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*ANNUAL*

*TACOMA RAIL*

2015

**FINANCIAL  
REPORT**





# Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES  
CITY OF TACOMA



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES

# TACOMA RAIL

## TABLE OF CONTENTS

### **FINANCIAL DATA**

INDEPENDENT AUDITOR'S REPORT .....	3 - 4
MANAGEMENT DISCUSSION AND ANALYSIS .....	5 - 10
STATEMENTS OF NET POSITION .....	12 - 13
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION .....	15
STATEMENTS OF CASH FLOWS .....	16 - 17
NOTES TO FINANCIAL STATEMENTS .....	18 - 30

### **STATISTICAL DATA (UNAUDITED)**

TEN-YEAR FINANCIAL REVIEW .....	32 - 33
TEN-YEAR SWITCHING STATISTICS .....	34 - 35
COMPARISON OF CARS SWITCHED & SWITCHING REVENUES ....	36
FUNDS AVAILABLE FOR DEBT SERVICE .....	37
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS .....	38
GRAPHS .....	39 - 42

<b>SUPERINTENDENT'S REPORT (UNAUDITED) .....</b>	<b>43 - 44</b>
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# FINANCIAL DATA

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## REPORT OF INDEPENDENT AUDITORS

The Chair and Members of the Public Utility Board  
City of Tacoma, Washington Department of Public Utilities, Rail Division  
Tacoma Washington

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

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Rail Division (the Division), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

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

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

## REPORT OF INDEPENDENT AUDITORS (continued)

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 32 through 42 and the superintendent's report presented on pages 43 through 44 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.



Tacoma, Washington  
April 1, 2016

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis of Tacoma Rail's financial performance provides an overview of the financial activities for the years ended December 31, 2015 and 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2015 and 2014, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Rail's assets and liabilities, with the difference between the two 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, capital and related financing, non-capital financing and investing activities.

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

### **Financial Highlights**

Tacoma Rail continued to meet its goal of providing efficient, cost-effective rail service to the Ports of Tacoma and Olympia as well as Tacoma's industrial areas. Doing so required adding operating staff, a continued investment in infrastructure and enforcing a disciplined tactical plan to respond to growth in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2015 indicate a slight increase in intermodal platform traffic and a small decrease in non-intermodal traffic. The intermodal coincides with the formation of the Northwest Seaport Alliance; a partnership between the Port of Tacoma and the Port of Seattle. Non-intermodal traffic decreased after some commodities lost profitability margin due to the fall of oil prices. Locomotive servicing and related revenue increased dramatically due to the addition of the Burlington Northern Santa Fe (BNSF) into the program in late 2014 and increased services to Union Pacific (UP) in 2015.

## Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$2.8 million in 2015, compared to \$2.0 million in 2014, an increase of \$0.8 million. The increase in net position is due to a decrease of \$0.3 million in operating revenues, a decrease of \$0.8 million in operating expenses, and a decrease in transfers of \$0.3 million.

In 2014, Tacoma Rail realized a change in net position of \$2.0 million, compared to \$1.9 million in 2013, an increase of \$0.1 million. The increase in net position was due to an increase of \$2.5 million in operating revenues, an increase of \$2.8 million in operating expenses, an increase of \$0.9 million in contributions, and an increase of \$0.5 million in transfers out.

The following table highlights Tacoma Rail's past three years' operating results.

<u>Description</u>	<b>OPERATING RESULTS</b> (in thousands)			15/14	14/13
	<u>2015</u>	<u>2014</u>	<u>2013</u>	Increase (Decrease)	Increase (Decrease)
Operating Revenues	\$ 29,165	\$ 29,457	\$ 26,943	\$ (292)	\$ 2,514
Operating Expenses	25,806	26,563	23,782	(757)	2,781
Operating Income	3,359	2,894	3,161	465	(267)
Net Non-Operating Revenues	1,061	991	980	70	11
Contributions	846	878	-	(32)	878
Transfers Out	(2,455)	(2,751)	(2,273)	296	(478)
Change in Net Position	<u>\$ 2,811</u>	<u>\$ 2,012</u>	<u>\$ 1,868</u>	<u>\$ 799</u>	<u>\$ 144</u>

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

<u>Description</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	15/14 Increase (Decrease)	14/13 Increase (Decrease)
Capital Assets (Net)	\$ 24,748	\$ 21,059	\$ 18,016	\$ 3,689	\$ 3,043
Current and Other Assets	14,909	16,029	13,027	(1,120)	3,002
<b>Total Assets</b>	<u>\$ 39,657</u>	<u>\$ 37,088</u>	<u>\$ 31,043</u>	<u>\$ 2,569</u>	<u>\$ 6,045</u>
Net Investment in Capital Assets	\$ 18,246	\$ 16,023	\$ 14,797	\$ 2,223	\$ 1,226
Restricted Net Position	65	65	65	-	-
Unrestricted Net Position	8,731	8,142	7,356	589	786
Total Net Position	27,042	24,230	22,218	2,812	2,012
Long-Term Debt, net of current maturities	5,556	4,483	2,765	1,073	1,718
Current and Long Term Liabilities	7,059	8,375	6,060	(1,316)	2,315
Total Liabilities	12,615	12,858	8,825	(243)	4,033
<b>Total Net Position &amp; Liabilities</b>	<u>\$ 39,657</u>	<u>\$ 37,088</u>	<u>\$ 31,043</u>	<u>\$ 2,569</u>	<u>\$ 6,045</u>

## Revenues

### 2015 Compared to 2014

In 2015, Tacoma Rail operating revenues of \$29.2 million were \$292,000 lower than the \$29.5 million in 2014. Overall switching revenues decreased \$804,000 (3.0%), from 2014. The following table summarizes the switching revenues by activity type for the last two years.

Activity Types	Rail Cars				Switching Revenues (in thousands)			
	2015	2014	Var	% Chg	2015	2014	Var	% Chg
Intermodal Line Hauls	68,453	69,872	(1,419)	(2.0%)	\$ 11,440	\$ 11,324	\$ 116	1.0%
Commercial Line Hauls	29,091	32,096	(3,005)	(9.4%)	12,147	12,215	(68)	(0.6%)
Capital Div. Line Hauls	1,733	3,111	(1,378)	(44.3%)	748	1,395	(647)	(46.4%)
Miscellaneous Switches	2,896	3,058	(162)	(5.3%)	1,356	1,561	(205)	(13.1%)
Total Line Hauls	102,173	108,137	(5,964)	(5.5%)	\$ 25,691	\$ 26,495	\$ (804)	(3.0%)

Demurrage and other operating revenues increased \$512,000. Demurrage revenue decreased by \$58,000 and locomotive servicing revenue and other revenue increased \$570,000. This was due to both the addition of the BNSF to locomotive servicing program and an increase in the locomotive services rendered to UP.

### 2014 Compared to 2013

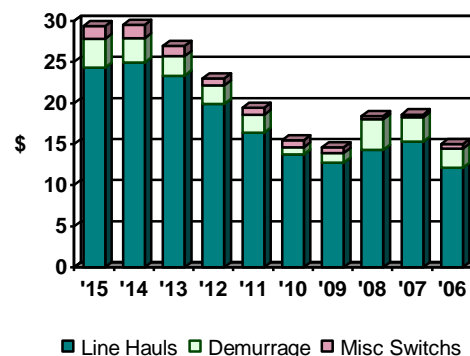
In 2014, Tacoma Rail operating revenues of \$29.5 million were \$2.5 million higher than the \$26.9 million in 2013. Overall switching revenues increased \$1.9 million (7.8%), from 2013.

### Switching Activities

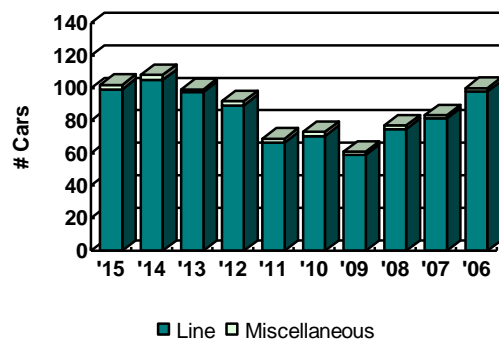
Switching activities decreased in 2015 by 5,964 cars (5.5%) to 102,173, from 108,137 in 2014. The most significant decrease in switching activity can be seen in commercial line-hauls which were down by 3,005 cars (9.4%) due to a decrease in commercial line haul rail traffic. The average number of cars switched over the last ten years is 86,553.

During 2014, total switching activities increased by 8,771 cars (8.8%) from 2013. The increase in intermodal rail traffic was the dominant factor. Intermodal line-hauls were up by 4,891 cars (7.5%) in 2014.

OPERATING REVENUES  
(in millions)



SWITCHING ACTIVITIES  
(in thousands)



The table below shows the changes in switching volumes for the last three years.

### SWITCHING ACTIVITIES

<u>Description</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>15/14</u>	<u>14/13</u>
				<u>Increase</u>	<u>Increase</u>
				<u>(Decrease)</u>	<u>(Decrease)</u>
Line Hauls	99,277	105,079	97,536	(5,802)	7,543
Miscellaneous Switches	2,896	3,058	1,830	(162)	1,228
Total Cars Switched	102,173	108,137	99,366	(5,964)	8,771

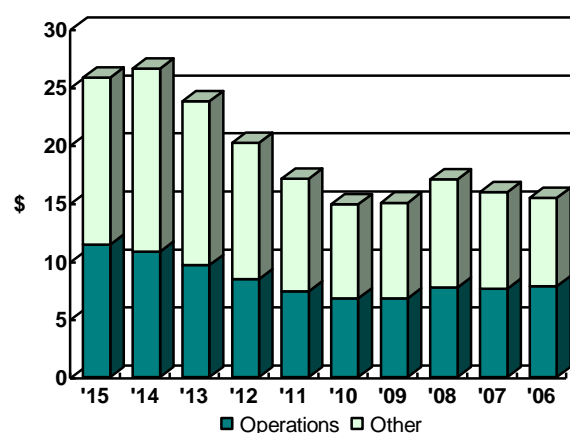
### Expenses

#### 2015 Compared to 2014

In 2015, Tacoma Rail operating expenses of \$25.8 million were \$0.8 million lower than the \$26.6 million in 2014. Salaries and wages increased \$2.0 million and supplies and expenses decreased \$2.9 million.

Salaries and wages were higher due to an increase in personnel, an increase in cost of benefits and a new labor agreement with the largest union at Tacoma Rail. Supplies and expenses decreased \$2.9 million. The decrease in supplies was mainly attributable to incurred but not reported (IBNR) claims decrease of \$2.4 million and a decrease of \$0.4 million of capitalized administrative and general (A&G) expenses.

OPERATING EXPENSES  
(in millions)



The capitalized A&G rate was changed in 2015 to 7.97% from 12.43% in 2014.

#### 2014 Compared to 2013

In 2014, Tacoma Rail operating expenses of \$26.6 million were \$2.8 million higher than the \$23.8 million in 2013. This was primarily due to an increase of \$1.4 million in salaries and wages and increase of \$1.4 million in supplies and expenses. Salaries and wages were higher in 2014 due to 8 new personnel and an increase in overtime in response to increased traffic volume and for the new BNSF locomotive servicing agreement. The increase in supplies and expenses was mainly attributable to an increase in external services of \$0.7 million and an increase of \$0.4 million in equipment and supplies. Incurred but not reported (IBNR) claims increased \$0.3 million in 2014 from \$1.1 million in 2013.

## Capital Assets

Total Capital Assets increased \$4.9 million during 2015. This increase was reflected primarily in road property plant which increased by \$4.7 million due to track upgrades and rehabilitation projects such as the SR-509 track rebuild, Port of Tacoma RR crossing, Taylor Way and West Loop. Machinery and equipment increased \$0.4 million for the purchase of a Ballast Regulator.

During 2014, total Capital Assets increased \$3.8 million. This increase was reflected primarily in road property plant which increased by \$3.7 million due to track upgrades, switch replacements and the installation of the U.S. Oil WYE track. Buildings increased \$0.1 million due to camera security system upgrade, lighting facility upgrade and parking lot asphalt relay.

The following table summarizes Tacoma Rail's capital assets, net of accumulated depreciation, for the last three years.

### CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (in thousands)

<u>Description</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>15/14</u>	<u>14/13</u>
				<u>Increase</u>	<u>Increase</u>
				<u>(Decrease)</u>	<u>(Decrease)</u>
Land	\$ 160	\$ 160	\$ 160	\$ -	\$ -
Road Property Plant	14,951	10,926	7,687	4,025	3,239
Building	1,614	1,711	1,754	(97)	(43)
Machinery Equipment	7,051	7,102	7,693	(51)	(591)
Office and Fixture	156	160	21	(4)	139
Construction Work In Progress	816	1,000	701	(184)	299
Total Net Capital Assets	<u>\$ 24,748</u>	<u>\$ 21,059</u>	<u>\$ 18,016</u>	<u>\$ 3,689</u>	<u>\$ 3,043</u>

Additional information on Tacoma Rail's capital assets can be found in Note 3 to the Financial Statements.

## Debt Administration

In 2015, Tacoma Rail obtained five new Washington State loans from the Department of Transportation for the following capital track projects: Tyler Wye rehabilitation \$311,457, Edwards Crossover rehabilitation \$156,997, East Lead Low Side rebuild \$469,270, West Lead High Side rebuild \$369,518 and Transfer Yard connection \$150,000. No funds have been drawn on these projects. Draws were taken in 2015 on Taylor Way Track Rehabilitation & Extension, West Loop and SR509 track improvement in the amounts of \$594,793, \$515,770 and \$908,632 respectively.



In 2014, Tacoma Rail obtained one new Washington State loan from the Department of Transportation for SR-509 Track Rebuild in the amount of \$1,037,012 from which no funds have been drawn. Draws were taken in 2014 on Yard Tracks 8 & 9, N. Intermodal Yard Lead Track, East Loop 17<sup>th</sup> St and Taylor Way in the amounts of \$618,626, \$366,387, \$773,070 and \$510,265 respectively.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 4 to the Financial Statements.

<b>LONG-TERM DEBT</b> (in thousands)					
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>15/14</u> Increase (Decrease)	<u>14/13</u> Increase (Decrease)
Long-Term Debt Balance, December 31	\$6,502	\$5,036	\$3,219	\$1,466	\$1,817

### Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2015, principal and interest were covered 21.75 times compared to 19.16 times in 2014 and 19.73 times in 2013.

### Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Rail's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The financial statements have been audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

Management considers and takes appropriate action on audit recommendations. Management has established and maintains a system of 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.



William A. Gaines  
Director of Utilities/CEO



Andrew Cherullo  
Finance Director



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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

STATEMENTS OF NET POSITION

ASSETS	DECEMBER 31,	
	2015	2014
<b>CAPITAL ASSETS</b>		
Road and Equipment Property .....	\$41,306,956	\$36,412,953
Less Accumulated Depreciation .....	(17,374,337)	(16,354,584)
Total .....	23,932,619	20,058,369
Construction Work in Progress .....	815,769	1,000,440
Net Capital Assets .....	24,748,388	21,058,809
<b>SPECIAL FUNDS</b>		
Debt Service Funds .....	64,861	65,104
Total Special Funds .....	64,861	65,104
<b>CURRENT ASSETS</b>		
Cash & Equity in Pooled Investments .....	9,095,985	10,043,524
Customer Accounts Receivable .....	2,839,515	2,861,792
(Net of Allowance for Doubtful Accounts of \$182,772 in 2015 and \$86,940 in 2014)		
Grants Receivable .....	-	81,966
Interfund Receivable .....	53,051	103,243
Prepayments .....	1,917,733	1,988,311
Materials and Supplies Inventory .....	937,461	885,400
Total Current Assets .....	14,843,745	15,964,236
<b>TOTAL ASSETS</b> .....	\$39,656,994	\$37,088,149

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

	DECEMBER 31,	
	2015	2014
<b>NET POSITION AND LIABILITIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets.....	\$18,246,395	\$16,023,002
Restricted for:		
Debt Service .....	64,861	65,104
Unrestricted .....	8,730,405	8,142,084
TOTAL NET POSITION .....	<u>27,041,661</u>	<u>24,230,190</u>
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>		
2006 Senior Lien Revenue Bond .....	64,238	312,763
State Loans.....	5,492,064	4,170,038
Total Long-Term Debt .....	<u>5,556,302</u>	<u>4,482,801</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable .....	536,827	1,244,449
Customer Deposits .....	45,900	45,900
Wages Payable and Compensated Absences .....	243,713	547,113
Unemployment and Other Tax Payables .....	273,464	281,435
Volume Incentive Payable .....	1,208,334	916,666
Current Portion of Long-Term Debt .....	945,691	553,006
Interest Payable .....	4,214	7,389
Interfund Payable .....	185,446	500,287
Total Current Liabilities .....	<u>3,443,589</u>	<u>4,096,245</u>
<b>LONG-TERM LIABILITIES</b>		
On the Job Injury Reserve .....	721,029	696,783
Long-Term Portion of Compensated Absences .....	1,018,056	912,353
Other Post Employment Benefits.....	695,629	363,064
Incurred but not Reported Claims .....	1,180,728	2,306,713
Total Long-Term Liabilities .....	<u>3,615,442</u>	<u>4,278,913</u>
TOTAL LIABILITIES .....	<u>12,615,333</u>	<u>12,857,959</u>
<b>TOTAL NET POSITION AND LIABILITIES .....</b>	<u><u>\$39,656,994</u></u>	<u><u>\$37,088,149</u></u>

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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2015	2014
<b>OPERATING REVENUES</b>		
Switching Revenues .....	\$25,690,797	\$26,495,108
Demurrage and Other Operating Revenues .....	3,474,443	2,962,289
Total Operating Revenues .....	29,165,240	29,457,397
<b>OPERATING EXPENSES</b>		
Maintenance of Way and Structures .....	2,507,631	2,745,664
Mechanical .....	4,640,554	4,116,105
Operations .....	11,425,661	10,810,206
Administration .....	5,594,322	7,391,559
Taxes - State .....	417,135	429,875
Depreciation .....	1,220,882	1,069,265
Total Operating Expenses .....	25,806,185	26,562,674
Net Operating Income .....	3,359,055	2,894,723
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income .....	51,379	72,535
Miscellaneous .....	1,032,046	952,326
Interest Expense .....	(21,678)	(34,122)
Total Non-Operating Revenues .....	1,061,747	990,739
Contributions - Grants .....	587,480	81,966
Contributions - Others .....	258,583	795,741
Total Contributions .....	846,063	877,707
Transfers		
City of Tacoma Gross Earnings Tax .....	(2,410,016)	(2,440,631)
Transfers to Other Funds .....	(45,378)	(310,527)
Total Transfers .....	(2,455,394)	(2,751,158)
<b>CHANGE IN NET POSITION</b> .....	2,811,471	2,012,011
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b> .....	24,230,190	22,218,179
<b>TOTAL NET POSITION - END OF YEAR</b> .....	\$27,041,661	\$24,230,190

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

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers .....	\$29,319,675	\$28,962,712
Cash Paid to Suppliers .....	(9,938,384)	(9,313,504)
Cash Paid to Employees .....	(15,908,933)	(13,420,062)
Taxes Paid .....	(425,106)	(378,498)
Net Cash Provided by Operating Activities .....	3,047,252	5,850,648
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers to Other Funds .....	(2,455,394)	(2,751,158)
Net Cash Used in Non-Capital Financing Activities .....	(2,455,394)	(2,751,158)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures, Net .....	(4,910,461)	(4,112,399)
Principal Payments on Long-Term Debt .....	(553,009)	(453,862)
Interest Paid .....	(24,853)	(37,131)
Proceeds from Capital Contributions .....	846,063	877,707
Proceeds from Long-Term Debt .....	2,019,195	2,270,848
Proceeds from Other Non-Operating Revenues .....	1,032,046	952,326
Net Cash Used in Capital and Related Financing Activities .....	(1,591,019)	(502,511)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments .....	51,379	72,535
Net Cash Provided by Investing Activities .....	51,379	72,535
Net Change in Cash and Equity in Pooled Investments .....	(947,782)	2,669,514
<b>Cash &amp; Equity in Pooled Investments at January 1 .....</b>	<b>10,108,628</b>	<b>7,439,114</b>
<b>Cash &amp; Equity in Pooled Investments at December 31 .....</b>	<b>\$9,160,846</b>	<b>\$10,108,628</b>

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

	YEAR ENDED DECEMBER 31,	
	2015	2014
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Operating Income .....	\$3,359,055	\$2,894,723
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation .....	1,220,882	1,069,265
Cash provided from changes in operating		
assets and liabilities:		
Accounts and Grants Receivable .....	104,243	(464,497)
Interfund Receivable .....	50,192	(21,788)
Materials and Supplies Inventory .....	(52,061)	(45,730)
Prepayments .....	70,578	199,117
Accounts Payable .....	(707,622)	137,883
Customer Deposits .....	-	(8,400)
Unemployment and Other Tax Payables .....	(7,971)	51,377
Wages Payable .....	(315,145)	72,472
Volume Incentive Payable .....	291,668	124,998
Interfund Payable .....	(314,841)	365,634
Accrued Compensated Absences .....	117,448	238,674
Other Long-Term Liabilities & OJI Reserve.....	(769,174)	1,236,920
Total Adjustments .....	(311,803)	2,955,925
Net Cash Provided by Operating		
Activities .....	<u>\$3,047,252</u>	<u>\$5,850,648</u>
Reconciliation of Cash and Equity in Pooled		
Investments to Balance Sheet:		
Cash and Equity in Pooled Investments		
in Special Funds .....	\$64,861	\$65,104
Cash and Equity in Pooled Investments		
in Operating Funds .....	9,095,985	10,043,524
Cash and Equity in Pooled Investments		
at December 31 .....	<u>\$9,160,846</u>	<u>\$10,108,628</u>

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE 1 OPERATIONS**

**OPERATIONS OF TACOMA RAIL** - Tacoma Rail (the Division) is a division of the City of Tacoma, Department of Public Utilities, which also operates the Light and the Water Divisions and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. Tacoma Rail provides rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Capital Division. The Capital Division interchanges rail cars with BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure. In addition, Tacoma Rail manages the Mountain Division which is a reporting unit within Public Works and is included in the CAFR. Tacoma Rail is reimbursed for direct expenses. An operating agreement between Tacoma Rail and the Mountain Division is in place through 2016.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING AND PRESENTATION** - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

**CASH AND EQUITY IN POOLED INVESTMENTS** – The Division's 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 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issued by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in a certificate of deposit with East West Bank.



## TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

The Division's equity in that portion of City Tacoma Investment Pool held in qualified public depositories at December 31, 2015 and 2014 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 LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

**CUSTOMER ACCOUNTS RECEIVABLE** - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts.

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

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

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

**SPECIAL FUNDS** - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council.

**CAPITAL ASSETS AND DEPRECIATION** – Capital assets are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method at the beginning of the year and based on estimated economic lives of operating assets placed in service as follows:

Roads RR & bridges	7 – 20 years
Building	10 – 25 years
Machinery Equipment	10 – 25 years
Office and Fixture	5 – 20 years

**CONSTRUCTION WORK IN PROGRESS** – Capitalizable costs incurred on projects which are not in service or ready for use are held in construction work 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.

## TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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**CONTRIBUTIONS** - In accordance with GASB No. 33, Accounting and Financial Reporting for Non-exchange Transactions, grants and contributions are recorded as contribution revenue.

**COMPENSATED ABSENCES** - The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned. Based on historical information, 10% of compensated absences are considered short term.

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

**OPERATING REVENUES** - Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Revenues are based on services rendered through the end of the year.

**NON-OPERATING REVENUES AND EXPENSES** - These are items that do not qualify as operating defined above.

**TAXES** - The City charges the Division Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays business and occupation tax to the State at the rate of 1.8% on service revenues. The Division is exempt from payment of federal income tax.

**NET POSITION** - The Statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

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

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

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

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

**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

**USE OF ESTIMATES** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post-Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

**ON THE JOB INJURY RESERVE** - Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

**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, general economic conditions, fuel supply availability and rising fuel prices, weather and natural disaster-related disruptions, collective bargaining labor disputes, federal government regulations such as Federal Railroad Administration and Environmental Protection Agency or orders concerning the operation, maintenance and/or licensing of facilities, transportation of chemicals and other hazardous materials, acts of terrorism, war, or risk of war.

**NOTE 3 CAPITAL ASSETS** - A summary of the balances and changes in capital assets for 2015 and 2014 follows:

	Balance December 31, 2014	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2015
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	21,139,870	4,678,194	-	-	25,818,064
Building	3,896,587	19,693	-	-	3,916,280
Machinery Equipment	10,353,086	373,815	-	-	10,726,901
Office and Fixture	862,954	23,430	(201,129)	-	685,255
Total Capital Assets In Service	36,412,953	5,095,132	(201,129)	-	41,306,956
Less Accumulated Depreciation	(16,354,584)	(1,220,882)	201,129	-	(17,374,337)
	20,058,369	3,874,250	-	-	23,932,619
Construction Work In Progress	1,000,440	4,910,461	-	(5,095,132)	815,769
Net Capital Assets	<u>\$ 21,058,809</u>	<u>\$ 8,784,711</u>	<u>\$ -</u>	<u>\$ (5,095,132)</u>	<u>\$ 24,748,388</u>

**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

	Balance December 31, 2013	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2014
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	17,433,535	3,706,335	-	-	21,139,870
Building	3,789,678	106,909	-	-	3,896,587
Machinery Equipment	10,353,086	-	-	-	10,353,086
Office and Fixture	862,954	-	-	-	862,954
Total Capital Assets In Service	32,599,709	3,813,244	-	-	36,412,953
Less Accumulated Depreciation	(15,285,319)	(1,069,265)	-	-	(16,354,584)
	17,314,390	2,743,979	-	-	20,058,369
Construction Work In Progress	701,285	4,112,398	-	(3,813,243)	1,000,440
Net Capital Assets	<u>\$ 18,015,675</u>	<u>\$ 6,856,377</u>	<u>\$ -</u>	<u>\$ (3,813,243)</u>	<u>\$ 21,058,809</u>

**NOTE 4 LONG-TERM DEBT** - Long-term debt activities for 2015 and 2014 were as follows:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Revenue Bonds	\$ 548,332	\$ -	\$ 235,569	\$ 312,763	\$ 248,525
Department of Transportation State Loans	4,487,475	2,019,195	317,440	6,189,230	697,166
Total Long-Term Debt	<u>\$ 5,035,807</u>	<u>\$ 2,019,195</u>	<u>\$ 553,009</u>	<u>\$ 6,501,993</u>	<u>\$ 945,691</u>

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Revenue Bonds	\$ 771,620	\$ -	\$ 223,288	\$ 548,332	\$ 235,569
Department of Transportation State Loans	2,447,201	2,270,848	230,574	4,487,475	317,437
Total Long-Term Debt	<u>\$ 3,218,821</u>	<u>\$ 2,270,848</u>	<u>\$ 453,862</u>	<u>\$ 5,035,807</u>	<u>\$ 553,006</u>

**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

**SENIOR LIEN BOND:** City Council Substitute Ordinance No. 27545, passed in November 2006, authorized the issuance of a Senior Lien Revenue Bond 2006 in the amount of \$2,000,000 to provide financing for capital projects included in the approved 2007-2008 Biennium budget for the Rail System. This Bond bears interest at the rate of 5.39% per annum (computed on the basis of a 360-day year of twelve 30-day months), with a maturity date of January 1, 2017. Equal installment payments of \$65,104 representing principal and interest on this Bond are payable quarterly on the first day of each January, April, July and October, commencing April 1, 2007, up to and including the Maturity Date of the Bond.

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

	Principal	Interest
2016	248,525	11,891
2017	64,238	866
	<u>\$ 312,763</u>	<u>\$ 12,757</u>

**JUNIOR LIEN DEBT**

**Washington State Department of Transportation Loans (WADOT)**

	<u>2015</u>	<u>2014</u>
2009 WADOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024.	\$15,831	\$17,590
2009 WADOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025.	166,301	182,932
2011 WADOT loan for locomotive repower, with 0% interest, due in yearly installments of \$45,000 from 2013 through 2022.	315,000	360,000
2012 WADOT loan for Tacoma Rail Annie Tracks 1&2 Rail Relay, with 0% interest, due in yearly installments of \$61,200 from 2013 through 2022.	428,400	489,600
2012 WADOT loan for Yard Tracks 2,3 & 4, with 0% interest, due in yearly installments of \$34,859 from 2013 through 2022.	244,014	278,873
2013 WADOT loan for East 11 <sup>th</sup> Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023.	277,856	312,588
2013 WADOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023.	291,150	327,544
2013 WADOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024.	556,763	618,626
2013 WADOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024.	224,997	250,000
2013 WADOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025.	366,387	366,387

**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

<b>Junior Lien Debt continued</b>	<b>2015</b>	<b>2014</b>
2013 WADOT loan for East Loop 17 <sup>th</sup> St, with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025.	773,070	773,070
2013 WADOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025.	1,105,058	510,265
2013 WADOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025.	515,770	-
2014 WADOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$103,701 from 2016 through 2025.	908,632	-
Subtotal Junior Lien Debt	6,191,244	4,489,489
Less Current Portion of Debt	(697,166)	(317,437)
Long-term Portion of Junior Lien Debt	5,494,078	4,172,052

Scheduled principal maturities on junior lien debts and interest payments are as follows:

	Principal	Interest
2016	\$ 697,166	\$ -
2017	697,166	-
2018	697,166	-
2019	697,166	-
2020	697,166	-
2021-2025	2,705,414	-
	\$ 6,191,244	\$ -

Tacoma Rail's revenue bonds are secured by the net revenue of Tacoma Rail and all cash and investments held in the bond fund. The bonds as well as junior liens are subject to certain financial and non-financial covenants.

**NOTE 5 SIGNIFICANT CUSTOMER** - Tacoma Rail's predominate sources of revenue are Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Revenue from UP and BNSF represented 26% and 47% of total revenues, respectively, in 2015. Revenue in 2014 was 26% and 48%, respectively. Accounts receivable from UP and BNSF in 2015 represented 23% and 48% of total customer accounts receivable, respectively. Accounts receivable in 2014 was 21% and 45%, respectively.

## TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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**NOTE 6 FLEET SERVICES FUND** - The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment.

Tacoma Rail pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Rail in 2015 and 2014 were \$543,305 and \$502,723, respectively.

**NOTE 7 SELF-INSURANCE FUND** - The Department of Public Utilities maintains a self insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Rail and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Rail are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$100,000 in 2015 and \$50,004 in 2014. Assets in the Self-Insurance Fund total \$6.9 million which exceeds accrued and incurred but not reported (IBNR) liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

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

The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current insurance policies have deductibles or self-insured retentions of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. There is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$200,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate. The general government general liability and public official liability policies provide \$15 million of excess coverage with \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12 month policy period.



**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 8 PENSION PLAN** - Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2015 and 2014, Tacoma Rail contributed \$2,145,824 and \$1,859,639 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	EARNINGS BASE	
	2015	2014
Employer Tier I	\$ 118,500	\$ 117,000
Employer Tier II	88,200	87,000
Employer Medicare	No Limit	No Limit

	TAX RATE	
	2015	2014
Employer Tier I	6.20%	6.20%
Employer Tier II	13.10%	12.60%
Employer Medicare	1.45%	1.45%

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$51.7 billion as of December 31, 2013. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to pay, in full, the payroll withholdings to the system.

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

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

**FUNDING POLICY** - The City uses pay as you go funding; contributions to a separate trust are not required.

**ANNUAL OPEB COST AND NET OPEB OBLIGATION** - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded



**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2015 is 22 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the statements of net position. The City has a Net OPEB Obligation as of December 31, 2015 as the City has not set aside funds for OPEB.

**EXCISE TAX FOR HIGH COST OR “CADILLAC” HEALTH PLANS IN 2018 AND BEYOND** – An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of PPACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

**SUMMARY OF CHANGES** – As of the January 1, 2015 valuation the total AAL was \$208,814,312, 20% lower than expected primarily due to clarification in spouse benefits, medical costs, demographic experience and a change to the assumption for future medical trends.

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	<u>January 1, 2013</u>	<u>January 1, 2015</u>
Total membership:		
Active employees	3,335	3,404
Terminated vested employees	394	442
Retired employees & dependents	846	744
Total	<u>4,575</u>	<u>4,590</u>
Annual Benefit Payments	\$ 9,887,335	\$ 8,963,089
Discount rate	3.75%	3.75%
Present Value of Benefits (PVB)	\$ 326,742,538	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 251,839,846	\$ 208,814,312
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 251,839,846</u>	<u>\$ 208,814,312</u>
Normal Cost	\$ 5,484,587	\$ 3,832,131
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 16,966,964

**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits (PVB)	\$ 420,832,932	\$ 158,648,737	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 291,228,295	\$ 82,413,983	\$ 208,814,312
Normal Cost	\$ 9,501,758	\$ 5,669,627	\$ 3,832,131
Annual Benefit Payments	\$ 12,325,369	\$ 3,362,280	\$ 8,963,089

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2015.

	City	Division
Determination of Annual Required Contribution		
Normal Cost at Year-end	\$ 3,832,131	\$ 285,047
Amortization of UAAL	13,134,833	128,541
Annual Required Contribution (ARC)	<u>\$ 16,966,964</u>	<u>\$ 413,588</u>
Determination of Net OPEB obligation:		
Annual Required Contribution (ARC)	\$ 16,966,964	\$ 413,588
Interest on prior year Net OPEB Obligation	2,480,183	13,615
Adjustments of ARC	<u>(3,492,760)</u>	<u>(16,089)</u>
Annual OPEB Cost	\$ 15,954,387	\$ 411,114
Actual benefits paid	<u>(8,963,089)</u>	<u>(78,549)</u>
Increase in Net OPEB Obligation	\$ 6,991,298	\$ 332,565
NET OPEB Obligation - beginning of year	66,138,206	363,064
NET OPEB Obligation - end of year	<u>\$ 73,129,504</u>	<u>\$ 695,629</u>

The Division has included the liability in other long-term liabilities on the statement of Net Position.

**FUNDED STATUS AND FUNDING PROGRESS** - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 3.75% interest rate.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2013	\$ 19,528,767	\$ 153,838	\$ 9,887,334	\$ 74,972	\$ 56,110,801	\$ 261,551
12/31/2014	19,319,944	153,125	9,292,539	51,612	66,138,206	363,064
12/31/2015	15,954,387	411,114	8,963,089	78,549	73,129,502	695,629

**ACTUARIAL METHODS AND ASSUMPTIONS** - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

**TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)**

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The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 22 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2015
Census Date	January 1, 2015
Actuarial Cost Method:	Entry Age
Amoritization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	22 Years, Closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension

Actuarial Assumptions:

Discount Rate	3.75% for pay-as-you-go funding
Medical Cost Trend	2015      6.9%
	2016      6.6%
	2017      5.9%
	2020      5.5%
	2030      5.9%
	2040      5.7%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2071 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions-Discount

Rate (Liabilities)      3.75%

Demographic Assumptions

Eligibility:

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

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

- Age 55 with 10 years of service
- Age 40 with 20 years of service

## TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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### NOTE 10 COMMITMENTS AND CONTINGENCIES

**LINK PETROLEUM PROJECT CUSTOMER DEPOSIT AND REFUND AGREEMENT** - A contractual agreement was entered in 2009 between Tacoma Rail and Link Petroleum, Inc. Link Petroleum agreed to advance Tacoma Rail \$75,000 for track improvements on Tacoma Rail's property to efficiently and safely handle shipments leading to this customer's service facility. In return, Tacoma Rail agreed to refund the advance to the customer at a rate of \$150 per carload for each of the first 500 carloads handled at the facility, or through December 31, 2015, whichever event first occurs. As of December 31, 2015, the remaining deposit is \$45,900.

**GENERAL LEGAL MATTERS** - Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail's financial position beyond amounts already accrued as of December 31, 2015.

**TACOMA RAIL OPERATION OF CITY OF TACOMA, DEPARTMENT OF PUBLIC WORKS ("PUBLIC WORKS"), MOUNTAIN DIVISION** - Public Works owns approximately 142 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2016. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

# **STATISTICAL DATA (Unaudited)**

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

<b>STATEMENTS OF NET POSITION</b>	2015	2014	2013	2012
<b>ASSETS</b>				
Railway Plant - Net .....	\$24,748,388	\$21,058,809	\$18,015,675	\$16,258,926
Other Property and Special Funds ..	64,861	65,104	65,110	397,381
Current and Accrued Assets .....	14,843,745	15,964,236	12,961,818	11,397,915
Other Assets .....	-	-	-	-
<b>TOTAL ASSETS .....</b>	<b>39,656,994</b>	<b>37,088,149</b>	<b>31,042,603</b>	<b>28,054,222</b>
<b>LIABILITIES</b>				
Long-Term Debt .....	5,660,003	4,482,801	2,764,959	2,166,751
Current and Accrued Liabilities ..	3,339,888	4,096,245	3,232,279	3,920,067
Long-Term Liabilities .....	3,615,442	4,278,913	2,827,186	1,617,434
Total Liabilities .....	12,615,333	12,857,959	8,824,424	7,704,252
<b>NET POSITION .....</b>	<b>27,041,661</b>	<b>24,230,190</b>	<b>22,218,179</b>	<b>20,349,970</b>
<b>TOTAL LIABILITIES AND NET POSITION .</b>	<b>\$39,656,994</b>	<b>\$37,088,149</b>	<b>\$31,042,603</b>	<b>\$28,054,222</b>
<b>STATEMENTS OF INCOME</b>				
<b>OPERATING REVENUES</b>				
Switching Revenues .....	\$25,690,797	\$26,495,108	\$24,570,867	\$20,793,364
Other Operating Revenues .....	3,474,443	2,962,289	2,372,435	2,250,434
Total Operating Revenues .....	29,165,240	29,457,397	26,943,302	23,043,798
<b>OPERATING EXPENSES</b>				
Operation and Maintenance .....	24,168,168	25,063,534	22,348,268	18,962,149
Taxes .....	417,135	429,875	437,282	404,105
Depreciation .....	1,220,882	1,069,265	996,782	824,549
Total Operating Expenses .....	25,806,185	26,562,674	23,782,332	20,190,803
<b>NET OPERATING INCOME (LOSS) .....</b>	<b>3,359,055</b>	<b>2,894,723</b>	<b>3,160,970</b>	<b>2,852,995</b>
<b>NON-OPERATING REVENUES (EXPENSE)</b>				
Net Other Income .....	1,878,109	1,830,033	1,004,957	1,282,274
Interest Earned on Investments ...	51,379	72,535	21,155	81,907
Interest on Unfunded Debt .....	(21,678)	(34,122)	(45,941)	(62,090)
Total Non-Operating Revenues ...	1,907,810	1,868,446	980,171	1,302,091
<b>TRANSFERS OUT</b>				
City Gross Earnings Tax .....	2,410,016	2,440,631	2,240,525	1,931,338
Transfers to Other Funds .....	45,378	310,527	32,407	20,577
<b>NET INCOME (LOSS) .....</b>	<b>\$2,811,471</b>	<b>\$2,012,011</b>	<b>\$1,868,209</b>	<b>\$2,203,171</b>

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

2011	2010	2009	2008	2007	2006
\$13,958,818	\$9,446,780	\$9,813,322	\$9,422,038	\$7,931,353	\$7,554,726
399,607	400,792	406,268	414,059	2,199,564	2,340,445
8,867,794	8,686,413	8,474,144	8,912,688	7,691,279	5,939,738
-	6,103	7,121	8,138	9,155	10,151
<u>23,226,219</u>	<u>18,540,088</u>	<u>18,700,855</u>	<u>18,756,923</u>	<u>17,831,351</u>	<u>15,845,060</u>
2,001,568	2,101,571	2,641,116	2,878,279	3,711,125	3,833,389
1,762,532	1,602,400	1,569,847	1,768,188	1,403,086	2,300,300
1,315,320	1,226,721	1,634,512	1,245,906	643,203	528,548
<u>5,079,420</u>	<u>4,930,692</u>	<u>5,845,475</u>	<u>5,892,373</u>	<u>5,757,414</u>	<u>6,662,237</u>
<u>18,146,799</u>	<u>13,609,396</u>	<u>12,855,380</u>	<u>12,864,550</u>	<u>12,073,937</u>	<u>9,182,823</u>
\$23,226,219	\$18,540,088	\$18,700,855	\$18,756,923	\$17,831,351	\$15,845,060
\$17,250,227	\$14,580,858	\$13,365,092	\$14,690,148	\$15,632,973	\$12,664,741
2,153,392	898,739	1,212,804	3,718,926	2,980,855	2,347,726
<u>19,403,619</u>	<u>15,479,597</u>	<u>14,577,896</u>	<u>18,409,074</u>	<u>18,613,828</u>	<u>15,012,467</u>
16,117,560	13,942,626	14,235,461	16,126,814	14,940,364	14,457,946
339,525	261,854	214,935	270,106	265,425	218,687
641,315	706,323	577,643	611,148	739,485	751,910
<u>17,098,400</u>	<u>14,910,803</u>	<u>15,028,039</u>	<u>17,008,068</u>	<u>15,945,274</u>	<u>15,428,543</u>
2,305,219	568,794	(450,143)	1,401,006	2,668,554	(416,076)
3,836,348	1,524,627	1,678,847	860,497	1,298,744	889,414
132,196	74,327	139,662	264,272	251,757	128,085
(80,959)	(102,293)	(133,177)	(174,994)	(205,174)	(87,003)
<u>3,887,585</u>	<u>1,496,661</u>	<u>1,685,332</u>	<u>949,775</u>	<u>1,345,327</u>	<u>930,496</u>
1,632,180	1,311,439	1,244,359	1,525,080	1,568,134	1,279,984
13,049	-	-	35,088	-	98,501
<u>\$4,547,575</u>	<u>\$754,016</u>	<u>(\$9,170)</u>	<u>\$790,613</u>	<u>\$2,445,747</u>	<u>(\$864,065)</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	2015	2014	2013	2012
<b>SWITCHING REVENUES</b>				
Line Hauls .....	\$24,334,649	\$24,933,732	\$23,358,089	\$19,913,410
Local and Miscellaneous .....	1,356,148	1,561,376	1,212,778	879,954
TOTAL SWITCHING REVENUES .....	\$25,690,797	\$26,495,108	\$24,570,867	\$20,793,364
<b>NUMBER OF CARS SWITCHED</b>				
Line Hauls .....	99,277	105,079	97,536	89,554
Local and Miscellaneous .....	2,896	3,058	1,830	2,563
TOTAL NUMBER OF CARS SWITCHED..	102,173	108,137	99,366	92,117
<b>SWITCHING STATISTICS (AVERAGE)</b>				
Revenue/Line Haul Car .....	\$245.12	\$237.29	\$239.48	\$222.36
Revenue/Local & Miscellaneous Car	\$468.28	\$510.59	\$662.72	\$343.33



<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$16,395,640	\$13,744,377	\$12,735,114	\$14,277,743	\$15,303,787	\$12,110,422
<u>854,587</u>	<u>836,481</u>	<u>629,978</u>	<u>412,405</u>	<u>329,186</u>	<u>554,319</u>
\$17,250,227	\$14,580,858	\$13,365,092	\$14,690,148	\$15,632,973	\$12,664,741
66,440	70,574	58,892	74,940	81,366	97,923
<u>2,513</u>	<u>2,601</u>	<u>2,032</u>	<u>2,254</u>	<u>2,050</u>	<u>2,151</u>
68,953	73,175	60,924	77,194	83,416	100,074
\$246.77	\$194.75	\$216.25	\$190.52	\$188.09	\$123.67
\$340.07	\$321.60	\$310.03	\$182.97	\$160.58	\$257.70

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND SWITCHING REVENUES

	DECEMBER	DECEMBER	YEAR ENDED DECEMBER 31,	
	2015	2014	2015	2014
<b>SWITCHING REVENUES</b>				
LINE HAULS--INTERMODAL .....	\$941,345	\$863,769	\$11,439,766	\$11,324,149
LINE HAULS--COMMERCIAL .....	1,122,625	1,048,070	12,146,807	12,214,512
LINE HAULS--CAPITAL DIVISION ....	65,378	94,992	748,076	1,395,071
MISCELLANEOUS SWITCHES .....	146,439	97,128	1,356,148	1,561,376
TOTAL SWITCHING REVENUES .....	<u>\$2,275,787</u>	<u>\$2,103,959</u>	<u>\$25,690,797</u>	<u>\$26,495,108</u>
 <b>SWITCHING ACTIVITIES (CARS)</b>				
LINE HAULS--INTERMODAL .....	5,711	5,323	68,453	69,872
LINE HAULS--COMMERCIAL .....	2,581	2,566	29,091	32,096
LINE HAULS--CAPITAL DIVISION ....	153	212	1,733	3,111
MISCELLANEOUS SWITCHES .....	294	229	2,896	3,058
TOTAL CARS SWITCHED .....	<u>8,739</u>	<u>8,330</u>	<u>102,173</u>	<u>108,137</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Income .....	\$ 30,248,665	\$ 30,482,258	\$ 27,923,473	\$ 24,089,416	\$ 20,114,994
Less: Operating Exp ....	<u>24,585,303</u>	<u>25,493,409</u>	<u>22,785,550</u>	<u>19,366,254</u>	<u>16,457,085</u>
Income Available for Debt Service .....	<u>\$ 5,663,362</u>	<u>\$ 4,988,849</u>	<u>\$ 5,137,923</u>	<u>\$ 4,723,162</u>	<u>\$ 3,657,909</u>
 Bond Redemption .....	 \$ 235,569	 \$ 223,288	 \$ 211,648	 \$ 200,614	 \$ 190,156
Bond Interest .....	24,847	37,127	48,768	59,802	70,260
Debt Service Payable ...	<u>\$ 260,416</u>	<u>\$ 260,415</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>
 Time Debt Service Covered .....	 21.75	 19.16	 19.73	 18.14	 14.05

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS  
FOR THE YEAR 2015

**FEDERAL**

Railroad Retirement .....	\$2,145,824	
Railroad Unemployment Insurance .....	43,026	
Total .....		\$2,188,850

**STATE OF WASHINGTON**

Retail Sales & Use Tax .....	579,590	
Utility and Business Occupation Tax .....	384,966	
Total .....		964,556

**CITY OF TACOMA**

Gross Earnings Tax .....		2,410,016
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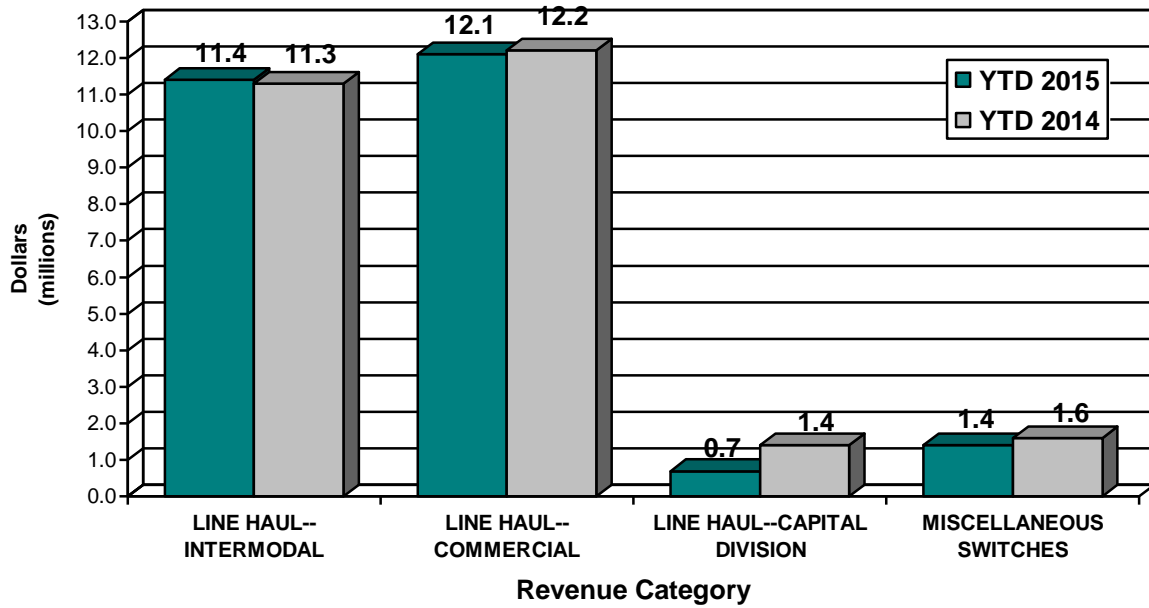
TOTAL TAXES .....		\$5,563,422
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Taxes as a % of Total Operating Revenues of \$29,165,240 .... 19.08%

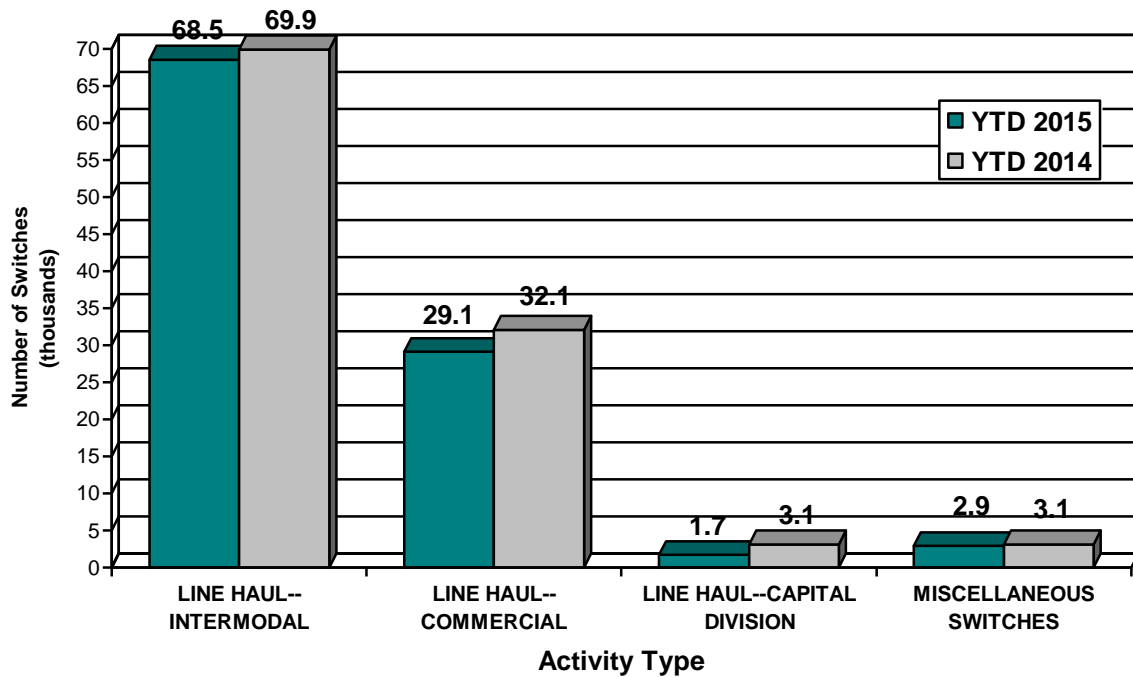
**EMPLOYEE WELFARE CONTRIBUTIONS**

Pierce County Medical Bureau .....	\$1,940,665	
Washington Dental Service .....	154,652	
Other Contributions .....	427,992	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS .....		\$2,523,309

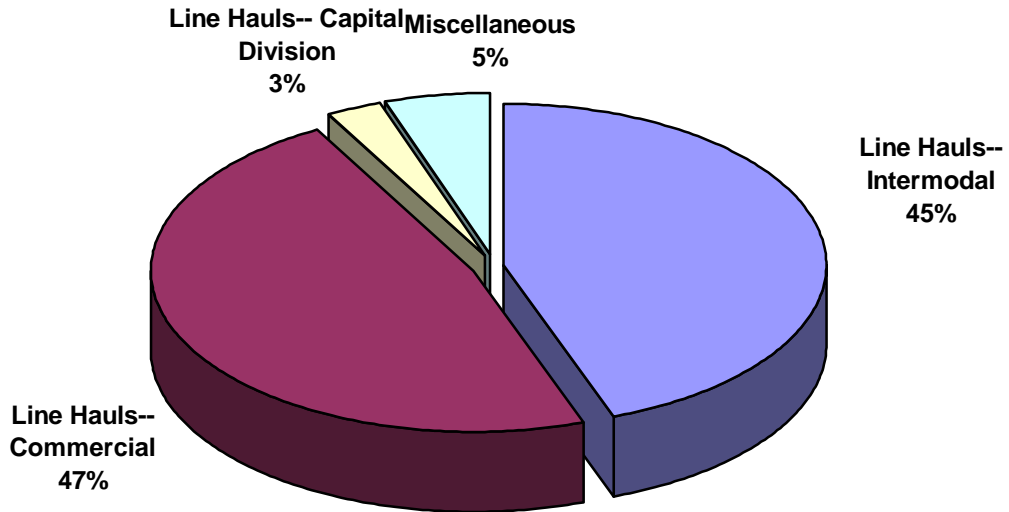
**SWITCHING REVENUES**  
Year to Date - December 2015 & 2014



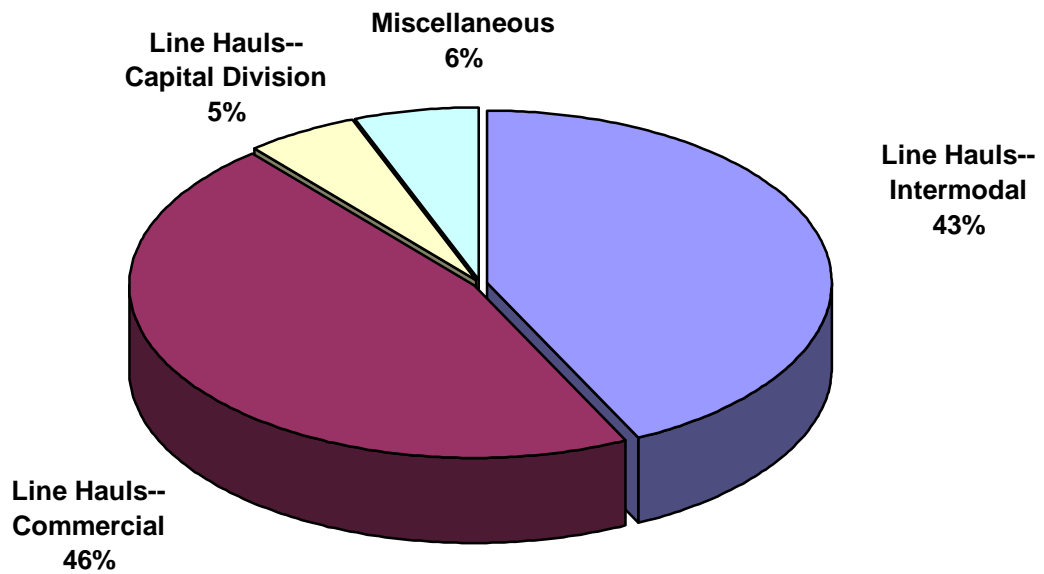
**SWITCHING ACTIVITIES**  
Year to Date - December 2015 & 2014



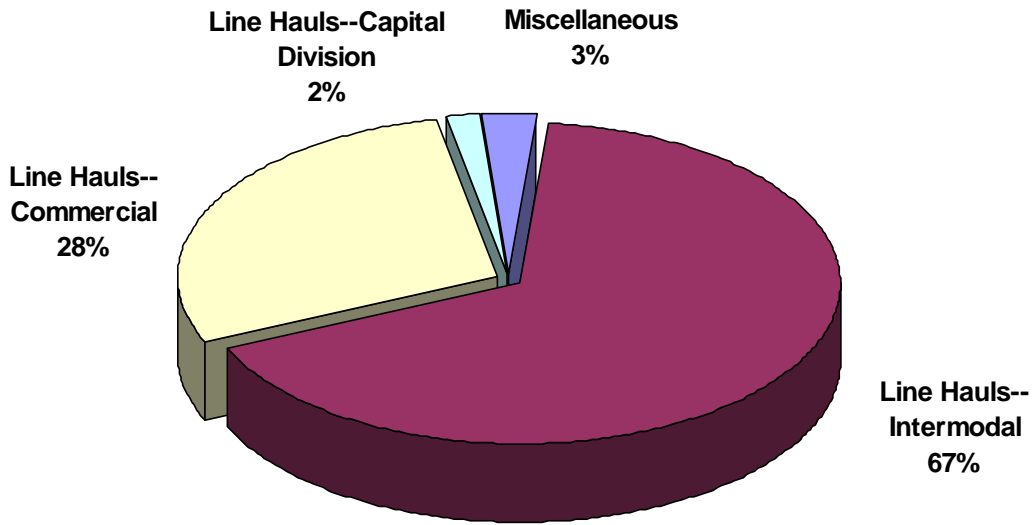
**SWITCHING REVENUES**  
Year to Date - December 2015 (\$25,690,797)



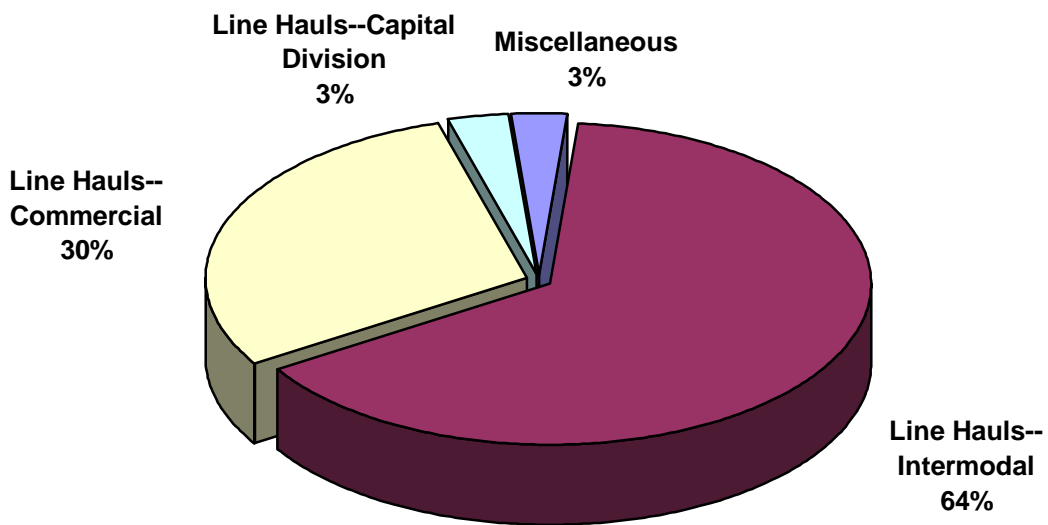
**SWITCHING REVENUES**  
Year to Date - December 2014 (\$26,495,108)



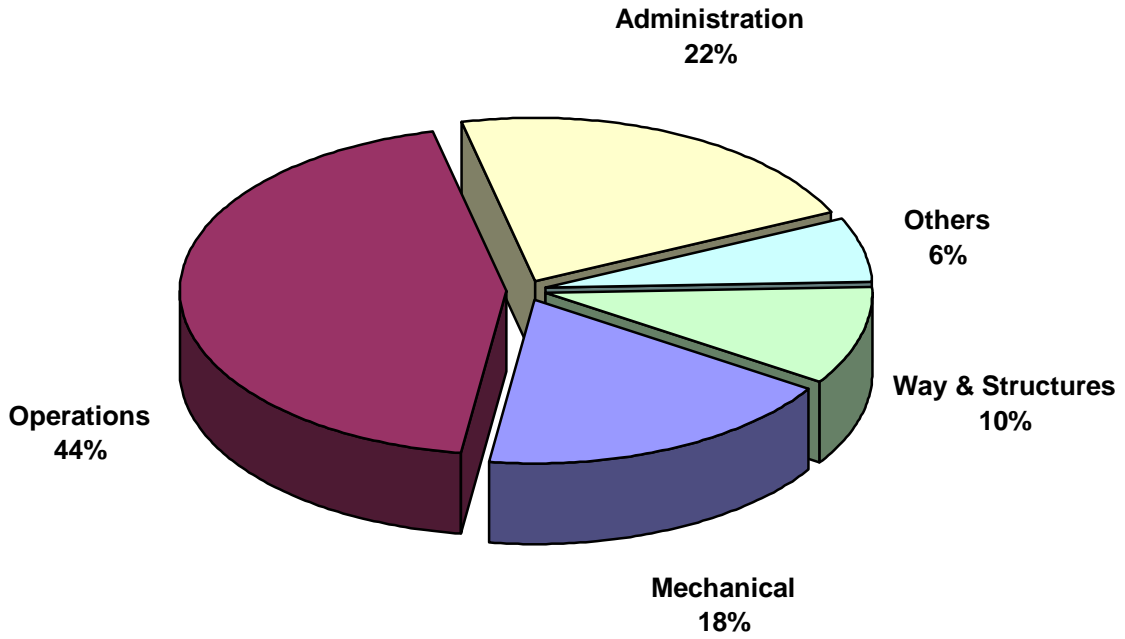
**SWITCHING ACTIVITY**  
Year to Date - December 2015 (102,173 cars)



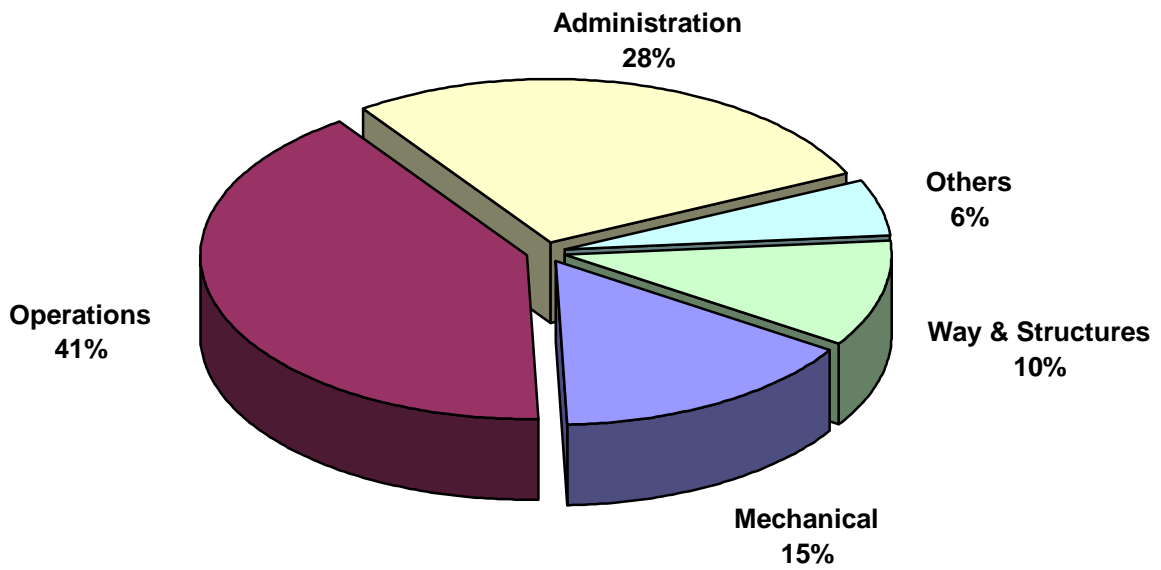
**SWITCHING ACTIVITY**  
Year to Date - December 2014 (108,137 cars)



**TOTAL OPERATING EXPENSES**  
Year to Date - December 2015 (\$25,806,185)



**TOTAL OPERATING EXPENSES**  
Year to Date - December 2014 (\$26,562,674)





**2015 SUPERINTENDENT'S REPORT  
TACOMA RAIL**

Tacoma Rail continued to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and Tacoma's industrial areas (Tidelands Division), Lakeview, and Olympia (Capital Division) and to Frederickson (Mountain Division) in 2015. It was a challenging year for Tacoma Rail as revenues lagged in the first quarter due to a continuing labor dispute at U.S. West Coast ports that was not resolved until the first week of March. A fire at U.S. Oil & Refining Company's facility in the Tideflats led to its premature shutdown in May, a full three weeks ahead of a scheduled month-long maintenance outage in June.

While line haul count was up by almost 2,000 units in 2015 over 2014, the traffic mix of more intermodal platforms and fewer commercial railcars led to a decline in total revenue of approximately \$1.1 million. On a brighter note, for the first time in ten years, all of Tacoma Rail's labor organizations are operating under current contracts following the ratification of a conductors' agreement in April after four years of negotiations and eighteen months of federal mediation.

The Ports of Tacoma and Seattle announced the formation of the Northwest Seaport Alliance in August joining the freight operations of both entities to compete more effectively against other West Coast ports for international intermodal container and breakbulk business. Tacoma Rail is playing an active role in the optimization of the Alliance's use of its marine terminals and rail infrastructure through participation on planning committees and in its operations control center.

**TIDELANDS DIVISION**

Tacoma Rail continues to fund a volume incentive program to attract more intermodal business as part of its operating agreement with the Port of Tacoma. It also has modified its unit train rate structure for crude oil to allow U.S. Oil to source product on Union Pacific Railroad as well as BNSF Railway. An ethanol unit train rate was also established for Targa Sound Terminals as that product began to move in large quantities to this customer's blending facilities on the Hylebos Waterway.

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Intermodal platforms	187,827	184,451	179,673	162,297	117,656	125,119
Unit train railcars	13,800	13,838	8,759	-	-	-
All others	31,142	32,509	30,904	31,454	30,887	25,155
<b>Total line hauls</b>	<b>232,769</b>	<b>230,798</b>	<b>219,336</b>	<b>193,751</b>	<b>148,543</b>	<b>150,274</b>

## **CAPITAL DIVISION**

The crash in crude oil prices in 2015 brought ceramic sand shipments out of the Port of Olympia to a virtual halt. The man-made sand, imported from China, is used in the drilling process that extracts oil and gas from shale formations. From a record high of 3,171 carloads in 2014, total traffic on the Capital Division declined 45% to 1,748 carloads. BNSF Railway also lowered the handling charges it paid Tacoma Rail to deliver cars to interchange at the beginning of the year, further eroding the Division's financial condition. Unable to negotiate a compensatory rate for traffic moving on the Belmore and Quadlock Lines, Tacoma Rail opted not to renew its lease with BNSF and will cease serving these branch lines in March 2016.

## **MOUNTAIN DIVISION**

Tacoma Rail operates the Mountain Division for the City of Tacoma's Department of Public Works. The Mountain Division operated again at near breakeven in 2015. The sale of a 1.3 mile segment of the Mountain Division to Sound Transit in January 2015 netted \$4 million for the City and effectively retired nearly two-thirds of the outstanding debt of the Division. Carloads handled fell from 1,303 in 2014 to 1,167 in 2015. An interlocal agreement with Lewis County and the City of Chehalis to explore the sale of 20 miles of line on the south end of the Mountain Division to these two entities is in place through the end of 2016. A study commissioned by Lewis County and Chehalis to ascertain the value of, and determine potential uses for the line is currently underway.

Dale W. King  
Superintendent/COO



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.