or the successor to the duties of that office.



1 "Fiscal Year" means the fiscal year used by the City at any time. At the time  
 2 of the adoption of this ordinance, the Fiscal Year is the 12-month period beginning  
 3 January 1 of each year.

4 "Fitch" means Fitch, Inc., a corporation duly organized and existing under  
 5 and by virtue of the laws of the State of Delaware, and its successors and assigns.

6 "Future Parity Bonds" means any revenue bonds of the City issued after the  
 7 date of issuance of the Bonds having a charge or lien upon the Net Revenues and  
 8 ULID Assessments for payment of the principal thereof and interest thereon equal  
 9 in priority to the charge or lien upon the Net Revenues and ULID Assessments for  
 10 the payment of the principal of and interest on the Outstanding Parity Bonds and  
 11 the Bonds.

12 "Government Obligations" mean those obligations now or hereafter defined  
 13 as such in chapter 39.53 RCW.

14 "Gross Revenues" mean (a) all revenues received for the use of the System,  
 15 (b) revenues received from the sale of by-products from a treatment facility of the  
 16 System or from any other source for rental, use or services rendered by the  
 17 System, (c) ULID Assessments, (d) the proceeds received by the City from the sale  
 18 or other disposition of any of the properties of the System, (e) investment income  
 19 earned on money held in any fund or account of the City in connection with the  
 20 ownership and operation of the System, including any bond redemption funds, and  
 21 (f) federal or state reimbursement of operating expenses to the extent that such  
 22 expenses are included as Costs of Maintenance and Operation, but excluding  
 23 (i) insurance proceeds, (ii) investment income irrevocably pledged to the payment



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1 of any specific sewer revenue bonds of the City refunded or defeased pursuant to a  
2 plan of refunding heretofore or hereafter adopted by the City, (iii) investment  
3 income earned on money in any rebate fund, and (iv) grants, gifts or donations.

4 Amounts withdrawn from the Rate Stabilization Fund shall increase Gross  
5 Revenues for the period in which they are withdrawn, and amounts deposited in the  
6 Rate Stabilization Fund shall reduce Gross Revenues for the period during which  
7 they are deposited.  
8

9 "Interest Account" means the Interest Account in the Bond Fund created by  
10 Ordinance No. 25562.

11 "Letter of Representations" means the blanket issuer letter of representations  
12 from the City to DTC.

13 "Maximum Annual Debt Service" means at the time of calculation, the  
14 maximum amount of Annual Debt Service that will mature or come due in the  
15 current Fiscal Year or any future Fiscal Year on the Parity Bonds.  
16

17 "Maximum Annual Adjusted Debt Service" means Maximum Annual Debt  
18 Service minus the amount of ULID Assessments due in that year and not  
19 delinquent.  
20

21 "Maximum Interest Rate" means, with respect to any particular Variable  
22 Interest Rate Bond, a numerical rate of interest, which shall be set forth in any  
23 Parity Bond Ordinance authorizing such Bond, which shall be the maximum rate of  
24 interest such Bond may at any time bear.  
25  
26



1 "Maximum Reserve Requirement" means the maximum dollar amount  
2 permitted by the Code to be allocated to a reserve fund from tax-exempt bond  
3 proceeds without requiring a balance to be invested at a restricted yield.

4 "Moody's" means Moody's Investors Service, Inc. or its comparable  
5 recognized business successor.  
6

7 "MSRB" means the Municipal Securities Rulemaking Board or any successor  
8 to its functions.

9 "Net Proceeds," when used with reference to any Bonds, means the principal  
10 amount of such Bonds, plus accrued interest and original issue premium, if any,  
11 and less original issue discount, if any.  
12

13 "Net Revenues" means, for any period, the excess of Gross Revenues over  
14 Costs of Maintenance and Operation for such period, excluding from the  
15 computation of Gross Revenues (a) ULID Assessments, (b) any profit or loss  
16 derived from the sale or other disposition, not in the ordinary course of business, of  
17 properties, rights or facilities of the System, or (c) gains or losses resulting from the  
18 early extinguishment of debt.  
19

20 "Outstanding Parity Bond Ordinances" mean the ordinances and resolutions  
21 authorizing the issuance of the Outstanding Parity Bonds as described in the  
22 recitals to this ordinance.  
23

24 "Outstanding Parity Bonds" means the outstanding 2006 Bonds,  
25 2011 Bonds, and the City's obligation to pay 2009 Monthly Rent as identified in the  
26 recitals to this ordinance.



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1 "Parity Bond Ordinances" mean the Outstanding Parity Bond Ordinances,  
2 this ordinance, and any ordinance hereafter passed for the purpose of authorizing  
3 Future Parity Bonds.

4 "Parity Bonds" mean the Outstanding Parity Bonds, the Bonds and any  
5 Future Parity Bonds.

6 "Payment Date" means the dates on which principal and/or interest on the  
7 Parity Bonds is due and payable.

8 "Permitted Investments" means any investments that are now or may  
9 hereafter be permitted to the City by the laws of the State.

10 "Principal Account" means the Principal Account of the Bond Fund created  
11 by Ordinance No. 25562.

12 "Private Person" means any natural person engaged in a trade or business  
13 or any trust, estate, partnership, association, company, or corporation.

14 "Private Person Use" means the use of property in a trade or business by a  
15 Private Person if such use is other than as a member of the general public. Private  
16 Person Use includes ownership of the property by the Private Person as well as  
17 other arrangements that transfer to the Private Person the actual or beneficial use  
18 of the property (such as a lease, management or incentive payment contract or  
19 other special arrangement) in such a manner as to set the Private Person apart  
20 from the general public. Use of property as a member of the general public  
21 includes attendance by the Private Person at municipal meetings or business rental  
22 of property to the Private Person on a short-term basis in accordance with  
23 regulations under the Code if the rental paid by such Private Person is the same as  
24  
25  
26



1 the rental paid by any Private Person who desires to rent the property. Use of  
2 property by nonprofit community groups or community recreational groups is not  
3 treated as Private Person Use if such use is incidental to the governmental uses of  
4 property, the property is made available for such use by all such community groups  
5 on an equal basis and such community groups are charged only a *de minimis* fee to  
6 cover custodial expenses.

7 "Project Lease" means the Project Lease Agreement dated as of February 1,  
8 2009, between TES Properties and the City, delivered in connection with the  
9 2009 TES Properties Bonds.

10 "Projects" mean the acquisition, construction, and installation of additions  
11 and improvements to and equipment for the System as described in the capital  
12 improvements programs for the System approved by the City, as such programs  
13 may be amended from time to time, as further described in Section 3 of this  
14 ordinance.

15 "Qualified Insurance" means any municipal bond insurance policy or surety  
16 bond issued by any insurance company licensed to conduct an insurance business  
17 in any state of the United States (or by a service corporation acting on behalf of one  
18 or more such insurance companies), which insurance company or companies, as of  
19 the time of issuance of such policy or surety bond, are currently rated in one of the  
20 two highest rating categories by Moody's and S&P; *provided, after all of the*  
21 *Outstanding Parity Bonds are fully redeemed, refunded or defeased, this definition*  
22 *shall be amended to read as follows:* "Qualified Insurance" means any non-  
23 cancellable municipal bond insurance policy or surety bond issued by any  
24  
25  
26





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1 insurance company licensed to conduct an insurance business in any state of the  
 2 United States (or by a service corporation acting on behalf of one or more such  
 3 insurance companies), which insurance company or companies, as of the time of  
 4 issuance of such policy or surety bond, are currently rated in one of the two highest  
 5 rating categories by Moody's, S&P or Fitch, or any other rating agency then  
 6 maintaining a rating on the Bonds.  
 7

8 "Qualified Letter of Credit" means any letter of credit issued by a financial  
 9 institution for the account of the City on behalf of the owners of the Bonds, which  
 10 institution maintains an office, agency or branch in the United States and as of the  
 11 time of issuance of such letter of credit is currently rated in one of the two highest  
 12 rating categories by Moody's and S&P; *provided, after all of the Outstanding Parity  
 13 Bonds are fully redeemed, refunded or defeased, this definition shall be amended  
 14 to read as follows:* "Qualified Letter of Credit" means any irrevocable letter of credit  
 15 issued by a financial institution for the account of the City on behalf of the owners of  
 16 one or more series of Parity Bonds, which institution maintains an office, agency or  
 17 branch in the United States and as of the time of issuance of such letter of credit is  
 18 currently rated in one of the two highest rating categories by Moody's, S&P or Fitch,  
 19 or any other rating agency then maintaining a rating on the Bonds.  
 20  
 21

22 "Rate Stabilization Fund" means the fund of that name in the Sewer Fund.

23 "Rebate Amount" means the amount, if any, determined to be payable with  
 24 respect to the Bonds by the City to the United States of America in accordance with  
 25 Section 148(f) of the Code.  
 26



1 "Refunded Bonds" mean all or a portion of the Refunding Candidates  
 2 designated by the Designated Representative for defeasance and/or refunding  
 3 pursuant to Section 9 and Section 20 of this ordinance.  
 4

5 "Refunding Account" means the account by that name established pursuant  
 6 to Section 9 of this ordinance.  
 7

8 "Refunding Candidates" means any or all of the 2006 Bonds maturing in the  
 9 years 2017 through 2036.  
 10

11 "Refunding Trustee" means U.S. Bank National Association.

12 "Registered Owner" means the person named as the registered owner of a  
 13 Bond in the Bond Register. For so long as the Bonds are held in book-entry only  
 14 form, DTC or its nominee shall be deemed to be the sole Registered Owner.  
 15

16 "Reserve Fund" means the Reserve Fund created in the Bond Fund.

17 "Reserve Fund Requirement" is the dollar amount to be calculated with  
 18 respect to all Covered Bonds and, *after the Outstanding Parity Bonds are fully  
 19 redeemed, refunded or defeased*, separately with respect to other Parity Bonds.  
 20

21 (a) With respect to Covered Bonds, the Reserve Fund Requirement  
 22 means as of any date an amount equal to the lesser of (1) the Maximum Annual  
 23 Debt Service for Covered Bonds then outstanding, (2) 125 percent of average  
 24 Annual Debt Service for Covered Bonds then outstanding, or (3) 10 percent of the  
 25 initial face amount of the Covered Bonds then outstanding; provided, however, that  
 26 the dollar amount required to be contributed, if any, as a result of the issuance of a  
 series of Future Parity Bonds shall not be greater than the Maximum Reserve  
 Requirement. If the dollar amount required to be contributed at the time of issuance



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1 of a series of Future Parity Bonds exceeds the Maximum Reserve Requirement,  
2 then the amount required to be contributed shall be equal to the Maximum Reserve  
3 Requirement.

4 (b) *After the Outstanding Parity Bonds are fully redeemed, refunded or*  
5 *deceased*, with respect to other series of Parity Bonds, the Reserve Fund  
6 Requirement shall be equal to the amount, if any, specified in the Parity Bond  
7 Ordinance authorizing the issuance of such Parity Bonds.

8 "Rule" means the Commission's Rule 15c2-12 under the Securities and  
9 Exchange Act of 1934, as the same may be amended from time to time.

10 "S&P" means Standard & Poor's Ratings Services, or its comparable  
11 recognized business successor.

12 "Serial Bonds" means Parity Bonds other than Term Bonds.

13 "Sewer Fund" means the fund of the City of that name created by Section 13  
14 of Ordinance No. 13989, as amended by Ordinance No. 14015, and reenacted by  
15 Section 38 of Ordinance No. 21632.

16 "Sinking Fund Requirement" means, for any Fiscal Year, the principal  
17 amount of Term Bonds required to be purchased, redeemed or paid in such year as  
18 established by the ordinance or resolution of the City authorizing the issuance of  
19 such Term Bonds.

20 "State" means the state of Washington.

21 "System" means the "Tacoma Municipal Sewer System," comprised of  
22 Wastewater Management and Surface Water Management, as the same is defined  
23 in Section 1 of Ordinance No. 13989, as amended by Ordinance No. 14015, and  
24



1 reenacted in and referred to as the "Municipal Sewer System" in Section 1 of  
2 Ordinance No. 21632, as amended by Ordinance No. 21681 and as supplemented  
3 by Ordinance No. 21638, by adding thereto the system of storm and surface water  
4 drainage of the City, as the same has heretofore been added to, improved and  
5 extended and as the same will be added to, improved and extended for as long as  
6 any of the Parity Bonds are outstanding. Such additions, improvements and  
7 extensions shall include the water system of the City should the municipal sewer  
8 system ever be combined with such water system.

9 "Term Bond Retirement Account" means the Term Bond Retirement Account  
10 of the Bond Fund created by Ordinance No. 25562.

11 "Term Bonds" means Parity Bonds designated by the City as term bonds.

12 "Treasurer" means the duly appointed and acting Treasurer of the City or the  
13 successor to the duties of that office.

14 "2006 Bond Ordinance" means the ordinance and resolution authorizing the  
15 issuance of the 2006 Bonds as described in the recitals of this ordinance.

16 "2006 Bonds" means the outstanding Sewer Revenue and Refunding Bonds,  
17 2006 issued pursuant to Substitute Ordinance No. 27490 and Substitute Resolution  
18 No. 36895.

19 "2011 Bonds" means the outstanding Sewer Revenue Refunding Bonds,  
20 2011 issued pursuant to Substitute Ordinance No. 28015 and Substitute Resolution  
21 No. 38334.

22 "2009 Monthly Rent" means the City's obligation to pay monthly rental  
23 payments under the terms of the Project Lease. Pursuant to City Ordinance  
24



1 No. 27677, as amended, the City's obligation to pay 2009 Monthly Rent was  
 2 declared to be a "Future Parity Bond" with a lien on Net Revenues of the System on  
 3 parity with the Outstanding Parity Bonds. For purposes of this ordinance,  
 4 references to the "owner" of the City's obligation to pay 2009 Monthly Rent shall  
 5 mean the Landlord (as such term is defined in the Project Lease) who was declared  
 6 to be a third-party beneficiary of the covenants and terms set forth in the  
 7 Outstanding Parity Bond Ordinances.

8 "2009 TES Properties Bonds" mean the TES Properties, Lease Revenue  
 9 Bonds, 2009, dated as of February 12, 2009, and issued in the original aggregate  
 10 principal amount of \$37,840,000 by TES Properties, a Washington nonprofit  
 11 corporation, on behalf of the City, pursuant to an Indenture of Trust dated as of  
 12 February 1, 2009.

13 "ULID Assessments" means all assessments (including any interest and  
 14 penalties) levied in a utility local improvement district for the acquisition or  
 15 construction of improvements to and extensions of the System if those  
 16 assessments are pledged to be paid into the Bond Fund. In the case of ULID  
 17 Assessments payable in installments, ULID Assessments shall be allocated to the  
 18 years in which they would be received if the unpaid principal balance of each  
 19 assessment roll were paid over the remaining number of installments with interest  
 20 thereon at the rate and in the manner provided in the ordinance confirming the  
 21 assessment roll.

22 "Underwriter" means, collectively, the initial purchaser or purchasers of the  
 23 Bonds, as selected by the Designated Representative.



1 "Variable Interest Rate" means a variable interest rate or rates to be borne  
 2 by a series of Parity Bonds or any one or more maturities within a series of Parity  
 3 Bonds. The method of computing such variable interest rate shall be specified in  
 4 the bond ordinance authorizing such series of Parity Bonds. Such variable interest  
 5 rate shall be subject to a Maximum Interest Rate and there may be an initial rate  
 6 specified, in each case as provided in such bond ordinance, or a stated interest rate  
 7 that may be changed from time to time as provided in the bond ordinance  
 8 authorizing such bonds. Such bond ordinance shall also specify either (a) the  
 9 particular period or periods of time or manner of determining such period or periods  
 10 of time for which each value of such variable interest rate shall remain in effect or  
 11 (b) the time or times upon which any change in such variable interest rate shall  
 12 become effective.

13 "Variable Interest Rate Bonds" for any period of time means Parity Bonds  
 14 that during such period bear a Variable Interest Rate, provided that Parity Bonds  
 15 the interest rate on which shall have been fixed for the remainder of the term  
 16 thereof shall no longer be Variable Interest Rate Bonds.

17 (b) Interpretation. In this ordinance, unless the context otherwise  
 18 requires:

19 (1) The terms "hereby," "hereof," "hereto," "herein," "hereunder"  
 20 and any similar terms, as used in this ordinance, refer to this ordinance as a whole  
 21 and not to any particular article, section, subdivision or clause hereof, and the term  
 22 "hereafter" shall mean after, and the term "heretofore" shall mean before, the date  
 23 of this ordinance;



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1 (2) Words of the masculine gender shall mean and include  
2 correlative words of the feminine and neuter genders and words importing the  
3 singular number shall mean and include the plural number and vice versa;

4 (3) Words importing persons shall include firms, associations,  
5 partnerships (including limited partnerships), trusts, corporations and other legal  
6 entities, including public bodies, as well as natural persons;

7 (4) Any headings preceding the text of the several articles and  
8 sections of this ordinance, and any table of contents or marginal notes appended to  
9 copies hereof, shall be solely for convenience of reference and shall not constitute  
10 a part of this ordinance, nor shall they affect its meaning, construction or effect; and  
11

12 (5) All references herein to "articles," "sections," and other  
13 subdivisions or clauses are to the corresponding articles, sections, subdivisions or  
14 clauses hereof.

15 Section 2. Compliance with Parity Conditions. In accordance with the  
16 Outstanding Parity Bond Ordinances, which permit the issuance of additional Parity  
17 Bonds upon compliance with the conditions set forth therein, the City hereby finds  
18 and determines, as follows:  
19

20 (a) The Bonds are being issued for lawful purposes of the City related to  
21 the System.  
22

23 (b) There is not now and at the time of Closing of the Bonds there shall  
24 not be any deficiency in the Bond Fund.  
25  
26



1 (c) The Bonds shall be issued as Covered Bonds, and this ordinance  
2 provides for payments into the Reserve Fund of amounts and at the times required  
3 by the Outstanding Parity Bond Ordinances.

4 (d) At the time of issuance of the Bonds the City shall have on file a  
5 certificate satisfying the parity requirements of the Outstanding Parity Bond  
6 Ordinances.  
7

8 The applicable conditions of the Outstanding Parity Bond Ordinances having  
9 been or to be complied with in connection with the issuance of the Bonds, the  
10 pledge contained herein of Net Revenues of the System to pay and secure the  
11 payment of the Bonds shall constitute a lien and charge upon such Net Revenues  
12 equal in rank with the lien and charge upon the Net Revenues to pay and secure  
13 the payment of the Outstanding Parity Bonds.  
14

15 Section 3. Adoption of Plan of Additions. The City specifies, adopts and  
16 orders the carrying out of improvements to and extensions of the System, including,  
17 but not limited to, the acquisition, construction, and installation of additions and  
18 improvements to and equipment for the System as specified in the capital  
19 improvement programs for the System approved by the City, as such programs  
20 may be amended from time to time (together, the "Projects"). The City Council may  
21 modify the details of the Projects where, in its judgment, it appears advisable if such  
22 modifications do not substantially alter the purposes of that system or plan. The  
23 estimated cost of carrying out the Projects, including the costs of issuance and sale  
24 of the Bonds, is expected to be at least \$70,000,000, which cost shall be paid from  
25  
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1 the proceeds of the Bonds and from other money available to the City for such  
2 purpose.

3 Section 4. Authorization and Description of Bonds. For the purposes of  
4 defeasing and refunding the Refunded Bonds, financing and/or reimbursing costs of  
5 the Projects, funding the Reserve Fund, and paying costs of issuance of the Bonds,  
6 the City is hereby authorized to issue and sell its sewer revenue and refunding  
7 bonds in the aggregate principal amount of not to exceed \$125,000,000 (the  
8 "Bonds").  
9

10 The Bonds shall be designated as the "City of Tacoma, Washington, Sewer  
11 Revenue and Refunding Bonds, 2015" with additional series designation or other  
12 designation as set forth in the Bond Purchase Contract and approved by the  
13 Designated Representative.  
14

15 The Bonds shall be dated as of their date of initial delivery, shall be fully  
16 registered as to both principal and interest, shall be in the denomination of \$5,000  
17 each or any integral multiple thereof within a maturity, shall be numbered separately  
18 in the manner and with any additional designation as the Bond Registrar deems  
19 necessary for purposes of identification and control, and shall bear interest payable  
20 on the dates set forth in the Bond Purchase Contract. The Bonds shall bear  
21 interest at the rates set forth in the Bond Purchase Contract; and shall mature on  
22 the dates and in the principal amounts set forth in the Bond Purchase Contract and  
23 as approved by a Designated Representative pursuant to Section 20.  
24  
25  
26



1 The Bonds shall be special obligations of the City payable only from the  
2 Bond Fund and shall be payable and secured as provided herein. The Bonds shall  
3 not be general obligations of the City, the State or any political subdivision thereof.  
4

5 Section 5. Registration, Exchange and Payments.

6 (a) Bond Registrar/Bond Register. The City hereby specifies and adopts  
7 the system of registration approved by the Washington State Finance Committee  
8 from time to time through the appointment of state fiscal agencies. The City shall  
9 cause a Bond Register to be maintained by the Bond Registrar. So long as any  
10 Bonds remain outstanding, the Bond Registrar shall make all necessary provisions  
11 to permit the exchange or registration or transfer of Bonds at its principal corporate  
12 trust office. The Bond Registrar may be removed at any time at the option of the  
13 Finance Director upon prior notice to the Bond Registrar and a successor Bond  
14 Registrar appointed by the Finance Director. No resignation or removal of the Bond  
15 Registrar shall be effective until a successor shall have been appointed and until  
16 the successor Bond Registrar shall have accepted the duties of the Bond Registrar  
17 hereunder. The Bond Registrar is authorized, on behalf of the City, to authenticate  
18 and deliver Bonds transferred or exchanged in accordance with the provisions of  
19 such Bonds and this ordinance and to carry out all of the Bond Registrar's powers  
20 and duties under this ordinance. The Bond Registrar shall be responsible for its  
21 representations contained in the Certificate of Authentication of the Bonds.  
22

23 (b) Registered Ownership. The City and the Bond Registrar, each in its  
24 discretion, may deem and treat the Registered Owner of each Bond as the absolute  
25 owner thereof for all purposes (except as provided in Section 23 of this ordinance),  
26



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1 and neither the City nor the Bond Registrar shall be affected by any notice to the  
 2 contrary. Payment of any such Bond shall be made only as described in  
 3 Section 5(h), but such Bond may be transferred as herein provided. All such  
 4 payments made as described in Section 5(h) shall be valid and shall satisfy and  
 5 discharge the liability of the City upon such Bond to the extent of the amount or  
 6 amounts so paid.

8 (c) DTC Acceptance/Letters of Representations. The Bonds initially shall  
 9 be held in fully immobilized form by DTC acting as depository. To induce DTC to  
 10 accept the Bonds as eligible for deposit at DTC, the City has executed and  
 11 delivered to DTC a Blanket Issuer Letter of Representations. Neither the City nor  
 12 the Bond Registrar will have any responsibility or obligation to DTC participants or  
 13 the persons for whom they act as nominees (or any successor depository) with  
 14 respect to the Bonds in respect of the accuracy of any records maintained by DTC  
 15 (or any successor depository) or any DTC participant, the payment by DTC (or any  
 16 successor depository) or any DTC participant of any amount in respect of the  
 17 principal of or interest on Bonds, any notice which is permitted or required to be  
 18 given to Registered Owners under this ordinance (except such notices as shall be  
 19 required to be given by the City to the Bond Registrar or to DTC (or any successor  
 20 depository)), or any consent given or other action taken by DTC (or any successor  
 21 depository) as the Registered Owner. For so long as any Bonds are held in fully  
 22 immobilized form by a depository, DTC or its successor depository shall be deemed  
 23 to be the Registered Owner for all purposes hereunder, and all references herein to  
 24  
 25  
 26



1 the Registered Owners shall mean DTC (or any successor depository) or its  
 2 nominee and shall not mean the owners of any beneficial interest in such Bonds.

3 (d) Use of Depository.

4 (1) The Bonds shall be registered initially in the name of  
 5 "Cede & Co.", as nominee of DTC, with one Bond maturing on each of the maturity  
 6 dates for the Bonds in a denomination corresponding to the total principal therein  
 7 designated to mature on such date. Registered ownership of such Bonds, or any  
 8 portions thereof, may not thereafter be transferred except (A) to any successor of  
 9 DTC or its nominee, provided that any such successor shall be qualified under any  
 10 applicable laws to provide the service proposed to be provided by it; (B) to any  
 11 substitute depository appointed by the Finance Director pursuant to subsection (2)  
 12 below or such substitute depository's successor; or (C) to any person as provided in  
 13 subsection (4) below.

14 (2) Upon the resignation of DTC or its successor (or any substitute  
 15 depository or its successor) from its functions as depository or a determination by  
 16 the Finance Director to discontinue the system of book entry transfers through DTC  
 17 or its successor (or any substitute depository or its successor), the Finance Director  
 18 may hereafter appoint a substitute depository. Any such substitute depository shall  
 19 be qualified under any applicable laws to provide the services proposed to be  
 20 provided by it.

21 (3) In the case of any transfer pursuant to clause (A) or (B) of  
 22 subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding  
 23 Bonds, together with a written request on behalf of the Finance Director, issue a  
 24  
 25  
 26



1 single new Bond for each maturity then outstanding, registered in the name of such  
2 successor or such substitute depository, or their nominees, as the case may be, all  
3 as specified in such written request of the Finance Director.

4 (4) In the event that (A) DTC or its successor (or substitute  
5 depository or its successor) resigns from its functions as depository and no  
6 substitute depository can be obtained, or (B) the Finance Director determines that it  
7 is in the best interest of the beneficial owners of the Bonds that such owners be  
8 able to obtain physical Bond certificates, the ownership of such Bonds may then be  
9 transferred to any person or entity as herein provided, and such Bonds shall no  
10 longer be held by a depository. The Finance Director shall deliver a written request  
11 to the Bond Registrar, together with a supply of physical Bonds, to issue Bonds as  
12 herein provided in any authorized denomination. Upon receipt by the Bond  
13 Registrar of all then outstanding Bonds together with a written request on behalf of  
14 the Finance Director to the Bond Registrar, new Bonds shall be issued in the  
15 appropriate denominations and registered in the names of such persons as are  
16 requested in such written request.

17 (e) Registration of Transfer of Ownership or Exchange; Change in  
18 Denominations. The transfer of any Bond may be registered and Bonds may be  
19 exchanged, but no transfer of any such Bond shall be valid unless it is surrendered  
20 to the Bond Registrar with the assignment form appearing on such Bond duly  
21 executed by the Registered Owner or such Registered Owner's duly authorized  
22 agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the  
23 Bond Registrar shall cancel the surrendered Bond and shall authenticate and  
24  
25  
26



1 deliver, without charge to the Registered Owner or transferee therefor, a new Bond  
2 (or Bonds at the option of the new Registered Owner) of the same date, maturity  
3 and interest rate and for the same aggregate principal amount in any authorized  
4 denomination, naming as Registered Owner the person or persons listed as the  
5 assignee on the assignment form appearing on the surrendered Bond, in exchange  
6 for such surrendered and canceled Bond. Any Bond may be surrendered to the  
7 Bond Registrar and exchanged, without charge, for an equal aggregate principal  
8 amount of Bonds of the same date, maturity and interest rate, in any authorized  
9 denomination. The Bond Registrar shall not be obligated to register the transfer or  
10 to exchange any Bond during the 15 days preceding any principal payment date  
11 any such Bond is to be redeemed.

12 (f) Bond Registrar's Ownership of Bonds. The Bond Registrar may  
13 become the Registered Owner of any Bond with the same rights it would have if it  
14 were not the Bond Registrar, and to the extent permitted by law, may act as  
15 depository for and permit any of its officers or directors to act as a member of, or in  
16 any other capacity with respect to, any committee formed to protect the right of the  
17 Registered Owners of Bonds.

18 (g) Registration Covenant. The City covenants that, until all Bonds have  
19 been surrendered and canceled, it will maintain a system for recording the  
20 ownership of each Bond that complies with the provisions of Section 149 of the  
21 Code.

22 (h) Place and Medium of Payment. Both principal of and interest on the  
23 Bonds shall be payable in lawful money of the United States of America. Interest  
24  
25  
26



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1 on the Bonds shall be calculated on the basis of a year of 360 days and twelve  
 2 30-day months. For so long as all Bonds are held by a depository, payments of  
 3 principal and interest thereon shall be made as provided in accordance with the  
 4 operational arrangements of DTC referred to in the Letter of Representations. In  
 5 the event that the Bonds are no longer held by a depository, interest on the Bonds  
 6 shall be paid by check or draft mailed to the Registered Owners at the addresses  
 7 for such Registered Owners appearing on the Bond Register on the 15th day of the  
 8 month preceding the interest payment date, or upon the written request of a  
 9 Registered Owner of more than \$1,000,000 of Bonds (received by the Bond  
 10 Registrar at least 15 days prior to the applicable payment date), such payment shall  
 11 be made by the Bond Registrar by wire transfer to the account within the United  
 12 States designated by the Registered Owner. Principal of the Bonds shall be  
 13 payable upon presentation and surrender of such Bonds by the Registered Owners  
 14 at the principal office of the Bond Registrar.

15 If any Bond shall be duly presented for payment and funds have not been  
 16 duly provided by the City on such applicable date, then interest shall continue to  
 17 accrue thereafter on the unpaid principal thereof at the rate stated on such Bond  
 18 until it is paid.

19 Section 6. Redemption Prior to Maturity and Purchase of Bonds.

20 (a) Mandatory Redemption of Term Bonds and Optional Redemption, if  
 21 any. The Bonds shall be subject to optional redemption on the dates, at the prices  
 22 and under the terms set forth in the Bond Purchase Contract approved by the  
 23 Designated Representative pursuant to Section 20. The Bonds shall be subject to



1 mandatory redemption to the extent, if any, set forth in the Bond Purchase Contract  
 2 approved by the Designated Representative pursuant to Section 20.

3 (b) Purchase of Bonds. The City hereby reserves the right at any time  
 4 and at any price to purchase any of the Bonds from amounts in the Sewer Fund  
 5 available for such purchase.

6 (c) Selection of Bonds for Redemption. For as long as the Bonds are  
 7 held in book-entry only form, the selection of particular Bonds within a maturity to  
 8 be redeemed shall be made in accordance with the operational arrangements then  
 9 in effect at DTC. If the Bonds are no longer held in uncertificated form, the  
 10 selection of such Bonds to be redeemed and the surrender and reissuance thereof,  
 11 as applicable, shall be made as provided in the following provisions of this  
 12 subsection (c). If the City redeems at any one time fewer than all of the Bonds  
 13 having the same maturity date, the particular Bonds or portions of Bonds of such  
 14 maturity to be redeemed shall be selected by lot (or in such manner determined by  
 15 the Bond Registrar) in increments of \$5,000. In the case of a Bond of a  
 16 denomination greater than \$5,000, the City and the Bond Registrar shall treat each  
 17 Bond as representing such number of separate Bonds each of the denomination of  
 18 \$5,000 as is obtained by dividing the actual principal amount of Bonds by \$5,000.

19 In the event that only a portion of the principal sum of a Bond is redeemed, upon  
 20 surrender of such Bond at the principal office of the Bond Registrar there shall be  
 21 issued to the Registered Owner, without charge therefor, for the then unredeemed  
 22 balance of the principal sum thereof, at the option of the Registered Owner, a Bond





1 or Bonds of like maturity and interest rate in any of the denominations herein  
 2 authorized.

3 (d) Notice of Redemption.

4 (1) Official Notice. For so long as the Bonds are held in  
 5 uncertificated form, notice of redemption (which notice may be conditional) shall be  
 6 given in accordance with the operational arrangements of DTC as then in effect,  
 7 and neither the City nor the Bond Registrar will provide any notice of redemption to  
 8 any Beneficial Owners. Thereafter (if the Bonds are no longer held in uncertificated  
 9 form), notice of redemption shall be given in the manner hereinafter provided.

10 Unless waived by any owner of Bonds to be redeemed, official notice of any such  
 11 redemption (which redemption may be conditioned by the Bond Registrar on the  
 12 receipt of sufficient funds for redemption or otherwise) shall be given by the Bond  
 13 Registrar on behalf of the City by mailing a copy of an official redemption notice by  
 14 first-class mail at least 20 days and not more than 60 days prior to the date fixed for  
 15 redemption to the Registered Owner of the Bond or Bonds to be redeemed at the  
 16 address shown on the Bond Register or at such other address as is furnished in  
 17 writing by such Registered Owner to the Bond Registrar.

18 All official notices of redemption shall be dated and shall state:

19 (A) the redemption date,

20 (B) the redemption price,

21 (C) if fewer than all outstanding Bonds are to be redeemed,  
 22 the identification by maturity (and, in the case of partial redemption, the respective  
 23 principal amounts) of the Bonds to be redeemed,



1 (D) that unless conditional notice of redemption has been  
 2 given and such conditions have not been satisfied or waived or such notice has  
 3 been rescinded, on the redemption date the redemption price will become due and  
 4 payable upon each such Bond or portion thereof called for redemption, and if the  
 5 Bond Registrar then holds sufficient funds to pay such Bonds at the redemption  
 6 price, interest thereon shall cease to accrue from and after said date,

7 (E) any conditions to redemption, and

8 (F) the place where such Bonds are to be surrendered for  
 9 payment of the redemption price, which place of payment shall be the principal  
 10 office of the Bond Registrar.

11 On or prior to any redemption date, unless any condition to such redemption  
 12 has not been satisfied or waived or notice of such redemption has been rescinded,  
 13 the City shall deposit with the Bond Registrar an amount of money sufficient to pay  
 14 the redemption price of all the Bonds or portions of Bonds which are to be  
 15 redeemed on that date. The City retains the right to rescind any redemption notice  
 16 and the related optional redemption of Bonds by giving notice of rescission to the  
 17 affected registered owners at any time on or prior to the scheduled redemption  
 18 date. Any notice of optional redemption that is so rescinded shall be of no effect,  
 19 and the Bonds for which the notice of optional redemption has been rescinded shall  
 20 remain outstanding.

21 (2) Effect of Notice; Bonds Due. If an unconditional notice of  
 22 redemption has been given and not rescinded, or if the conditions set forth in a  
 23 conditional notice of redemption have been satisfied or waived, the Bonds or



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1 portions of Bonds to be redeemed shall, on the redemption date, become due and  
 2 payable at the redemption price therein specified, and, if the Bond Registrar then  
 3 holds sufficient funds to pay such Bonds at the redemption price, then from and  
 4 after such date such Bonds or portions of Bonds shall cease to bear interest. Upon  
 5 surrender of such Bonds for redemption in accordance with said notice, such Bonds  
 6 shall be paid by the Bond Registrar at the redemption price. Installments of interest  
 7 due on or prior to the redemption date shall be payable as herein provided for  
 8 payment of interest. All Bonds which have been redeemed shall be canceled by  
 9 the Bond Registrar and shall not be reissued.

11 (3) Additional Notice. In addition to the foregoing notice, further  
 12 notice shall be given by the City as set out below, but no defect in said further  
 13 notice nor any failure to give all or any portion of such further notice shall in any  
 14 manner defeat the effectiveness of a call for redemption if notice thereof is given as  
 15 above prescribed. Each further notice of redemption given hereunder shall contain  
 16 the information required above for an official notice of redemption plus (A) the  
 17 CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as  
 18 originally issued; (C) the rate of interest borne by each Bond being redeemed;  
 19 (D) the maturity date of each Bond being redeemed; and (E) any other descriptive  
 20 information needed to identify accurately the Bonds being redeemed. Each further  
 21 notice of redemption may be sent at least 20 days before the redemption date to  
 22 each party entitled to receive notice pursuant to Section 23 and with such additional  
 23 information as the City shall deem appropriate, but such mailings shall not be a  
 24 condition precedent to the redemption of such Bonds.



1 (4) Amendment of Notice Provisions. The foregoing notice provisions of this  
 2 Section 6, including, but not limited to, the information to be included in redemption  
 3 notices and the persons designated to receive notices, may be amended by  
 4 additions, deletions and changes in order to maintain compliance with duly  
 5 promulgated regulations and recommendations regarding notices of redemption of  
 6 municipal securities.

7 Section 7. Form of Bonds and Certificate of Authentication. The Bonds shall  
 8 be in substantially the following form with appropriate or necessary insertions,  
 9 depending upon the omissions and variations as permitted or required hereby:

12 UNITED STATES OF AMERICA

13 No. \_\_\_\_\_ \$ \_\_\_\_\_

14 STATE OF WASHINGTON  
 15 CITY OF TACOMA, WASHINGTON  
 16 SEWER REVENUE AND REFUNDING BOND, 2015

17 INTEREST RATE: % MATURITY DATE: CUSIP NO.:  
 18 REGISTERED OWNER: CEDE & CO.  
 19 PRINCIPAL AMOUNT:

20 The City of Tacoma, Washington, a municipal corporation of the State of  
 21 Washington (the "City"), hereby acknowledges itself to owe and for value received  
 22 promises to pay to the Registered Owner identified above, or registered assigns,  
 23 on the Maturity Date identified above, the Principal Amount indicated above and to  
 24 pay interest from \_\_\_\_\_, 2015, or the most recent date to which  
 25 interest has been paid or duly provided for until payment of this bond at the Interest  
 26 Rate set forth above, payable on \_\_\_\_\_ 1, 20\_\_\_\_, and semiannually thereafter on  
 the first days of December and June. Both principal of and interest on this bond  
 are payable in lawful money of the United States of America. For so long as the  
 bonds of this issue are held in fully immobilized form, payments of principal and  
 interest thereon shall be made as provided in accordance with the operational  
 arrangements of The Depository Trust Company ("DTC") referred to in the Blanket  
 Issuer Letter of Representations (the "Letter of Representations") from the City to  
 DTC.



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1 This bond is one of an authorized issue of bonds of like date and tenor,  
 2 except as to number, amount, rate of interest, date of maturity and rights of  
 3 redemption, in the aggregate principal amount of \$\_\_\_\_\_, and is issued  
 4 pursuant to Ordinance No. \_\_\_\_\_ passed by the Council on \_\_\_\_\_, 2015  
 5 (the "Bond Ordinance") to provide the funds necessary to defease and/or refund  
 6 certain outstanding sewer revenue bonds of the City, to finance and/or reimburse  
 7 costs related to the acquisition, construction, and installation of additions and  
 8 improvements to and equipment for the City's municipal sewer system, to fund the  
 9 debt service reserve fund, and to pay costs of issuance.

10 The bonds of this issue are subject to redemption at the option of the City as  
 11 provided in the Bond Ordinance.

12 As security for the payment of the principal of, premium, if any, and interest  
 13 on all Parity Bonds the City has pledged in accordance with the provisions of the  
 14 Bond Ordinance, subject to the provisions of the Bond Ordinance restricting or  
 15 permitting the application thereof, (a) the proceeds of the sale of Parity Bonds to  
 16 the extent held in funds established or continued by the Bond Ordinance, (b) Net  
 17 Revenues and ULID Assessments and (c) the money and assets credited to the  
 18 Sewer Fund and the Bond Fund and the income therefrom. The pledge of Net  
 19 Revenues, money and assets credited to the Sewer Fund and the Bond Fund and  
 20 ULID Assessments constitutes a lien and charge on Net Revenues, said Funds  
 21 and ULID Assessments superior to all other charges of any kind or nature.

22 The City hereby irrevocably covenants and agrees with the registered owner  
 23 of this bond that it will keep and perform all the covenants of this bond and of the  
 24 Bond Ordinance to be by it kept and performed. Reference is hereby made to the  
 25 Bond Ordinance for a complete statement of such covenants.

26 Bonds are interchangeable for bonds of any authorized denomination of  
 equal aggregate principal amount and of the same interest rate and maturity upon  
 presentation and surrender to the Bond Registrar.

This bond shall not be valid or become obligatory for any purpose or be  
 entitled to any security or benefit under the Bond Ordinance until the Certificate of  
 Authentication hereon shall have been manually signed by the Bond Registrar.

It is hereby certified that all acts, conditions and things required by the  
 Constitution and statutes of the State of Washington and the charter and  
 ordinances of the City to exist and to have happened, been done and performed  
 precedent to and in the issuance of this bond do exist and have happened, been  
 done and performed and that the issuance of this bond and the bonds of this series  
 does not violate any constitutional, statutory or other limitation upon the amount of  
 bonded indebtedness that the City may incur.



1 IN WITNESS WHEREOF, the City of Tacoma, Washington, has caused this  
 2 bond to be signed with the manual or facsimile signature of the Mayor and attested  
 3 by the manual or facsimile signature of the City Clerk, and the seal of the City to be  
 4 impressed or a facsimile thereof to be imprinted hereon, as of this \_\_\_ day of  
 \_\_\_\_\_, 2015.

[SEAL]

CITY OF TACOMA, WASHINGTON

By \_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
/s/ manual or facsimile

City Clerk

The Bond Registrar's Certificate of Authentication on the Bonds shall be in  
 substantially the following form:

CERTIFICATE OF AUTHENTICATION

This bond is one of the bonds described in the within-mentioned Bond Ordinance  
 and is one of the Sewer Revenue and Refunding Bonds, 2015 of the City of  
 Tacoma, Washington, dated \_\_\_\_\_, 2015.

WASHINGTON STATE FISCAL AGENCY, as Bond Registrar

By \_\_\_\_\_

Section 8. Execution of Bonds. The Bonds shall be executed on behalf of  
 the City with the manual or facsimile signatures of the Mayor and City Clerk of the  
 City and the seal of the City shall be impressed, imprinted or otherwise reproduced  
 thereon.

Only such Bonds as shall bear thereon a Certificate of Authentication in the  
 form provided herein, manually executed by the Bond Registrar, shall be valid or



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1 obligatory for any purpose or entitled to the benefits of this ordinance. Such  
 2 Certificate of Authentication shall be conclusive evidence that the Bonds so  
 3 authenticated have been duly executed, authenticated and delivered hereunder and  
 4 are entitled to the benefits of this ordinance.

5  
 6 In case either of the officers who shall have executed the Bonds shall cease  
 7 to be an officer or officers of the City before the Bonds so signed shall have been  
 8 authenticated or delivered by the Bond Registrar, or issued by the City, such Bonds  
 9 may nevertheless be authenticated, delivered and issued and upon such  
 10 authentication, delivery and issuance, shall be as binding upon the City as though  
 11 those who signed the same had continued to be such officers of the City. Any Bond  
 12 may be signed and attested on behalf of the City by such persons who at the date  
 13 of the actual execution of such Bond, are the proper officers of the City, although at  
 14 the original date of such Bond any such person shall not have been such officer of  
 15 the City.

16  
 17  
 18 Section 9. Application of Bond Proceeds; Refunding Plan.

19 (a) Construction Fund. There is hereby created and established a  
 20 separate fund to be known as the "2015 Sewer Bond Construction Fund" (the  
 21 "Construction Fund"). A portion of the proceeds of the Bonds shall be deposited  
 22 into the Construction Fund for application to the payment of the costs of the  
 23 Projects and to pay costs of issuance for the Bonds (if not provided for under  
 24 subsection (b) below) as set forth in the closing memorandum for the Bonds.  
 25  
 26



1 Except as provided by the Code, the income from the investment of Bond  
 2 proceeds in the Construction Fund shall be deposited in the Construction Fund and  
 3 applied to the payment of the costs of the Projects.

4  
 5 Except as provided by the Code, if any money allocable to the Bond  
 6 proceeds remains in the Construction Fund after payment of all the costs of the  
 7 Projects or after termination of the Projects by the City, such money shall be  
 8 transferred to the Bond Fund and applied after consultation with Bond Counsel to  
 9 the payment of the principal of or interest on the Bonds.

10  
 11 Pending application as described in this Section 9 and subject to the  
 12 requirements of the Code, money allocable to the Bond proceeds in the  
 13 Construction Fund may be temporarily invested in Permitted Investments.

14 (b) Refunding Plan. For the purpose of realizing a debt service savings,  
 15 the City proposes to defease and/or refund the Refunded Bonds as set forth herein.  
 16 If the Designated Representative determines that it is in the best interest of the City  
 17 to proceed with the refunding authorized herein, the Designated Representative  
 18 shall designate all or a portion of the Refunding Candidates as Refunded Bonds  
 19 and such designation shall be set forth in the Bond Purchase Contract.

20  
 21 A portion of the proceeds of the Bonds shall be deposited with the Refunding  
 22 Trustee pursuant to the Escrow Deposit Agreement to be used immediately upon  
 23 receipt thereof to defease the Refunded Bonds as authorized by the 2006 Bond  
 24 Ordinance and to pay costs of issuance of the Bonds. The net proceeds deposited  
 25 with the Refunding Trustee shall be used to defease the Refunded Bonds and  
 26 discharge the obligations thereon by the purchase of certain Acquired Obligations



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1 bearing such interest and maturing as to principal and interest in such amounts and  
2 at such times which, together with any necessary beginning cash balance, will  
3 provide for the payment of:

4 (1) interest on the Refunded Bonds as such becomes due on and  
5 prior to the Call Date; and

6 (2) the redemption price (100 percent of the principal amount) of  
7 the Refunded Bonds on the Call Date.

8 Such Acquired Obligations shall be purchased at a yield not greater than the  
9 yield permitted by the Code and regulations relating to acquired obligations in  
10 connection with refunding bond issues.

11 A beginning cash balance, if any, and the Acquired Obligations shall be  
12 deposited irrevocably with the Refunding Trustee in an amount sufficient to defease  
13 the Refunded Bonds. In order to carry out the purposes of this Section 9, the  
14 Finance Director is authorized and directed to execute and deliver to the Refunding  
15 Trustee, an Escrow Deposit Agreement.

16 The City hereby sets aside sufficient funds out of the purchase of Acquired  
17 Obligations from proceeds of the Bonds to make the payments described above.

18 The City hereby calls the Refunded Bonds for redemption on the Call Date in  
19 accordance with the provisions of the 2006 Bond Ordinance authorizing the  
20 redemption and retirement of the 2006 Bonds prior to their fixed maturities.

21 Said defeasance and call for redemption of the Refunded Bonds shall be  
22 irrevocable after the issuance of the Bonds and delivery of the Acquired Obligations  
23 to the Refunding Trustee.



1 The Refunding Trustee is hereby authorized and directed to provide for the  
2 giving of notices of the defeasance and/or redemption of the Refunded Bonds in  
3 accordance with the applicable provisions of the 2006 Bond Ordinance. The costs  
4 of publication of such notices shall be an expense of the City.

5 The Refunding Trustee is hereby authorized and directed to pay to the  
6 Finance Director, or, at the direction of the Finance Director, to the paying agent for  
7 the Refunded Bonds, sums sufficient to pay, when due, the payments specified in  
8 this Section 9. All such sums shall be paid from the moneys and Acquired  
9 Obligations deposited with the Refunding Trustee, and the income therefrom and  
10 proceeds thereof. All such sums so paid to or to the order of the Finance Director  
11 shall be credited to the Refunding Account. All moneys and Acquired Obligations  
12 deposited with the Refunding Trustee and any income therefrom shall be held,  
13 invested (but only at the direction of the Finance Director) and applied in  
14 accordance with the provisions of this ordinance and with the laws of the State for  
15 the benefit of the City and owners of the Refunded Bonds.

16 The City will take such actions as are found necessary to see that all  
17 necessary and proper fees, compensation and expenses of the Refunding Trustee  
18 for the Refunded Bonds shall be paid when due.

19 Section 10. Sewer Fund. A special fund of the City has been created and  
20 designated the "Sewer Fund". The City covenants and agrees that so long as any  
21 of the Parity Bonds are outstanding, it will pay or cause to be paid into the Sewer  
22 Fund all Gross Revenues exclusive of ULID Assessments and earnings on money  
23 and investments in any construction fund, the Rate Stabilization Fund, the Bond



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1 Fund and any rebate fund, which earnings may be retained in such funds or  
2 accounts or transferred to other funds or accounts as permitted or required by this  
3 ordinance.

4 The amounts on deposit in the Sewer Fund shall be used only for the  
5 following purposes and in the following order of priority:

- 6 (a) To pay or provide for Costs of Maintenance and Operation.
- 7
- 8 (b) To make all payments required to be made into the Interest Account  
9 in the Bond Fund or to make any Payment in accordance with Section 17.
- 10
- 11 (c) To make all payments required to be made into the Principal Account  
12 in the Bond Fund and to make all payments into the Term Bond Retirement  
13 Account in the Bond Fund.
- 14
- 15 (d) To make all payments pursuant to a reimbursement agreement  
16 ranking on a parity of lien with the Parity Bonds and entered into in connection with  
17 a Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility  
18 with respect to the Reserve Fund, *and after the Outstanding Parity Bonds are fully*  
19 *redeemed, refunded or defeased*, into any other reserve fund created in the future  
20 for the payment of debt service on Parity Bonds; provided, that if there is not  
21 sufficient money to make all payments under reimbursement agreements the  
22 payments will be made on a pro rata basis.
- 23
- 24 (e) To make all payments required to be made into the Reserve Fund to  
25 secure the payment of any Covered Bonds, *and after the Outstanding Parity Bonds*  
26 *are fully redeemed, refunded or defeased*, into any other reserve fund created in  
the future for the payment of debt service on Parity Bonds.



1 (f) To make all payments required to be made into any special fund or  
2 account created to pay or secure the payment of obligations issued having a lien  
3 upon amounts in the Sewer Fund junior and inferior to the lien thereon for the  
4 payment of the principal of and interest on the Parity Bonds.

5 (g) To pay any taxes (or payments in lieu of taxes) upon the System  
6 payable to the City.

7 (h) To make payments into the Rate Stabilization Fund for the purposes  
8 set forth in Section 12 or for any lawful purpose of the City related to the System.

9 Section 11. Bond Fund.

10 (a) A special fund of the City designated the "City of Tacoma Sewer  
11 Revenue Bond Fund" (the "Bond Fund") has previously been created by the City.  
12 The Bond Fund shall be used solely for the purposes of paying the principal of,  
13 premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to  
14 maturity in the manner provided herein or in any Parity Bond Ordinance.

15 The Bond Fund contains four funds and accounts: the Interest Account, the  
16 Principal Account, the Term Bond Retirement Account, and the Reserve Fund. At  
17 the option of the City, separate funds and accounts may be created in the Bond  
18 Fund for the purpose of paying or securing the payment of principal, premium, if  
19 any, and interest on any series of Parity Bonds. The City hereby obligates and  
20 binds itself irrevocably to set aside and to pay into the Bond Fund all ULID  
21 Assessments and out of the Sewer Fund certain fixed amounts sufficient (together  
22 with other available funds on hand and paid into the Bond Fund) to pay the principal  
23 of, premium, if any, and interest on the Bonds and all other Parity Bonds



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1 outstanding pursuant to this ordinance and all other Parity Bond Ordinances when  
 2 due, either at maturity or in accordance with the terms of any Sinking Fund  
 3 Requirement schedule established for the retirement of Term Bonds. The fixed  
 4 amounts to be paid into the Bond Fund, to the extent that such payments are not  
 5 made from ULID Assessments, bond proceeds or from other legally available  
 6 money, shall be made out of the Sewer Fund in the following order of priority: first,  
 7 into the Interest Account; second, into the Principal Account and Term Bond  
 8 Retirement Account; and third, into the Reserve Fund. The City may create  
 9 subaccounts within such funds and accounts for the purpose of paying the Bonds.  
 10

11 (1) Interest Account. In the case of all Parity Bonds, no later than the  
 12 day prior to the date on which an installment of interest is due on any Parity Bonds,  
 13 the City shall transfer from the Sewer Fund to the Interest Account in the Bond  
 14 Fund an amount (together with other money as is on hand and available in such  
 15 Account) equal to the installment of interest then due on all outstanding Parity  
 16 Bonds.  
 17

18 (2) Principal Account and Term Bond Retirement Account. No later  
 19 than the day prior to the date upon which an installment of principal on Parity Bonds  
 20 that are Serial Bonds is due, the City shall transfer from the Sewer Fund to the  
 21 Principal Account in the Bond Fund an amount (together with such other money as  
 22 is on hand and available in such Account) equal to the installment of principal then  
 23 due on all outstanding Parity Bonds that are Serial Bonds.  
 24

25 No later than the day prior to the Sinking Fund Requirement date, the City  
 26 will transfer from the Sewer Fund to the Term Bond Retirement Account an amount



1 (together with such other money as is available and on hand in such account) equal  
 2 to the Sinking Fund Requirement for such date.

3 The City will apply all the money paid into the Term Bond Retirement  
 4 Account to the redemption or purchase of Term Bonds on the next ensuing Sinking  
 5 Fund Requirement due date (or may so apply such money prior to the Sinking Fund  
 6 Requirement due date). In addition to redeeming Term Bonds, the City may apply  
 7 the money paid into the Term Bond Retirement Account to retire Term Bonds by  
 8 purchasing such Term Bonds at a purchase price (including any brokerage charge)  
 9 that is not in excess of the principal amount thereof, in which event the principal of  
 10 such Term Bonds so purchased will be credited against the ensuing Sinking Fund  
 11 Requirement. If, as of any January 1, the principal amount of Term Bonds retired  
 12 by purchase or redemption exceeds the cumulative amount required to be  
 13 redeemed by Sinking Fund Requirement on or before such January 1, then the  
 14 excess may be credited against Sinking Fund Requirements in the manner  
 15 determined by the City at the time of the purchase or redemption. Any such  
 16 purchase of Term Bonds by the City may be made with or without tenders of such  
 17 Term Bonds in such manner as the City will deem, in its discretion, to be in its best  
 18 interest.  
 19

20 (3) Reserve Fund.

21 (A) A Reserve Fund has been created in the Bond Fund for  
 22 the purpose of securing the payment of the principal of and interest on the Covered  
 23 Bonds. *After the Outstanding Parity Bonds are fully redeemed, refunded or*  
 24 *defeased*, the City may create separate reserve funds and establish separate  
 25  
 26



1 Reserve Fund Requirements, if any, to secure the payment of the principal of and  
 2 interest on Parity Bonds.

3         The City hereby covenants and agrees that on the date of Closing for the  
 4 Bonds it shall pay into the Reserve Fund out of proceeds of such Bonds and other  
 5 funds lawfully available therefor and/or acquire Qualified Insurance or a Qualified  
 6 Letter of Credit so that the amount in the Reserve Fund at least equals the Reserve  
 7 Fund Requirement.

8         The City may, at any time, substitute Qualified Insurance or a Qualified  
 9 Letter of Credit for the money and investments in the Reserve Fund or may  
 10 substitute money and investments for Qualified Insurance or a Qualified Letter of  
 11 Credit in accordance with this subsection. The face amount of such Qualified  
 12 Insurance or Qualified Letter of Credit shall be at least equal to the amount of the  
 13 money or investments for which the Qualified Insurance or Qualified Letter of Credit  
 14 is substituted.

15                 (B) Valuation of the amount in the Reserve Fund and all  
 16 subaccounts therein shall be made by the City on each December 31 and may be  
 17 made on any other date. Such valuation shall be at the market value of the  
 18 obligations in such fund and such subaccounts (including accrued interest);  
 19 provided, that investments which mature within one year shall be valued at their  
 20 maturity value.

21                 (C) In the event of the issuance of any Future Parity Bonds  
 22 that are Covered Bonds, the Parity Bond Ordinance authorizing the issuance of  
 23 such Future Parity Bonds shall provide for further and additional approximately  
 24



1 equal monthly payments into the Reserve Fund from the money in the Sewer Fund,  
 2 in such amounts and at such times so that by no later than five years from the date  
 3 of issuance of such Future Parity Bonds or by the final maturity established for such  
 4 series of Future Parity Bonds, whichever occurs first, there will be credited to the  
 5 Reserve Fund an amount equal to the Reserve Fund Requirement.

6 Notwithstanding the foregoing provisions of this subparagraph (C), the proceedings  
 7 authorizing the issuance of Future Parity Bonds that are Covered Bonds, to the  
 8 extent permitted under the Code, may provide for payments into the Reserve Fund  
 9 from the proceeds of such Future Parity Bonds or from any other money lawfully  
 10 available therefor, or may provide for the City to obtain Qualified Insurance or a  
 11 Qualified Letter of Credit for amounts required by subparagraph (E) of this section  
 12 or parallel provisions in other Parity Bond Ordinances to be paid out of the Reserve  
 13 Fund. The face amount of any such Qualified Insurance or Qualified Letter of  
 14 Credit may be credited against the amounts required to be maintained in the  
 15 Reserve Fund by this section or parallel provisions in other Parity Bond Ordinances  
 16 to the extent that such payments and credits to be made are insured by an  
 17 insurance company or guaranteed by a letter of credit from a financial institution.

18                 On receipt of a notice of cancellation of any Qualified Letter of Credit or  
 19 Qualified Insurance or upon notice that the entity providing the Qualified Letter of  
 20 Credit or Qualified Insurance no longer meets the requirements specified herein,  
 21 the City shall substitute a Qualified Letter of Credit or Qualified Insurance in the  
 22 amount required to make up the deficiency created in the Reserve Fund or in the  
 23 alternative shall create a special account in the Sewer Fund and deposit therein, on  
 24  
 25  
 26





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1 or before the 25th day of each of the 36 succeeding calendar months (commencing  
 2 with the 25th day of the calendar month next following the date of the notice) one  
 3 thirty-sixth of the amount sufficient, together with other money and investments on  
 4 deposit in the Reserve Fund, to equal the Reserve Fund Requirement in effect as of  
 5 the date the cancellation or disqualification of the entity becomes effective. Those  
 6 amounts shall be deposited in the special account from money in the Sewer Fund  
 7 after making provision for payment of Costs of Maintenance and Operation and for  
 8 required payments into the Bond Fund. Amounts on deposit in that special account  
 9 shall not be available to pay debt service on Covered Bonds or for any other  
 10 purpose of the City, and shall be transferred to the Reserve Fund on the effective  
 11 date of any cancellation of a Qualified Letter of Credit or Qualified Insurance to  
 12 make up all or part of the deficiency caused thereby. Amounts in that special  
 13 account or in the Reserve Fund may be transferred to the Sewer Fund and used for  
 14 any purpose if and when qualifying Qualified Letter of Credit or Qualified Insurance  
 15 is obtained.

16  
 17  
 18  
 19 (D) If at any time the money and value of Permitted  
 20 Investments in the Reserve Fund shall exceed the amount of money and value of  
 21 Permitted Investments then required to be maintained therein, such excess may be  
 22 transferred to the Sewer Fund.

23  
 24 (E) In the event that there shall be a deficiency in the Interest  
 25 Account, Principal Account or Term Bond Retirement Account in the Bond Fund  
 26 with respect to Covered Bonds, the City shall promptly make up such deficiency  
 from the Reserve Fund by the withdrawal of cash therefrom for that purpose and by



1 the sale or redemption of obligations held in the Reserve Fund, if necessary, in  
 2 such amounts as will provide cash in the Reserve Fund sufficient to make up any  
 3 such deficiency, and if a deficiency still exists immediately prior to a Payment Date  
 4 and after the withdrawal of cash, the City shall then draw from any Qualified Letter  
 5 of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount  
 6 to make up the deficiency. Such draw shall be made at such times and under such  
 7 circumstances as the agreement for such Qualified Letter of Credit or Qualified  
 8 Insurance shall provide. The City covenants and agrees that any deficiency  
 9 created in the Reserve Fund by reason of any withdrawal therefrom for payment  
 10 into the Interest Account, Principal Account or Term Bond Retirement Account shall  
 11 be made up from money in the Sewer Fund first available after providing for the  
 12 required payments into such Interest, Principal and Term Bond Retirement  
 13 Accounts and after providing for payments under a reimbursement agreement  
 14 entered into by the City under Section 19; *provided, after the Outstanding Parity*  
 15 *Bonds are fully redeemed, refunded or defeased*, any such deficiency shall be  
 16 made up within 12 months of such deficiency.

17  
 18  
 19  
 20 (F) When a series of Covered Bonds is refunded in whole or in  
 21 part, money may be withdrawn from the Reserve Fund to pay or provide for the  
 22 payment of refunded Covered Bonds; provided that immediately after such  
 23 withdrawal there shall remain in or be credited to the Reserve Fund money and  
 24 Permitted Investments in an amount equal to the Reserve Fund Requirement or so  
 25 much thereof as is then required to be maintained.



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1 (b) In making the payments and credits to the Principal Account, Interest  
 2 Account, Term Bond Retirement Account and Reserve Fund required by this  
 3 Section 11 and parallel provisions in other Parity Bond Ordinances, to the extent  
 4 that such payments are made from bond proceeds, from money in any Capitalized  
 5 Interest account, or from other money that may legally be available, such payments  
 6 are not required to be made from the Sewer Fund.  
 7

8 (c) Money in the Bond Fund shall be transmitted to the Bond Registrar in  
 9 amounts sufficient to meet the maturing installments of principal of, premium, if any,  
 10 and interest on all Parity Bonds when due. All money remaining in the Bond Fund  
 11 after provision for the payment in full of the principal of, premium, if any, and  
 12 interest on all Parity Bonds shall be returned to the Sewer Fund.  
 13

14 The Bond Fund shall be drawn upon solely for the purpose of paying the  
 15 principal of, premium, if any, and interest on Parity Bonds. Money set aside from  
 16 time to time with the Bond Registrar for such payment shall be held in trust for the  
 17 owners of Parity Bonds in respect of which the same shall have been so set aside.  
 18 Until so set aside, and except as otherwise provided herein, all money in the Bond  
 19 Fund shall be held in trust for the benefit of the owners of all Parity Bonds at the  
 20 time outstanding equally and ratably.  
 21

22 (d) Money in the Bond Fund may, at the option of the City, be invested  
 23 and reinvested as permitted by law in Permitted Investments maturing, or which are  
 24 redeemable at the option of the owner, prior to the date needed or prior to the  
 25 maturity date of the final installment of principal of the Parity Bonds payable out of  
 26 the Bond Fund. At the City's option, earnings on investments in the Bond Fund



1 may be retained in the Bond Fund or transferred to the Sewer Fund, except that  
 2 earnings on investments in the Reserve Fund shall first be applied to remedy any  
 3 deficiency in such fund.  
 4

5 (e) Money in each of the subaccounts and funds established in this  
 6 Section 11 may be used, if necessary, to pay Rebate Amounts to the extent that  
 7 such Rebate Amounts are directly attributable to earnings on such subaccount.  
 8

9 Section 12. Rate Stabilization Fund. A special fund of the City designated  
 10 the "Rate Stabilization Fund" has been established by the City in the Sewer Fund.  
 11 In accordance with the priorities set forth in this ordinance, the City may from time  
 12 to time deposit Net Revenues into the Rate Stabilization Fund and may from time to  
 13 time withdraw amounts therefrom to enhance rate stability or for other lawful  
 14 purposes of the City related to the System.  
 15

16 Section 13. Security for Parity Bonds. All Parity Bonds are special limited  
 17 obligations of the City payable from and secured solely by a charge and lien as set  
 18 forth in this paragraph. There are hereby pledged as security for the payment of  
 19 the principal of, premium, if any, and interest on all Parity Bonds in accordance with  
 20 the provisions of this ordinance, subject to the provisions of this ordinance  
 21 restricting or permitting the application thereof, (a) the proceeds of the sale of Parity  
 22 Bonds to the extent held in funds established or continued by this ordinance,  
 23 (b) Net Revenues and ULID Assessments and (c) the money and assets credited to  
 24 the Sewer Fund and the Bond Fund and the income therefrom. The pledge of Net  
 25 Revenues, money and assets credited to the Sewer Fund and Bond Fund and ULID  
 26



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1 Assessments constitutes a lien and charge on the Net Revenues, the funds and  
2 ULID Assessments superior to all other charges of any kind or nature.

3 All Parity Bonds hereafter outstanding shall be equally and ratably payable  
4 and secured hereunder without priority by reason of date of adoption of the  
5 ordinance providing for their issuance or by reason of their number or date of sale,  
6 issuance, execution or delivery, or by the liens, pledges, charges, trusts,  
7 assignments and covenants made herein, except as otherwise expressly provided  
8 or permitted in this ordinance and except as to insurance which may be obtained by  
9 the City to insure the repayment of one or more series or maturities within a series.  
10

11 Parity Bonds shall not in any manner or to any extent constitute general  
12 obligations of the City or of the State, or any political subdivision of the State, or a  
13 charge upon any general fund or upon any money or other property of the City or of  
14 the State, or of any political subdivision of the State, not specifically pledged thereto  
15 by this ordinance.  
16

17 Section 14. Adequacy of Revenue of System to Make Required Payments.  
18 The Council declares, in fixing the amounts to be paid into the Bond Fund as  
19 provided herein, that it has exercised due regard for Costs of Maintenance and  
20 Operation and has not obligated the City to set aside and pay into the Bond Fund a  
21 greater amount of the Gross Revenues than in its judgment will be available over  
22 and above such Costs of Maintenance and Operation.  
23

24 Section 15. Defeasance. In the event that the City, to effect the payment,  
25 retirement or redemption of any Bond, sets aside in the Bond Fund or in another  
26 special account, cash or noncallable Government Obligations, or any combination



1 of cash and/or noncallable Government Obligations, in amounts and maturities  
2 which, together with the known earned income therefrom, are sufficient to redeem  
3 or pay and retire such Bond in accordance with its terms and to pay when due the  
4 interest and redemption premium, if any, thereon, and such cash and/or noncallable  
5 Government Obligations are irrevocably set aside and pledged for such purpose,  
6 then no further payments need be made into the Bond Fund for the payment of the  
7 principal of and interest on such Bond. The owner of a Bond so provided for shall  
8 cease to be entitled to any lien, benefit or security of this ordinance except the right  
9 to receive payment of principal, premium, if any, and interest from the Bond Fund or  
10 such special account, and such Bond shall be deemed to be not outstanding under  
11 this ordinance.  
12

13 The City shall give written notice of defeasance to the registered owners of  
14 all Bonds so provided for within 20 days of the defeasance and to each party  
15 entitled to receive notice in accordance with Section 23.  
16

17 Section 16. Covenants. The City covenants and agrees with the owners of  
18 the Bonds, from time to time for as long as any such Bonds are outstanding, as  
19 follows:  
20

21 (a) Rate Covenant – General. The City shall establish, maintain and  
22 collect rates or charges in connection with the ownership and operation of the  
23 System that shall be fair and nondiscriminatory and adequate to provide Gross  
24 Revenues sufficient for the payment of the principal of and interest on all Parity  
25 Bonds for which payment has not otherwise been provided and all amounts that the  
26 City is obligated to set aside in the Bond Fund, for the proper operation and



1 maintenance of the System, and for the payment of all amounts that the City may  
 2 now or hereafter become obligated to pay from Gross Revenues.

3 (b) Rate Covenant – Coverage. The City shall establish, maintain and  
 4 collect rates or charges in connection with the ownership and operation of the  
 5 System sufficient to provide Net Revenues in any calendar year hereafter in an  
 6 amount equal to at least 1.30 times the Adjusted Annual Debt Service. *After all of*  
 7 *the Outstanding Parity Bonds are fully redeemed, refunded or defeased, this*  
 8 *requirement shall read as follows:* The City shall establish, maintain and collect  
 9 rates or charges in connection with the ownership and operation of the System  
 10 sufficient to provide Net Revenues in any calendar year hereafter in an amount  
 11 equal to at least 1.25 times the Adjusted Annual Debt Service.

12  
 13 Solely for purposes of calculating the coverage requirement set forth above,  
 14 there shall be added to Gross Revenues in any Fiscal Year any amount withdrawn  
 15 from the Rate Stabilization Fund in such Fiscal Year and deposited in the Sewer  
 16 Fund, and there shall be subtracted from Gross Revenues in any Fiscal Year any  
 17 amount withdrawn from the Sewer Fund and deposited in the Rate Stabilization  
 18 Fund. *After all of the Outstanding Parity Bonds are fully redeemed, refunded or*  
 19 *defeased, credits to or from the Rate Stabilization Fund that occur within 90 days*  
 20 *after the end of a Fiscal Year may be treated as occurring within such Fiscal Year.*

21 The calculation of the coverage requirement set forth above, and in  
 22 Section 18, and the City's compliance therewith, may be made solely with reference  
 23 to this ordinance without regard to future changes in generally accepted accounting  
 24 principles. If the City has changed one or more of the accounting principles used in  
 25  
 26



1 the preparation of its financial statements, because of a change in generally  
 2 accepted accounting principles or otherwise, then an event of default relating to this  
 3 coverage requirement shall not be considered an event of default if the coverage  
 4 requirement ratio would have been complied with had the City continued to use  
 5 those accounting principles employed at the date of the most recent audited  
 6 financial statements prior to the date of this ordinance.

7 (c) Maintenance and Operation Standards. The City will at all times keep  
 8 and maintain the System in good repair, working order and condition, and will at all  
 9 times operate the System and the business in connection therewith in an efficient  
 10 manner and at a reasonable cost.

11 (d) Disposal of Properties. The City shall not sell, mortgage, lease or  
 12 otherwise dispose of the properties constituting the System except as provided by  
 13 law and subject to such additional restrictions as are provided in this section and as  
 14 may be provided in a reimbursement agreement with respect to Qualified Insurance  
 15 or a Qualified Letter of Credit, as follows:

16 (1) The City will not sell, mortgage, lease or otherwise dispose of the  
 17 System in its entirety unless simultaneously with such sale or other disposition,  
 18 provision is made for the payment, redemption or other retirement of all Parity  
 19 Bonds then outstanding.

20 (2) Except as provided in paragraph (3) below, the City will not sell,  
 21 mortgage, lease or otherwise dispose of any part of the System in excess of  
 22 5 percent of the book value of the net utility plant of the System unless provision is  
 23  
 24  
 25  
 26



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1 made for the payment, redemption or other retirement of a principal amount of  
2 Parity Bonds equal to the greater of the following amounts:

3 (A) An amount that will be in the same proportion to the net  
4 Bond Obligation of Parity Bonds then outstanding (defined as the total Bond  
5 Obligation of such Parity Bonds outstanding less the amount of cash and  
6 investments in the Principal Account and Term Bond Retirement Account in the  
7 Bond Fund) that the revenues attributable to the part of the System sold or  
8 disposed of for the 12 preceding months bears to the total revenues for such  
9 period; or  
10

11 (B) An amount that will be in the same proportion to the net  
12 Bond Obligation of Parity Bonds then outstanding that the book value of the part of  
13 the System sold or disposed of bears to the book value of the entire System  
14 immediately prior to such sale or disposition.

15 (3) The City may sell, lease, mortgage or otherwise dispose of any  
16 part of the System which shall have become unserviceable, inadequate, obsolete or  
17 unfit to be used in the operation of the System, or no longer necessary, material to  
18 or useful in such operation.

19 (4) The proceeds of the sale, lease or disposal of any part of the  
20 System shall be deposited in the Sewer Fund.

21 (5) If the sale, lease, mortgage or other disposal of any part of the  
22 System is valued in excess of 10 percent of the book value of the physical assets of  
23 the System, an opinion of an Engineer, based on financial statements of the  
24 System for the most recent Fiscal Year available, shall be delivered in connection  
25  
26



1 with such disposition demonstrating that such sale, mortgage, lease or other  
2 disposal would not prevent the City from meeting the requirements of Section 16(b).

3 (e) No Free Service. Except as permitted by law for the support of the  
4 poor and infirm and otherwise permitted by law in an amount per year not  
5 exceeding 1/10 of 1 percent of annual Costs of Maintenance and Operation, the  
6 City will not furnish sanitary and storm sewage collection and disposal service to  
7 any customer whatsoever free of charge.

8 (f) Books and Accounts – Operating Statement. The City shall keep and  
9 maintain proper books and accounts with respect to the operations, income and  
10 expenditures of the System that are in accordance with proper and legal accounting  
11 procedures. On or before 120 days after each Fiscal Year of the City's operation of  
12 the System, it will prepare or cause to be prepared an operating statement of the  
13 System for such preceding Fiscal Year. Each such statement shall contain a  
14 statement in detail of the Gross Revenues, Costs of Maintenance and Operation,  
15 and expenses for capital purposes of the System for such Fiscal Year, shall contain  
16 a statement as of the end of such year showing the status of all the funds and  
17 accounts created by the various ordinances pertaining to the operation of the  
18 System and authorizing the issuance of outstanding bonds payable from the  
19 revenue of the System, and shall contain a statement of the number of sanitary and  
20 storm sewage collection and disposal customers per class of customer at the end of  
21 such year. Copies of such statement shall be placed on file in the office of the  
22 Department of Finance and shall be open to inspection at any reasonable time by  
23 any owner of the Bonds or of any other outstanding bonds of the City payable out of  
24  
25  
26



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1 the Gross Revenues of the System. Upon the request of any owner of Parity  
 2 Bonds, the City shall provide a copy of such statement to such owner. All expenses  
 3 incurred in the maintenance of such books and accounts and the preparation of  
 4 such statement may be regarded and paid as an expense of operation of the  
 5 System.  
 6

7 (g) Insurance. The City will keep the System insured, and will carry such  
 8 other insurance, with responsible insurers, with policies payable to the City, against  
 9 risks, accidents or casualties, at least to the extent that insurance is usually carried  
 10 by municipal corporations operating like properties; provided, however, that the City  
 11 may, if deemed necessary and advisable by the Council, institute or continue a  
 12 self-insurance program with respect to any or all of the aforementioned risks. In the  
 13 event of any loss or damage, the City will promptly deposit the insurance proceeds  
 14 into any construction fund hereafter created for the System, and use such funds to  
 15 repair or replace the damaged portion of the insured property and apply the  
 16 proceeds of any insurance policy or self-insurance funding for that purpose; or in  
 17 the event the City should determine not to repair or reconstruct such damaged  
 18 portion of the properties of the City, the proceeds of such insurance or self-  
 19 insurance funding shall be transferred to the Reserve Fund to the extent that such  
 20 transfer shall be necessary to make up any deficiency in the Reserve Fund and the  
 21 balance, if any, shall, at the option of the City, be used for repairs, renewals,  
 22 replacements, or additions to or extension of the System or be used in the  
 23 retirement of Parity Bonds prior to maturity, either by purchase at prices not to  
 24 exceed the next applicable redemption price or by call for redemption.  
 25  
 26



1 (h) Tax Covenants. The City covenants that it will not take or permit to be  
 2 taken on its behalf any action that would adversely affect the exemption from  
 3 federal income taxation of the interest on the Bonds and will take or require to be  
 4 taken such acts as may reasonably be within its ability and as may from time to  
 5 time be required under applicable law to continue the exemption from federal  
 6 income taxation of the interest on the Bonds.  
 7

8 (1) Arbitrage Covenant. Without limiting the generality of the  
 9 foregoing, the City covenants that it will not take any action or fail to take any action  
 10 with respect to the proceeds of sale of the Bonds or any other funds of the City  
 11 which may be deemed to be proceeds of the Bonds pursuant to Section 148 of the  
 12 Code and the regulations promulgated thereunder which, if such use had been  
 13 reasonably expected on the dates of delivery of the Bonds to the initial purchasers  
 14 thereof, would have caused the Bonds to be treated as "arbitrage bonds" within the  
 15 meaning of such term as used in Section 148 of the Code. The City will comply  
 16 with the requirements of Section 148 of the Code and the applicable regulations  
 17 thereunder throughout the term of the Bonds.  
 18

19 (2) Private Person Use Limitation for Bonds. The City covenants  
 20 that for as long as the Bonds are outstanding, it will not permit:  
 21

22 (A) More than 10 percent of the Net Proceeds of the Bonds  
 23 to be allocated to any Private Person Use; and  
 24

25 (B) More than 10 percent of the principal or interest  
 26 payments on the Bonds in a Bond Year to be directly or indirectly: (1) secured by  
 any interest in property used or to be used for any Private Person Use or secured



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1 by payments in respect of property used or to be used for any Private Person Use,  
2 or (2) derived from payments (whether or not made to the City) in respect of  
3 property, or borrowed money, used or to be used for any Private Person Use.

4 The City further covenants that, if:

5 (C) More than 5 percent of the Net Proceeds of the Bonds  
6 are allocable to any Private Person Use; and

7 (D) More than 5 percent of the principal or interest payments  
8 on the Bonds in a Bond Year are (under the terms of this ordinance or any  
9 underlying arrangement) directly or indirectly:

10 (i) secured by any interest in property used or to be  
11 used for any Private Person Use or secured by payments in respect of property  
12 used or to be used for any Private Person Use, or

13 (ii) derived from payments (whether or not made to  
14 the City) in respect of property, or borrowed money, used or to be used for any  
15 Private Person Use, then, (1) any Private Person Use of the projects described in  
16 subsection (C) hereof or Private Person Use payments described in subsection (D)  
17 hereof that is in excess of the 5 percent limitations described in such  
18 subsections (C) or (D) will be for a Private Person Use that is related to the state or  
19 local governmental use of the Projects financed and/or refinanced by the proceeds  
20 of the Bonds; and (2) any Private Person Use will not exceed the amount of Net  
21 Proceeds of the Bonds allocable to the state or local governmental use portion of  
22 the Projects to which the Private Person Use of such portion of the Projects  
23 financed and/or refinanced by the proceeds of the Bonds relate. The City further  
24  
25  
26



1 covenants that it will comply with any limitations on the use of the Projects financed  
2 and/or refinanced by the proceeds of the Bonds by other than state and local  
3 governmental users that are necessary, in the opinion of its bond counsel, to  
4 preserve the tax exemption of the interest on the Bonds.

5 (3) Modification of Tax Covenants. The covenants of this section  
6 are specified solely to assure the continued exemption from regular income taxation  
7 of the interest on the Bonds. To that end, the provisions of this section may be  
8 modified or eliminated without any requirement for formal amendment thereof upon  
9 receipt of an opinion of the City's bond counsel that such modification or elimination  
10 will not adversely affect the tax exemption of interest on any Bonds.

11 (4) The City does not designate the Bonds as "qualified tax-  
12 exempt obligations" under Section 265(b)(3) of the Code for investment by financial  
13 institutions.

14 Section 17. Parity Derivative Products. For purposes of this Section 17, the  
15 following words shall have the following definitions:

16 (a) "Payment" means any payment (designated as such by an ordinance  
17 or resolution) required to be made by or on behalf of the City under a Payment  
18 Agreement and which is determined according to a formula set forth in the Payment  
19 Agreement.

20 (b) "Parity Payment Agreement" means a Payment Agreement under  
21 which the City's payment obligations are expressly stated to be secured by a pledge  
22 of and lien on Net Revenues on an equal and ratable basis with the Net Revenues  
23  
24  
25  
26



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1 required to be paid into the Bond Fund to pay and secure the payment of the  
2 principal of and interest on Parity Bonds.

3 (c) "Payment Agreement" means a written agreement, for the purpose of  
4 managing or reducing the City's exposure to fluctuations or levels of interest rates,  
5 currencies or commodities or for other interest rate, investment, asset or liability  
6 management purposes, entered into on either a current or forward basis by the City  
7 and a Qualified Counterparty, all as authorized by any applicable laws of the State.  
8 Such agreement may or may not be characterized by a structure of reciprocity of  
9 payment.  
10

11 (d) "Payment Date" means any date specified in the Payment Agreement  
12 on which a City Payment or Receipt is due and payable under the Payment  
13 Agreement.  
14

15 (e) "Receipt" means any payment (designated as such by an ordinance  
16 or resolution) to be made to, or for the benefit of, the City under a Payment  
17 Agreement by the Payor.  
18

19 (f) "Payor" means a Qualified Counterparty to a Payment Agreement that  
20 is obligated to make one or more payments thereunder.

21 (g) "Qualified Counterparty" means a party (other than the City or a party  
22 related to the City) who is the other party to a Payment Agreement that has or  
23 whose obligations are unconditionally guaranteed by a party that has at least an  
24 investment grade rating from a rating agency (who, if the City's Parity Bonds are  
25 rated by Moody's, must have a rating of at least "A") and who is otherwise qualified  
26



1 to act as the other party to a Payment Agreement under any applicable laws of the  
2 State.

3 A Payment made under a Payment Agreement may be on a parity with the  
4 Bonds if the Payment Agreement satisfies the requirements for Future Parity Bonds  
5 described in Section 18, taking into consideration regularly scheduled Payments  
6 and Receipts (if any) under a Payment Agreement. The following shall be  
7 conditions precedent to the use of any Payment Agreement on a parity with the  
8 Bonds:  
9

10 (1) The City shall obtain an opinion of Bond Counsel on the due  
11 authorization and execution of such Payment Agreement, the validity and  
12 enforceability thereof and opining that the action proposed to be taken is authorized  
13 or permitted by this ordinance or the applicable provisions of any supplemental  
14 ordinance and will not adversely affect the excludability for federal income tax  
15 purposes of the interest on any outstanding Parity Bonds.  
16

17 (2) Prior to entering into a Payment Agreement, the City shall  
18 adopt an ordinance, which shall:  
19

20 (A) set forth the manner in which the Payments and  
21 Receipts are to be calculated and a schedule of Payment Dates;

22 (B) establish general provisions for the rights of parties to  
23 Payment Agreements; and  
24

25 (C) set forth such other matters as the City deems  
26 necessary or desirable in connection with the management of Payment Agreements  
as are not clearly inconsistent with the provisions of this ordinance.





1 The Payment Agreement may oblige the City to pay, on one or more  
 2 scheduled and specified Payment Dates, the Payments in exchange for the Payor's  
 3 obligation to pay or to cause to be paid to the City, on scheduled and specified  
 4 Payment Dates, the Receipts. The City may also enter into Payment Agreements  
 5 that are not reciprocated by the other party to the agreement.  
 6

7 If the City enters into a Parity Payment Agreement, Payments shall be made  
 8 from the Interest Account in the Bond Fund and Annual Debt Service shall include  
 9 any regularly scheduled City Payments adjusted by any regularly scheduled  
 10 Receipts during a Fiscal Year. Receipts shall be paid directly into the Bond Fund.  
 11 Obligations to make unscheduled payments, such as termination payments, may  
 12 not be entered into on a parity with the Parity Bonds.  
 13

14 Nothing in this section shall preclude the City from entering into Payment  
 15 Agreements with a claim on Net Revenues junior to that of the Bonds.  
 16

17 Furthermore, nothing in this section shall preclude the City from entering into  
 18 obligations on a parity with the Bonds in connection with the use of Payment  
 19 Agreements or similar instruments if the City obtains an opinion of Bond Counsel  
 20 that the obligations of the City thereunder are consistent with this ordinance.  
 21

22 Section 18. Future Parity Bonds.

23 (a) The City reserves the right to issue Future Parity Bonds from time to  
 24 time as may be required for any lawful purpose of the City relating to the System,  
 25 including but not limited to, acquiring, constructing and installing additions and  
 26 improvements to and extensions of, acquiring necessary equipment for, or making



1 necessary renewals, replacements or repairs and capital improvements to the  
 2 System and refunding any outstanding indebtedness.

3 (b) The City covenants that Future Parity Bonds shall be issued only  
 4 upon compliance with the following conditions:  
 5

6 (1) At the times of the issuance of such Future Parity Bonds there  
 7 is no deficiency in the Bond Fund or in any of the funds and accounts therein.  
 8

9 (2) With respect to Covered Bonds, the ordinances authorizing the  
 10 issuance of the Future Parity Bonds shall require that there shall be paid into the  
 11 Reserve Fund in the Bond Fund (A) from the proceeds of such Future Parity Bonds  
 12 an amount such that the amount on deposit in the Reserve Fund, allowing for any  
 13 amount covenanted in an ordinance authorizing the issuance of outstanding Parity  
 14 Bonds to be paid into such Fund over five years, is equal to the Reserve Fund  
 15 Requirement, or (B) from the Sewer Fund in approximately equal monthly  
 16 payments, such amounts and at such times so that by no later than five years from  
 17 the date of issuance of such Future Parity Bonds or by the final maturity established  
 18 for such series of Future Parity Bonds, whichever occurs first, there will be credited  
 19 to the Reserve Fund an amount equal to the Reserve Fund Requirement. Upon the  
 20 issuance of any series of Future Parity Bonds, the City shall recalculate the  
 21 Reserve Fund Requirement, which recalculated Reserve Fund Requirement shall  
 22 become effective as of such date of recalculation.  
 23

24 (3) If such Future Parity Bonds are being issued to pay costs  
 25 incurred or to be incurred for purposes other than refunding purposes as described  
 26 in subsection 18(c), there shall be on file with the City Clerk either:



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1 (A) A certificate of the Finance Director of the City stating  
 2 that Net Revenues in any 12 consecutive months out of the most recent 24 months  
 3 preceding the delivery of the bonds then proposed to be issued, as determined from  
 4 the financial statements of the System, were not less than 1.30 times Maximum  
 5 Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then  
 6 proposed to be issued; *provided, after all of the Outstanding Parity Bonds are fully*  
 7 *redeemed, refunded or defeased, this requirement shall read as follows:* A  
 8 certificate of the Finance Director of the City stating that Net Revenues in any  
 9 12 consecutive months out of the most recent 24 months preceding the delivery of  
 10 the bonds then proposed to be issued, as determined from the financial statements  
 11 of the System, were not less than 1.25 times Maximum Adjusted Annual Debt  
 12 Service on all outstanding Parity Bonds and the bonds then proposed to be issued.  
 13 In issuing such certificate the Finance Director shall reflect in the certificate the Net  
 14 Revenues he or she estimates would have been collected in such 12-month period  
 15 if the Council at any time on or prior to the date of delivery of the bonds proposed to  
 16 be issued had adopted any adjustment in the rates, fees and charges collected by  
 17 the City for the services to the System if such new rates, fees and charges had  
 18 been in effect for the entire 12-month period, or

19 (B) A certificate of an Engineer or a Certified Public  
 20 Accountant showing that the "Adjusted Net Revenues" (as determined herein) for  
 21 each calendar year during the life of the bonds proposed to be issued will equal not  
 22 less than 1.30 times Maximum Adjusted Annual Debt Service on all outstanding  
 23 Parity Bonds and the bonds then proposed to be issued; *provided, after all of the*



1 *Outstanding Parity Bonds are fully redeemed, refunded or defeased, this*  
 2 *requirement shall read as follows:* A certificate of an Engineer or a Certified Public  
 3 Accountant showing that the "Adjusted Net Revenues" (as determined herein) for  
 4 each calendar year during the life of the bonds proposed to be issued will equal not  
 5 less than 1.25 times Maximum Adjusted Annual Debt Service on all outstanding  
 6 Parity Bonds and the bonds then proposed to be issued.

7 The "Adjusted Net Revenues" shall be the Net Revenues for a period of any  
 8 12 consecutive months out of the 24 months immediately preceding the date of  
 9 delivery of such proposed Future Parity Bonds (the "Base Period") as adjusted by  
 10 such Engineer or Certified Public Accountant to take into consideration changes in  
 11 Net Revenues estimated to occur under the following conditions for each year after  
 12 such delivery for so long as any Parity Bonds, including the Future Parity Bonds  
 13 proposed to be issued, shall be outstanding:

14 (1) the additional Net Revenues that would have been  
 15 received if any change in rates and charges adopted prior to the date of such  
 16 certificate and subsequent to the beginning of the Base Period and effective within  
 17 12 months had been in force during the full Base Period;

18 (2) the additional Net Revenues that would have been  
 19 received if any facility of the System that became fully operational after the  
 20 beginning of the Base Period had been so operating for the entire Base Period;

21 (3) the additional Net Revenues estimated by such  
 22 Engineer or Certified Public Accountant to be received as a result of any additions  
 23 and improvements to and extensions of any facilities of the System which are



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1 (a) under construction at the time of such certificate or (b) will be constructed or  
2 acquired from the proceeds of the Future Parity Bonds to be issued;

3 (4) the additional Net Revenues that would have been  
4 received if any customers added to the System during the Base Period or  
5 subsequent thereto were customers for the entire Base Period, and  
6

7 (5) ninety percent of the additional Net Revenues estimated  
8 by such Engineer or Certified Public Accountant to be derived from the new  
9 customers that will be added to the System in the first 12 months after the  
10 completion of the construction of the improvements to be made thereto or from  
11 acquisitions out of the proceeds of the sale of such Future Parity Bonds.  
12

13 Such Certified Public Accountant or Engineer may rely upon, and the  
14 Certified Public Accountant or Engineer's certificate shall have attached thereto,  
15 financial statements of the System, certified by the Finance Director, showing  
16 income and expenses for the period upon which the same is based.  
17

18 (c) Refunding Bonds. In the event that any Future Parity Bonds provided  
19 for in this section are issued for refunding purposes and the issuance of such  
20 refunding Future Parity Bonds results in a present value monetary saving to the City  
21 and such refunding Future Parity Bonds will not require an increase of greater than  
22 \$5,000 in debt service payments to be paid in any fiscal or calendar year thereafter  
23 than would have been required to be paid in the same fiscal or calendar year for  
24 Annual Debt Service on the bonds being refunded, then paragraph (3) of  
25 subsection 18(b) need not be complied with to permit such refunding Future Parity  
26



1 Bonds to be issued, although the provisions of paragraphs (1) and (2) of  
2 subsection 18(b) must still be complied with.

3 (d) Junior Lien Bonds. Nothing herein shall prevent the City from issuing  
4 bonds, notes, warrants or other obligations payable from and secured by a lien and  
5 charge junior to the lien and charge securing the payment of Parity Bonds.  
6

7 Section 19. Reimbursement Obligations. In the event that the City elects to  
8 meet the requirements of subsection 11(a)(3) with respect to the Reserve Fund as  
9 to any issue of Parity Bonds through the use of a Qualified Letter of Credit,  
10 Qualified Insurance or other equivalent credit enhancement, the City may contract  
11 with the entity providing such Qualified Letter of Credit, Qualified Insurance or other  
12 equivalent credit enhancement that the City's reimbursement obligation, if any, to  
13 such entity ranks on a parity of lien with the Parity Bonds.  
14

15 In the event that the City elects additionally to secure any issue of Variable  
16 Interest Rate Bonds through the use of a letter of credit, insurance or other  
17 equivalent credit enhancement, the City may contract with the entity providing such  
18 letter of credit, insurance or other equivalent credit enhancement that the City's  
19 reimbursement obligation, if any, to such entity ranks on a parity of lien with the  
20 Parity Bonds; provided, that the payments due under such reimbursement  
21 agreement are such that if such reimbursement obligation were a series of Future  
22 Parity Bonds, such Future Parity Bonds could be issued in compliance with the  
23 provisions of Section 18.  
24  
25  
26



1 Section 20. Sale of Bonds.  
 2 (a) Bond Sale. The Bonds shall be sold by negotiated sale to the  
 3 Underwriter selected by the Designated Representative pursuant to the terms of  
 4 this ordinance and the Bond Purchase Contract. The Designated Representative is  
 5 hereby authorized to select the Underwriter that submits the proposal that is in the  
 6 best interest of the City.  
 7

8 Market conditions are fluctuating and, as a result, the most favorable market  
 9 conditions may occur on a day other than a regular meeting date of the Council.

10 The Council has determined that it would be in the best interest of the City to  
 11 delegate to the Designated Representative for a limited time the authority to select  
 12 the Underwriter, approve the selection of Refunded Bonds (if any) and approve the  
 13 final interest rates, aggregate principal amount, principal amounts of each maturity,  
 14 and redemption rights for the Bonds.  
 15

16 Subject to the terms and conditions set forth in this Section 20, the  
 17 Designated Representative is hereby authorized to enter into the Bond Purchase  
 18 Contract with the Underwriter to issue and sell the Bonds upon his or her approval  
 19 of the final interest rates, maturity dates, aggregate principal amounts, principal  
 20 maturities, and redemption rights set forth therein for the Bonds in accordance with  
 21 the authority granted by this section so long as:  
 22

23 (1) the aggregate principal amount of the Bonds does not exceed  
 24 \$125,000,000,  
 25

26 (2) the final maturity date for the Bonds is no later than  
 December 1, 2045,



1 (3) the Bonds are sold (in the aggregate) at a price not less than  
 2 97 percent and not greater than 130 percent,  
 3

4 (4) the Bonds are sold for a price that results in an aggregate  
 5 minimum net present value debt service savings over the Refunded Bonds of at  
 6 least 5 percent,  
 7

8 (5) the true interest cost for the Bonds (in the aggregate) does not  
 9 exceed 5.5 percent, and  
 10

11 (6) the Bonds conform to all other terms of this ordinance.

12 Subject to the terms and conditions set forth in this section, the Designated  
 13 Representative is hereby authorized to execute the Bond Purchase Contract. The  
 14 signature of one Designated Representative shall be sufficient to bind the City.  
 15

16 Following the execution of the Bond Purchase Contract, the Designated  
 17 Representative shall provide a report to the City Council describing the final terms  
 18 of the Bonds approved pursuant to the authority delegated in this section. The  
 19 authority granted to the Designated Representative by this Section 20 shall expire  
 20 120 days after the effective date of this ordinance. If a Bond Purchase Contract for  
 21 the Bonds has not been executed within 120 days after the effective date of this  
 22 ordinance, the authorization for the issuance of the Bonds shall be rescinded and  
 23 the Bonds shall not be issued nor their sale approved unless such Bonds shall have  
 24 been reauthorized by ordinance of the City Council. The ordinance reauthorizing  
 25 the issuance and sale of such Bonds may be in the form of a new ordinance  
 26 repealing this ordinance in whole or in part or may be in the form of an amendatory



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1 ordinance approving a bond purchase contract or establishing terms and conditions  
2 for the authority delegated under this Section 20.

3 (b) Delivery of Bonds; Documentation. Upon the passage and approval  
4 of this ordinance, the proper officials of the City, including the Finance Director,  
5 Treasurer, and City Manager, are authorized and directed to undertake all action  
6 necessary for the prompt execution and delivery of the Bonds to the Underwriter  
7 and further to execute all closing certificates and documents required to effect the  
8 closing and delivery of the Bonds in accordance with the terms of this ordinance  
9 and the Bond Purchase Contract.

10  
11 Section 21. Approval of Official Statement. The Finance Director is hereby  
12 authorized to ratify and to deem final the preliminary Official Statement relating to  
13 the Bonds for the purposes of the Rule. The Finance Director is further authorized  
14 to ratify and to approve for purposes of the Rule, on behalf of the City, the final  
15 Official Statement relating to the issuance and sale of the Bonds and the  
16 distribution of the final Official Statement pursuant thereto with such changes, if  
17 any, as may be deemed by him or her to be appropriate.

18  
19 Section 22. Supplemental Ordinances.

20  
21 (a) The Council from time to time and at any time may pass an ordinance  
22 or ordinances supplemental hereto, which ordinance or ordinances thereafter shall  
23 become a part of this ordinance, for any one or more or all of the following  
24 purposes:

25 (1) To add to the covenants and agreements of the City contained  
26 in this ordinance other covenants and agreements thereafter to be observed which



1 shall not adversely affect the interests of the owners of any Parity Bonds or to  
2 surrender any right or power reserved to or conferred upon the City.

3 (2) To make such provisions for the purpose of curing any  
4 ambiguities or of curing, correcting or supplementing any defective provision  
5 contained in this ordinance or any ordinance authorizing Parity Bonds in regard to  
6 matters or questions arising under such ordinances as the Council may deem  
7 necessary or desirable and not inconsistent with such ordinances and which shall  
8 not adversely affect the interest of the owners of the Parity Bonds. Any such  
9 supplemental ordinance of the City may be passed without the consent of the  
10 owners of any Parity Bonds at any time outstanding, notwithstanding any of the  
11 provisions of subsection (b) of this section, if the City obtains an opinion of Bond  
12 Counsel to the effect that such supplemental ordinance is solely for one or more of  
13 the purposes stated above and will not adversely affect the interests of the owners  
14 of Parity Bonds.

15 (b) With the consent of the owners of not less than 51 percent in  
16 aggregate Bond Obligations of the Parity Bonds at the time outstanding, the City  
17 may pass an ordinance or ordinances supplemental hereto for the purpose of  
18 adding any provisions to or changing in any manner or eliminating any of the  
19 provisions of this ordinance or of any supplemental ordinance; provided, however,  
20 that no such supplemental ordinance shall:

21 (1) Extend the fixed maturity of any Parity Bonds, or reduce the  
22 rate of interest thereon, or extend the times of payment of interest thereon from  
23 their due dates, or reduce the amount of the principal thereof, or reduce any  
24



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1 premium payable on the redemption thereof, without the consent of the owner of  
2 each bond so affected; or

3 (2) Reduce the aforesaid percentage of bondowners required to  
4 approve any such supplemental ordinance, without the consent of the owners of all  
5 of the Parity Bonds then outstanding.

6 It shall not be necessary for the consent of bondowners under this  
7 subsection (b) to approve the particular form of any proposed supplemental  
8 ordinance, but it shall be sufficient if such consent shall approve the substance  
9 thereof.

10 (c) Upon the passage of any supplemental ordinance pursuant to the  
11 provisions of this section, this ordinance shall be deemed to be modified and  
12 amended in accordance therewith, and the respective rights, duties and obligations  
13 of the City under this ordinance and of all owners of Parity Bonds outstanding  
14 hereunder shall thereafter be determined, exercised and enforced thereunder,  
15 subject in all respects to such modification and amendments, and all the terms and  
16 conditions of any such supplemental ordinance shall be deemed to be part of the  
17 terms and conditions of this ordinance for any and all purposes.

21 Section 23. Ongoing Disclosure.

22 (a) Contract/Undertaking. This section constitutes the City's written  
23 undertaking for the benefit of the owners, including Beneficial Owners, of the Bonds  
24 as required by Section (b)(5) of the Rule.

25 (b) Financial Statements/Operating Data. The City agrees to provide or  
26 cause to be provided to the MSRB the following annual financial information and



1 operating data for the prior fiscal year (commencing in 2015 for the fiscal year  
2 ended December 31, 2014):

3 (1) Annual financial statements, which statements may or may not  
4 be audited, showing ending fund balances for the System prepared in accordance  
5 with Generally Accepted Accounting Principles prescribed by the Washington State  
6 Auditor pursuant to RCW 43.09.200 (or any successor statute);

7 (2) Principal amount of outstanding Parity Bonds and debt service  
8 coverage;

9 (3) Rates for the System substantially as provided in the rate  
10 ordinance approved by the Council; and

11 (4) Number of wastewater and surface water customers.

12 Items (2)–(4) shall be required only to the extent that such information is not  
13 included in the annual financial statements.

14 The information and data described above shall be provided on or before the  
15 last day of the ninth month after the end of the City's fiscal year. The City's current  
16 fiscal year ends December 31. The City may adjust such fiscal year by providing  
17 written notice of the change of fiscal year to the MSRB. In lieu of providing such  
18 annual financial information and operating data, the City may cross-reference to  
19 other documents available to the public on the MSRB's internet website or filed with  
20 the Commission.

21 If not provided as part of the annual financial information discussed above,  
22 the City shall provide the City's audited annual financial statement prepared in  
23 accordance with Generally Accepted Accounting Principles prescribed by the  
24



1 Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute)  
 2 when and if available to the MSRB.

3 (c) Listed Events. The City agrees to provide or cause to be provided to  
 4 the MSRB, in a timely manner not in excess of 10 business days after the  
 5 occurrence of the event, notice of the occurrence of any of the following events with  
 6 respect to the Bonds:  
 7

- 8 • Principal and interest payment delinquencies;
- 9 • Non-payment related defaults, if material;
- 10 • Unscheduled draws on debt service reserves reflecting financial
- 11 difficulties;
- 12 • Unscheduled draws on credit enhancements reflecting financial
- 13 difficulties;
- 14 • Substitution of credit or liquidity providers, or their failure to perform;
- 15 • Adverse tax opinions, the issuance by the Internal Revenue Service of
- 16 proposed or final determinations of taxability, Notices of Proposed
- 17 Issue (IRS Form 5701-TEB) or other material notices or
- 18 determinations with respect to the tax status of the Bonds, or other
- 19 material events affecting the tax status of the Bonds;
- 20 • Modifications to the rights of Bondholders, if material;
- 21 • Optional, contingent or unscheduled Bond calls other than scheduled
- 22 sinking fund redemptions for which notice is given pursuant to
- 23 Exchange Act Release 34 23856, if material, and tender offers;
- 24
- 25
- 26



- 1 • Defeasances;
- 2 • Release, substitution, or sale of property securing repayment of the
- 3 Bonds, if material;
- 4 • Rating changes;
- 5 • Bankruptcy, insolvency, receivership or similar event of the City;
- 6 • The consummation of a merger, consolidation, or acquisition involving
- 7 the City or the sale of all or substantially all of the assets of the City,
- 8 other than in the ordinary course of business, the entry into a
- 9 definitive agreement to undertake such an action or the termination of
- 10 a definitive agreement relating to any such actions, other than
- 11 pursuant to its terms, if material; and
- 12 • Appointment of a successor or additional trustee or the change of
- 13 name of a trustee, if material.

14 (d) Format for Filings with the MSRB. All notices, financial information  
 15 and operating data required by this undertaking to be provided to the MSRB must  
 16 be in an electronic format as prescribed by the MSRB. All documents provided to  
 17 the MSRB pursuant to this undertaking must be accompanied by identifying  
 18 information as prescribed by the MSRB.  
 19

20 (e) Notification Upon Failure to Provide Financial Data. The City agrees  
 21 to provide or cause to be provided, in a timely manner, to the MSRB notice of its  
 22 failure to provide the annual financial information described in subsection (b) above  
 23 on or prior to the date set forth in subsection (b) above.  
 24



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1 (f) Termination/Modification. The City's obligations to provide annual  
 2 financial information and notices of certain listed events shall terminate upon the  
 3 legal defeasance, prior redemption or payment in full of all of the Bonds. Any  
 4 provision of this section shall be null and void if the City (i) obtains an opinion of  
 5 Bond Counsel to the effect that the portion of the Rule that requires that provision is  
 6 invalid, has been repealed retroactively or otherwise does not apply to the Bonds  
 7 and (ii) notifies the MSRB of such opinion and the cancellation of this section.

8  
 9 The City may amend this section with an opinion of Bond Counsel in  
 10 accordance with the Rule. In the event of any amendment of this section, the City  
 11 shall describe such amendment in the next annual report, and shall include a  
 12 narrative explanation of the reason for the amendment and its impact on the type  
 13 (or in the case of a change of accounting principles, on the presentation) of financial  
 14 information or operating data being presented by the City. In addition, if the  
 15 amendment relates to the accounting principles to be followed in preparing financial  
 16 statements, (A) notice of such change shall be given in the same manner as for a  
 17 listed event under subsection (c), and (B) the annual report for the year in which the  
 18 change is made shall present a comparison (in narrative form and also, if feasible,  
 19 in quantitative form) between the financial statements as prepared on the basis of  
 20 the new accounting principles and those prepared on the basis of the former  
 21 accounting principles.

22  
 23 (g) Bond Owner's Remedies Under This Section. The right of any  
 24 bondowner or Beneficial Owner of Bonds to enforce the provisions of this section  
 25 shall be limited to a right to obtain specific enforcement of the City's obligations  
 26



1 under this section, and any failure by the City to comply with the provisions of this  
 2 undertaking shall not be an event of default with respect to the Bonds.

3 (h) No Default. Except as otherwise disclosed in the City's Official  
 4 Statement relating to the Bonds, the City is not and has not been in default in the  
 5 performance of its obligations of any prior undertaking for ongoing disclosure with  
 6 respect to its obligations.  
 7

8 Section 24. Lost or Destroyed Bonds. In case any Bonds shall be lost,  
 9 stolen or destroyed, the Bond Registrar may authenticate and deliver a new  
 10 Bond(s) of like series, amount, date, tenor, and effect to the owner thereof upon the  
 11 owner paying the expenses and charges of the City in connection therewith and  
 12 upon filing with the Bond Registrar evidence satisfactory to the Bond Registrar that  
 13 such Bond(s) were actually lost, stolen or destroyed and of ownership thereof, and  
 14 upon furnishing the City with indemnity satisfactory to both.  
 15

16 Section 25. Severability. If any one or more of the covenants or agreements  
 17 provided in this ordinance to be performed on the part of the City shall be declared  
 18 by any court of competent jurisdiction to be contrary to law, then such covenant or  
 19 covenants, agreement or agreements, shall be null and void and shall be deemed  
 20 separable from the remaining covenants and agreements of this ordinance and  
 21 shall in no way affect the validity of the other provisions of this ordinance or of the  
 22 Bonds.  
 23  
 24  
 25  
 26





1 Section 26. Effective Date. This ordinance shall take effect and be in force  
 2 10 days after its passage, approval and publication as required by law.

3  
 4 Passed \_\_\_\_\_

5  
 6 \_\_\_\_\_  
 Mayor

7 Attest:

8  
 9 \_\_\_\_\_  
 City Clerk

10  
 11 Approved as to form and legality:  
 12 Pacifica Law Group LLP  
 13 Bond Counsel to the City of Tacoma

14 By \_\_\_\_\_  
 15  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25  
 26

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CLERK'S CERTIFICATE

1 I, the undersigned, the duly chosen, qualified City Clerk of the City of  
 2 Tacoma, Washington, and keeper of the records of the Council (herein called the  
 3 "Council"), DO HEREBY CERTIFY:

4 1. That the attached Ordinance No. \_\_\_\_ (herein called the "Ordinance")  
 5 is a true and correct copy of an Ordinance of the Council, as finally passed at a  
 6 regular meeting of the Council held on the 13th day of January, 2015, and duly  
 7 recorded in my office.  
 8

9 2. That said meeting was duly convened and held in all respects in  
 10 accordance with law, and to the extent required by law, due and proper notice of  
 11 such meeting was given; that a legal quorum was present throughout the meeting  
 12 and a legally sufficient number of members of the Council voted in the proper  
 13 manner for the passage of said Ordinance; that all other requirements and  
 14 proceedings incident to the proper adoption of said Ordinance have been duly  
 15 fulfilled, carried out and otherwise observed, and that I am authorized to execute  
 16 this certificate.  
 17

18  
 19 IN WITNESS WHEREOF, I have hereunto set my hand and affixed the  
 20 official seal of the City as of this 13th day of January, 2015.  
 21

22 \_\_\_\_\_  
 23 City Clerk  
 24 City of Tacoma, Washington  
 25  
 26

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**APPENDIX B**

**FORM OF BOND COUNSEL OPINION**

March 18, 2015

City of Tacoma, Washington  
Tacoma, Washington

J.P. Morgan Securities LLC  
Seattle, Washington

Siebert Brandford Shank & Co., LLC  
Seattle, Washington

Re: City of Tacoma, Washington  
Sewer Revenue and Refunding Bonds, 2015 — \$109,300,000

Ladies and Gentlemen:

We have acted as bond counsel to the City of Tacoma, Washington (the “City”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Sewer Revenue and Refunding Bonds, 2015, in the principal amount of \$109,300,000 (the “Bonds”) issued pursuant to Ordinance No. 28278 of the City (the “Bond Ordinance”), to finance a portion of the costs of the City’s capital improvement program for its combined municipal sewer system (the “System”), to advance refund and defease a portion of the City’s outstanding Sewer Revenue and Refunding Bonds, 2006, to make a deposit to the debt service reserve fund, and to pay costs of issuance of the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are subject to redemption prior to maturity as provided in the Bond Ordinance and Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Bond Ordinance and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the City, both principal thereof and interest thereon payable solely out of a special fund of the City known as the “Sewer Revenue Bond Fund” (the “Bond Fund”), except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bond Ordinance is a legal, valid and binding obligation of the City, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The City has pledged and bound itself to pay into the Sewer Fund all of the Gross Revenues derived by the City from the operation of the System. The City has further pledged and bound itself to set aside from the money in the Sewer Fund and to pay into the Bond Fund and the funds and accounts therein certain fixed amounts sufficient to pay the principal, premium, if any, and interest on the Bonds and all other Parity Bonds as the

same become due. As security for the payment of the principal of, premium, if any, and interest on all Parity Bonds the City has pledged (i) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance, (ii) Net Revenues and ULID Assessments, if any, and (iii) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom. The pledge of Net Revenues, money and assets credited to the Sewer Fund and the Bond Fund and ULID Assessments constitutes a lien and charge on such Net Revenues, ULID Assessments and funds superior to all other charges of any kind or nature. The City has reserved the right to issue Future Parity Bonds and other parity obligations on the terms and conditions set forth in the Bond Ordinance.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,  
PACIFICA LAW GROUP LLP

**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS OF THE SYSTEM  
AS OF DECEMBER 31, 2013**

**(attached)**

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*Wastewater and Surface Water  
Management  
2013 Financial Report*

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# *Independent Auditor's Report*

## REPORT OF INDEPENDENT AUDITORS

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of City of Tacoma, Washington Public Works Department, Environmental Services, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 11 to the financial statements, the Division adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 7 through 12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 43 through 49 are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.



Tacoma, Washington  
April 7, 2014

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# *Management's Discussion and Analysis*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Management's Discussion and Analysis**  
**December 31, 2013 and 2012**

**Introduction**

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Wastewater and Surface Water Management Division (the Division) for the years ended December 31, 2013 and 2012. The MD&A is designed to focus on significant financial transactions and activities and to identify changes in financial position. This information should be read in conjunction with the financial statements taken as a whole. The financial statements are prepared on a full accrual basis of accounting.

**Financial Highlights**

- Total net position is \$386.4 million at December 31, 2013 compared to \$369.5 million and \$362.8 million at year-end 2012 and 2011, respectively. The change in net position is \$16.9 million in 2013, \$6.6 million in 2012 and \$7.7 million in 2011.
- Total assets and deferred outflows of resources are \$606.6 million, an increase of \$12.3 million in 2013 compared to \$594.2 million, a decrease of \$5.1 million in 2012.
- Liabilities and deferred inflows of resources are \$220.2 million, a decrease of \$4.6 million in 2013 compared to \$224.8 million, a decrease of \$11.8 million in 2012.

**Financial Analysis – Condensed Statements of Net Position**

	<b>December 31,</b>		
	<b>2013</b>	<b>2012 (as restated)</b>	<b>2011 (as restated)</b>
Current, restricted, and other assets	\$ 96,634,377	\$ 121,015,523	\$ 147,597,911
Capital assets	508,831,233	472,068,087	449,849,304
Deferred outflows of resources	1,098,362	1,159,666	1,918,773
Total assets and deferred outflows of resources	<u>\$ 606,563,972</u>	<u>\$ 594,243,276</u>	<u>\$ 599,365,988</u>
Current liabilities and liabilities payable from restricted assets	\$ 13,474,553	\$ 13,993,493	\$ 15,782,235
Noncurrent liabilities	181,730,999	185,762,831	198,243,680
Deferred inflows of resources	25,000,000	25,000,000	22,500,000
Total liabilities and deferred inflows of resources	<u>220,205,552</u>	<u>224,756,324</u>	<u>236,525,915</u>
Net investment in capital assets	379,249,919	345,790,613	324,655,577
Restricted for bond reserves	9,573,274	8,227,353	7,516,853
Unrestricted	(2,464,773)	15,468,986	30,667,643
Total net position	<u>386,358,420</u>	<u>369,486,952</u>	<u>362,840,073</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 606,563,972</u>	<u>\$ 594,243,276</u>	<u>\$ 599,365,988</u>



#### Current, restricted, and other assets

Current, restricted, and other assets decreased \$24.4 million in 2013 and \$26.6 million in 2012. The primary reason for the 2013 decrease was a \$26.0 million decrease in cash due to increased spending on capital projects of \$39.5 million funded by \$7.5 million from the 2006 Sewer Revenue Bonds and \$32.0 million from cash generated from operating activities.

In 2012, cash decreased \$27.4 million due to calling \$11.0 million remaining on the 2002 Revenue Refunding Bonds in June 2012 and \$29.8 million spending on capital projects funded by \$12.7 million from the 2006 Sewer Revenue Bonds and \$17.1 million from operating cash.

Other changes in 2013 include a \$640,000 increase in grants receivable, mainly from the Washington State Department of Ecology for the Cheney Stadium project. Prepaid expenses increased \$460,000 due to prepaid rental expenses for a 10 year lease on the Cavanaugh Building for the Tagro operation.

#### Deferred outflows of resources

Deferred outflows of resources is a new caption in 2013 and includes unamortized refunding costs on the 2006 and 2011 revenue bonds. There is a \$61,000 decrease in 2013 and \$759,000 in 2012. The changes during the year are due to amortizing these costs.

#### Current liabilities and liabilities payable from restricted assets

Total current liabilities including those payables from restricted assets decreased \$519,000 in 2013 and \$1.8 million in 2012. The 2013 changes include a \$793,000 decrease in accounts payable, a \$288,000 decrease in environmental liabilities and a \$247,000 increase in due other funds. The environmental liabilities decreased primarily due to less anticipated clean-up costs related to the Thea Foss Waterway. The 2012 changes included a \$2.5 million decrease in revenue bonds principal payable and a \$234,000 increase in accrued wages due to an additional week of payroll accruals at year-end.

#### Noncurrent liabilities

Noncurrent liabilities decreased \$4.0 million in 2013 and \$12.5 million in 2012. The 2013 decrease was primarily due to payments on the State Revolving Funds (SRF) loans of \$3.5 million. The 2012 decrease was the result of calling the 2002 Revenue Refunding Bonds and payments on the SRF loans.

#### Deferred inflows of resources

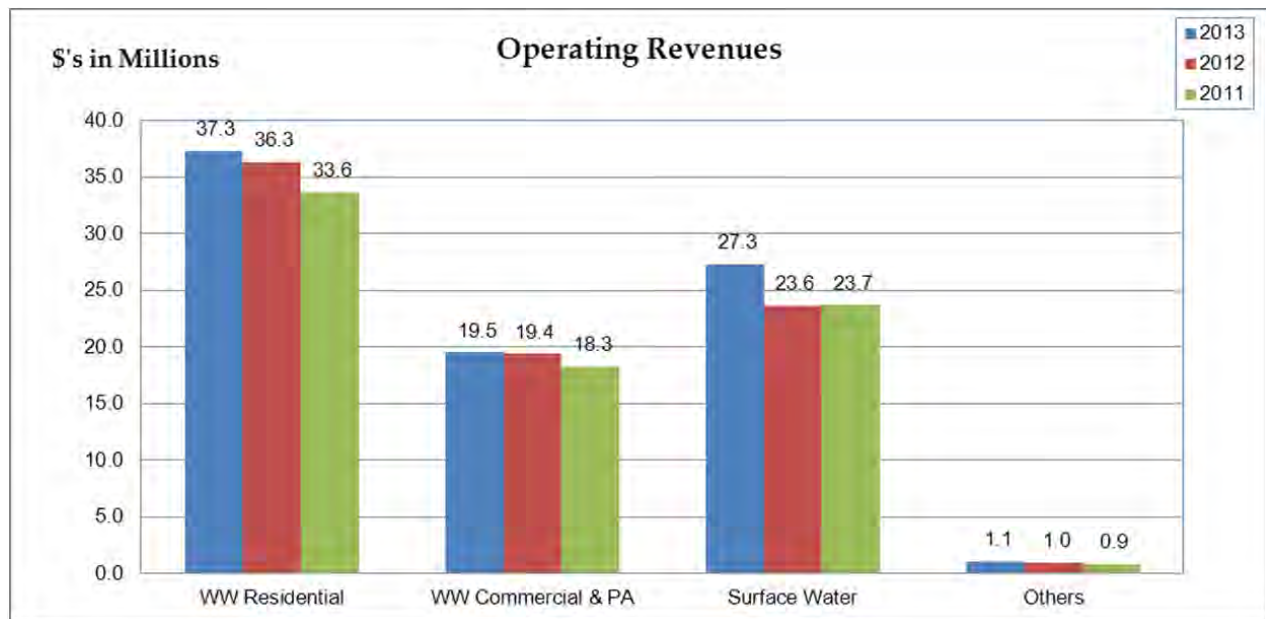
Deferred inflows of resources is a new caption in 2013 and includes rate stabilization credit. In 2012, \$2.5 million was transferred to the Rate Stabilization Fund in order to better match revenues with future expenses.

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

	Year Ended December 31,		
	2013	2012 (as restated)	2011 (as restated)
Operating revenues	\$ 85,108,081	\$ 80,201,594	\$ 76,500,058
Operating expenses	68,772,885	68,125,720	63,859,726
Net operating income	16,335,196	12,075,874	12,640,332
Nonoperating revenues (expenses)	(5,201,731)	(4,285,494)	(3,596,910)
Income before contributions and transfers	11,133,465	7,790,380	9,043,422
Contributions	10,964,513	4,872,655	3,940,156
Transfers	1,688,834	682,025	1,060,608
Gross earnings taxes	(6,915,344)	(6,698,181)	(6,309,651)
Change in net position	16,871,468	6,646,879	7,734,535
Net position, as originally stated			
Effect of restatement			(549,900)
Net position - beginning as restated	369,486,952	362,840,073	355,655,438
Net position - ending	\$ 386,358,420	\$ 369,486,952	\$ 362,840,073

### Operating revenues

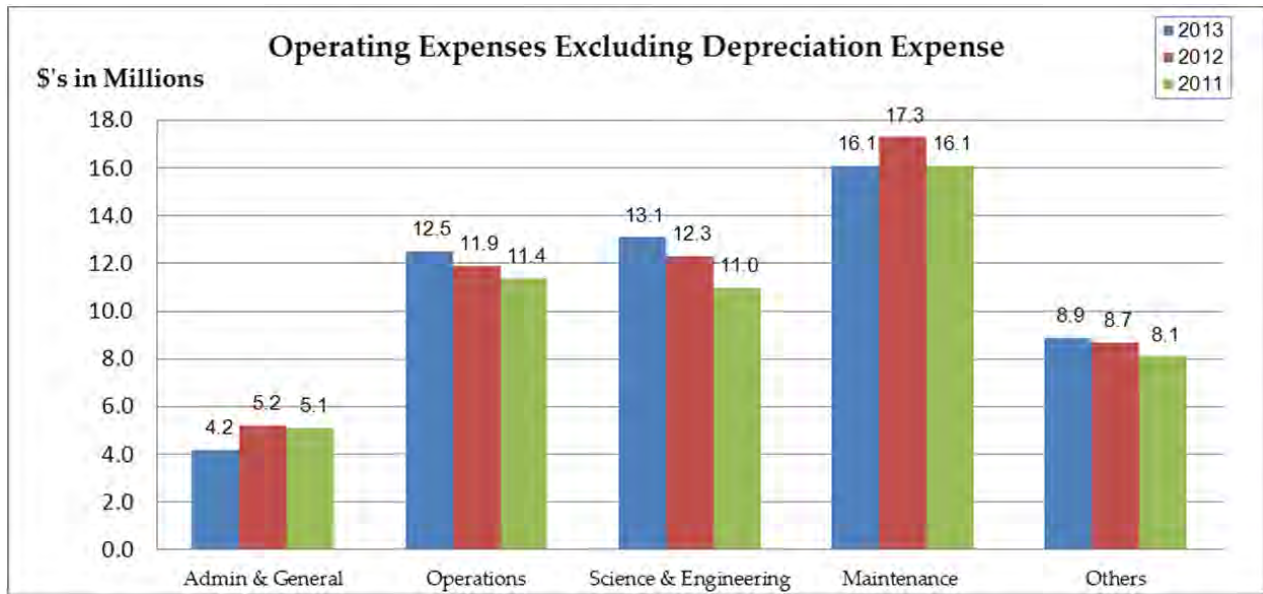
The following graph provides a comparison of operating revenues for the three years.



Operating revenues were \$85.1 million in 2013 compared to \$80.2 million in 2012 and \$76.5 million in 2011. However, the 2012 revenues before the transfer of \$2.5 million to the Rate Stabilization Fund totaled \$82.7 million. The table above reflects this change in the surface water revenues. The approved average revenue increase for Wastewater Management was 4.8% for each of the years 2013, 2012, and 2011, and for Surface Water Management was 6% for 2013 and 5.4% for each of the years 2012 and 2011. The 2013 rate increases went into effect March 1<sup>st</sup> instead of the usual January 1<sup>st</sup> resulting in less of an increase compared to the increases in 2012. In addition, wastewater residential revenues reflect the lower than planned average winter water usage as customers conserve more water.

## Operating expenses

The graph below shows a three year comparison of operating expenses excluding depreciation.



### 2013 Activity

Operating expenses were \$68.8 million in 2013 and \$68.1 million in 2012, an increase of \$647,000.

- Administration and general costs decreased \$1.0 million (19%) primarily due to increased capitalized A&G credits of \$418,000 as a result of increased spending on capital projects and decreased bad debt expenses of \$450,000 due to reductions in older receivables. Capital lease payments decreased \$350,000 due to expensing the January 2013 payment in December 2012. There was an increase of \$174,000 in professional services resulting from the rate model and the capital management E-Builder software projects.
- Operation costs increased \$540,000 due to increased personnel related costs of \$360,000 and professional services for the Community Gardens Program.
- Science and engineering costs increased \$793,000 principally due to spending on expensed projects and more laboratory work performed for the Division.
- Maintenance costs decreased \$1.2 million primarily due to reduced material costs for maintenance and repairs as a result of the mild winter conditions, an absence of major line failures, and no major maintenance on pumps. There are capital pump replacement projects underway resulting in less maintenance expense.

### 2012 Activity

Operating expenses were \$68.1 million in 2012 and \$63.9 million in 2011, an increase of \$4.2 million.

- Operation costs increased \$484,000 over 2011 as a result of increased Pierce County wastewater treatment charges and a new rental cost for the Tagro Cavanaugh Building lease. Other increases include increased costs for the compensated absences accrual and chemical and gas purchased for water treatment and bio-solid dewatering.
- Science and engineering costs increased \$1.3 million (12%) mainly due to increased personnel related costs as a result of the increased number of full-time employees to 136 from 88 in 2011. The increase in staff resulted from the transfer in from the Public Works Department the Construction Division, which employed 27, and other staff to fill vacancies.
- Maintenance costs increased \$1.1 million as a result of more work performed on expense projects, including the Electronic Operation and Management manual project, than on capital projects compared to 2011. Other increases include increased costs of materials and parts used for Treatment Plant #1 upgrades and repairs and outside service contracts, including the Digester #5 painting.
- Other operating expenses increased \$673,000 mainly due to increased assessment charges from IT and Customer Service.

### Nonoperating revenues (expenses)

Nonoperating revenues and expenses consist principally of investment income, rental income, operating grant revenues, and interest expense. Net expenses of \$5.2 million were reported in 2013, an increase of \$916,000 (21%) from the net expenses of \$4.3 million in 2012. Significant changes include:

- Investment income decreased \$1.9 million (89%) to \$237,000 from \$2.2 million in 2012: 1) the mark to market adjustment decreased investment revenue by \$457,000, and 2) the investment earnings were \$1.5 million lower because of the reduced cash balance due to increased spending on capital projects.
- There is no operating grant revenue in 2013 compared to \$332,000 in 2012.
- Revenue bond related costs decreased \$889,000 due to calling the 2002 Revenue Refunding Bonds in 2012.
- Other nonoperating expenses decreased \$414,000 due to decreased losses on disposal of assets.

### Contributions

The Division recorded \$1.0 million of donated lines in 2013 compared to \$3.6 million in 2012 and \$3.4 million in 2011. Transfers from the City's General Fund account for \$8.4 million for land designated as "Open Space" recorded as contributions.

### Transfers

Capital related transfers were \$1.9 million; \$1.5 million from Public Works for the Pacific Avenue Streetscape Project and \$314,000 from Public Assembly Facilities for land designated as "Open Space". Operating related transfers out of \$168,000 were for radio replacements compared to the transfers in from other funds of \$682,000 in 2012 for radio and public liability assessments.

### **Capital Assets**

Capital assets increased \$36.8 million compared to \$22.2 million in 2012. (See Note 3.)

#### 2013 Activity

Capital assets increased \$36.8 million over the prior year. Land increased \$8.9 million mainly due to recording "Open Space" land transferred to Surface Water. Machinery and equipment increased \$10.1 million primarily due to the capitalization of the Lincoln & Marine View Drive Pump Station and High Purity Oxygen Generation Facility projects. Transmission lines and other improvements increased \$27.5 million: 4,146 feet of donated lines were recorded for \$1.0 million, 66,452 feet of old lines were retired at the historical cost of \$255,000, and 76,156 feet of new replacement lines and extended sewer lines were recorded for \$18.7 million. Other improvements include the Pacific Avenue Streetscape Project recorded for the value of \$4.0 million of which \$1.5 million was grant funded. Accumulated depreciation increased \$13.8 million and construction in progress increased \$3.4 million.

#### 2012 Activity

Capital assets increased \$22.2 million over the prior year. Buildings increased \$4.4 million mainly due to the capitalization of the Eductor Decant Facility. Machinery and equipment increased \$5.9 million due to the capitalization of the Salmon Beach Lower Pump for \$2.9 million and various purchases of equipment and vehicles. Transmission lines increased \$20.7 million: 13,800 feet of donated lines were recorded at \$3.6 million and 37,963 feet of old pipe lines were retired at historical cost of \$146,000 and replaced with 67,500 feet of new and extended sewer lines for \$17.1 million. Accumulated depreciation increased \$12.5 million and construction in progress increased \$3.4 million.

### **Debt Administration**

At December 31, 2013, the Division had \$152.7 million outstanding in long-term debt: \$59.2 million of this is junior lien debt consisting of SRF loans and \$93.5 million is senior parity bond debt. This compares to \$156.6 million in 2012 and \$171.5 million in 2011. 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.

**Debt Service Coverage**

The bond coverage ratio is calculated by dividing net revenue by debt service as defined by bond covenants. The SRF loans are junior lien debt and excluded from the debt service in the bond coverage ratio calculation. However, 100% of the capital lease obligation on the Urban Waters building was included as parity debt although 20% is expected to be received from the Solid Waste Division.

The bond coverage ratio is 4.46 at the end of 2013 from a ratio of 2.75 at the end of 2012 and 2.94 at the end of 2011. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

**Summary**

This Management Discussion and Analysis should be read in conjunction with the accompanying financial statements and notes. This report is prepared by our Financial Services Team. Moss Adams LLP independently audited the financial statements and notes. Environmental Services and Finance are jointly responsible for the information contained in this report, including the financial statements and notes.

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# *Financial Statements*

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

	December 31,	
	2013	2012 (as restated)
<b>ASSETS</b>		
Current assets:		
Cash and equity in pooled investments:		
Operating Fund	\$ 35,770,595	\$ 55,606,656
Rate Stabilization Fund	25,000,000	25,000,000
Total cash and equity in pooled investments	60,770,595	80,606,656
Accounts receivable	9,630,374	9,426,226
Allowance for uncollectible accounts	(4,355,891)	(4,178,448)
Unbilled revenue	5,900,000	5,610,000
Due from other funds	108,426	15,259
Inventory	894,085	856,445
Prepaid expenses	573,806	113,475
Grants receivable	1,086,120	446,390
Notes and contracts receivable	174,063	158,776
Total current assets	74,781,578	93,054,779
Restricted cash and equity in pooled investments:		
Bond reserve and debt service accounts	9,938,025	8,592,104
Customer deposits - detention ponds	104,678	110,262
Construction accounts	8,293,031	15,789,446
Total restricted cash and equity in pooled investments	18,335,734	24,491,812
Capital assets:		
Land and easements	19,255,327	10,321,617
Buildings	151,293,170	151,378,623
Buildings - capital lease	30,272,000	30,272,000
Machinery and equipment	152,561,487	142,498,431
Transmission lines and other improvements	333,647,503	306,140,187
Computer software	7,831,714	7,165,274
Less: accumulated depreciation	(207,463,950)	(193,705,228)
Assets in service, net of accumulated depreciation	487,397,251	454,070,904
Construction in progress	21,433,982	17,997,183
Total capital assets	508,831,233	472,068,087
Other noncurrent assets	3,517,065	3,468,932
Total assets	605,465,610	593,083,610
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized bond refunding costs	1,098,362	1,159,666
Total deferred outflows of resources	1,098,362	1,159,666
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 606,563,972</b>	<b>\$ 594,243,276</b>

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



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

	December 31,	
	2013	2012 (as restated)
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,624,854	\$ 4,417,408
Accrued wages payable and compensated absences	1,545,050	1,329,062
Accrued taxes payable	689,760	648,165
Due other funds	1,320,027	1,072,811
Due other governmental units	490,971	510,233
Unearned revenue	187,889	179,057
State Revolving Loan interest payable	269,220	285,128
Current portion of long-term debt		
- State Revolving Loans	3,596,773	3,532,270
Current portion of capital lease obligation	602,000	578,000
Environmental liabilities	678,580	966,346
Total current liabilities	13,005,124	13,518,480
Current liabilities payable from restricted assets:		
Deposit payable - detention ponds	104,678	110,262
Bond interest payable	364,751	364,751
Total current liabilities payable from restricted assets	469,429	475,013
Noncurrent liabilities:		
Long-term debt - revenue bonds	93,502,552	93,821,885
Long-term debt - State Revolving Loans	55,632,692	59,229,464
Capital lease obligation	27,444,000	28,046,000
Compensated absences	2,684,113	2,444,362
Net OPEB obligation	1,967,642	1,671,120
Environmental liabilities	500,000	550,000
Total noncurrent liabilities	181,730,999	185,762,831
Total liabilities	195,205,552	199,756,324
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization	25,000,000	25,000,000
Total deferred inflows of resources	25,000,000	25,000,000
<b>NET POSITION</b>		
Net investment in capital assets	379,249,919	345,790,613
Restricted for bond reserves	9,573,274	8,227,353
Unrestricted	(2,464,773)	15,468,986
Total net position	386,358,420	369,486,952
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 606,563,972</b>	<b>\$ 594,243,276</b>

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

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

	Year Ended December 31,	
	2013	2012 (as restated)
<b>OPERATING REVENUES</b>		
Wastewater residential	\$ 37,259,592	\$ 36,262,815
Wastewater commercial and public authorities	19,466,323	19,386,726
Surface Water	27,331,797	23,562,104
Other revenues	1,050,369	989,949
Total operating revenues	<u>85,108,081</u>	<u>80,201,594</u>
<b>OPERATING EXPENSES</b>		
Administration and general	4,214,786	5,235,291
Operations detail:		
Customer service	862,430	851,483
Plant #1	5,736,608	5,476,073
Wastewater treatment by other	2,370,876	2,207,265
Plant #3	901,610	1,037,447
Biosolids (Tagro)	2,593,671	2,352,692
Operations	<u>12,465,195</u>	<u>11,924,960</u>
Science & engineering detail:		
Engineering	6,059,530	5,958,679
Construction support	782,840	797,218
Laboratory	1,965,436	2,007,966
Environmental Compliance	3,513,436	3,315,126
Private development	51,029	42,655
Natural Resource Damage Consent Decree (NRDA)	48,268	16,827
Detention Ponds	6,657	25,811
Expense construction	666,837	137,054
Science & engineering	<u>13,094,033</u>	<u>12,301,336</u>
Maintenance detail:		
Pumping	1,928,577	2,225,449
Transmission	7,818,498	8,041,286
Plant #1	4,946,791	5,517,146
Parts	111,757	308,572
Administration	460,081	480,156
Plant #3	611,665	485,968
Holding basins	9,311	34,078
Biosolids (Tagro)	206,990	173,948
Maintenance	<u>16,093,670</u>	<u>17,266,603</u>
<b>Total divisional operating expenses</b>	<u><b>45,867,684</b></u>	<u><b>46,728,190</b></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 Revenues, Expenses, and Changes in Net Position**

	Year Ended December 31,	
	2013	2012 (as restated)
<b>OPERATING EXPENSES (Continued)</b>		
Other expenses detail:		
Insurance	\$ 452,258	\$ 425,628
Taxes	1,447,144	1,498,450
IT services	3,199,112	3,001,590
Customer service	3,825,873	3,797,599
Other	8,924,387	8,723,267
Depreciation	13,980,814	12,674,263
Total operating expenses	68,772,885	68,125,720
Net operating income	16,335,196	12,075,874
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	237,027	2,160,833
Rental income	382,151	375,391
Operating grant revenue	-	331,870
Bond interest expense, net of capitalized interest	(3,225,467)	(3,562,670)
Interest on long-term debt - State Revolving Loans	(1,121,650)	(1,185,215)
Interest on capital lease	(1,508,988)	(1,531,292)
Amortization of premium, discount, and refunding costs	258,029	(294,000)
Other nonoperating revenues	144,848	201,075
Other nonoperating expenses	(367,681)	(781,486)
Total nonoperating expenses	(5,201,731)	(4,285,494)
<b>CHANGE IN NET POSITION</b>		
Net position before capital contributions and transfers	11,133,465	7,790,380
Contributions:		
Cash	106,657	27,158
Capital related grants	1,242,302	1,082,398
Donated fixed assets	9,615,554	3,763,099
Transfers capital related	1,856,869	-
Transfers operating related	(168,035)	682,025
Transfers - gross earnings taxes	(6,915,344)	(6,698,181)
<b>CHANGE IN NET POSITION</b>	16,871,468	6,646,879
<b>NET POSITION, AS ORIGINALLY STATED</b>		363,621,979
<b>EFFECT OF RESTATEMENT</b>		(781,906)
<b>NET POSITION - BEGINNING AS RESTATED</b>	369,486,952	362,840,073
<b>NET POSITION - ENDING</b>	\$ 386,358,420	\$ 369,486,952

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

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

	Year Ended December 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 84,390,428	\$ 80,498,342
Payments to suppliers	(25,252,908)	(24,034,126)
Payments to employees	(28,611,590)	(27,720,786)
Taxes paid	(1,435,574)	(1,475,146)
Net cash from operating activities	<u>29,090,356</u>	<u>27,268,284</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gross earning taxes paid	(6,885,318)	(6,671,263)
Debt service related to environmental cleanup	(1,915,194)	(1,915,194)
Operating grants received	580	677,894
Transfers	(168,035)	682,025
Net cash from noncapital financing activities	<u>(8,967,967)</u>	<u>(7,226,538)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(38,788,292)	(30,805,346)
Principal payments on revenue bonds	-	(10,965,000)
Principal payments on State Revolving Loans	(3,532,269)	(3,469,009)
Capital lease obligation	(2,086,988)	(2,088,961)
Interest expense, net of capitalized interest	(2,447,908)	(2,904,827)
Net cash from capital and related financing activities	<u>(46,855,457)</u>	<u>(50,233,143)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	237,027	2,160,833
Rental income	382,151	375,391
Other investing proceeds	121,751	201,075
Net cash from investing activities	<u>740,929</u>	<u>2,737,299</u>
Net change in cash and equity in pooled investments	<u>(25,992,139)</u>	<u>(27,454,098)</u>
Cash and equity in pooled investments - beginning	<u>105,098,468</u>	<u>132,552,566</u>
Cash and equity in pooled investments - ending	<u>\$ 79,106,329</u>	<u>\$ 105,098,468</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**

	Year Ended December 31,	
	2013	2012
<b>Reconciliation of cash and equity in pooled investments to balance sheets:</b>		
Operating funds	\$ 60,770,595	\$ 80,606,656
Restricted funds	18,335,734	24,491,812
	\$ 79,106,329	\$ 105,098,468
<b>Reconciliation of operating income to net cash from operating activities:</b>		
Operating income	\$ 16,335,196	\$ 12,075,874
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	13,980,814	12,674,263
Low income assistance	(119,105)	(73,922)
Change in assets, liabilities, and deferred inflows of resources:		
Accounts receivable, net of allowance	(26,705)	104,631
Unbilled revenue	(290,000)	(1,510,000)
Notes and contract receivable	(63,420)	(8,891)
Due from other funds	(93,167)	110,444
Due from other governmental units	-	17,000
Inventory	(37,640)	168,597
Prepaid expenses	(460,331)	(13,190)
Accounts payable	(792,553)	129,301
Accrued wages and compensated absences	455,739	876,895
Accrued taxes payable	11,570	24,048
Deposits payable	(5,584)	(24,488)
Due other funds	247,216	(16,210)
Due other governmental units	(19,262)	4,012
Unearned revenue	8,832	11,310
Rate stabilization	-	2,500,000
Environmental liability	(337,766)	(100,000)
Net OPEB obligation	296,522	318,610
Total adjustments	12,755,160	15,192,410
	\$ 29,090,356	\$ 27,268,284
<b>Significant non-cash transactions:</b>		
Capital and Related Financing Activities		
Donated fixed assets	\$ 9,615,554	\$ 3,763,099
Transfers capital related	1,856,869	-
	\$ 11,472,423	3,763,099

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

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## *Notes to Financial Statements*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater & Surface Water Management**  
**Notes to Financial Statements**  
**Years Ended December 31, 2013 and 2012**

**NOTE 1 OPERATIONS**

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

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

The Division receives certain services from other departments and agencies of the City including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies and, additionally, must pay gross earnings tax to the City. These transactions are required to be arms-length transactions by law.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING AND PRESENTATION** - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* effective for financial statements periods beginning after December 15, 2012. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources and further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The Division adopted this new pronouncement in the current year and has restated amounts of effected items within the financial statements as of December 31, 2012. The specific accounts impacted by the restatement are detailed in Note 11.

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

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



## **Wastewater & Surface Water Management Notes to Financial Statements Continued**

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 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 TIP in the Washington State LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2013 and 2012 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

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's Investment Policy allows for authorized investments up to 60 months to maturity. One method 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. The minimum legal requirement is AAA for bankers acceptance notes, and fixed rate callable and non-callable agency securities, and A for fixed rate non-callable municipal securities. The Bank Certificates of Deposit (CD) and Demand Deposit Accounts (DDA) are protected by the FDIC insurance up to \$250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State PDPC. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. The State Treasurers LGIP is authorized by RCW 43.250 and operates like a 2A7 fund and is collateralized by short term legal investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Concentration risk disclosure is required for all investments in a single issuer that is 5% or more of the total of the City's investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Custodial credit risk is the risk of unauthorized transactions by the custodian of investments. The City policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

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

**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.

**Wastewater & Surface Water Management  
Notes to Financial Statements Continued**

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

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

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

**BOND PREMIUM AND REFUNDING COSTS** - Bond premium is amortized over the life of the bonds using the weighted average of the bonds outstanding. Bond refunding costs are amortized on a straight-line basis over the applicable bond period.

**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:

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

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

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

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

## **Wastewater & Surface Water Management Notes to Financial Statements Continued**

**CONTRIBUTED CAPITAL** - Capital grants and contributed capital assets 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%. The liability and expense for accumulated unused PTO is adjusted each year based on each employee's current compensation level.

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. The accrued liability for earned vacation is computed at 100% and earned sick leave is computed at 10%, which is considered the amount vested. The liability and expense for accumulated unused vacation and sick leave is adjusted each year based on each employee's current compensation level.

Liability and expense for compensated absences are recorded including 100% of compensated time earned based on each employee's current compensation level.

**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 bond requirements.

## **Wastewater & Surface Water Management Notes to Financial Statements Continued**

The City has a parity bond 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 bond fund, 2) the proper operation and maintenance of the utility, 3) the payment of any and all amounts that the City may now or hereafter become obligated to pay from gross revenues.

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

**TAXES** - The City charges the Division a gross earnings tax at the rate of 8.0%. 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, which was changed from 1.8% effective July 1, 2013, 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 financial and capital resources. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

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

Restricted for bond reserves are restricted when constraints placed on 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 are not “net investment in capital assets” or “restricted for bond reserves”.

**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.

## Wastewater & Surface Water Management Notes to Financial Statements Continued

**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, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

**SIGNIFICANT RISKS AND UNCERTAINTIES** - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, 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. (See Note 11.)

### NOTE 3 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2013 and 2012 follows:

	2012	Additions	Retirements	Transfers	2013
Nondepreciable:					
Land and easements	\$ 10,321,617	\$ 8,933,710	\$ -	\$ -	\$ 19,255,327
Depreciable:					
Buildings	151,378,623	165,165	(250,618)	-	151,293,170
Buildings - capital lease	30,272,000	-	-	-	30,272,000
Machinery and equipment	142,498,431	-	-	10,063,056	152,561,487
Transmission lines and other improvements	306,140,187	1,421,993	(254,736)	26,340,059	333,647,503
Computer software	7,165,274	666,440	-	-	7,831,714
Assets in service	647,776,132	11,187,308	(505,354)	36,403,115	694,861,201
Accumulated depreciation	(193,705,228)	(14,002,662)	243,940	-	(207,463,950)
Assets in service, net	454,070,904	(2,815,354)	(261,414)	36,403,115	487,397,251
Construction work in progress	17,997,183	39,839,914	-	(36,403,115)	21,433,982
Total capital assets	<u>\$ 472,068,087</u>	<u>\$ 37,024,560</u>	<u>\$ (261,414)</u>	<u>\$ -</u>	<u>\$ 508,831,233</u>

**Wastewater & Surface Water Management  
Notes to Financial Statements Continued**

	2011	Additions	Retirements	Transfers	2012
Nondepreciable:					
Land and easements	\$ 10,116,383	\$ 159,178	\$ -	\$ 46,056	\$ 10,321,617
Depreciable:					
Buildings	146,998,199	-	(748,800)	5,129,224	151,378,623
Buildings - capital lease	30,272,000	-	-	-	30,272,000
Machinery and equipment	136,583,014	-	-	5,915,417	142,498,431
Transmission lines and other improvements	285,488,642	3,615,000	(161,692)	17,198,237	306,140,187
Computer software	7,058,551	-	-	106,723	7,165,274
Assets in service	616,516,789	3,774,178	(910,492)	28,395,656	647,776,132
Accumulated depreciation	(181,242,825)	(12,674,263)	211,860	-	(193,705,228)
Assets in service, net	435,273,964	(8,900,085)	(698,632)	28,395,656	454,070,904
Construction work in progress	14,575,340	31,586,115	-	(28,164,272)	17,997,183
Total capital assets	<u>\$ 449,849,304</u>	<u>\$ 22,686,030</u>	<u>\$ (698,632)</u>	<u>\$ 231,384</u>	<u>\$ 472,068,087</u>

**NOTE 4 LONG-TERM DEBT**

Long-term debt activity for the years ended December 31, 2013 and 2012 follows:

	2012	Payments	2013	Due within One Year
Revenue bonds	\$ 89,265,000	\$ -	\$ 89,265,000	\$ -
Plus: Unamortized premium	4,556,885	(319,333)	4,237,552	-
State Revolving Fund loans	62,761,734	(3,532,269)	59,229,465	3,596,773
Long-term debt	<u>\$ 156,583,619</u>	<u>\$ (3,851,602)</u>	<u>\$ 152,732,017</u>	<u>\$ 3,596,773</u>

	2011	Payments	2012	Due within One Year
Revenue bonds	\$ 100,230,000	\$ (10,965,000)	\$ 89,265,000	\$ -
Plus: Unamortized premium	5,021,992	(465,107)	4,556,885	-
State Revolving Fund loans	66,230,743	(3,469,009)	62,761,734	3,532,270
Long-term debt	<u>\$ 171,482,735</u>	<u>\$ (14,899,116)</u>	<u>\$ 156,583,619</u>	<u>\$ 3,532,270</u>

## Wastewater & Surface Water Management Notes to Financial Statements Continued

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

	2013	2012
<b>Parity bonds, senior lien:</b>		
2006 Revenue & Refunding Bonds, with interest rates ranging from 4.5% to 5.125%, due in yearly installments of \$470,000 to \$6,890,000 between 2016 and 2036. Original par value \$55,000,000 with a call date of December 1, 2016. Purpose was to fund a portion of the capital improvement plan, refund certain maturities of the 2001 Series A bonds, and pay the costs of issuance.	\$ 54,950,000	\$ 54,950,000
2011 Refunding Bonds, with interest rates ranging from 4.00% to 5.00%, due in yearly installments of \$2,765,000 to \$4,205,000 between 2022 and 2031. Original par value \$34,315,000 with a call date of December 1, 2021. Purpose was to refund the 2001 Series A bonds and pay the costs of issuance.	34,315,000	34,315,000
Total parity bonds, senior lien	89,265,000	89,265,000
<b>Junior lien debt:</b>		
State Revolving Fund loans A & B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$3,450,000 to \$4,500,000 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant Upgrade project.	58,802,532	62,315,644
State Revolving Fund loan 2011, with an interest rate of 2.9% in semi-annual installments of \$16,017 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.	426,933	446,090
Total junior lien debt	59,229,465	62,761,734
Total outstanding debt	148,494,465	152,026,734
Less:		
Current portion	(3,596,773)	(3,532,270)
Current portion payable from restricted assets	-	-
Plus: Unamortized premium	4,237,552	4,556,885
Total long-term debt	\$ 149,135,244	\$ 153,051,349

**Wastewater & Surface Water Management  
Notes to Financial Statements Continued**

Annual debt service requirement to maturity follows:

	Principal	Interest on Debt	Total Debt Service
2014	\$ 3,596,773	\$ 5,450,070	\$ 9,046,843
2015	3,662,544	5,384,298	9,046,842
2016	6,349,611	5,317,231	11,666,842
2017	6,548,001	5,117,842	11,665,843
2018	6,757,742	4,910,601	11,668,343
2019-2023	36,599,167	21,215,685	57,814,852
2024-2028	39,523,830	15,200,896	54,724,726
2029-3033	25,751,797	9,013,007	34,764,804
2034-2036	19,705,000	2,028,338	21,733,338
	<u>\$ 148,494,465</u>	<u>\$ 73,637,968</u>	<u>\$ 222,132,433</u>

The carrying amounts of the State Revolving Fund loans approximate the fair value since such loans are exclusive and have not market.

The Division's current underlying credit ratings are Aa2, AA+, and AA+ from Moody's, Standard and Poor's, and Fitch, respectively.

Defeased and outstanding bonds constitute a contingent liability of the Division only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements and therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of December 31, 2013, no bonds were defeased and outstanding.

The Division's revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2013 or 2012.

**NOTE 5 CAPITAL LEASE**

By Ordinance No. 27783 passed on January 20, 2009, the City approved a property agreement and project lease with TES Properties and issuance by TES Properties of \$37,840,000 aggregate principal amount of its Lease Revenue Bonds, 2009 (Bonds). TES Properties is a single purpose Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation. The Environmental Services Department determined the appropriate pro-rata share for the Environmental Services divisions to share in all revenue, costs and cash requirements based on usage of the Urban Waters building to be: Wastewater (43%), Surface Water (37%) and Solid Waste (20%).



## Wastewater & Surface Water Management Notes to Financial Statements Continued

The three divisions have included their pro-rata share of the capital lease and lease obligation for the building in their respective financial statements. The building has a useful life of 50 years and the lease agreement is for 29 years which exactly matches the debt service schedule of the Bonds. The land on which the building was constructed has been transferred to TES Properties and reclassified on the divisions' statements of net position in other noncurrent assets. All assets revert to the City at the end of the lease.

The future payments of the lease obligation as of December 31, 2013 total \$65,251,869. The Division's portion of the future lease payments is presented in the following table:

Years	Capital Lease Payments
2014	\$ 2,087,865
2015	2,087,865
2016	2,086,905
2017	2,088,985
2018	2,089,945
2019-2023	10,439,165
2024-2028	10,443,425
2029-3033	10,439,490
2034-2038	10,437,850
	52,201,495
Less interest	24,105,495
Principal	\$ 28,096,000

The sub-lease agreements for the space in the Urban Waters building include agreements with two tenants: the University of Washington Tacoma (UWT) and the Puget Sound Partnership (PSP). Both are for ten year periods effective in 2010 with the possibility of five year extensions. The revenue are shared across the utilities on the same prorata basis as the building lease. The UWT agreement provides revenue of \$293,640 per year, adjusted annually for inflation, and the PSP agreement provides a total of \$1,615,000 in revenue spread over the ten year lease period.

### 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 \$211,399 for 2013 and 2012. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

## **Wastewater & Surface Water Management Notes to Financial Statements Continued**

The City maintains an excess general liability policy with limits of \$15 million, subject to a self-insured retention of \$3 million and a \$30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with a \$1 million self-insured retention plus a \$250,000 of total loss each 12 month policy period. The City has a property insurance policy with a limit of \$500 million replacement cost (\$50,000 deductible per occurrence). The City carries property coverage with a maximum single occurrence limit of \$500,000,000 with a sublimit of \$150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies \$240,859 in 2013 and \$214,230 in 2012.

### **NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)**

Employees of the Division are covered by the Tacoma Employees' Retirement System (the System), an actuarially funded system operated by the City. The following information is provided on a city-wide basis.

This note emphasizes the employer disclosures and detailed information presented in an independent CAFR issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 3628 South 35<sup>th</sup> Street, Tacoma, Washington 98409.

**PLAN DESCRIPTION** - The 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, Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and the Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,119 retirees and beneficiaries currently receiving benefits, 434 vested terminated members entitled to future benefits and 2,881 active members of the Tacoma Employees' Retirement System, as of December 31, 2013.

**BASIS OF ACCOUNTING** - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

**METHOD USED TO VALUE INVESTMENTS** - Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by our custodian bank utilizing standard industry practices. Private equity investments are reported by the managers subject to their fair value policies. No investment in any one corporation or organization exceeded five percent of net assets available for benefits.

**INVESTMENTS AND CONTRACTS** - The System has no securities of the employer and related parties included in the plan assets. The System has not made any loans to the employer in the form of notes, bonds, or other instruments.

**BENEFITS** - There are two formulas that are used for calculating retirement benefits. The benefit will be determined 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 determined based on the member's age and years of service. Several options are available for the retiree to provide for their beneficiaries. The System also provides death and disability retirement.

## Wastewater & Surface Water Management Notes to Financial Statements Continued

**CONTRIBUTIONS** - Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage.

The contribution rates are provided in the following table:

<u>Applicable Period</u>	<u>Employer Rate</u>	<u>Member Rate</u>	<u>Total Rate</u>
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

**FUNDING STATUS AND PROGRESS** - Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2013, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Funding Progress (\$ in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liabililty (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (c) = (b)-(a)</u>	<u>Funded Ratio (d) = (a) / (b)</u>	<u>Covered Payroll (e)</u>	<u>UAAL as of Percentage of Covered Payroll (f) = (c) / (e)</u>
1/1/2011	\$ 1,075	\$ 1,133	\$ 58	94.9%	\$ 220	26.5%
1/1/2012	\$ 1,068	\$ 1,186	\$ 117	90.1%	\$ 219	53.4%
1/1/2013	\$ 1,187	\$ 1,307	\$ 120	90.9%	\$ 211	56.7%

Both the City and employees made 100% of the required contributions. The City's required contributions for the years ended December 31<sup>st</sup> were:

2011	\$ 20,850,233
2012	\$ 20,919,787
2013	\$ 21,188,984

## Wastewater & Surface Water Management Notes to Financial Statements Continued

### ACTUARIAL METHODS AND SIGNIFICANT ACTUARIAL ASSUMPTIONS

Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Assets are valued at market value, with a four year smoothing of all market value gains and losses.
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

### NOTE 8 OTHER POST EMPLOYMENT BENEFITS

**PLAN DESCRIPTION** - The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. GAAP requires that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

**FUNDING POLICY** - The City uses pay as you go funding; contributions to a separate trust are not required.

**ANNUAL OPEB COST AND NET OPEB OBLIGATION** - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year 2013 under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2013 is 24 years.

## Wastewater & Surface Water Management Notes to Financial Statements Continued

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2013 as the City has not set aside funds for OPEB.

**EXCISE TAX FOR HIGH COST OR "CADILLAC" HEALTH PLANS IN 2018 AND BEYOND** – An excise tax for high cost health coverage or "Cadillac" health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds for qualified retirees aged 55-64 are \$11,850 for single coverage and \$30,950 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of PPACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

**SUMMARY OF CHANGES** – As of January 1, 2011 (the date of the prior valuation), the AAL was \$248,571,791. The expected value as of January 1, 2013, based on the 2011 valuation, was \$260,708,000. The total AAL of \$251,839,846 was 3% lower than expected primarily due to lower than expected medical costs partially offset by the new excise tax for "Cadillac" health plans, demographic experience and assumptions, and economic assumptions.

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	<u>January 1, 2011</u>	<u>January 1, 2013</u>
Total membership:		
Active employees	3,675	3,335
Terminated vested employees	363	394
Retired employees & Dependents	790	846
Total	<u>4,828</u>	<u>4,575</u>
Annual Benefit Payments	\$ 9,569,648	\$ 9,887,335
Discount rate	4.00%	3.75%
Present Value of Benefits	\$ 319,550,419	\$ 326,742,538
Actuarial Accrued Liability	\$ 248,571,791	\$ 251,839,846
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability	<u>\$ 248,571,791</u>	<u>\$ 251,839,846</u>
Normal Cost	\$ 5,559,351	\$ 5,484,587
Annual Required Contribution	\$ 19,734,041	\$ 20,058,760

**Wastewater & Surface Water Management  
Notes to Financial Statements Continued**

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2013.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits	\$ 488,143,650	\$ 161,401,112	\$ 326,742,538
Actuarial Accrued Liability	\$ 331,339,973	\$ 79,500,127	\$ 251,839,846
Normal Cost	\$ 11,227,919	\$ 5,743,332	\$ 5,484,587
Annual Benefit Payments	\$ 13,500,240	\$ 3,612,905	\$ 9,887,335

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2013.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 308,092
Amortization of UAAL	14,574,173	114,129
Annual Required Contribution	<u>\$ 20,058,760</u>	<u>\$ 422,221</u>
Determination of Net OPEB Obligation:		
Annual Required Contribution	\$ 20,058,760	\$ 422,221
Interest on prior year Net OPEB Obligation	1,742,601	62,667
Adjustments to ARC	(2,272,594)	(67,720)
Annual OPEB Cost	19,528,767	417,168
Actual benefits paid	9,887,334	120,646
Increase in Net OPEB Obligation	9,641,433	296,522
Net OPEB Obligation - beginning of year	46,469,368	1,671,120
Net OPEB Obligation - end of year	<u>\$ 56,110,801</u>	<u>\$ 1,967,642</u>

**FUNDED STATUS AND FUNDING PROGRESS -**

The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 4.00% interest rate for 2011 and 2012 and 3.75% for 2013.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2011	\$ 19,596,420	\$ 470,786	\$ 9,569,648	\$ 124,293	\$ 36,393,620	\$ 1,352,510
12/31/2012	\$ 19,469,178	\$ 469,633	\$ 9,393,431	\$ 151,023	\$ 46,469,368	\$ 1,671,120
12/31/2013	\$ 19,528,767	\$ 417,168	\$ 9,887,334	\$ 120,646	\$ 56,110,801	\$ 1,967,642

As of January 1, 2013, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 3.75% interest rate, the actuarial accrued liability for benefits was \$251.8 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of \$251.8 million.

## Wastewater & Surface Water Management Notes to Financial Statements Continued

**ACTUARIAL METHODS AND ASSUMPTIONS** - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the UAAL. In determining the ARC, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 24 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date .....January 1, 2013  
 Census Date .....January 1, 2013  
 Actuarial Cost Method: .....Entry Age  
 Amortization Method: .....Combination of level percentage and level dollar amount, see note above.  
 Remaining Amortization Period: .....24 years, closed  
 Demographic Assumptions:.....Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate.....3.75% for pay-as-you-go funding  
 Medical Cost Trend.....2013           8.9%  
   2014           6.5%  
   2015           5.8%  
   2020           6.0%  
   2030           5.9%  
   2040           5.6%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions – Discount  
 Rate (Liabilities).....3.75%

## Wastewater & Surface Water Management Notes to Financial Statements Continued

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):

- Age 55 with 10 years of service
- 20 years of service

### NOTE 9 ENVIRONMENTAL LIABILITIES

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

The City hopes to close out the Consent Decree in 2014. Ongoing monitoring and maintenance of the various projects will continue through 2014. Included in the financial statements for are liabilities of \$272,234 for 2013 and \$310,000 for 2012. Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980’s and early 1990’s. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources. The City’s understanding is a Thea Foss Waterway NRDA settlement between non-City parties and the Commencement Bay Natural Resource Trustees could be reached in 2014.

**HYLEBOS WATERWAY CONSENT DECREE** - In 2003 the City of Tacoma – General Government entered a Consent Decree settlement with EPA to resolve any liability it may have had for sediment contamination in the Hylebos Waterway. The majority of the City’s potential liability was attributed to municipal storm water discharges. Under the terms of its settlement, the City paid \$459,663 to “cash-out” its liability. This amount included a 50 percent premium, which obligated the City to pay a small percentage (i.e., 0.4397%) of any cost overruns if the remedial action work exceeded the project estimate of \$56,056,407 to complete such work. On January 11, 2012 the City was notified by the Hylebos Performing Party Group that the cost of the Hylebos Waterway remedial action project totaled \$110,991,511. This number has since been adjusted downward, setting the City’s share of cost overruns at \$233,029. The City also anticipates making an additional payment to the Hylebos Performing Party Group for around \$63,317, which would fully and finally resolve the City’s liability for any post-2012 costs overruns under its 2003 Hylebos Waterway Consent Decree settlement with EPA. The City recorded an expense and liability of \$306,346 as of December 31, 2013.

**FOSS CONSENT DECREE** – The City has an obligation under the Foss Consent Decree for continued monitoring until at least 2016. The results of this monitoring may result in additional cleanup efforts in the future. Obligations for future monitoring costs of \$600,000 in 2013 and \$900,000 in 2012 have been recognized in the financial statements as environmental liabilities.



**Wastewater & Surface Water Management  
Notes to Financial Statements Continued**

**NOTE 10 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. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim.

**NOTE 11 RECLASSIFICATION AND RESTATEMENT OF PRIOR YEAR**

**ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES** – The Division restated the 2012 financial statements and reclassified certain 2012 account balances to conform to the 2013 presentation in accordance with the GASB 65 pronouncement. The Division now presents sections titled Deferred Outflows of Resources and Deferred Inflows of Resources on its Statements of Net Position with the appropriate items reported. The Division expensed bond issuance costs previously deferred and amortized. The following table shows the restatement of the prior year:

	2012 As Reported	Reclassification	Accounting Restatement	2012 As Restated
<b>Statements of net position:</b>				
Assets				
Other noncurrent assets	\$ 5,333,065	\$ (1,159,666)	\$ (704,467)	\$ 3,468,932
Deferred outflows of resources				
Unamortized bond refunding costs	-	1,159,666	-	1,159,666
Net position				
Net investment in capital assets	346,183,615	-	(377,027)	345,806,588
Unrestricted	15,780,451	-	(327,440)	15,453,011
Current liabilities				
Rate stabilization	25,000,000	(25,000,000)	-	-
Deferred inflows of resources				
Rate stabilization	-	25,000,000	-	25,000,000
<b>Statements of revenues, expenses, and changes in net position:</b>				
Amortization of premium, discount, and refunding costs	(371,439)		77,439	(294,000)
Net position - beginning	363,621,979	-	(781,906)	362,840,073

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*Unaudited Supplemental Information*

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

	Wastewater		Surface Water	
	December 31,		December 31,	
	2013	2012 (as restated)	2013	2012 (as restated)
<b>ASSETS</b>				
Current assets:				
Cash and equity in pooled investments:				
Operating Fund	\$ 20,697,586	\$ 41,975,283	\$ 15,073,009	\$ 13,631,373
Rate Stabilization Fund	17,000,000	17,000,000	8,000,000	8,000,000
Total cash and equity in pooled investments	37,697,586	58,975,283	23,073,009	21,631,373
Accounts receivable	6,347,319	6,057,767	3,283,055	3,368,459
Allowance for uncollectible accounts	(2,444,929)	(2,279,264)	(1,910,962)	(1,899,184)
Unbilled revenue	3,750,000	3,772,000	2,150,000	1,838,000
Due from other funds	64,552	4,481	43,874	10,778
Inventory	894,085	856,445	-	-
Prepaid expenses	541,120	108,700	32,686	4,775
Grants receivable	-	23,097	1,086,120	423,293
Notes and contracts receivable	174,063	158,776	-	-
Total current assets	47,023,796	67,677,285	27,757,782	25,377,494
Restricted cash and equity in pooled investments:				
Bond reserve and debt service accounts	6,448,596	5,295,899	3,489,429	3,296,205
Customer deposits - detention ponds	-	-	104,678	110,262
Construction accounts	848,582	1,842,281	7,444,449	13,947,165
Total restricted cash and equity in pooled investments	7,297,178	7,138,180	11,038,556	17,353,632
Capital assets:				
Land and easements	7,488,228	7,398,663	11,767,099	2,922,954
Buildings	148,827,640	148,875,580	2,465,530	2,503,043
Buildings - capital lease	16,271,200	16,271,200	14,000,800	14,000,800
Machinery and equipment	148,005,835	137,950,376	4,555,652	4,548,055
Transmission lines and other improvements	188,175,061	172,989,966	145,472,442	133,150,221
Computer software	4,646,282	4,317,823	3,185,432	2,847,451
Less: accumulated depreciation	(168,441,556)	(158,031,097)	(39,022,394)	(35,674,131)
Assets in service, net of accumulated depreciation	344,972,690	329,772,511	142,424,561	124,298,393
Construction in progress	15,697,075	14,809,335	5,736,907	3,187,848
Total capital assets	360,669,765	344,581,846	148,161,468	127,486,241
Other noncurrent assets	2,246,011	2,197,878	1,271,054	1,271,054
Total assets	417,236,750	421,595,189	188,228,860	171,488,421
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Unamortized bond refunding costs	327,852	346,151	770,510	813,515
Total deferred outflows of resources	327,852	346,151	770,510	813,515
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
	<u>\$ 417,564,602</u>	<u>\$ 421,941,340</u>	<u>\$ 188,999,370</u>	<u>\$ 172,301,936</u>

Supplemental (Unaudited)

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

	Wastewater		Surface Water	
	December 31,		December 31,	
	2013	2012 (as restated)	2013	2012 (as restated)
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,972,677	\$ 3,911,894	\$ 1,652,177	\$ 505,514
Accrued wages payable and compensated absences	1,073,029	944,605	472,021	384,457
Accrued taxes payable	458,516	450,383	231,244	197,782
Due other funds	718,333	603,904	601,694	468,907
Due other governmental units	490,971	510,233	-	-
Unearned revenue	129,087	123,169	58,802	55,888
State Revolving Loan interest payable	269,220	285,128	-	-
Current portion of long-term debt				
- State Revolving Loans	3,577,053	3,513,113	19,720	19,157
Current portion of capital lease obligation	323,575	310,675	278,425	267,325
Environmental liabilities	-	-	678,580	966,346
Total current liabilities	<u>9,012,461</u>	<u>10,653,104</u>	<u>3,992,663</u>	<u>2,865,376</u>
Current liabilities payable from restricted assets:				
Deposit payable - detention ponds	-	-	104,678	110,262
Bond interest payable	122,880	122,880	241,871	241,871
Total current liabilities payable from restricted assets	<u>122,880</u>	<u>122,880</u>	<u>346,549</u>	<u>352,133</u>
Noncurrent liabilities:				
Long-term debt - revenue bonds	30,816,817	30,892,282	62,685,735	62,929,603
Long-term debt - State Revolving Loans	55,225,479	58,802,531	407,213	426,933
Capital lease obligation	14,751,150	15,074,725	12,692,850	12,971,275
Compensated absences	2,025,564	1,878,064	658,549	566,298
Net OPEB obligation	1,516,485	1,243,142	451,157	427,978
Environmental liabilities	-	-	500,000	550,000
Total noncurrent liabilities	<u>104,335,495</u>	<u>107,890,744</u>	<u>77,395,504</u>	<u>77,872,087</u>
Total liabilities	<u>113,470,836</u>	<u>118,666,728</u>	<u>81,734,716</u>	<u>81,089,596</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Total deferred inflows of resources	<u>17,000,000</u>	<u>17,000,000</u>	<u>8,000,000</u>	<u>8,000,000</u>
<b>NET POSITION</b>				
Net investment in capital assets	257,152,125	238,176,952	122,097,794	107,613,661
Restricted for bond reserves	6,325,716	5,173,019	3,247,558	3,054,334
Unrestricted	23,615,925	42,924,641	(26,080,698)	(27,455,655)
Total net position	<u>287,093,766</u>	<u>286,274,612</u>	<u>99,264,654</u>	<u>83,212,340</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>				
	<u>\$ 417,564,602</u>	<u>\$ 421,941,340</u>	<u>\$ 188,999,370</u>	<u>\$ 172,301,936</u>

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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
<b>OPERATING REVENUES</b>				
Wastewater residential	\$ 37,259,592	\$ 36,262,815	\$ -	\$ -
Wastewater commercial and public authorities	19,466,323	19,386,726	-	-
Surface Water	-	-	27,331,797	23,562,104
Other revenues	826,395	637,085	223,974	352,864
Total operating revenues	<u>57,552,310</u>	<u>56,286,626</u>	<u>27,555,771</u>	<u>23,914,968</u>
<b>OPERATING EXPENSES</b>				
Administration and general	2,763,162	2,923,891	1,451,624	2,311,400
Operations detail:				
Customer service	655,889	611,294	206,541	240,189
Plant #1	5,736,608	5,476,073	-	-
Wastewater treatment by other	2,370,876	2,207,265	-	-
Plant #3	901,610	1,037,447	-	-
Biosolids (Tagro)	2,593,671	2,352,692	-	-
Operations	<u>12,258,654</u>	<u>11,684,771</u>	<u>206,541</u>	<u>240,189</u>
Science & engineering detail:				
Engineering	2,348,048	2,784,606	3,711,482	3,174,073
Construction support	469,546	636,929	313,294	160,289
Laboratory	1,267,664	1,487,253	697,772	520,713
Environmental Compliance	1,372,807	1,590,938	2,140,629	1,724,188
Private development	-	-	51,029	42,655
Natural Resource Damage Consent Decree (NRDA)	-	-	48,268	16,827
Detention Ponds	-	-	6,657	25,811
Expense construction	366,898	-	299,939	137,054
Science & engineering	<u>5,824,963</u>	<u>6,499,726</u>	<u>7,269,070</u>	<u>5,801,610</u>
Maintenance detail:				
Pumping	1,676,856	1,864,055	251,721	361,394
Transmission	4,869,019	4,882,104	2,949,479	3,159,182
Plant #1	4,946,791	5,517,146	-	-
Parts	111,757	308,572	-	-
Administration	460,081	480,156	-	-
Plant #3	611,665	485,968	-	-
Holding basins	-	-	9,311	34,078
Biosolids (Tagro)	206,990	173,948	-	-
Maintenance	<u>12,883,159</u>	<u>13,711,949</u>	<u>3,210,511</u>	<u>3,554,654</u>
<b>Total divisional operating expenses</b>	<u>33,729,938</u>	<u>34,820,337</u>	<u>12,137,746</u>	<u>11,907,853</u>

Supplemental (Unaudited)

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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
<b>OPERATING EXPENSES (Continued)</b>				
Other expenses detail:				
Insurance	\$ 407,202	\$ 381,777	\$ 45,056	\$ 43,851
Taxes	1,040,616	1,099,509	406,528	398,941
IT services	2,065,618	1,844,253	1,133,494	1,157,337
Customer service	1,893,345	1,835,675	1,932,528	1,961,924
Other	5,406,781	5,161,214	3,517,606	3,562,053
Depreciation	10,558,559	9,925,613	3,422,255	2,748,650
Total operating expenses	<u>49,695,278</u>	<u>49,907,164</u>	<u>19,077,607</u>	<u>18,218,556</u>
Net operating income	<u>7,857,032</u>	<u>6,379,462</u>	<u>8,478,164</u>	<u>5,696,412</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	107,572	1,392,546	129,455	768,287
Rental income	205,406	201,772	176,745	173,619
Operating grant revenue	-	100,000	-	231,870
Bond interest expense, net of capitalized interest	(647,932)	(974,381)	(2,577,536)	(2,588,289)
Interest on long-term debt - State Revolving Loans	(1,108,773)	(1,171,792)	(12,876)	(13,423)
Interest on capital lease	(811,080)	(823,070)	(697,908)	(708,223)
Amortization of premium, discount, and refunding costs	57,166	(570,422)	200,863	276,422
Other nonoperating revenues	144,382	70,355	466	130,720
Other nonoperating expenses	(294,845)	(452,698)	(72,836)	(328,787)
Total nonoperating expenses	<u>(2,348,104)</u>	<u>(2,227,690)</u>	<u>(2,853,627)</u>	<u>(2,057,804)</u>
<b>CHANGE IN NET POSITION</b>				
Net position before capital contributions and transfers	5,508,928	4,151,772	5,624,537	3,638,608
Contributions:				
Cash	-	1,347	106,657	25,811
Capital related grants	-	-	1,242,302	1,082,398
Donated fixed assets	145,725	1,423,037	9,469,829	2,340,062
Transfers capital related	(2,000)	-	1,858,869	-
Transfers operating related	(118,781)	507,353	(49,254)	174,672
Transfers - gross earnings taxes	(4,714,718)	(4,572,794)	(2,200,626)	(2,125,387)
<b>CHANGE IN NET POSITION</b>	<u>819,154</u>	<u>1,510,715</u>	<u>16,052,314</u>	<u>5,136,164</u>
<b>NET POSITION, AS ORIGINALLY STATED</b>		285,016,581		78,605,398
<b>EFFECT OF RESTATEMENT</b>		(252,684)		(529,222)
<b>NET POSITION - BEGINNING AS RESTATED</b>	<u>286,274,612</u>	<u>284,763,897</u>	<u>83,212,340</u>	<u>78,076,176</u>
<b>NET POSITION - ENDING</b>	<u>\$ 287,093,766</u>	<u>\$ 286,274,612</u>	<u>\$ 99,264,654</u>	<u>\$ 83,212,340</u>

Supplemental (Unaudited)

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

	Wastewater		Surface Water	
	Year Ended December 31, 2013	2012	Year Ended December 31, 2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 57,135,187	\$ 54,989,715	\$ 27,255,241	\$ 25,508,627
Payments to suppliers	(19,261,435)	(16,945,489)	(5,991,473)	(7,088,637)
Payments to employees	(20,482,002)	(20,007,400)	(8,129,588)	(7,713,386)
Taxes paid	(1,049,562)	(1,074,213)	(386,012)	(400,933)
Net cash from operating activities	<u>16,342,188</u>	<u>16,962,613</u>	<u>12,748,168</u>	<u>10,305,671</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Gross earning taxes paid	(4,697,638)	(4,531,543)	(2,187,680)	(2,139,720)
Debt service related to environmental cleanup	-	-	(1,915,194)	(1,915,194)
Operating grants received	-	100,000	580	577,894
Transfers	(118,781)	507,353	(49,254)	174,672
Net cash from noncapital financing activities	<u>(4,816,419)</u>	<u>(3,924,190)</u>	<u>(4,151,548)</u>	<u>(3,302,348)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(26,671,217)	(23,199,973)	(12,117,075)	(7,605,373)
Principal payments on revenue bonds	-	(7,675,500)	-	(3,289,500)
Principal payments on State Revolving Loans	(3,513,112)	(3,450,399)	(19,157)	(18,610)
Capital lease obligation	(1,121,755)	(1,122,815)	(965,233)	(966,146)
Interest expense, net of capitalized interest	(1,772,647)	(2,188,787)	(675,261)	(716,040)
Net cash from capital and related financing activities	<u>(33,078,731)</u>	<u>(37,637,474)</u>	<u>(13,776,726)</u>	<u>(12,595,669)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income	107,572	1,392,548	129,455	768,285
Rental income	205,406	201,772	176,745	173,619
Other investing proceeds	121,285	70,353	466	130,722
Net cash from investing activities	<u>434,263</u>	<u>1,664,673</u>	<u>306,666</u>	<u>1,072,626</u>
Net change in cash and equity in pooled investments	<u>(21,118,699)</u>	<u>(22,934,378)</u>	<u>(4,873,440)</u>	<u>(4,519,720)</u>
Cash and equity in pooled investments - beginning	<u>66,113,463</u>	<u>89,047,841</u>	<u>38,985,005</u>	<u>43,504,725</u>
Cash and equity in pooled investments - ending	<u>\$ 44,994,764</u>	<u>\$ 66,113,463</u>	<u>\$ 34,111,565</u>	<u>\$ 38,985,005</u>

Supplemental (Unaudited)



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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
<b>Reconciliation of cash and equity in pooled investments to balance sheets:</b>				
Operating funds	\$ 37,697,586	\$ 58,975,283	\$ 23,073,009	\$ 21,631,373
Restricted funds	7,297,178	7,138,180	11,038,556	17,353,632
	<u>\$ 44,994,764</u>	<u>\$ 66,113,463</u>	<u>\$ 34,111,565</u>	<u>\$ 38,985,005</u>
<b>Reconciliation of operating income to net cash from operating activities:</b>				
Operating income	\$ 7,857,032	\$ 6,379,462	\$ 8,478,164	\$ 5,696,412
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation expense	10,558,559	9,925,613	3,422,255	2,748,650
Low income assistance	(80,157)	(52,476)	(38,949)	(21,447)
Change in assets, liabilities, and deferred inflows of resources:				
Accounts receivable, net of allowance	(123,887)	82,672	97,182	21,958
Unbilled revenue	22,000	(1,072,000)	(312,000)	(438,000)
Notes and contract receivable	(63,420)	(8,891)	-	-
Due from other funds	(60,071)	185,624	(33,096)	(75,180)
Due from other governmental units	-	-	-	17,000
Inventory	(37,639)	168,597	-	-
Prepaid expenses	(432,420)	(12,919)	(27,910)	(272)
Accounts payable	(1,939,217)	458,769	1,146,663	(329,466)
Accrued wages and compensated absences	275,924	620,554	179,815	256,341
Accrued taxes payable	(8,944)	26,040	20,514	(1,992)
Deposits payable	-	-	(5,584)	(24,488)
Due other funds	114,429	24,142	132,787	(40,351)
Due other governmental units	(19,262)	4,012	-	-
Unearned revenue	5,918	7,741	2,914	3,569
Rate stabilization	-	-	-	2,500,000
Environmental liability	-	-	(337,766)	(100,000)
Net OPEB obligation	273,343	225,673	23,179	92,937
Total adjustments	<u>8,485,156</u>	<u>10,583,151</u>	<u>4,270,004</u>	<u>4,609,259</u>
	<u>\$ 16,342,188</u>	<u>\$ 16,962,613</u>	<u>\$ 12,748,168</u>	<u>\$ 10,305,671</u>
<b>Significant non-cash transactions:</b>				
Capital and Related Financing Activities				
Donated fixed assets	\$ 145,725	\$ 1,423,037	\$ 9,469,829	\$ 2,340,062
Transfers capital related	-	-	1,856,869	-
	<u>\$ 145,725</u>	<u>\$ 1,423,037</u>	<u>\$ 11,326,698</u>	<u>\$ 2,340,062</u>

Supplemental (Unaudited)

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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.

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## APPENDIX D

### ECONOMIC AND DEMOGRAPHIC INFORMATION

The City, the county seat of Pierce County (the “County”), is located in the west-central part of Washington State near the southern tip of Puget Sound. It is the third largest city in the State with a 2010 US Census population of 198,397. The City is located 32 miles south of Seattle and 28 miles northeast of Olympia, the State capital.

Settled originally because of its natural deep harbor and its abundant natural resources of timber, fish and agriculture, the City is now a world-class port city. Various major downtown redevelopment projects have been undertaken over the last decade, and the City is experiencing a diversification of its economic base. A light rail system connects the Tacoma Dome Station with downtown businesses and passes the University of Washington’s Tacoma campus, museums, the Convention Center and retail businesses.

Following are economic indicators for the City and Pierce County.

*Population.* The historical population of the City and Pierce County is shown in the following table.

#### POPULATION CITY OF TACOMA AND PIERCE COUNTY

Year	Tacoma	Pierce County
2014	200,900	821,300
2013	200,400	814,500
2012	199,600	808,200
2011	198,900	802,150
2010	198,397	795,225

*Source: Washington State Office of Financial Management estimates*

*Income.* Historic personal income and per capita income levels for the County and the State are shown below:

Year	Pierce County		State of Washington	
	Total Personal Income (in thousands) <sup>(1)</sup>	Per Capita Income <sup>(1)</sup>	Total Personal Income (in thousands) <sup>(2)</sup>	Per Capita Income <sup>(2)</sup>
2013 <sup>(3)</sup>	\$ 36,054,002	\$ 43,982	\$ 332,654,857	\$ 47,717
2012	35,464,135	43,672	324,458,394	47,055
2011	34,038,137	42,368	303,999,485	44,565
2010	32,654,784	41,050	286,862,463	42,547
2009	32,168,659	40,388	280,943,954	42,137

<sup>(1)</sup> Estimates for 2010-2013 reflect county population estimates available as of March, 2014.

<sup>(2)</sup> Estimates for 2010-2013 use state population estimates released in December, 2013.

<sup>(3)</sup> Most recent data available.

*Source: U.S. Department of Commerce, Bureau of Economic Analysis County data as of November 20, 2014. State data as of September 30, 2014*

*Median Household Income.* Median household income estimation is based on 1990 and 2000 Census data, and on the Census Bureau's American Community ("BEA") Surveys' estimates for 2006-2010.

<b>Year</b>	<b>Pierce County</b>	<b>State of Washington</b>
2013 <sup>(1)</sup>	\$ 59,231	\$ 58,577
2012 <sup>(2)</sup>	57,162	56,444
2011	56,114	55,500
2010	55,531	54,888
2009	56,555	55,458

<sup>(1)</sup> Projected. The Revenue Forecast Council's November 2013 forecast of the state personal income is used in the projection of 2013 median household income.

<sup>(2)</sup> Preliminary estimate. In addition to the state personal income data published by BEA, the payroll data compiled by the state Employment Security Department are used in the preliminary estimates of 2012 median household income.

Source: *Office of Financial Management, October 2014*

*Taxable Retail Sales.* Taxable retail sales reflect only those sales subject to retail sales tax. Historic taxable retail sales for the County and the City are shown below:

#### Taxable Retail Sales

	<b>Pierce County</b>	<b>City of Tacoma</b>
2014 <sup>(1)</sup>	\$ 6,073,097,342	\$ 2,060,135,506
2013	12,189,179,970	4,280,299,042
2012	11,080,670,832	4,046,579,862
2011	10,520,820,885	3,826,546,602
2010	10,624,267,732	3,849,214,140
2009	10,434,800,308	3,803,603,813

<sup>(1)</sup> Through second quarter 2014. Through second quarter in 2013, taxable retail sales for the County and City, respectively, were \$5,792,922,557 and \$2,045,000,136.

Source: *Washington State Department of Revenue, January 2015*

*Building Permits.* The number and valuation of new single-family and multi-family residential building permits in the County are listed below:

#### Pierce County Residential Building Permits

<b>Year</b>	<b>New Single Family Units</b>		<b>New Multi-Family Units</b>		<b>Total Construction Cost</b>
	<b>Number</b>	<b>Construction Cost</b>	<b>Number</b>	<b>Construction Cost</b>	
2014 <sup>(1)</sup>	2,197	\$ 614,824,584	1,454	\$ 166,721,792	\$ 781,546,376
2013	2,369	636,063,255	523	53,729,873	689,793,128
2012	2,009	514,883,902	470	47,924,264	562,808,166
2011	1,494	360,963,607	1,072	119,788,982	480,752,589
2010	1,708	398,553,753	192	22,130,123	420,683,876
2009	1,243	243,510,179	804	79,995,681	323,505,860

<sup>(1)</sup> Through November.

Source: *U.S. Bureau of the Census, January, 2015*

*Employment.* Major employers located within the County include the following:

**Pierce County  
2014 Major Employers**

<b>Employer</b>	<b>Type of Business</b>	<b>Number of Employees</b>
US Joint Base Lewis-McChord	Military	66,054
Local Public Schools	Education	13,408
Multicare Health System	Healthcare	6,904
Washington State	Government	6,455
Franciscan Health System	Healthcare	5,338
Pierce County Government	Government	2,979
Washington State Higher Education	Education	2,566
Fred Meyer Stores	Retail & Distribution	2,560
State Farm Insurance Companies	Insurance	2,206
<b>The City</b>	<b>Government</b>	<b>2,078</b>
Emerald Queen Casino	Gaming	2,061
The Boeing Company	Aerospace Manufacturing	1,670
US Postal Service	Government	1,464
Tacoma Public Utilities	Utility Services	1,334
Wal-Mart	Retail	1,304
Safeway Stores, Inc.	Retail	1,297
Costco	Retail	1,205
YMCA Of Tacoma-Pierce County	Fitness & Recreation	1,057
Comcast Cable*	Media	1,046
Puyallup Tribe	Government	981

\* Non responsive to survey. Used 2013 figures.

*Source: Tacoma News Tribune, Economic Development Board for Tacoma-Pierce County, September 2014*

Employment within the County is described in the following tables.

Civilian Labor Force data is based on household surveys of residents. NAICS data are estimates based on surveys of employers and benchmarked based on covered employment as reported by all employers.

**Pierce County  
Nonagricultural Wage & Salary Workers  
and Labor Force and Employment Data**

	<b>Annual Average</b>				
	<b>2014<sup>(1)</sup></b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Civilian Labor Force	384,630	379,530	385,730	384,520	390,460
Total Employment	356,690	348,940	351,480	346,830	350,570
Total Unemployment	27,940	30,590	34,250	37,690	39,890
Unemployment Rate	7.3%	8.1%	8.9%	9.8%	10.2%
<b>NAICS INDUSTRY</b>	<b>2014<sup>(1)</sup></b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Total Nonfarm	288,900	279,300	275,200	272,300	271,000
Total Private	232,500	223,400	218,200	214,500	212,700
Goods Producing	36,000	34,800	33,700	33,000	33,800
Mining and Logging	300	300	300	300	300
Construction	18,000	17,300	16,600	16,300	17,200
Specialty Trade Contractors	11,200	10,900	10,500	10,400	10,900
Manufacturing	17,700	17,200	16,800	16,400	16,300
Service Providing	252,900	244,500	241,500	239,300	237,300
Trade, Transportation, and Utilities	60,000	57,600	56,600	54,900	53,500
Wholesale Trade	12,400	12,000	11,300	11,000	10,900
Retail Trade	34,000	32,400	32,000	31,700	31,300
Food and Beverage Stores	6,100	6,000	5,800	5,600	5,500
General Merchandise Stores	8,900	8,200	8,100	8,000	7,700
Transportation and Utilities	13,600	13,300	13,300	12,200	11,300
Information	3,000	2,900	2,700	2,800	3,000
Financial Activities	13,800	13,600	13,200	12,500	12,000
Professional and Business Services	24,200	23,800	23,400	23,700	23,500
Admin., Support, Waste Mgmt., and Remed.	15,800	14,800	14,200	14,200	13,700
Administrative and Support Services	14,400	13,400	12,900	12,800	12,300
Education and Health Services	52,400	50,400	49,500	49,100	48,900
Ambulatory Health Care Services	14,900	14,500	14,400	14,300	14,000
Hospitals	11,900	11,600	11,100	10,900	10,600
Leisure and Hospitality	29,900	27,400	26,000	25,600	25,400
Food Services and Drinking Places	23,700	21,700	20,500	20,000	19,900
Other Services	13,200	13,000	13,000	12,900	12,600
Government	56,400	55,800	56,900	57,800	58,400
Federal Government	11,300	12,300	12,800	13,200	13,200
Total State Government	11,900	10,700	10,500	10,500	11,200
State Government Educational Services	4,000	3,900	3,700	3,700	3,700
Total Local Government	33,200	32,800	33,600	34,000	34,000
Local Government Educational Services	18,400	17,700	18,100	18,400	18,300
Workers in Labor/Management Disputes	0	0	0	0	0

<sup>(1)</sup> Data through November.

Source: Washington State Employment Security Department, September 2014



## APPENDIX E

### BOOK-ENTRY SYSTEM

*The following information has been provided by DTC. The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike-through~~ has been deleted as permitted by DTC as it does not pertain to the Bonds.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for ~~[each issue of]~~ the Securities, ~~[each]~~ in the aggregate principal amount of such issue, and will be deposited with DTC. ~~[If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]~~

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

~~[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]~~

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.





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