

WASTEWATER AND STORMWATER MANAGEMENT

2022

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended **December 31, 2022**
Prepared by the Finance Department

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City of Tacoma, Washington
Environmental Services Department

Wastewater and Stormwater Management

Table of Contents

Financial Data	1
Auditor’s Report	2
Management Discussion and Analysis	5
Financial Statements	15
Statements of Net Position	16
Statements of Revenues, Expenses and Changes in Net Position.....	19
Statements of Cash Flows	20
Notes to Financial Statements	22
Required Supplementary Information	49
Proportionate Share of the Net Pension Liability Last 10 Years.....	50
Schedule of Contributions Last 10 Fiscal Years	50
Proportionate Share of the Collective OPEB Liability Last 10 Years.....	51
Supplemental Information (Unaudited)	53
Unaudited Supplemental Information	54
Statements of Net Position	58
Statements of Revenues, Expenses and Changes in Net Position.....	61
Statements of Cash Flows	62

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Financial Data

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Financial Reporting Entity

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

Emphasis of Matter

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington
June 5, 2023

Management Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Stormwater Management
Management's Discussion and Analysis
December 31, 2022 and 2021

Introduction

The following management discussion and analysis of City of Tacoma Wastewater and Stormwater Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2022, 2021 and 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

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

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

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

Financial Highlights

- Total net position is \$524.8 million at December 31, 2022 compared to \$502.8 million, as restated at December 31, 2021 and \$490.1 million at December 31, 2020.
- Operating revenues were \$129.5 million in 2022, \$123.4 million, as restated in 2021, and \$119.0 million in 2020.
- Cash and equity in pooled investments was \$225.6 million at December 31, 2022 compared to \$164.0 million in 2021 and \$170.6 million in 2020.

Financial Analysis – Condensed Statements of Net Position

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

	December 31,		
	2022	2021 (As Restated)	2020
Current, restricted, and other assets	\$ 266,682,044	\$ 190,274,317	\$ 205,659,002
Net capital assets	707,656,619	662,224,577	623,394,016
Total assets	974,338,663	852,498,894	829,053,018
Deferred outflows of resources	12,906,433	14,880,795	9,896,598
Total assets and deferred outflows of resources	<u>\$ 987,245,096</u>	<u>\$ 867,379,689</u>	<u>\$ 838,949,616</u>
Non-current liabilities	\$ 386,624,746	\$ 302,828,662	\$ 288,049,238
Current liabilities	28,201,413	29,186,959	27,039,733
Total liabilities	414,826,159	332,015,621	315,088,971
Deferred inflows of resources	47,594,189	32,536,904	33,802,772
Total liabilities and deferred inflows of resources	<u>462,420,348</u>	<u>364,552,525</u>	<u>348,891,743</u>
Net position:			
Net investment in capital assets	390,966,243	409,091,102	422,355,570
Restricted	19,771,421	4,672,034	6,523,335
Unrestricted	114,087,084	89,064,028	61,178,968
Total net position	<u>524,824,748</u>	<u>502,827,164</u>	<u>490,057,873</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 987,245,096</u>	<u>\$ 867,379,689</u>	<u>\$ 838,949,616</u>

The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$524.8 million in 2022, compared to \$502.8 million, as restated in 2021, and \$490.1 million in 2020. The Division's net position increased by \$22.0 million in 2022 compared to an increase of \$12.8 million, as restated in 2021, and an increase of \$15.3 million in 2020. The largest component of net position reflects the Division's net investment in capital assets (e.g., land, buildings, machinery, and equipment).

The net investment in capital assets component of net position was \$391.0 million in 2022, compared to \$409.1 million, as restated in 2021, and \$422.4 million in 2020. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Division's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division's net position is \$19.8 million in 2022, compared to \$4.7 million in 2021, and \$6.5 million in 2020 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$114.1 million for 2022, \$89.1 million, as restated for 2021, and \$61.2 million for 2020 is unrestricted.

Current, restricted, and other assets was \$266.7 million and \$190.3 million as of December 31, 2022 and December 31, 2021, respectively. The increase in 2022 was \$76.4 million, compared to the decrease of \$15.4 million in 2021. The increase in 2022 was primarily due to \$61.6 million increase in cash and equity pooled investments, \$1.0 million in due from other governments, and \$15.1 million increase in net pension asset. These increases were off-set with the decreases of \$889,000 in accounts receivable, and \$459,000 in accrued unbilled revenue. In 2021, the decrease was primarily due to \$6.6 million decrease in cash and equity pooled investments, \$12.7 million decrease of loan receivable, \$1.8 million decrease in net pension asset. These decreases were off-set with the increases of \$4.6 million in lease receivables, \$467,00 in accounts receivable and \$580,000 in unbilled revenues.

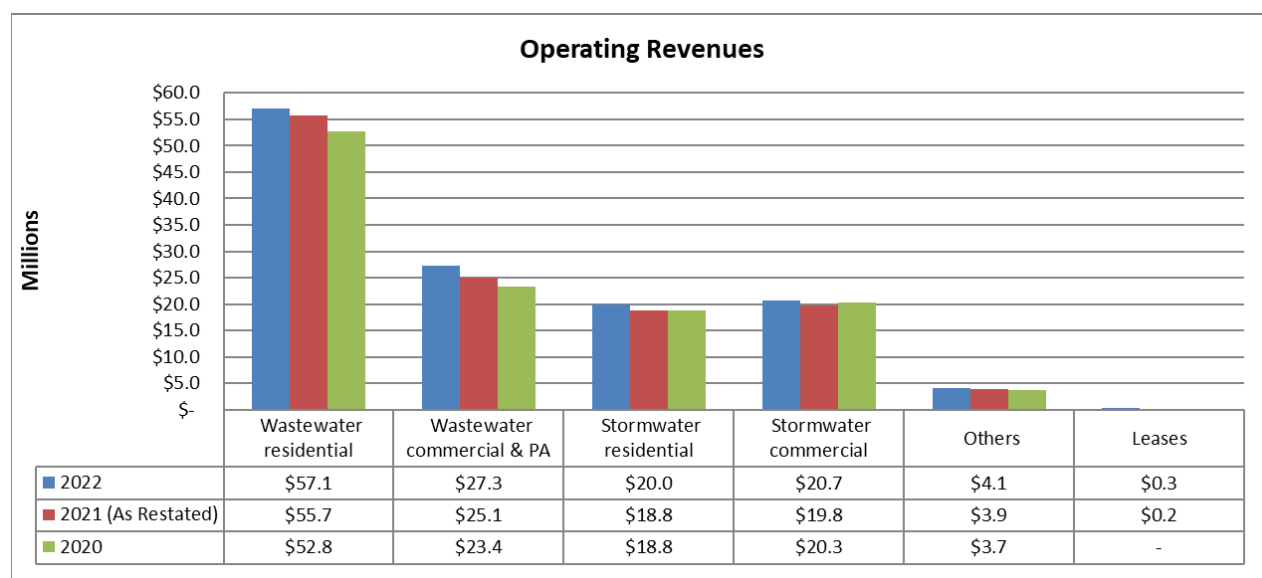
Non-current liabilities was \$386.6 million and \$302.8 million as of December 31, 2022 and December 31, 2021, respectively. The increase in 2022 was \$83.8 million, compared to the increase of \$14.8 million in 2021. The increase in 2022 was mainly due to \$86.0 million in long-term debt from the 2022 Revenue bonds issuance which was off-set with the decrease of \$7.2 million in net pension liability. In 2021, the increase was mainly due to \$15.0 million in long-term WIFIA loan and \$7.2 million in net pension liability. These increases were off-set with the decrease of \$8.3 million in long-term revenue bonds.

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

	Year Ended December 31,		
	2022	2021 (As Restated)	2020
Operating revenues	\$ 129,485,579	\$ 123,377,943	\$ 119,026,415
Operating expenses	89,135,878	95,924,280	93,741,240
Net operating income	40,349,701	27,453,663	25,285,175
Nonoperating expenses	(16,645,943)	(9,043,684)	(2,564,825)
Increase in net position before transfers	23,703,758	18,409,979	22,720,350
Capital contributions	7,901,980	5,153,121	3,568,051
Transfers	(9,608,154)	(10,793,809)	(10,992,823)
Increase in net position	21,997,584	12,769,291	15,295,578
Net position - Beginning of year	502,827,164	490,057,873	474,762,295
Net position - Ending	\$ 524,824,748	\$ 502,827,164	\$ 490,057,873

Operating revenues

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

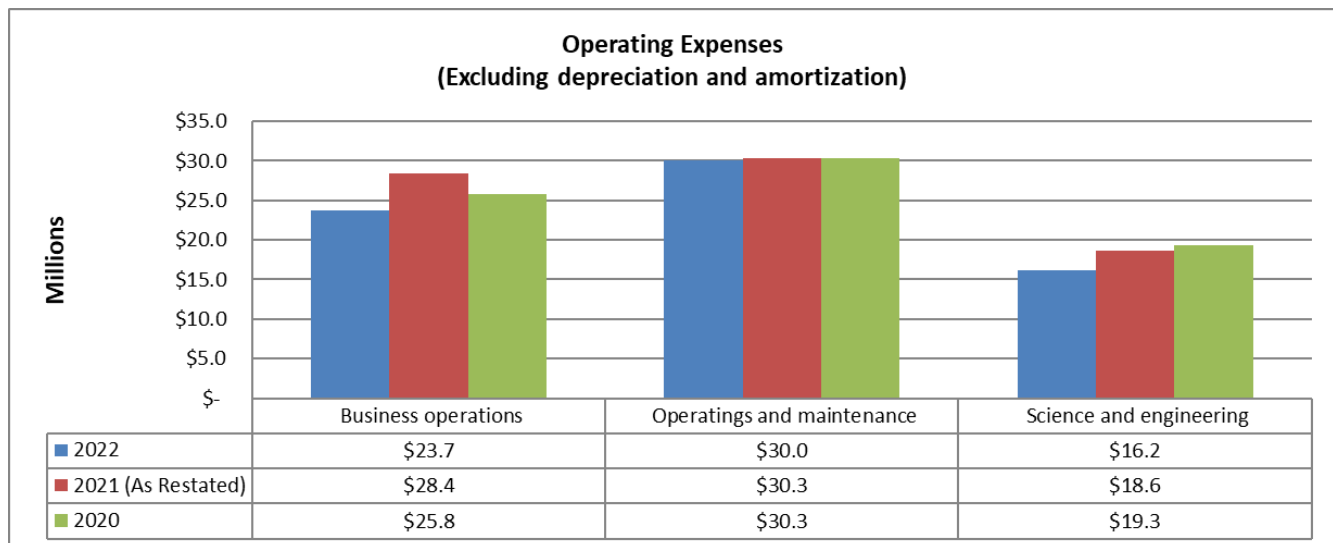


Operating revenues were \$129.5 million in 2022 compared to \$123.4 million, as restated due to implementation of GASB No. 87, *Leases*, in 2021, and \$119.0 million in 2020. The approved average rate increases for Wastewater were 2.0% for 2022 and 1.5% for 2021 and 4.0% for 2020. The approved average rate increases for Stormwater were 2.0% for 2022 and 1.5% for 2021 and 3.5% for 2020. The rate increases went into effect January 1st of each year.

Wastewater residential revenues increased \$1.5 million or 2.6% compared to \$2.9 million or 5.5% in 2021 and Wastewater commercial and public authority (PA) revenues increased \$2.2 million or 8.8% in 2022 compared to \$1.7 million or 7.3% in 2021. The 2022 increases were due in part to a rate increase, increased consumption and increased customer numbers. Stormwater residential increased \$1.2 million or 6.4% compared to a \$47,000 decrease or 0.3% in 2021. Stormwater commercial increased \$917,000 or 4.6% compared to a \$502,000 decrease or 2.5% in 2021. The 2022 increase was due in part to increases in rate and customer numbers. Other revenues increased \$150,000 or 3.8% compared to \$189,000 or 5.1% in 2021. As a result of GASB 87 implementation as discussed in Note 6, lease revenues were \$313,000 in 2022, a \$156,000 increase from \$157,000 in 2021.

Operating expenses

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



2022 Activity

Operating expenses were \$89.1 million in 2022 and \$95.9 million, as restated due to implementation of GASB No. 87, *Leases*, in 2021, a decrease of \$6.8 million.

- Business operation expenses decreased \$4.7 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.4 million mainly due to the decreases in pension benefit adjustment of \$959,000 and pension withdrawal expense of \$768,000. The remaining difference of \$361,000 was related to multiple small changes within salaries and wages and pension contributions.
 - Bad debts decreased \$4.3 million due to lower outstanding balance in aged accounts receivable.
 - Interlocal Governmental Service increased \$176,000 due to increased costs to Pierce County for wastewater treatment charges.
 - Assessment charges from other departments, including Customer Service and IT, increased \$559,000 for their services.
 - The remaining difference of \$308,000 is related to multiple small increases in other expenses.

- Operations and maintenance expenses decreased \$352,000. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.5 million mainly due to the decrease in pension benefit adjustment of \$1.9 million. The remaining difference of \$400,000 was related to multiple small changes within salaries and wages and pension contributions.
 - Physical inventory adjustment increased \$604,000 due to writing off the value of chemicals and gases as a result of the physical inventory.
 - Utilities increased \$412,000 mainly due to rate increases.
 - Operating supplies increased \$130,000 mainly due to increases in Biogas facilities and Plant #1 maintenance.
 - The remaining difference of \$2,000 is related to multiple small increases in other expenses.
- Science and engineering expenses decreased of \$2.4 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.8 million mainly due to the decrease in pension benefit adjustment of \$1.6 million. The remaining difference of \$200,000 was related to multiple small changes within salaries and wages and pension contributions.
 - Environmental liability adjustment decreased \$1.0 million primarily due to readjusted estimates for the identified maintenance issues requiring repair, and additional modeling of site conditions along with repair alternatives analysis, design and eventual construction for the Foss Waterway.
 - Professional service increased \$438,000 due in part to more service for engineering and project management by Brown and Caldwell for various projects.
 - External contract services increased \$295,000 due in part to emergency sewer replacement/repairs by Pivetta Brothers Co.
 - The remaining difference of \$341,000 is related to multiple small decreases in other expenses.

2021 Activity

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

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

Nonoperating revenues (expenses)

2022 Activity

Net nonoperating expenses were \$16.6 million in 2022 and \$9.0 million in 2021, an increase of \$7.6 million. The significant events were:

- Investment loss increased \$2.3 million primarily due to an unrealized loss of \$3.6 million due to a change in fair value of investments.
- Interest expenses and other related costs increased \$3.2 million mainly due to \$721,000 issuance cost and additional interest expenses for 2022 Sewer bonds.
- Other nonoperating expenses increased \$2.2 million mainly due to \$2.6 million expenses to assist overdue utility accounts receivable. The Division received a combined total of \$2.6 million pass-through federal funding from Neighborhood and Community Services (NCS) as part of Emergency Rental Assistance, Tenant Utility Assistance, and the corona virus state fiscal recovery fund federal appropriation programs. The fundings were applied to overdue utility accounts receivable for customers impacted by COVID-19.

2021 Activity

Net nonoperating expenses were \$9.0 million in 2021 and \$2.6 million in 2020, an increase of \$6.4 million. The significant events were:

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

Contributions and transfers

2022 Activity

Capital contributions and Grants increased \$2.7 million mainly due to increased direct grants from Washington Department Ecology for the Upper Buckley Water Quality grant project. Transfer in from other funds increased mainly due to \$2.6 million federal funds from NCS as discussed in the Nonoperating revenues (expenses) section.

2021 Activity

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

Capital Assets

Net capital assets increased \$45.4 million in 2022 compared to \$38.8 million, as restated due to implementation of GASB No. 87, *Leases*, in 2021 (See Note 5).

2022 Activity

Net capital assets increased \$45.4 million over the prior year. Building increased \$26.0 million mainly due to the completion of the Energy Management improvement and Central Treatment Plant (CTP) Electrical replacement projects. Machinery and equipment increased \$17.1 million mainly due to assets created for the CTP Electrical replacement project. Transmission lines and other improvements increased \$74.0 million: 4,439 feet of donated lines were recorded for \$3.8 million, 48,480 feet of old lines were retired at the historical cost of \$186,000, 84,314 feet of new replacement lines and extended sewer lines were recorded for \$70.4 million. Accumulated depreciation increased \$19.1 million and construction in progress decreased \$52.7 million. Right-to-use intangible lease assets were recorded in the net amount of \$152,000 as of December 31, 2022. The Division implemented GASB Statement No. 87, *Leases*, effective for periods beginning after January 1, 2021. The implementation required the recognition of a right-to-use of another entity's asset for a specific period in an exchange or exchange-like transactions. Further information can be found in Note 5 and Note 6.

2021 Activity

Net capital assets increased \$38.8 million over the prior year. Transmission lines and other improvements increased \$22.4 million: 4,903 feet of donated lines were recorded for \$3.6 million, 42,093 feet of old lines were retired at the historical cost of \$161,000, 65,911 feet of new replacement lines and extended sewer lines were recorded for \$15.5 million, and 441 feet of Washington State Department of Transportation (WSDOT)'s construction under I-5 sewer line were recorded for \$3.5 million. All other assets in different categories increased \$2.3 million. Accumulated depreciation increased \$18.0 million and construction in progress increased \$31.9 million. Right-to-use intangible lease assets were recorded in the net amount of \$210,000 as of December 31, 2021, as a result of implementation of GASB Statement No. 87, *Leases*.

Debt Administration

At December 31, 2022, the Division had \$388.0 million outstanding in long-term debt: \$48.9 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and Certificate of Participation (COP) loan. The remaining balance is senior parity bonds debt. This compares to \$294.3 million in 2021 and \$289.6 million in 2020.

On March 23, 2022, Sewer (Wastewater and Stormwater) issued \$86,425,000 in Revenue bonds to provide funds necessary to finance and/or reimburse the City for costs associated with the construction, improvement and equipping of the utility.

In December 2022, the division received \$1,141,847 from the WIFIA loan related to the construction of the Central Wastewater Treatment Plant electrical distribution replacement project.

In December 2022, the Division received \$10,206,680 of State Revolving Fund Loan 2022 DOE EL220451 as a reimbursement for a portion of costs related to the construction of the Central Treatment Plant Electrical Distribution System Replacement projects.

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

Additional information on the Division's long-term debt can be found in Note 7 of the financial statements.

Debt Service Coverage

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

The Division is required by its bond covenants to maintain a debt service coverage ratio of 1.3. The debt service coverage ratio is 3.02 at the end of 2022. This compares to a ratio of 2.85 in 2021 and 2.98 in 2020.

Future Outlook for 2023 and 2024 Rates

The approved average rate increases in 2023 and 2024 are 8% for Wastewater and 6% for Stormwater. The guiding strategy for these rate adjustments is to maintain the lowest responsible cost increase for customers, while maintaining long-term financial sustainability of the utilities. The proposed rate increases are driven by the continuing impacts of the COVID-19 pandemic, resulting in lower than historical revenues, as well as operating expenses and construction inflation. Included in the proposed revenue plan is increased financial assistance for income-qualifying residential customers.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray the City of Tacoma Wastewater and Stormwater Management's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information. The financial statements have been independently audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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

Request for Information

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

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Financial Statements

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

	As of December 31,	
	2022	2021 (As Restated)
ASSETS		
Current assets:		
Cash and equity in pooled investments	\$ 159,491,719	\$ 128,553,421
Accounts receivable, net	8,982,260	9,871,102
Unbilled revenues	7,796,787	8,255,787
Conservation loan fund receivables	199,262	101,945
Loan receivable	-	236
Current lease receivables	315,487	306,298
Due from other governments	1,184,113	177,675
Inventory	2,588,147	2,361,970
Prepayments	313,706	268,190
Restricted cash and equity in pooled investments:		
Debt service funds	1,733,037	1,375,595
Construction funds	59,733,508	29,410,397
Total restricted cash and equity in pooled investments	<u>61,466,545</u>	<u>30,785,992</u>
Total current assets	<u>242,338,026</u>	<u>180,682,616</u>
Non-current assets:		
Restricted cash and equity in pooled investments:		
Debt reserves	4,672,034	4,672,034
Net pension asset	15,099,387	-
Conservation loan fund receivables	446,508	581,173
Long-term lease receivable	4,126,089	4,338,494
Capital assets:		
Land and easements	25,331,544	25,301,414
Buildings	240,130,998	214,168,069
Machinery and equipment	217,169,061	200,112,868
Transmission lines and other improvements	545,935,599	471,896,335
Computer software	10,222,802	10,114,946
Less: accumulated depreciation	(351,263,249)	(332,225,102)
Right-to-use lease assets	266,669	266,669
Less: accumulated amortization	(114,286)	(57,143)
Construction work in progress	19,977,481	72,646,521
Total capital assets, net	<u>707,656,619</u>	<u>662,224,577</u>
Total non-current assets	<u>732,000,637</u>	<u>671,816,278</u>
TOTAL ASSETS	<u>974,338,663</u>	<u>852,498,894</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - loss on refunding bonds	3,013,328	3,218,686
Deferred outflows - OPEB	1,590,354	1,900,944
Deferred outflows - pensions	8,302,751	9,761,165
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>12,906,433</u>	<u>14,880,795</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 987,245,096</u>	<u>\$ 867,379,689</u>

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

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

	As of December 31,	
	2022	2021 (As Restated)
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 8,450,920	\$ 12,647,475
Accrued wages payable and compensated absences payable	1,555,937	1,489,539
Accrued taxes payable	201,458	200,723
Due to other governments	810,000	780,000
Accrued environmental liability	1,780,679	215,000
Accrued State loan interest payable	136,610	156,370
Current portion of Capital COP loan	570,000	565,000
Current portion of State Revolving Fund loan	4,356,142	4,277,789
Current portion of revenue bonds payable	7,434,137	6,595,416
Current portion of pension withdrawal liability	389,949	311,960
Unearned revenues	716,722	511,678
Current portion of lease liability	61,622	60,414
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	675,863	599,584
Accrued revenue bonds interest payable	1,057,174	776,011
Deposit in lieu of bond	4,200	-
Total current liabilities	28,201,413	29,186,959
Non-current liabilities:		
Long-term debt - revenue bonds, net	314,558,709	228,539,811
Long-term debt - Capital COP loan	11,135,000	11,705,000
Long-term State Revolving Fund loan	32,850,529	26,934,360
Long-term WIFIA loan	16,372,397	15,049,415
Long-term accrued compensated absences	3,346,895	3,315,960
Long-term accrued environmental liability	901,000	2,321,000
Long-term lease liability	95,005	152,396
Net pension liability	-	7,218,043
Net OPEB liability	3,940,756	3,856,262
Pension withdrawal liability	3,424,455	3,736,415
Total noncurrent liabilities	386,624,746	302,828,662
TOTAL LIABILITIES	414,826,159	332,015,621
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - OPEB	1,042,927	1,400,106
Deferred inflows - pensions	17,272,201	1,544,635
Deferred inflows - leases	4,279,061	4,592,163
TOTAL DEFERRED INFLOWS OF RESOURCES	47,594,189	32,536,904
NET POSITION		
Net investment in capital assets	390,966,243	409,091,102
Restricted for:		
Bond reserves	4,672,034	4,672,034
Net pension asset	15,099,387	-
Unrestricted	114,087,084	89,064,028
TOTAL NET POSITION	524,824,748	502,827,164
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 987,245,096	\$ 867,379,689

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

	Year Ended December 31,	
	2022	2021 (As Restated)
OPERATING REVENUES		
Wastewater residential	\$ 57,147,208	\$ 55,680,516
Wastewater commercial and public authorities	27,276,372	25,063,853
Stormwater residential	19,993,574	18,787,968
Stormwater commercial	20,676,172	19,759,436
Other revenues	4,079,151	3,929,619
Lease revenues	313,102	156,551
Total operating revenues	129,485,579	123,377,943
OPERATING EXPENSES		
Business operations	23,725,513	28,395,643
Operations and maintenance	29,969,258	30,321,322
Science and engineering	16,173,817	18,561,319
Depreciation	19,210,147	18,588,853
Lease amortization	57,143	57,143
Total operating expenses	89,135,878	95,924,280
Net operating income	40,349,701	27,453,663
NONOPERATING REVENUES (EXPENSES)		
Investment income/(loss)	(3,361,263)	(1,088,659)
Interest expenses and other related costs	(13,616,669)	(10,391,313)
Interest income on lease activities	103,080	44,278
Interest expense on lease activities	(4,232)	(5,372)
Amortization of bond premium and gain/loss on refunding	911,641	942,727
Other nonoperating revenues	1,963,549	1,826,536
Other nonoperating expenses	(2,552,302)	(391,187)
Gain or (loss) on sale/disposal of capital assets	(89,747)	19,306
Total nonoperating expenses	(16,645,943)	(9,043,684)
Net income before contributions and transfers	23,703,758	18,409,979
Capital contributions and grants	7,901,980	5,153,121
Transfer in from other funds	2,568,549	391,187
Transfer out to other funds	(1,480,697)	(1,172,500)
Gross earnings tax	(10,696,006)	(10,012,496)
Total contributions and transfers	(1,706,174)	(5,640,688)
CHANGE IN NET POSITION	21,997,584	12,769,291
NET POSITION - JANUARY 1	502,827,164	490,057,873
NET POSITION - DECEMBER 31	\$ 524,824,748	\$ 502,827,164

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

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

	Year Ended December 31,	
	2022	2021 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 131,704,909	\$ 118,990,586
Payments to suppliers	(39,364,866)	(33,861,450)
Payments to employees	(38,403,538)	(38,710,678)
Payments for taxes	(2,229,730)	(2,160,677)
Net cash from operating activities	<u>51,706,775</u>	<u>44,257,781</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer in from other funds	1,603,428	391,187
Transfer out to other funds	(11,227,829)	(11,184,996)
Operating grants received	505,234	623,125
Principal paid on noncapital debt	(110,925)	(681,863)
Interest paid on noncapital debt	(340,295)	(373,235)
Contributions and donations	31,247	-
Net cash from noncapital financing activities	<u>(9,539,140)</u>	<u>(11,225,782)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(61,280,034)	(49,985,060)
Principal payments on leases	(60,415)	(59,230)
Principal payments on capital debt	(12,411,864)	(11,275,457)
Bond premium	9,305,896	-
Interest and issuance costs paid on capital debt	(12,833,601)	(10,029,859)
Proceeds from debt borrowing	97,839,158	30,438,775
Contributions and donations	3,127,228	1,135,793
Cash proceeds from sale of capital assets	11,000	84,864
Insurance recoveries	6,127	4,344
Net cash from capital financing activities	<u>23,703,495</u>	<u>(39,685,830)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income (loss)	(3,361,263)	(1,088,659)
Nonoperating income/(expense)	(891,016)	1,180,987
Net cash from investing activities	<u>(4,252,279)</u>	<u>92,328</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	61,618,851	(6,561,503)
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	164,011,447	170,572,950
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 225,630,298</u>	<u>\$ 164,011,447</u>

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

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

	Year Ended December 31,	
	2022	2021 (As Restated)
RECONCILIATION OF OPERATING INCOME		
(LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating income	\$ 40,349,701	\$ 27,453,663
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	19,210,147	18,588,853
Amortization - Right of use	57,143	57,143
Lease Revenue	(313,102)	(156,551)
Expense capital project costs	330,471	62,050
Pension expense (credits)	(5,131,450)	(710,306)
Net OPEB expense (credits)	37,905	(33,835)
Pension withdrawal expense	-	768,435
Cash from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	888,840	(466,842)
Accrued unbilled revenue	459,000	(580,000)
Inventory	(226,177)	(216,449)
Prepayments	(45,516)	9,465
Accounts payable	(4,196,555)	(2,041,404)
Conservation loan fund receivables	37,348	103,358
Accrued wages and compensated absences payable	66,398	79,564
Accrued taxes payable	735	11,022
Deposit in lieu of bonds	4,200	(4,017)
Due to other governments	30,000	-
Accrued environmental liability	1,565,679	67,500
Unearned revenues	205,044	44,083
Pension withdrawal Liability	(233,971)	-
Long-term accrued environmental liability	(1,420,000)	1,176,500
Long-term accrued compensated absences	30,935	45,549
Total adjustments	11,357,074	16,804,118
NET CASH FROM OPERATING ACTIVITIES	\$ 51,706,775	\$ 44,257,781
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	\$ 3,820,385	\$ 3,852,437
Interest expense accrued as debt principal	\$ 181,135	\$ 22,540

City of Tacoma, Washington
Environmental Services Department
Wastewater and Stormwater Management

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

NOTE 1 OPERATIONS

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

GASB Statement No. 91 – Conduit Debt Obligations. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB No. 91 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this statement.

GASB Statement No. 92 – Omnibus 2020. The primary objective of this statement is to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB No. 92 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this statement.

GASB Statement No. 93 – Replacement of Interbank Offered Rates (IBOR). The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rate (LIBOR). GASB No. 93 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this statement.

GASB Statement No. 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component unit in fiduciary fund financial statement; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meets the definition of a pension plan and for benefits provided through those plans. GASB No. 97 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division’s financial statements as a result of this statement.

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

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

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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2022 and 2021 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

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

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

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

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

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally, accounts receivable are considered past due after 30 days. Allowance for uncollectible accounts was \$4,996,079 and \$7,104,248 as of December 31, 2022, and 2021, respectively.

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

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

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

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

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

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

Depreciation is recorded using the straight-line method based upon estimated useful lives of the assets. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The estimated useful lives range as follows:

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

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

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

INTANGIBLE ASSETS – In accordance with GASB No. 51, “Accounting and Financial Reporting for Intangible Assets”, land use rights such as easements and right-of-ways are recorded as intangible assets.

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

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

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

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

RATE STABILIZATION FUND - The Division has established a rate stabilization account to better match revenues and expenses which may reduce volatility in rates. Amounts deposited into the account are excluded from the Statement of Revenues, Expenses and Changes in Net Position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions.

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

DEFERRED INFLOWS OF RESOURCES - Deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of inflows for rate stabilization, deferred inflows of resources related to pensions, deferred inflows of resources related to other post-employment benefits other than pensions, and deferred inflows of resources related to leases as a result of implementation of GASB Statement No. 87, *Leases*.

OPERATING REVENUES - Revenues are derived from providing wastewater and stormwater services. Wastewater services include the collection and treatment of wastewater to produce clean water and biosolids that are then used to produce environmentally friendly products also known as Tacoma Grow (TAGRO) products, and 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.

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

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

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

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

TAXES - The City charges the Division a gross earnings tax at the rate of 8.0%, which was reported as a transfer. In addition, the Division pays a 3.852% public utility tax to the State on wastewater collection revenues and the 1.75% business and occupation tax to the State on wastewater transmission and treatment and stormwater service revenues. The Division is exempt from payment of federal income tax.

NET POSITION - The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. Net position components are reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

LEASES

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

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

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

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

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

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

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

USE OF ESTIMATES - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, lease receivables, allowance for doubtful accounts, right-to-use lease assets, accrued compensated absences, environmental liabilities, depreciation and amortization, Other Post Employment Benefits (OPEB Liability), pension withdrawal liability, self-insurance liabilities, net pension liability, lease liability, deferred inflows of leases and other contingencies. Actual results may differ from these estimates.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

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

NOTE 3 RESTATEMENT AND RECLASSIFICATION

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

	2021 (As previously reported)	Effect of Restatement related to adoption of GASB No. 87	2021 (As Restated)
Statement of Net Position			
Current assets:			
Current assets, excluding leases receivable	\$ 180,376,318	\$ -	\$ 180,376,318
Current leases receivable	-	306,298	306,298
Capital assets:			
Net capital assets, excluding lease assets	662,015,051	-	662,015,051
Right-to-use lease assets	-	266,669	266,669
Less accumulated amortization	-	(57,143)	(57,143)
Non-current assets:			
Non current assets, excluding leases receivable	5,253,207	-	5,253,207
Long-term leases receivable	-	4,338,494	4,338,494
Total assets	847,644,576	4,854,318	852,498,894
Deferred outflows of resources	14,880,795		14,880,795
Total assets and deferred outflows of resources	\$ 862,525,371	\$ 4,854,318	\$ 867,379,689
Non-current liabilities:			
Non-current liabilities, excluding leases liability	\$ 302,676,266	\$ -	\$ 302,676,266
Long-term leases liability	-	152,396	152,396
Current liabilities:			
Current liabilities, excluding leases liability	29,126,545	-	29,126,545
Current leases liability	-	60,414	60,414
Total liabilities	331,802,811	212,810	332,015,621
Deferred inflows of resources:			
Deferred inflows of resources, excluding leases	27,944,741	-	27,944,741
Deferred inflows - leases	-	4,592,163	4,592,163
Total deferred inflows of resources	27,944,741	4,592,163	32,536,904
Net position:			
Net investment in capital assets	409,094,387	(3,285)	409,091,102
Restricted	4,672,034	-	4,672,034
Unrestricted	89,011,398	52,630	89,064,028
Total net position	502,777,819	49,345	502,827,164
Total liabilities, deferred inflows of resources, and net position	\$ 862,525,371	\$ 4,854,318	\$ 867,379,689

Notes to the Financial Statements (continued)

	2021 (As previously reported)	Effect of Restatement related to adoption of GASB No. 87	Reclassification *	2021 (As Restated)
Statement of Revenues, Expenses, and Changes in Net Position				
Operating revenues:				
Operating revenues, excluding lease revenues	\$ 123,221,392	\$ -	\$ -	\$ 123,221,392
Lease revenues	-	156,551	-	156,551
Operating expenses:				
Operating expenses, excluding lease amortization	95,926,367	(59,230)	-	95,867,137
Lease amortization	-	57,143	-	57,143
Net operating income	27,295,025	158,638	-	27,453,663
Nonoperating revenues (expenses):				
Nonoperating expenses, excluding interest income and interest expenses on lease activity	(8,934,391)	(148,199)	-	(9,082,590)
Interest income on lease activity	-	44,278	-	44,278
Interest expense on lease activity	-	(5,372)	-	(5,372)
Net income before contributions and transfers	18,360,634	49,345	-	18,409,979
Grants and capital contributions	5,544,308	-	(391,187)	5,153,121
Transfers	(11,184,996)	-	391,187	(10,793,809)
Increase in net position	12,719,946	49,345	-	12,769,291
Net position - Beginning of year	490,057,873			490,057,873
Net position - Ending	\$ 502,777,819	\$ 49,345	\$ -	\$ 502,827,164

* \$391,187 federal funds passing through from Neighborhood and Community Services (NCS) was reclassified from Grants and capital contribution to Transfers.

NOTE 4 INVESTMENTS MEASURED AT FAIR VALUE

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

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

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

The fair value evaluations of City’s investments in TIP are provided by Interactive Data.

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

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

	As of			
	12/31/2022	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 683,653,733	\$ -	\$ 683,653,733	\$ -
U.S. Agency Securities	555,411,908	-	555,411,908	-
Supranational Securities	19,561,285	-	19,561,285	-
Municipal Bonds	20,114,217	-	20,114,217	-
Corporate Securities	61,142,820	-	61,142,820	-
	<u>\$ 1,339,883,963</u>	<u>\$ -</u>	<u>\$ 1,339,883,963</u>	<u>\$ -</u>

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

The Division’s share of the City’s investments shown in the table above is 15.48% and 13.62% as of December 31, 2022 and 2021.

NOTE 5 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2022 and 2021 follows:

	2021 (As Restated)	Additions	Retirements	Transfers & Adjustments	2022
Capital assets, not being depreciated:					
Land and easements	\$ 25,301,414	\$ 30,130	\$ -	\$ -	\$ 25,331,544
Construction work in progress	72,646,521	60,949,565	-	(113,618,605)	19,977,481
Total capital assets, not being depreciated	97,947,935	60,979,695	-	(113,618,605)	45,309,025
Capital assets, being depreciated:					
Buildings	214,168,069	-	-	25,962,929	240,130,998
Right-to-use lease assets	266,669	-	-	-	266,669
Machinery and equipment	200,112,868	36,224	(123,127)	17,143,096	217,169,061
Transmission lines and other improvements	471,896,335	3,820,385	(185,845)	70,404,724	545,935,599
Computer software	10,114,946	-	-	107,856	10,222,802
Total capital assets, being depreciated	896,558,887	3,856,609	(308,972)	113,618,605	1,013,725,129
Less: accumulated depreciation	(332,225,102)	(19,210,147)	172,000	-	(351,263,249)
Less: accumulated amortization - Right-to-use	(57,143)	(57,143)	-	-	(114,286)
Total capital assets, being depreciated, net	564,276,642	(15,410,681)	(136,972)	113,618,605	662,347,594
Total capital assets, net	\$ 662,224,577	\$ 45,569,014	\$ (136,972)	\$ -	\$ 707,656,619
	2020	Additions	Retirements	Transfers & Adjustments	2021 (As Restated)
Capital assets, not being depreciated:					
Land and easements	\$ 25,205,157	\$ 93,448	\$ -	\$ 2,809	\$ 25,301,414
Construction work in progress	40,707,551	49,923,383	-	(17,984,413)	72,646,521
Total capital assets, not being depreciated	65,912,708	50,016,831	-	(17,981,604)	97,947,935
Capital assets, being depreciated:					
Buildings	213,368,244	-	-	799,825	214,168,069
Right-to-use lease assets	-	266,669	-	-	266,669
Machinery and equipment	199,438,768	-	(375,442)	1,049,542	200,112,868
Transmission lines and other improvements	449,462,863	7,258,614	(161,361)	15,336,219	471,896,335
Computer software	9,466,301	-	(147,373)	796,018	10,114,946
Total capital assets, being depreciated	871,736,176	7,525,283	(684,176)	17,981,604	896,558,887
Less: accumulated depreciation	(314,254,868)	(18,588,853)	618,619	-	(332,225,102)
Less: accumulated amortization - Right-to-use	-	(57,143)	-	-	(57,143)
Total capital assets, being depreciated, net	557,481,308	(11,120,713)	(65,557)	17,981,604	564,276,642
Total capital assets, net	\$ 623,394,016	\$ 38,896,118	\$ (65,557)	\$ -	\$ 662,224,577

Right-to-use lease assets

A lease is defined as a contract that conveys control of the right to use of another entity's nonfinancial assets as specified in a contract for a specific period in an exchange or exchange-like transactions. The City is party to a variety of lease contracts as lessee for which this right-to-use has been recognized as an asset on the statement of net position. This recognition is effective for periods beginning after January 1, 2021 due to the implementation of GASB 87.

Notes to the Financial Statements (continued)

A summary of the balances and changes in right to use lease assets for 2022 and 2021 follows:

	2021 (As Restated)	Additions	Retirements	Transfers & Adjustments	2022
Right-to-use buildings	\$ 266,669	\$ -	\$ -	\$ -	\$ 266,669
Less: accumulated amortization	(57,143)	(57,143)	-	-	(114,286)
Total leased assets, net of accumulated amortization	<u>\$ 209,526</u>	<u>\$ (57,143)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,383</u>

	2020	Additions	Retirements	Transfers & Adjustments	2021 (As Restated)
Right-to-use buildings	\$ -	\$ 266,669	\$ -	\$ -	\$ 266,669
Less: accumulated amortization	-	(57,143)	-	-	(57,143)
Total leased assets, net of accumulated amortization	<u>\$ -</u>	<u>\$ 209,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,526</u>

NOTE 6 LEASES

Lease receivables and Deferred Inflows of Resources - Leases

The Division entered into a lease agreement related to buildings for office and lab space. The lease term starts on July 1, 2021 for sixty-two (62) months and will end on August 31, 2026. There are two (2) five-year options to extend the lease term. Lease requires monthly payments of \$23,555 for the term of the agreement with an annual increase of 3% to occur on the anniversary of the commencement date. An estimate of increase rate of 3% is applied for the extension period.

The City used its average incremental borrowing rate of 2.264% as of December 31, 2021 and 2022 in calculation of net present value of lease receipts, as the interest rate is not stated in the agreement.

Total lease receivable as of December 31, 2022 is \$4.4 million and \$4.6 million as of December 31, 2021. Current lease receivable as of December 31, 2022 is \$315,487 which includes accrued interest receivable of \$98,337 and \$306,298 as of December 31, 2021 which includes accrued interest receivable of \$103,080.

Interest income on lease activity of \$103,080 was recorded in 2022 and \$44,278 in 2021. Lease revenue in the amount of \$313,102 was recorded in 2022 compared to \$156,551 in 2021.

Lease Liability

On August 1, 2020, the Division entered into a commercial real estate lease for 8,900 rentable square feet of a 20,900 square foot building for a lease term of 60 months ending July 31, 2025. The Division is required to make an annual rent payment of \$4,895 for the duration of the lease with an annual increase of 2% to occur on the anniversary of the commencement date. In addition to the rent, the Division will pay one-twelfth of the pro-rata share of operating costs which the landlord shall provide as soon as possible following the first day of each succeeding calendar year a good faith estimate.

Notes to the Financial Statements (continued)

The City used its average incremental borrowing rate of 2.264% as of December 31, 2021 and 2022 in calculation of net present value of lease receipts, as the interest rate is not stated in the agreement. Lease liability for the year ended December 31, 2022 and 2021 is as follows:

	Lease Liability
Beginning balance, January 1, 2022	\$ (212,810)
Additions	(4,232)
Reductions	60,415
Ending Balance, December 31, 2022	\$ (156,627)
Beginning balance, January 1, 2021	\$ (266,668)
Additions	(5,372)
Reductions	59,230
Ending Balance, December 31, 2021	\$ (212,810)

Current lease liability as of December 31, 2022 is \$61,622 which includes accrued interest payable of \$2,933 compared to \$60,414 as of December 31, 2021 which includes accrued interest payable of \$4,232.

Interest expense on lease activity of \$4,232 was recorded in 2022 and \$5,372 in 2021.

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

Fiscal Year	Principal	Interest	Total
2023	\$ 58,689	\$ 2,933	\$ 61,622
2024	61,276	1,578	62,854
2025	36,662	270	36,932
Total	\$ 156,627	\$ 4,781	\$ 161,408

NOTE 7 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2022 and 2021, follows:

	2021	Additions	Reductions	2022	Due within One Year
Revenue bonds	\$ 221,485,000	\$ 86,425,000	\$ (7,680,000)	\$ 300,230,000	\$ 8,110,000
Plus: Unamortized premium	14,249,811	9,305,896	(1,116,998)	22,438,709	-
State Revolving Fund loans	31,212,149	10,272,311	(4,277,789)	37,206,671	4,356,142
State COP loan	12,270,000	-	(565,000)	11,705,000	570,000
WIFIA loan	15,049,415	1,322,982	-	16,372,397	-
Total long-term debt	<u>\$ 294,266,375</u>	<u>\$ 107,326,189</u>	<u>\$ (13,639,787)</u>	<u>\$ 387,952,777</u>	<u>\$ 13,036,142</u>

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

The Division's long-term debt at December 31, 2022 and 2021 consists of the following payable from revenues of the Division.

Parity bond, senior lien:

2015 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$1,245,000 to \$9,485,000 between 2016 and 2045. Original par value \$109,300,000 with a call date of June 1, 2025.

Purpose was to (a) finance a portion of the costs of the Division's capital improvement program, (b) to refund a portion of the outstanding 2006 Revenue and Refunding Bonds, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the bonds.

	2022	2021
	\$96,765,000	\$98,820,000

2016A Revenue Refunding Bonds, with interest rates ranging from 1.75% to 5%, due in yearly installments of \$525,000 to \$2,010,000 between 2016 and 2038. Original par value \$31,855,000 with a call date of June 1, 2026.

Purpose was to advance refund of the TES Properties, 2009 Lease Revenue Bonds and contemporaneously terminate the capital lease agreement with TES Properties. Proceeds were also used to fund the bond reserve and pay issuance costs.

	24,895,000	26,060,000
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Notes to the Financial Statements (continued)

Parity bond, senior lien (Continued):	2022	2021
2018 Revenue Bonds, with interest rates ranging from 3% to 5% due in yearly installments of \$3,422,000 to \$8,256,000 between 2019 and 2048. Purpose was to finance capital improvements and pay costs of issuance.	92,630,000	96,605,000
2020 Revenue Bond was placed with US Environmental Protection Agency (EPA) in accordance with a Water Infrastructure Finance and Innovation Act (WIFIA) loan agreement, which evidences the City's repayment obligations. Total \$16,168,722 was reimbursed through the WIFIA loan, with an interest rate of 1.2%, due in yearly installments of \$696,360 from 2026 through 2054. Interest will be accrued until 2025 and the first payment starts in 2026. Total \$203,675 of interest was accrued in 2021 & 2022.	16,372,397	15,049,415
2022 Revenue Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$485,000 to \$5,150,000 between 2022 and 2051. Purpose was to finance capital improvements and pay costs of issuance.	85,940,000	-
Total parity bonds, senior lien	316,602,397	236,534,415
Junior lien debt:		
State Revolving Fund loans DOE L040006A & DOE L040006B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$2,297,662 to \$4,532,452 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant ("CTP") Upgrade project.	24,151,281	28,287,222
State Revolving Fund loan 2011 DOE L1000007, with an interest rate of 2.9% in semi-annual installments of \$21,511 to \$31,346 through 2030; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$473,806 to reimburse a portion of costs related to surface water line retrofit projects.	227,091	251,954
State Revolving Fund loan 2021 DOE EL210166, with an interest rate of 1.2% in semi-annual installments of \$73,684 through 2041; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$2,626,625 to reimburse a portion of costs related to the design of the CTP Electrical Distribution System Replacement projects.	2,437,683	2,554,668
State Revolving Fund loan 2022 DOE EL220451, with an interest rate of 1.6% and a 30 year term; this debt is junior lien and is secured by net operating revenue. Out of total \$14,610,731 SRF loan, \$10,206,680 was reimbursed for a portion of costs related to the construction of the CTP Electrical Distribution System Replacement projects.	10,206,680	-
Local Agency Financing Lease, Series 2020C, known as "Capital (COP) Loan", with an interest rate of approximately 2.12% with annual debt service payments of between \$751,861 and \$787,088 through 2040; this debt is junior lien and is secured by net operating revenue. The issuance costs are included in the interest rate. The proceeds of up to \$12,700,000 to be received on a cost reimbursement basis for Energy Management Project expenditures.	11,705,000	12,270,000

Notes to the Financial Statements (continued)

Parity bond, junior lien (Continued):	2022	2021
The division entered into a \$2,800,000 State Revolving Fund loan agreement with the Department of Ecology on a cost reimbursement basis for the Larchmont Permeable Neighborhood project effective July 1, 2019, and \$5.0 million for the Madison District Green Infrastructure project effective July 1, 2018. As of December 31, 2022, total \$90,902 and \$93,034 have been reimbursed for the Larchmont and Madison District projects, respectively.	183,936	118,305
Total junior lien debt	48,911,671	43,482,149
Total outstanding debt	365,514,068	280,016,564
Less:		
Current portion	(13,036,142)	(12,037,789)
Plus: Unamortized premium	22,438,709	14,249,811
Total long-term debt	\$374,916,635	\$282,228,586

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

As of December 31, 2022, annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2023	\$ 13,036,142	\$ 13,363,835	\$ 26,399,977
2024	13,868,867	13,169,221	27,038,088
2025	14,206,482	12,613,981	26,820,463
2026	14,558,980	12,362,723	26,921,703
2027	16,809,889	11,867,203	28,677,092
2028-2032	71,391,043	50,603,441	121,994,484
2033-2037	78,318,690	35,276,085	113,594,775
2038-2042	57,305,425	22,352,267	79,657,692
2043-2047	55,476,005	11,149,533	66,625,538
2048-2052	28,961,345	2,459,042	31,420,387
2053-2054	1,581,200	26,379	1,607,579
	\$ 365,514,068	\$ 185,243,710	\$ 550,757,778

The Division did not receive the debt schedule for State Revolving loan 2022 DOE EL220451 in the amount of \$10,206,680. This loan is presented in the above annual debt service requirements to maturity table with the estimated debt service requirements according to the debt agreement.

As of December 31, 2022, there were no bonds defeased in substance.

NOTE 8 INSURANCE

The major risks to the Division are flooding, recontamination, wind damage, chemical spills, and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled \$40,580 for 2022 and \$40,000 for 2021. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. A separate deductible of \$1.0 million applies to Excessive Fees Claims. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee benefit programs. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.25 million per occurrence. Coverage also has a Cybersecurity policy with a limit of \$2.0 million and a deductible of \$250,000. An Excess Cyber policy is maintained with a limit of \$2.0 million in excess of the primary policy.

General Government maintains Property insurance policy that covers its buildings and contents within the buildings and motor vehicles while on insured premises with a limit of \$500.0 million per occurrence. A deductible of \$150,000 per occurrence applies to the building and contents except a deductible of \$250,000 for water damage claims while a deductible of \$10,000 applies to motor vehicles. Excess liability policies provide coverage for Wrongful Acts, General liability, and Automobile liability with a limit of \$20.0 million each occurrence and \$20.0 million aggregates with a \$5.0 million retention for claims other than those related to law enforcement. Law enforcement liability is maintained with a limit of \$10.0 million per occurrence and a \$10.0 million aggregate with a \$5.0 million retention. The coverage also provides Aviation Liability - Unmanned Aircraft liability for drones with a limit of \$1.0 million.

The Division's cost for these policies is \$584,682 in 2022 and \$451,957 in 2021.

NOTE 9 WESTERN METAL INDUSTRY PENSION FUND

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

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

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

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

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

On December 3, 2019, the Tacoma City Council approved the collective bargaining agreements for the following groups; the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma General Unit, and District Lodge 160, Local Lodge 282 covering Wastewater Treatment Plant Maintenance Supervisors' Unit. Contained in this agreement was a call for cessation of the participation in the Plan. The contributions submitted for the December 31, 2019, payroll was the final contributions made on behalf of the employees in this unit. As of December 31, 2022, there were no employees participating in the plan.

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

There were no contribution rates applicable for 2022 and 2021. There were no contributions in 2022 and 2021.

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

On November 5, 2021, the City received a Withdrawal Liability Demand Letter from the Plan. The actuaries for the Plan determined that the withdrawal liability attributed to City of Tacoma is \$44,325,881 in total, but the liability was recorded for 20-year limitation liability of \$17,863,052 as of December 31, 2021, in accordance with Section 4219 (c) of the Employee Retirement Income Security Act (ERISA), 20 U.S.C. 1399(c). Each operating division recorded the respective liability based on its proportionate share of the 20-year limitation liability as of December 31, 2021. The initial \$337,619 payment was due on or before January 1, 2022 which was comprised of \$169,829 attributable to the partial withdrawal and \$167,790 attributable to the complete withdrawal. Subsequent payments will be due quarterly. The partial withdrawal quarterly payment will continue until 80 quarterly payments are made for a total of \$13,586,320 while the last quarterly installment for the complete withdrawal will be due on April 1, 2028 for a total of \$4,276,732, the last payment amount will be \$81,982. The payments of \$1.0 million and \$337,619 were made during 2022 and 2021, respectively.

As of December 31, 2022, the Division reported a liability of \$3,814,405 for its proportionate share of the Plan's collective total withdrawal liability of \$16,512,576 compared to \$4,048,375 at December 31, 2021. The current portion of the withdrawal liability is \$389,950 as of December 31, 2022 compared to \$311,960 as of December 31, 2021. At December 31, 2022 and 2021, the Division's proportion was 23.1%. There was no withdrawal expense for the year ended December 31, 2022, compared to \$846,425 for the year ended December 31, 2021.

On January 26, 2022, the City submitted an appeal over the liability calculation subject to the Employee Retirement Income Security Act of 1974 (ERISA). On April 12, 2023, the City submitted a Demand and Notice of Initiation Arbitration to American Arbitration Association. The outcome of the appeal and the arbitration is uncertain at the time of the report issuance and may affect the liability amount.

NOTE 10 TACOMA EMPLOYEES’ RETIREMENT SYSTEM (TERS OR THE SYSTEM)

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

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

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

Administration of The System - TERS is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members.

The Board of Administration of the Tacoma Employees’ Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

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

The breakdown of membership as of December 31, 2021 and 2020 (measurement dates) is as follows:

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

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

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

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

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

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

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

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

Measurement Date	December 31, 2021
Valuation Date	January 1, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.25% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%
Cost of Living Adjustment	2.125%

Notes to the Financial Statements (continued)

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

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

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2022, valuation date and December 31, 2021, the measurement date. Therefore, no adjustments were needed from the January 1, 2022, actuarial valuation date to the calculated liabilities as of December 31, 2021, measurement date for reporting date of December 31, 2022. There were no changes between the January 1, 2021, and January 1, 2022, valuation dates.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2021 and December 31, 2020 for reporting date December 31, 2022 and December 31, 2021, respectively. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated November 2021 and March 2019 for reporting date December 31, 2022, and December 31, 2021, respectively.

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

Notes to the Financial Statements (continued)

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
As of December 31, 2022			
Net pension liability (asset)	\$ 10,020,125	\$ (15,099,387)	\$ (36,032,557)

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
As of December 31, 2021			
Net pension liability (asset)	\$31,953,222	\$7,218,043	\$(13,396,222)

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

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred of Outflows Resources	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (545,960)	\$ 1,223,589	\$ (1,010,644)	\$ 1,306,361
Changes of assumptions	-	3,860,034	-	5,367,899
Net Difference Between Projected and Actual Earnings	(16,713,789)	-	(529,217)	-
Changes in Employer Proportion	(12,452)	70	(4,774)	98
Contributions Made Subsequent to the Measurement Date	-	3,219,058	-	3,086,807
Total	<u>\$ (17,272,201)</u>	<u>\$ 8,302,751</u>	<u>\$ (1,544,635)</u>	<u>\$ 9,761,165</u>

The Division reported \$3.2 million as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total pension liability in the fiscal year ending December 31, 2023.

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

Amounts will be recognized in pension expense as follows:

2023	\$ (1,659,590)
2024	(4,945,017)
2025	(2,050,214)
2026	(3,561,745)
2027	28,058
	<u>\$ (12,188,508)</u>

At December 31, 2022, the Division reported a pension asset of \$15,099,387 for its proportionate share of the total System, compared to a pension liability of \$7,218,043 at December 31, 2021. The proportionate share of the Division is 10.30% of total System's pension liability as of December 31, 2022, and 10.41% as of December 31, 2021. The proportionate share was based on the actual contributions for the year as of December 31, 2022 and 2021.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2022 for non-LEOFF 1 members includes 3,819 active participants, 584 vested terminated participants, 176 retirees and surviving spouses, and 115 spouses of current retirees. The membership as of January 1, 2022 for LEOFF 1 members includes 1 active participant and 348 retirees.

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

Actuarial Assumptions and Other Inputs - The valuation date is January 1, 2022 for both non-LEOFF 1 and LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2021. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2022.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2022, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2022
Census Date:	January 1, 2022
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:		
Discount Rate:	2.00% for pay-as-you-go funding	
Medical Cost Trend:	2022	5.50%
	2023	5.30%
	2024	5.00%
	2030	4.50%
	2040	4.50%
	2050	4.40%
	2060	4.40%
	2070	4.10%
	2080	3.90%

Note that the trend for year 2022 reflects the percent by which 2023 medical costs are expected to exceed 2022 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 3.90% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

Economic Assumptions -

Discount Rate (Liabilities):

2.00%

Demographic Assumptions:

Eligibility:

Disability - Five years of service are required for non-service connected disability.

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

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

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

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

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

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

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

At December 31, 2022 the Division reported a liability of \$3,940,756 for its proportionate share of the collective total City OPEB liability of \$227.4 million compared to \$3,856,262 at December 31, 2021. At December 31, 2022, the participating Division's proportion was 1.73280% as compared to 1.68203% at December 31, 2021. For the year ended December 31, 2022, the participating Division recognized an OPEB expense of \$37,905.

Notes to the Financial Statements (continued)

At December 31, 2022 and 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (32,140)	\$ 45,097	\$ (41,265)	\$ 5,811
Changes of assumptions	(160,434)	344,034	(161,945)	430,601
Changes in Employer Proportion	(757,484)	1,062,589	(1,118,142)	1,271,651
Differences in Contributions	(92,869)	58,870	(78,754)	55,275
Contributions Made Subsequent to the Measurement Date	-	79,764	-	137,606
Total	\$ (1,042,927)	\$ 1,590,354	\$ (1,400,106)	\$ 1,900,944

The Division reported \$79,764 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2023	\$ (25,721)
2024	(49,234)
2025	192,553
2026	200,069
2027	142,176
Thereafter	<u>7,820</u>
	<u>\$ 467,663</u>

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

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.00%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.00%, or one percentage point higher, 3.00%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2022	1.00%	2.00%	3.00%
Net OPEB liability	\$ 4,442,982	\$ 3,940,756	\$ 3,519,694

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.12%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.12%, or one percentage point higher, 3.12%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2021	1.12%	2.12%	3.12%
Net OPEB liability	\$ 4,363,703	\$ 3,856,262	\$ 3,432,239

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

As of December 31, 2022, the following presents the Division’s proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division’s proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
As of December 31, 2022	4.50%	5.50%	6.50%
Net OPEB liability	\$ 3,501,416	\$ 3,940,756	\$ 4,460,343

As of December 31, 2021, the following presents the Division’s proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division’s proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
As of December 31, 2021	5.00%	6.00%	7.00%
Net OPEB liability	\$ 3,391,699	\$ 3,856,262	\$ 4,409,086

NOTE 12 ENVIRONMENTAL LIABILITIES

OLYMPIC VIEW RESOURCE AREA - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long-term monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys and a cap material replenishment project was designed and subsequently implemented in 2020 under EPA oversight. Because contaminated material was left in place under a cap at the site, long-term monitoring is expected to continue a periodic basis in perpetuity. The first long-term monitoring event is scheduled to occur in 2023. The results of this monitoring through the years may result in additional limited maintenance efforts in the future. Included in the estimated liabilities as of December 31, 2022 are estimated costs of \$100,000 and \$25,000 that will be incurred in the year 2023 and 2024, respectively.

FOSS CONSENT DECREE – Under the current long-term Monitoring Plan developed in accordance with the Foss Consent Decree, the City has an obligation for continued monitoring through 2028. Regularly scheduled monitoring is planned for 2023 and 2028. It is expected that another long-term Monitoring Plan will be developed following completion of monitoring under the current plan. Because contaminated material is left in place under caps in the waterway, some level of periodic monitoring will continue in perpetuity. Erosion in two areas was identified and requires maintenance to protect the integrity of the remedy. The basis of design evaluation began in 2021, design is currently being completed, and construction of the maintenance project is planned for 2023/2024. Ongoing monitoring may result in additional limited maintenance efforts in the future. Included in the estimated liabilities as of December 31, 2022 are estimated costs of \$1,750,000 and \$50,000 that will be incurred in the year 2023 and 2024, respectively.

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

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

In 2018, the City and other potentially liable parties entered a new Agreed Order with Ecology which will address final closure of the Coal Gas Site by completion of a Remedial Investigation/Feasibility Study (RI/FS) and development of a draft Cleanup Plan (dCAP) for the site. Other parties are performing the work under the Agreed Order, and the City's role and cost obligation should be limited. Work under this order has commenced.

NOTE 13 COMMITMENTS AND CONTINGENCIES

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

Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	10.30%	10.41%	9.93%	11.14%	11.21%	11.38%	11.66%	11.65%
Employer's proportion share of net pension liability (asset)	(\$15,099,387)	\$7,218,043	(\$1,847,284)	\$13,029,876	(\$4,409,368)	\$10,569,592	\$10,094,045	(\$1,119,219)
Employer's covered payroll **	\$28,721,956	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556	\$25,070,695
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-52.57%	25.53%	-6.94%	47.36%	-16.63%	40.72%	37.44%	-4.46%
Plan fiduciary net position as a percentage the total pension liability	107.74%	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$3,219,058	\$3,086,807	\$2,842,985	\$3,111,579	\$2,961,878	\$2,745,272	\$2,753,194	\$2,650,121
Contributions in relation to the contractually required employer contribution	(3,219,058)	(3,086,807)	(2,842,985)	(3,111,579)	(2,961,878)	(2,745,272)	(2,753,194)	(2,650,121)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-	-
Employer's covered employee payroll	\$28,980,473	\$28,721,956	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556
Employer contribution as a percentage of covered-employee payroll	11.11%	10.75%	10.06%	11.68%	10.77%	10.35%	10.61%	9.83%

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

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

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,					
	2021	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	1.73%	1.68%	1.26%	1.25%	1.86%	1.81%
Employer's proportion share of collective OPEB liability	\$3,940,756	\$3,856,262	\$2,635,160	\$2,555,057	\$4,101,053	\$3,793,836
Employer's covered-employee payroll**	\$28,721,956	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$26,221,707
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	13.72%	13.64%	9.89%	9.29%	15.47%	14.47%

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

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

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2022**

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

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

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

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Supplemental Information (Unaudited)

Wastewater and Stormwater Management
 Unaudited Supplemental Information
City of Tacoma, Washington Sewer Revenue and Refunding Bonds, Series 2015
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016A
City of Tacoma, Washington Sewer Revenue Bonds, Series 2018
City of Tacoma, Washington Sewer Revenue Bonds, Series 2022

The following continuing disclosure information for 2022 is provided in accordance with SEC Rule 15c2-12(b)(5)

Wastewater and Stormwater Management Audited Financial Statements

Reference Financial Statements Section

Outstanding Sewer Bonds

Reference Note 7 in Notes to Financial Statements

Debt Service Coverage

	2021	2022
Parity Bond Debt Service Coverage Ratio	2.83	3.02
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.13	2.34

Number of Customers by Type of Service

Year	Wastewater				Stormwater		
	Residential	Commercial/ Industrial	Contract ⁽¹⁾	Total	Residential	Commercial/ Industrial	Total
2021	59,771	3,794	14,451	78,016	59,914	11,404	71,318
2022	59,869	3,784	14,493	78,146	59,989	11,617	71,606

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

Revenues by Service

	2021 (As Restated)	2022
Wastewater:		
Residential	\$ 55,680,516	\$ 57,147,208
Commercial and wholesale	25,063,853	27,276,372
Other revenues	3,815,903	3,964,260
Lease revenues	156,551	313,102
Stormwater:		
Residential	18,787,968	19,993,574
Commercial	19,759,436	20,676,172
Other revenues	113,716	114,891
Total operating revenues	\$ 123,377,943	\$ 129,485,579

Top Ten Customers

Customer Name	Amount	Percent of 2022 Operating Revenues ⁽¹⁾
Port of Tacoma	\$ 2,905,590	2.24%
Tacoma School District	1,668,301	1.29%
City of Tacoma	1,655,062	1.28%
Puyallup Tribe	951,847	0.74%
Metro Parks	874,798	0.68%
Darling International Inc	680,125	0.53%
Pierce County Facilities	553,296	0.43%
Multicare	518,918	0.40%
Aladdin Camelot Apartments	515,452	0.40%
Salishan	493,940	0.38%
Total	\$ 10,817,329	8.37%
⁽¹⁾ Total system revenue	\$ 129,485,579	

Wastewater and Stormwater Rates

Wastewater Rates

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

	2021 ⁽¹⁾	2022 ⁽¹⁾
Residential		
Monthly fixed charge	\$ 27.32	\$ 27.73
Flow charge ⁽²⁾	5.15	5.23
Commercial		
Monthly fixed charge	\$ 13.39	\$ 13.80
Flow charge ⁽³⁾	\$7.24-\$15.15	\$7.46-\$15.61

⁽¹⁾ Rates are effective January 1 of each year.

⁽²⁾ Per 100 cubic feet of water consumed.

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

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

Stormwater Rates

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

Category of Development	2021 ⁽¹⁾		2022 ⁽¹⁾	
	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 8.61	\$ 0.1508	\$ 9.00	\$ 0.1524
Undeveloped-area in excess of one acre	8.61	0.0621	9.00	0.0628
Light development	8.61	0.4818	9.00	0.4876
Moderate development	8.61	0.6760	9.00	0.6828
Heavy development	8.61	0.9668	9.00	0.9768
Very Heavy development	8.61	1.2948	9.00	1.3078
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 8.61	\$ 0.2951	\$ 9.00	\$ 0.2981
Undeveloped area in excess of one acre	8.61	0.0621	9.00	0.0628
Light development	8.61	0.9418	9.00	0.9513
Moderate development	8.61	1.3015	9.00	1.3146
Heavy development	8.61	1.9013	9.00	1.9204
Very Heavy development	8.61	2.5469	9.00	2.5724

⁽¹⁾ Rates are effective January 1 of each year.

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

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City of Tacoma, Washington

Environmental Services Department
Wastewater and Stormwater Management
Statements of Net Position

	Wastewater		Stormwater	
	As of December 31,		As of December 31,	
	2022	2021 (As Restated)	2022	2021
ASSETS				
Current assets:				
Cash and equity in pooled investments	\$ 106,622,061	\$ 90,961,827	\$ 52,869,658	\$ 37,591,594
Accounts receivable, net	6,828,914	7,401,772	2,153,346	2,469,330
Unbilled revenues	5,170,787	5,689,787	2,626,000	2,566,000
Conservation loan fund receivables	199,262	101,945	-	-
Loan receivable	-	236	-	-
Current lease receivables	315,487	306,298	-	-
Due from other governments	-	-	1,184,113	177,675
Inventory	2,588,147	2,361,970	-	-
Prepayments	313,706	268,190	-	-
Restricted cash and equity in pooled investments:				
Debt service funds	987,973	765,754	745,064	609,841
Construction funds	42,080,801	-	17,652,707	29,410,397
Total restricted cash and equity in pooled investments	43,068,774	765,754	18,397,771	30,020,238
Total current assets	165,107,138	107,857,779	77,230,888	72,824,837
Non-current assets:				
Restricted cash and equity in pooled investments:				
Debt reserves	4,640,000	4,640,000	32,034	32,034
Net pension asset	11,042,004	-	4,057,383	-
Conservation loan fund receivables	446,508	581,173	-	-
Long-term lease receivable	4,126,089	4,338,494	-	-
Capital assets:				
Land and easements	13,328,548	13,313,483	12,002,996	11,987,931
Buildings	238,266,453	212,303,524	1,864,545	1,864,545
Machinery and equipment	196,019,884	179,608,809	21,149,177	20,504,059
Transmission lines and other improvements	285,416,399	263,780,000	260,519,200	208,116,335
Computer software	5,935,499	5,881,726	4,287,303	4,233,220
Less: accumulated depreciation	(281,553,324)	(266,943,322)	(69,709,925)	(65,281,780)
Right to use lease assets	266,669	266,669	-	-
Less: accumulated amortization	(114,286)	(57,143)	-	-
Construction work in progress	9,130,540	48,112,233	10,846,941	24,534,288
Total capital assets, net	466,696,382	456,265,979	240,960,237	205,958,598
Total non-current assets	486,950,983	465,825,646	245,049,654	205,990,632
TOTAL ASSETS	652,058,121	573,683,425	322,280,542	278,815,469
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - loss on refunding bonds	1,896,807	2,021,935	1,116,521	1,196,751
Deferred outflows - OPEB	742,696	889,559	847,658	1,011,385
Deferred outflows - pensions	6,071,704	7,160,735	2,231,047	2,600,430
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,711,207	10,072,229	4,195,226	4,808,566
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 660,769,328	\$ 583,755,654	\$ 326,475,768	\$ 283,624,035

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

	Wastewater		Stormwater	
	As of December 31,		As of December 31,	
	2022	2021 (As Restated)	2022	2021
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 3,518,628	\$ 6,582,422	\$ 4,932,292	\$ 6,065,053
Accrued wages payable and compensated absences payable	1,166,630	1,118,205	389,307	371,334
Accrued taxes payable	137,177	144,998	64,281	55,725
Due to other governments	810,000	780,000	-	-
Accrued environmental liability	-	-	1,780,679	215,000
Accrued State loan interest payable	136,610	156,370	-	-
Current portion of Capital COP loan	570,000	565,000	-	-
Current portion of State Revolving Fund loan	4,330,549	4,252,926	25,593	24,863
Current portion of revenue bonds payable	3,816,835	3,520,820	3,617,302	3,074,596
Current portion of pension withdrawal liability	381,509	305,208	8,440	6,752
Unearned revenues	480,858	333,255	235,864	178,423
Current portion of lease liability	61,622	60,414	-	-
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	346,985	320,075	328,878	279,509
Accrued revenue bonds interest payable	640,988	445,679	416,186	330,332
Deposit in lieu of bond	4,200	-	-	-
Total current liabilities	<u>16,402,591</u>	<u>18,585,372</u>	<u>11,798,822</u>	<u>10,601,587</u>
Non-current liabilities:				
Long-term debt - revenue bonds, net	194,856,631	134,317,381	119,702,078	94,222,430
Long-term debt - Capital COP loan	11,135,000	11,705,000	-	-
Long-term State Revolving Fund loan	32,465,095	26,588,964	385,434	345,396
Long-term WIFIA loan	16,372,397	15,049,415	-	-
Long-term accrued compensated absences	2,642,205	2,669,490	704,690	646,470
Long-term accrued environmental liability	-	-	901,000	2,321,000
Long-term lease liability	95,005	152,396	-	-
Net pension liability	-	5,295,115	-	1,922,928
Net OPEB liability	2,111,361	2,091,924	1,829,395	1,764,338
Pension withdrawal liability	3,350,333	3,655,540	74,122	80,875
Total noncurrent liabilities	<u>263,028,027</u>	<u>201,525,225</u>	<u>123,596,719</u>	<u>101,303,437</u>
TOTAL LIABILITIES	<u>279,430,618</u>	<u>220,110,597</u>	<u>135,395,541</u>	<u>111,905,024</u>
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - OPEB	873,412	1,252,722	169,515	147,384
Deferred inflows - pensions	12,630,957	1,133,135	4,641,244	411,500
Deferred inflows - leases	4,279,061	4,592,163	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>34,783,430</u>	<u>23,978,020</u>	<u>12,810,759</u>	<u>8,558,884</u>
NET POSITION				
Net investment in capital assets	246,970,856	262,075,833	143,995,387	147,015,269
Restricted for:				
Bond reserves	4,640,000	4,640,000	32,034	32,034
Net pension asset	11,042,004	-	4,057,383	-
Unrestricted	83,902,420	72,951,204	30,184,664	16,112,824
TOTAL NET POSITION	<u>346,555,280</u>	<u>339,667,037</u>	<u>178,269,468</u>	<u>163,160,127</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
	<u>\$ 660,769,328</u>	<u>\$ 583,755,654</u>	<u>\$ 326,475,768</u>	<u>\$ 283,624,035</u>

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

	Wastewater		Stormwater	
	Year Ended December 31,		Year Ended December 31,	
	2022	2021 (As Restated)	2022	2021
OPERATING REVENUES				
Wastewater residential	\$ 57,147,208	\$ 55,680,516	\$ -	\$ -
Wastewater commercial and public authorities	27,276,372	25,063,853	-	-
Stormwater residential	-	-	19,993,574	18,787,968
Stormwater commercial	-	-	20,676,172	19,759,436
Other revenues	3,964,260	3,815,903	114,891	113,716
Lease revenues	313,102	156,551	-	-
Total operating revenues	<u>88,700,942</u>	<u>84,716,823</u>	<u>40,784,637</u>	<u>38,661,120</u>
OPERATING EXPENSES				
Business operations	16,508,311	19,005,226	7,217,202	9,390,417
Operations and maintenance	25,749,276	26,542,867	4,219,982	3,778,455
Science and engineering	8,384,569	8,642,374	7,789,248	9,918,945
Depreciation	14,728,143	14,215,023	4,482,004	4,373,830
Lease amortization	57,143	57,143	-	-
Total operating expenses	<u>65,427,442</u>	<u>68,462,633</u>	<u>23,708,436</u>	<u>27,461,647</u>
Net operating income	<u>23,273,500</u>	<u>16,254,190</u>	<u>17,076,201</u>	<u>11,199,473</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income/(loss)	(2,360,926)	(672,005)	(1,000,337)	(416,654)
Interest expenses and other related costs	(8,576,767)	(6,304,299)	(5,039,902)	(4,087,014)
Interest income on lease activities	103,080	44,278	-	-
Interest expense on lease activities	(4,232)	(5,372)	-	-
Amortization of bond premium and gain/loss on refunding	479,288	429,665	432,353	513,062
Other nonoperating revenues	1,409,610	1,309,263	553,939	517,273
Other nonoperating expenses	(1,801,098)	(295,175)	(751,204)	(96,012)
Gain or (loss) on sale/disposal of capital assets	(63,199)	35,797	(26,548)	(16,491)
Total nonoperating expenses	<u>(10,814,244)</u>	<u>(5,457,848)</u>	<u>(5,831,699)</u>	<u>(3,585,836)</u>
Net income before contributions and transfers	<u>12,459,256</u>	<u>10,796,342</u>	<u>11,244,502</u>	<u>7,613,637</u>
Capital contributions and grants	240,439	2,502,981	7,661,541	2,650,140
Transfer in from other funds	1,801,098	295,175	767,451	96,012
Transfer out to other funds	(197,670)	-	(1,283,027)	(1,172,500)
Gross earnings tax	(7,414,880)	(6,860,304)	(3,281,126)	(3,152,192)
Total contributions and transfers	<u>(5,571,013)</u>	<u>(4,062,148)</u>	<u>3,864,839</u>	<u>(1,578,540)</u>
CHANGE IN NET POSITION	6,888,243	6,734,194	15,109,341	6,035,097
NET POSITION - JANUARY 1	<u>339,667,037</u>	<u>332,932,843</u>	<u>163,160,127</u>	<u>157,125,030</u>
NET POSITION - DECEMBER 31	<u>\$ 346,555,280</u>	<u>\$ 339,667,037</u>	<u>\$ 178,269,468</u>	<u>\$ 163,160,127</u>

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

	Wastewater		Stormwater	
	Year Ended December 31,		Year Ended December 31,	
	2022	2021 (As Restated)	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 90,376,420	\$ 81,137,021	\$ 41,328,489	\$ 37,853,565
Payments to suppliers	(29,036,679)	(28,188,656)	(10,328,187)	(5,672,794)
Payments to employees	(27,919,892)	(28,315,634)	(10,483,646)	(10,395,044)
Payments for taxes	(1,547,037)	(1,494,362)	(682,693)	(666,315)
Net cash from operating activities	<u>31,872,812</u>	<u>23,138,369</u>	<u>19,833,963</u>	<u>21,119,412</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer in from other funds	1,603,428	295,175	-	96,012
Transfer out to other funds	(7,414,880)	(6,860,304)	(3,812,949)	(4,324,692)
Operating grants received	52,139	-	453,095	623,125
Principal paid on noncapital debt	-	-	(110,925)	(681,863)
Interest paid on noncapital debt	-	-	(340,295)	(373,235)
Contributions and donations	-	-	31,247	-
Net cash from noncapital financing activities	<u>(5,759,313)</u>	<u>(6,565,129)</u>	<u>(3,779,827)</u>	<u>(4,660,653)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(25,324,982)	(35,937,011)	(35,955,052)	(14,048,049)
Principal payments on leases	(60,415)	(59,230)	-	-
Principal payments on capital debt	(8,848,821)	(9,031,301)	(3,563,043)	(2,244,156)
Bond premium	6,387,486	-	2,918,410	-
Interest and issuance costs paid on capital debt	(8,219,848)	(6,305,645)	(4,613,753)	(3,724,214)
Proceeds from debt borrowing	70,458,527	30,364,640	27,380,631	74,135
Contributions and donations	(54,937)	523,248	3,182,165	612,545
Cash proceeds from sale of capital assets	11,000	84,864	-	-
Insurance recoveries	5,065	2,526	1,062	1,818
Net cash from capital financing activities	<u>34,353,075</u>	<u>(20,357,909)</u>	<u>(10,649,580)</u>	<u>(19,327,921)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income (loss)	(2,360,926)	(672,005)	(1,000,337)	(416,654)
Nonoperating income/(expense)	(142,394)	1,261,012	(748,622)	(80,025)
Net cash from investing activities	<u>(2,503,320)</u>	<u>589,007</u>	<u>(1,748,959)</u>	<u>(496,679)</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	57,963,254	(3,195,662)	3,655,597	(3,365,841)
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	96,367,581	99,563,243	67,643,866	71,009,707
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 154,330,835</u>	<u>\$ 96,367,581</u>	<u>\$ 71,299,463</u>	<u>\$ 67,643,866</u>

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

	Wastewater		Stormwater	
	Year Ended December 31,		Year Ended December 31,	
	2022	2021 (As Restated)	2022	2021
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Net operating income	\$ 23,273,500	\$ 16,254,190	\$ 17,076,201	\$ 11,199,473
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation expense	14,728,143	14,215,023	4,482,004	4,373,830
Amortization - Right of use	57,143	57,143	-	-
Lease Revenue	(313,102)	(156,551)	-	-
Expense capital project costs	330,471	62,050	-	-
Pension expense (credits)	(3,750,266)	(519,738)	(1,381,184)	(190,568)
Net OPEB expense (credits)	(213,010)	(276,223)	250,915	242,388
Pension withdrawal expense	-	680,808	-	87,627
Cash from changes in operating assets and liabilities:				
Accounts receivable, net of allowance	572,856	(331,827)	315,984	(135,015)
Accrued unbilled revenue	519,000	(862,000)	(60,000)	282,000
Inventory	(226,177)	(216,449)	-	-
Prepayments	(45,516)	9,465	-	-
Accounts payable	(3,063,794)	(5,988,977)	(1,132,761)	3,947,573
Conservation loan fund receivables	37,348	103,358	-	-
Accrued wages and compensated absences payable	48,425	54,496	17,973	25,068
Accrued taxes payable	(7,821)	13,753	8,556	(2,731)
Deposit in lieu of bonds	4,200	(4,017)	-	-
Due to other governments	30,000	-	-	-
Accrued environmental liability	-	-	1,565,679	67,500
Unearned revenues	147,603	28,711	57,441	15,372
Pension withdrawal Liability	(228,906)	-	(5,065)	-
Long-term accrued environmental liability	-	-	(1,420,000)	1,176,500
Long-term accrued compensated absences	(27,285)	15,154	58,220	30,395
Total adjustments	8,599,312	6,884,179	2,757,762	9,919,939
NET CASH FROM OPERATING ACTIVITIES	\$ 31,872,812	\$ 23,138,369	\$ 19,833,963	\$ 21,119,412
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 280,311	\$ 1,878,481	\$ 3,540,074	\$ 1,973,956
Interest expense accrued as debt principal	\$ 181,135	\$ 22,540	\$ -	\$ -



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.