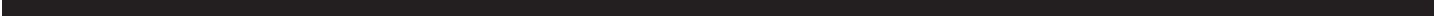

MARCH

TACOMA WATER

2018

**FINANCIAL
REPORT**



Public Utility Board

MONIQUE TRUDNOWSKI

Chair

WOODROW JONES

Vice-Chair

KAREN LARKIN

Secretary

BRYAN FLINT

Member

MARK PATTERSON

Member

LINDA MCCREA

Interim Director of Utilities/CEO

SCOTT DEWHIRST

Water Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Financial Statements

Summary

For the first quarter of 2018, Tacoma Water is reporting year-to-date operating income of \$2.3 million compared to \$1.7 million in 2017. Operating revenues increased \$1.9 million (9.8%) and operating expenses increased \$1.3 million (7.0%). The year to date change in net position was \$2.0 million for the first quarter of 2018 and (\$0.4) million for the first quarter of 2017.

Revenues

Water sales revenues increased by \$1.6 million (10.0%) in the first quarter of 2018 compared to the same period in 2017. The following table summarizes the impacts of rate and volume changes on water sales revenue by customer class for the first three months of 2018.

Customer Class	Changes Related to:		YTD Increase (Decrease)
	Rate	Volume	
Residential and Domestic	\$ 747,730	\$ 341,637	\$ 1,089,367
Commercial and Industrial	90,542	316,904	407,446
Special Rate	86,645	51,882	138,527
Other	(6,997)	(33,671)	(40,668)
Total	\$ 917,920	\$ 676,752	\$ 1,594,672

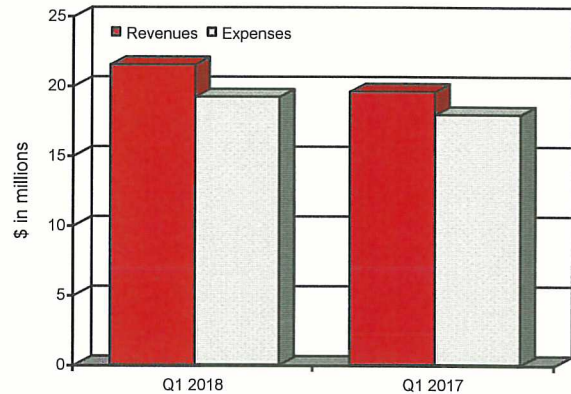
Consumption for the first three months of 2018 was 3,640 million gallons, compared to 3,506 million gallons for the same period in 2017. Regional Water Supply System (RWSS) partners received 903 million gallons. The following table summarizes water consumption by customer class year-to-date.

Customer Class	Millions of Gallons		YTD Increase (Decrease)	%
	2018	2017		
Residential and Domestic	1,553.73	1,504.38	49.35	3%
Commercial and Industrial	615.73	564.79	50.94	9%
Special Rate	1,296.30	1,251.05	45.25	4%
Other	174.46	185.98	(11.52)	(6%)
Total	3,640.22	3,506.20	134.02	4%

Expenses

Operating expenses were \$19.2 million for the first three months of 2018, an increase of \$1.3 million compared to 2017. However, it should be noted that in 2017 Tacoma Water only spent 87% of what was budgeted for the first quarter compared to 94% for the same period in 2018. Spending increased in several key areas of Tacoma Water. Professional Services experienced an increase of \$210,000 primarily due to \$80,000 being spent on the Integrated Resource Plan and \$150,000 spent on Hydraulic Model Calibration. External Services saw an increase of \$190,000 that includes the following: \$70,000 increase for repairing main breaks, \$32,000 increase for solids, and \$66,000 spent to repair a slope that had been washed away during Hydraulic Model Calibration. Fleet spending was also higher in the first quarter of 2018 by \$570,000. Fleet replacement fees was \$465,000 higher, which is due to replacement fees not being collected in the first quarter of 2017. Retroactive replacement fees of approximately \$426,000 were collected in May of 2017. In addition, Fleet administrative fees were increased 64.4% for all vehicles in April 2017. Taxes paid to the State of Washington Department of Revenue increased by \$121,000 for the quarter which is primarily due to an increase in Water sales of \$1.6 million.

OPERATING REVENUES & EXPENSES



Linda McCrea
Interim Director of Utilities/CEO

Andrew Cherullo
Finance Director

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION
Doing Business As

TACOMA WATER

TABLE OF CONTENTS

Note: These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles.

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION - MARCH 31, 2018 AND MARCH 31, 2017

ASSETS AND DEFERRED OUTFLOWS	<u>2018</u>	<u>2017</u>
UTILITY PLANT		
Water Plant in Service	\$1,098,776,085	\$1,074,416,037
Less Depreciation and Amortization	(243,167,687)	(221,014,440)
Total	<u>855,608,398</u>	<u>853,401,597</u>
Construction Work in Progress	15,038,130	23,523,893
Net Utility Plant	<u>870,646,528</u>	<u>876,925,490</u>
NON-UTILITY PROPERTY	492,963	492,963
RESTRICTED ASSETS		
Cash and Equity in Pooled Investments:		
2009 Construction Fund	120,134	-
2010 Construction Fund	16,656,238	23,236,175
2013 Construction Fund	14,238,925	15,901,392
Regional Water Supply System Operating Fund	919,036	829,421
Provision for Debt Payment	11,261,796	11,296,361
Customer Water Main Deposits	3,296,626	3,211,459
Water Supply Forum Fund	445,205	447,800
Special Bond Reserves	22,104,912	22,101,304
Water Customer Contribution Fund	125,352	(343,206)
Water Capital Reserves	34,846,163	29,824,301
Water System Development Charge	64,297,060	59,579,153
Total Restricted Assets	<u>168,311,447</u>	<u>166,084,160</u>
CURRENT ASSETS		
Cash and Equity in Pooled Investments:		
Current Fund	60,519,421	54,282,850
Customers' Deposits	320,998	334,768
Receivables:		
Customers	4,323,590	4,158,283
Accrued Unbilled Revenues	5,457,221	4,797,144
Others	1,062,917	991,448
BABs Interest Subsidies	1,195,760	1,191,920
Provision for Uncollectible Accounts	(317,308)	(625,017)
Materials and Supplies	2,319,740	2,422,261
Prepayments	1,128,807	1,023,394
Total Current Assets	<u>76,011,146</u>	<u>68,577,051</u>
TOTAL ASSETS	<u><u>1,115,462,084</u></u>	<u><u>1,112,079,664</u></u>
OTHER ASSETS		
Regulatory Assets - Public Fire Protection Fees	267,670	1,108,036
Regulatory Assets - Surcharges	905,274	1,537,700
Total Other Assets	<u>1,172,944</u>	<u>2,645,736</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	1,316,617	1,558,740
Deferred Outflows for Pensions	8,671,039	8,994,103
Total Deferred Outflows	<u>9,987,656</u>	<u>10,552,843</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$1,126,622,684</u></u>	<u><u>\$1,125,278,243</u></u>

These statements should be read in conjunction with the Notes to Financial statements contained in the 2017 Annual Report.

NET POSITION, LIABILITIES AND DEFERRED INFLOWS	<u>2018</u>	<u>2017</u>
NET POSITION		
Net Investment in Capital Assets	\$442,196,176	\$441,907,016
Restricted for:		
Water Capital Reserves	29,736,771	24,235,903
Water System Development Charge	28,721,613	24,003,706
Debt Service Funds	4,458,500	4,386,996
Unrestricted	<u>53,556,820</u>	<u>54,765,997</u>
TOTAL NET POSITION	558,669,880	549,299,618
LONG-TERM DEBT		
Revenue Bonds Outstanding:		
2005 Water Revenue Bonds Refunding	5,000	5,000
2009 Water Revenue Bonds	76,775,000	76,775,000
2010 Water Revenue Bonds Refunding	21,890,000	25,825,000
2010 Water Revenue Bonds	74,985,000	74,985,000
2013 Water Revenue Bonds Refunding	74,355,000	74,355,000
2015 Water Refunding Bonds, Series A	12,340,000	13,800,000
2010 RWSS Revenue Bonds, Series A	1,955,000	2,245,000
2010 RWSS Revenue Bonds, Series B	44,245,000	44,245,000
2013 RWSS Refunding Bonds	<u>59,400,000</u>	<u>60,165,000</u>
Total Outstanding Revenue Bonds	365,950,000	372,400,000
Plus: Unamortized Bond Premium	<u>11,665,637</u>	<u>13,260,172</u>
Net Outstanding Revenue Bonds	377,615,637	385,660,172
PWTF Pre-Construction Loans	640,609	800,783
PWTF Construction Loans	19,370,627	21,907,224
State Drinking Water Loans	<u>65,612,800</u>	<u>69,844,046</u>
Total Long-Term Debt	463,239,673	478,212,225
CURRENT LIABILITIES		
Salaries and Wages Payable	864,080	844,027
Purchases and Contracts Payable	844,859	578,714
Interest Expense Accrued	6,803,296	6,909,365
Taxes Accrued	1,547,710	1,453,833
Customers' and Contractors' Deposits	344,328	348,868
Current Portion of Long-Term Debt	13,554,949	13,334,372
Other Current Liabilities	4,140,302	4,059,122
Current Accrued Compensated Absences	<u>229,834</u>	<u>269,819</u>
Total Current Liabilities	28,329,358	27,798,120
LONG-TERM LIABILITIES		
Muckleshoot Agreements	6,585,519	6,762,451
Customer Advances for Construction	7,085,334	5,016,857
Unearned Revenue	7,378,681	7,380,550
Other Long-Term Liabilities	7,628,025	4,495,075
Pension Liability	8,278,522	7,788,151
Long-Term Accrued Compensated Absences	<u>2,068,503</u>	<u>2,428,375</u>
Total Long-Term Liabilities	39,024,584	33,871,459
TOTAL LIABILITIES	<u>530,593,615</u>	<u>539,881,804</u>
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
Deferred Inflows for Pensions	<u>1,783,742</u>	<u>521,374</u>
Total Deferred Inflows	37,359,189	36,096,821
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS .	<u>\$1,126,622,684</u>	<u>\$1,125,278,243</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MARCH 31, 2018 AND MARCH 31, 2017

	<u>MARCH</u> <u>2018</u>	<u>MARCH</u> <u>2017</u>
OPERATING REVENUES		
Sales of Water	\$5,756,848	\$5,615,345
Other Operating Revenues	883,705	626,945
Contract Resource Obligation Revenue	408,028	516,658
Total Operating Revenues	<u>7,048,581</u>	<u>6,758,948</u>
OPERATING EXPENSES		
Production Expense:		
Source of Supply	561,917	572,485
Water Treatment	567,669	527,708
Total Production Expense	<u>1,129,586</u>	<u>1,100,193</u>
Power Pumping Expense	50,717	71,191
Transmission and Storage Expense	194,713	210,523
Distribution Expense	1,247,477	906,871
Customer Accounting and Consumer Service ...	456,458	413,085
Taxes	533,982	436,004
Depreciation	2,059,587	2,005,872
Administrative and General	838,721	1,038,363
Total Operating Expenses	<u>6,511,241</u>	<u>6,182,102</u>
OPERATING INCOME (LOSS)	537,340	576,846
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	281,068	201,317
Miscellaneous	(521)	556,114
Interest on Long-Term Debt	(1,348,863)	(1,372,711)
Interest on Long-Term Debt BABs Sub	(298,940)	(297,980)
Amortization Of Debt Premium	110,934	111,548
Interest Charged to Construction	-	35,728
Total Non-Operating Revenues (Expenses)	<u>(1,256,322)</u>	<u>(765,984)</u>
Net Income (Loss) Before Capital Contributions and Transfers	(718,982)	(189,138)
Capital Contributions:		
Cash	721,683	320,183
Donated Fixed Assets	202,964	-
Federal BABs Subsidies	298,940	297,980
Transfers:		
City Gross Earnings Tax	<u>(518,696)</u>	<u>(526,260)</u>
CHANGE IN NET POSITION	<u>(\$14,091)</u>	<u>(\$97,235)</u>
NET POSITION - JANUARY 1		
TOTAL NET POSITION - MARCH 31		

YEAR TO DATE		2018 OVER (UNDER) 2017	PERCENT CHANGE
MARCH 31, 2018	MARCH 31, 2017		
\$ 17,507,809	\$ 15,913,137	\$1,594,672	10.0%
2,906,233	2,559,517	346,716	13.5%
1,100,707	1,113,638	(12,931)	-1.2%
<u>21,514,749</u>	<u>19,586,292</u>	<u>1,928,457</u>	9.8%
1,689,797	1,603,530	86,267	5.4%
<u>1,679,053</u>	<u>1,411,757</u>	<u>267,296</u>	18.9%
3,368,850	3,015,287	353,563	11.7%
127,030	149,449	(22,419)	-15.0%
547,211	530,994	16,217	3.1%
3,415,636	3,147,468	268,168	8.5%
1,332,727	1,241,182	91,545	7.4%
1,165,188	992,169	173,019	17.4%
6,358,060	6,017,349	340,711	5.7%
2,878,388	2,839,363	39,025	1.4%
<u>19,193,090</u>	<u>17,933,261</u>	<u>1,259,829</u>	7.0%
2,321,659	1,653,031	668,628	40.4%
2,141,472	1,219,285	922,187	75.6%
(1,287)	848,487	(849,774)	-100.2%
(4,047,111)	(4,118,334)	71,223	-1.7%
(896,820)	(893,940)	(2,880)	0.3%
332,801	334,644	(1,843)	-0.6%
-	96,388	(96,388)	-100.0%
<u>(2,470,945)</u>	<u>(2,513,470)</u>	<u>42,525</u>	-1.7%
(149,286)	(860,439)	711,153	-82.7%
2,600,832	1,115,443	1,485,389	133.2%
202,964	-	202,964	NA
896,820	893,940	2,880	0.3%
<u>(1,598,085)</u>	<u>(1,501,552)</u>	<u>(96,533)</u>	6.4%
1,953,245	(352,608)	2,305,853	-653.9%
556,716,635	549,652,226	7,064,409	
<u>\$558,669,880</u>	<u>\$549,299,618</u>	<u>\$9,370,262</u>	1.7%

These statements should be read in conjunction with the Management Discussion and Analysis in the March 2018 Financial Report.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF REVENUES AND BILLINGS
MARCH 31, 2018 AND MARCH 31, 2017

	<u>MARCH 2018</u>	<u>MARCH 2017</u>
SALES OF WATER		
Residential and Domestic	\$3,888,565	\$3,667,970
Commercial and Industrial	1,366,574	1,277,138
Special Rate	394,559	475,522
Sales to Other Utilities	<u>107,150</u>	<u>194,715</u>
Total	<u><u>\$5,756,848</u></u>	<u><u>\$5,615,345</u></u>

BILLINGS (NUMBER OF MONTHS BILLED)

Residential and Domestic	96,130	98,197
Commercial and Industrial	7,124	7,182
Sales to Other Utilities	<u>14</u>	<u>16</u>
Total	<u><u>103,268</u></u>	<u><u>105,395</u></u>

YEAR TO DATE		2018 OVER (UNDER) 2017	PERCENT CHANGE
MARCH 31, 2018	MARCH 31, 2017		
\$11,593,084	\$10,503,717	\$1,089,367	10.4%
3,889,855	3,482,409	407,446	11.7%
1,510,756	1,372,229	138,527	10.1%
514,114	554,782	(40,668)	-7.3%
<u>\$17,507,809</u>	<u>\$15,913,137</u>	<u>\$1,594,672</u>	10.0%
290,101	283,812	6,289	2.2%
19,885	19,708	177	0.9%
45	51	(6)	-11.8%
<u>310,031</u>	<u>303,571</u>	<u>6,460</u>	2.1%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER BILLED
MARCH 31, 2018 AND MARCH 31, 2017

	MILLION GALLONS, TOTAL			
	MARCH 2018	MARCH 2017	YEAR TO DATE	
			MARCH 31, 2018	MARCH 31, 2017
WATER BILLED				
Residential and Domestic	503.27	519.06	1,553.73	1,504.38
Commercial and Industrial	209.64	196.91	615.73	564.79
Special Rate	312.74	436.73	1,296.30	1,251.05
Sales to Other Utilities	32.83	63.20	174.46	185.98
	1,058.48	1,215.90	3,640.22	3,506.20

NOTE: For conversion purposes, there are approximately 748 gallons in every 100 cubic feet of water.

MILLION GALLONS, AVERAGE DAILY

<u>MARCH</u> <u>2018</u>	<u>MARCH</u> <u>2017</u>
16.23	16.74
6.76	6.35
10.09	14.09
<u>1.06</u>	<u>2.04</u>
<u><u>34.14</u></u>	<u><u>39.22</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	MARCH 31, 2018	MARCH 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$26,523,037	\$24,836,926
Cash Paid to Suppliers	(6,618,083)	(6,905,924)
Cash Paid to Employees	(6,041,128)	(6,110,660)
Taxes Paid	(1,173,816)	(1,030,812)
Net Cash From Operating Activities	12,690,010	10,789,530
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(1,598,085)	(1,501,552)
Net Cash From Non-Capital Financing Activities	(1,598,085)	(1,501,552)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(3,282,851)	(3,298,801)
Principal Payments on Muckleshoot LT Liability ...	(181,355)	(185,889)
Interest Paid	(522)	(1,203)
Contributions in Aid of Construction	2,600,832	1,115,443
System Development Charges & Other LT Liabilities.	3,744,734	120,397
Net Cash From Capital and Related Financing Activities	2,880,838	(2,250,053)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	2,141,472	1,219,285
Other Net Non-Op Revenues and Expenses	(1,287)	848,487
Net Cash From Investing Activities	2,140,185	2,067,772
Net Change in Cash and Equity in Pooled Investments	16,112,948	9,105,697
Cash & Equity in Pooled Investments at January 1 ...	213,038,918	211,596,081
Cash & Equity in Pooled Investments at March 31	\$229,151,866	\$220,701,778

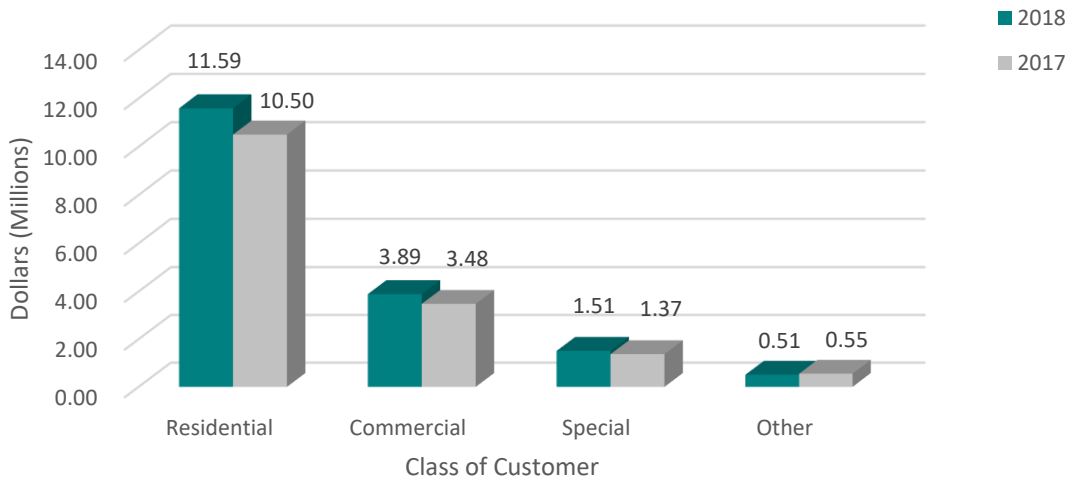
These statements should be read in conjunction with the Notes to Financial statements contained in the 2017 Annual Report.

	YEAR TO DATE	
	MARCH 31, 2018	MARCH 31, 2017
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$2,321,659	\$1,653,031
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	6,358,060	6,017,349
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	243,101	971,627
Interfund Receivables	69,262	107,970
Regulatory Asset-Public Fire Protection Fees	188,965	188,965
Regulatory Asset-Surcharges.....	448,521	31,777
Materials and Supplies	83,565	(80,713)
Prepayments	110,869	94,668
Unearned Revenues	4,140,302	4,059,122
Accrued Taxes	(8,628)	(38,643)
Salaries, Wages and Fringe Benefits Payable	368,139	433,199
Customers' Deposits	(12,601)	(857)
Accrued Expenses and Contracts Payable	(524,375)	(969,076)
Interfund Payables	(1,096,829)	(1,678,889)
Total Adjustments	10,368,351	9,136,499
Net Cash From Operating Activities	<u>\$12,690,010</u>	<u>\$10,789,530</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$168,311,447	\$166,084,160
Cash and Equity in Pooled Investments in Operating Funds	60,840,419	54,617,618
Cash and Equity in Pooled Investments at March 31	<u>\$229,151,866</u>	<u>\$220,701,778</u>
Non-cash Investing, Capital, and Financing Activities:		
Donated Assets	\$ 202,964	\$ -

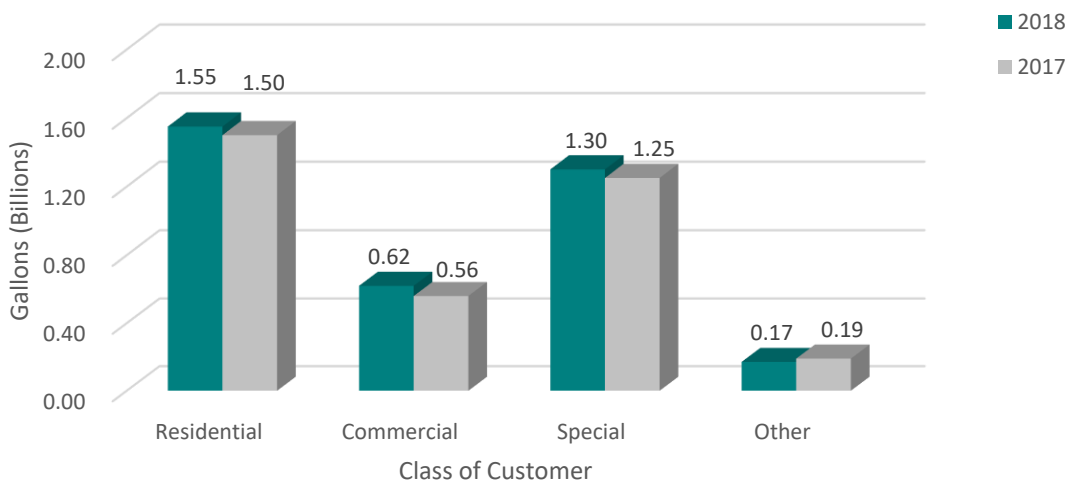
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Supplemental Data

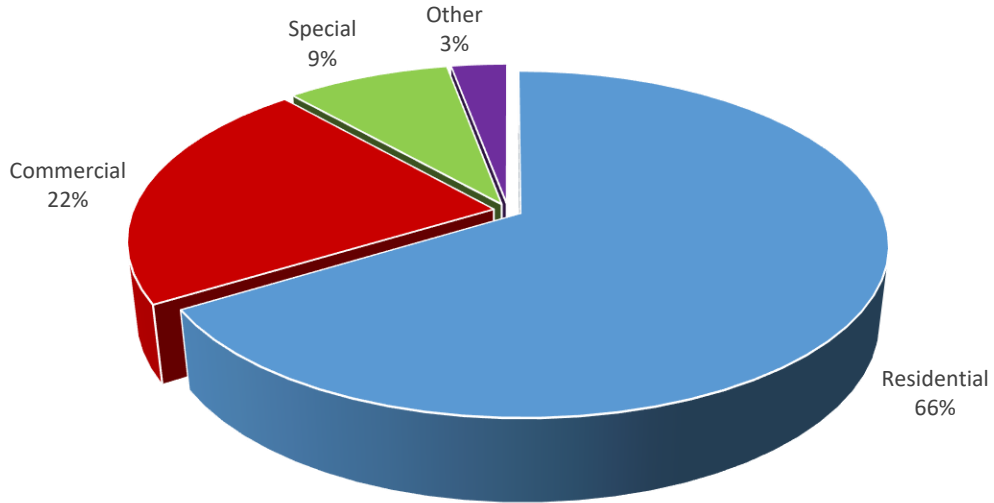
WATER SALES Year to Date - March 2018 & 2017



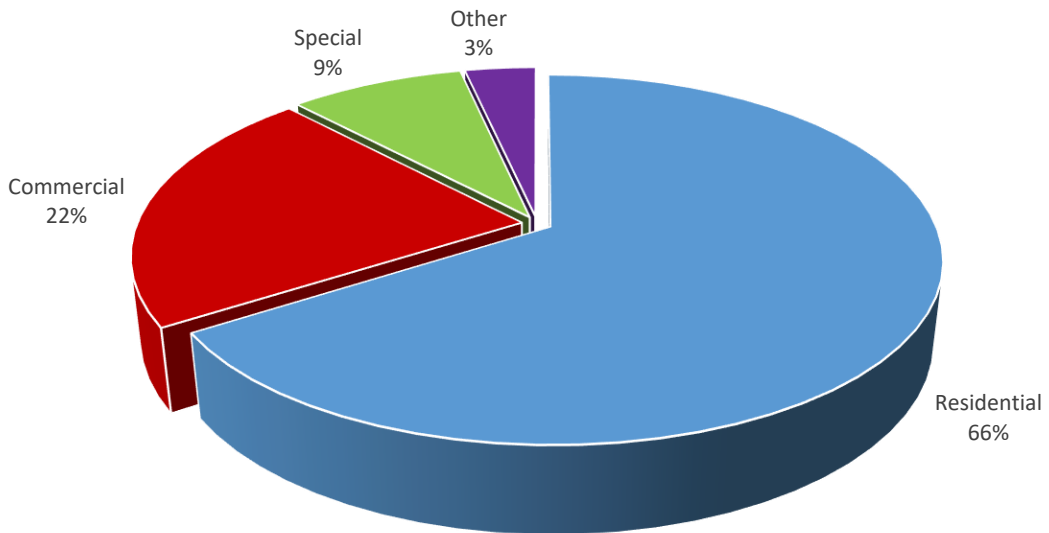
WATER CONSUMPTION Year to Date - March 2018 & 2017



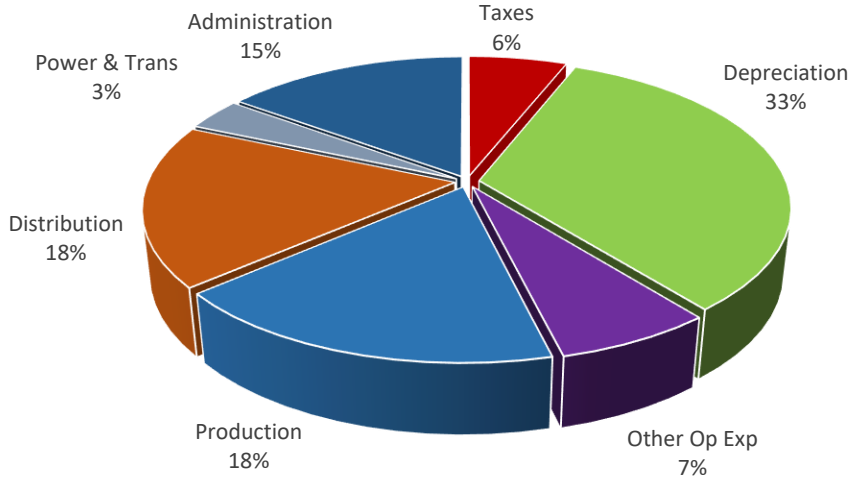
WATER SALES
Year to Date - March 2018
(\$17,507,809)



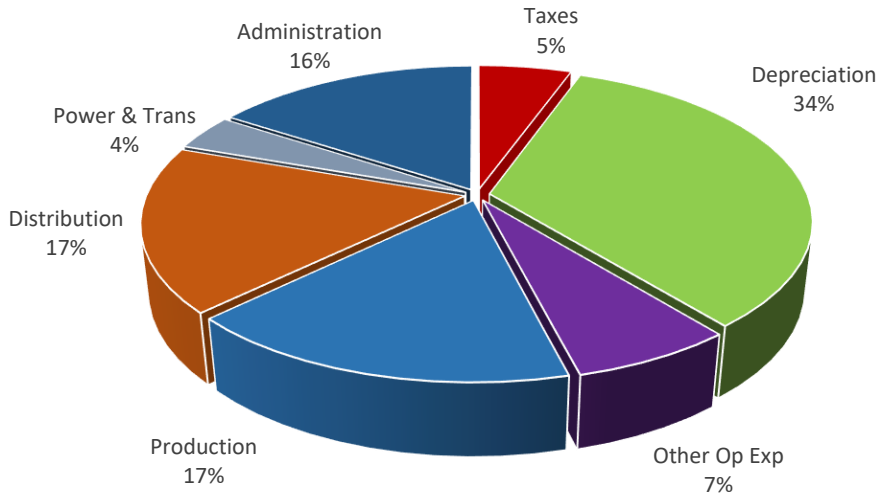
WATER SALES
Year to Date - March 2017
(\$15,913,137)



TOTAL OPERATING EXPENSES
Year to Date - March 2018
(\$19,193,090)



TOTAL OPERATING EXPENSES
Year to Date - March 2017
(\$17,933,261)





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.

