
SEPTEMBER

TACOMA WATER

2014

**FINANCIAL
REPORT**



Public Utility Board

WOODROW JONES

Chair

BRYAN FLINT

Vice-Chair

MARK PATTERSON

Secretary

DAVID NELSON

Member

MONIQUE TRUDNOWSKI

Member

WILLIAM A. GAINES
Director of Utilities/CEO

LINDA MCCREA
Superintendent

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Financial Statements

Summary

For the third quarter of 2014, Tacoma Water is reporting year-to-date operating income of \$29.1 million compared to \$34.2 million in 2013. Operating revenues decreased \$2.8 million (3.8%) and operating expenses increased \$2.2 million (5.6%). The year to date change in net position for 2014 was \$23.7 million compared to \$22.9 million 2013.

Revenues

Water sales revenues increased by \$4.8 million (10%) through the third quarter of 2014 compared to the same period in 2013. Of this increase, approximately 57.1% is due to a system average rate increase of 6.0% effective January 1, 2014. The remaining 42.9% is due to increased volume. The following table summarizes the impacts of rate and volume changes on water sales revenue by customer class for the first nine months of 2014.

Customer Class	Changes Related to:		YTD Increase (Decrease)
	Rate	Volume	
Residential and Domestic	\$ 2,406,963	\$ 256,308	\$ 2,663,271
Commercial and Industrial	549,433	705,159	1,254,592
Special Rate	410,409	99,333	509,742
Other	(646,660)	979,007	332,347
Total	\$ 2,720,145	\$ 2,039,807	\$ 4,759,952

Consumption for the nine months of 2014 was 14,316 million gallons, compared to 13,660 million gallons in the same period in 2013. Regional Water Supply System (RWSS) partners received 2,984 million gallons year to date compared to 3,121 million gallons year to date in 2013. The following table summarizes water consumption by customer class year-to-date.

Customer Class	Millions of Gallons		YTD Increase (Decrease)	%
	2014	2013		
Residential and Domestic	6,002.45	5,952.70	49.75	0.8%
Commercial and Industrial	2,048.80	1,891.90	156.90	8.3%
Special Rate	4,548.43	4,434.62	113.81	2.6%
Other	1,716.03	1,380.46	335.57	24.3%
Total	14,315.71	13,659.68	656.03	4.8%

Contract resource obligation (CRO) revenue was \$12.2 million in 2014 compared to \$19.6 million in 2013. The \$7.4 million decrease is primarily due to less capital contributed by the CRO partners for construction of the Green River Filtration Facility as it nears completion.

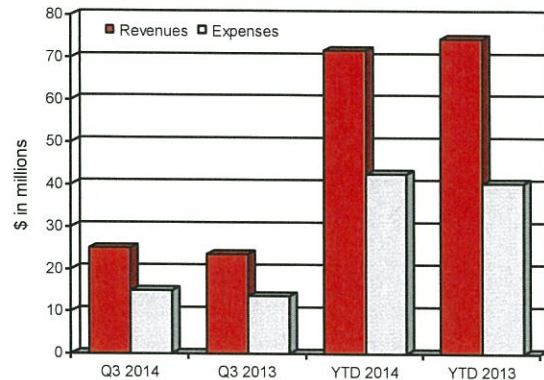
Expenses

Operating expenses were \$42.5 million for the first nine months of 2014, an increase of \$2.2 million compared to 2013. Total production expense increased \$0.8 million compared to 2013 primarily due to increases in labor and chemical costs. This year the production group postponed several capital projects and focused more on maintenance projects. This caused labor to increase by \$0.4 million compared to last year. Also, as noted in the prior quarter, the Groundwater Treatment Facility

was run extensively this year compared to last year resulting in an increased cost in chemical expense of \$0.1 million. Distribution expense increased \$0.4 million due to \$0.2 million increase in labor and \$0.2 million in professional services. Depreciation expense increased \$0.5 million year to date compared to the prior year due to an increase of \$28.3 million in depreciable assets capitalized in 2013.

Miscellaneous non-operating expense decreased \$1.5 million compared to the prior year which included \$1.1 million in debt issuance costs for the 2013 RWSS Refunding Bonds.

OPERATING REVENUES & EXPENSES




 William A. Gaines
 Director of Utilities/CEO


 Andrew Cherullo
 Finance Director

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

TACOMA WATER

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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 - SEPTEMBER 30, 2014 AND SEPTEMBER 30, 2013

ASSETS	<u>2014</u>	<u>2013</u>
UTILITY PLANT		
Water Plant in Service	\$856,050,900	\$828,820,980
Less Depreciation and Amortization	(178,783,621)	(166,838,517)
Total	<u>677,267,279</u>	<u>661,982,463</u>
Construction Work in Progress	180,843,849	114,027,261
Net Utility Plant	<u>858,111,128</u>	<u>776,009,724</u>
NON-UTILITY PROPERTY	492,963	492,963
RESTRICTED ASSETS		
Cash and Equity in Pooled Investments:		
2010 Construction Fund	1,164	13,019,862
2010 RWSS Construction Fund	429,652	7,145,337
2013 Construction Fund	34,592,570	50,794,046
Regional Water Supply System Operating Fund	(2,431,254)	11,127,014
Provision for Debt Payment	12,549,316	12,030,780
Customer Water Main Deposits	3,025,702	2,936,690
Water Supply Forum Fund.....	417,079	436,783
Special Bond Reserves	22,094,692	22,092,108
Water Customer Contribution Fund	16,376	171,343
Water Capital Reserves	22,778,875	19,359,328
Water System Development Charge	53,145,664	53,805,874
Notes & Contracts Receivables - SDC	-	462,128
Total Restricted Assets	<u>146,619,836</u>	<u>193,381,293</u>
CURRENT ASSETS		
Cash and Equity in Pooled Investments:		
Current Fund	43,474,996	36,487,733
Working Funds	1,000	1,500
Customers' Deposits	268,134	268,531
Receivables:		
Customers	5,225,898	5,167,707
Accrued Unbilled Revenues	4,494,710	4,026,679
Others	1,146,598	1,215,597
BABs Interest Subsidies	1,280,256	1,280,256
Provision for Uncollectible Accounts	(296,715)	(496,194)
Materials and Supplies	2,404,960	2,374,300
Prepayments	390,810	447,690
Total Current Assets	<u>58,390,647</u>	<u>50,773,799</u>
TOTAL ASSETS	<u>1,063,614,574</u>	<u>1,020,657,779</u>
DEFERRED OUTFLOWS		
Regulatory Assets - Public Fire Protection Fees	3,189,130	4,157,230
Regulatory Assets - Hyada Surcharges	852,238	950,451
Unamortized Losses on Refunding Bonds	1,644,353	1,870,359
Total Deferred Outflows	<u>5,685,721</u>	<u>6,978,040</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$1,069,300,295</u>	<u>\$1,027,635,819</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the 2013 Annual Report.

NET POSITION AND LIABILITIES

	2014	2013
NET POSITION		
Net Investment in Capital Assets	\$422,713,326	\$387,209,143
Restricted for:		
Water Capital Reserves	15,753,461	11,854,908
Water System Development Charge	18,032,345	19,166,056
Debt Service Funds	5,605,254	4,161,368
Unrestricted	<u>41,909,865</u>	<u>50,334,944</u>
TOTAL NET POSITION	504,014,251	472,726,419
LONG-TERM DEBT		
Revenue Bonds Outstanding:		
2005 Water Revenue Bonds Refunding	29,365,000	33,450,000
2009 Water Revenue Bonds	76,775,000	76,775,000
2010 Water Revenue Bonds Refunding	27,505,000	28,055,000
2010 Water Revenue Bonds	74,985,000	74,985,000
2013 Water Revenue Bonds Refunding	74,355,000	75,335,000
2010 RWSS Revenue Bonds, Series A	44,245,000	44,245,000
2010 RWSS Revenue Bonds, Series B	3,070,000	3,335,000
2013 RWSS Refunding Bonds	<u>62,765,000</u>	<u>63,835,000</u>
Total Outstanding Revenue Bonds	393,065,000	400,015,000
Plus: Unamortized Bond Premium	<u>14,567,157</u>	<u>15,988,810</u>
Net Outstanding Revenue Bonds	407,632,157	416,003,810
PWTF Pre-Construction Loans	1,121,130	1,281,304
PWTF Construction Loans	26,980,418	29,517,015
State Drinking Water Loan	<u>40,589,417</u>	<u>17,789,716</u>
Total Long-Term Debt	476,323,122	464,591,845
CURRENT LIABILITIES		
Salaries and Wages Payable	566,232	473,107
Purchases and Contracts Payable	5,028,885	7,267,327
Interest Expense Accrued	6,944,062	7,869,412
Taxes Accrued	1,485,294	1,347,364
Customers' and Contractors' Deposits	335,190	295,533
Current Portion of Long-Term Debt	11,009,843	10,237,522
Other Current Liabilities	1,525,000	1,361,425
Current Accrued Compensated Absences	249,552	235,807
Total Current Liabilities	<u>27,144,058</u>	<u>29,087,497</u>
LONG-TERM LIABILITIES		
Muckleshoot Agreements	7,320,231	7,515,530
Customer Advances for Construction	4,312,047	4,051,773
Unearned Revenue	8,794,377	9,003,254
Other Long-Term Liabilities	3,570,795	2,961,796
Long-Term Accrued Compensated Absences	2,245,968	2,122,259
Total Long-Term Liabilities	<u>26,243,418</u>	<u>25,654,612</u>
TOTAL LIABILITIES	<u>529,710,598</u>	<u>519,333,954</u>
DEFERRED INFLOWS		
Rate Stabilization	<u>35,575,446</u>	<u>35,575,446</u>
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS .	<u><u>\$1,069,300,295</u></u>	<u><u>\$1,027,635,819</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
SEPTEMBER 30, 2014 AND SEPTEMBER 30, 2013

	<u>September 2014</u>	<u>September 2013</u>
OPERATING REVENUES		
Sales of Water	\$6,807,461	\$6,310,650
Other Operating Revenues	744,878	1,087,797
Contract Resource Obligation Revenue	343,383	318,851
Total Operating Revenues	<u>7,895,722</u>	<u>7,717,298</u>
OPERATING EXPENSES		
Production Expense		
Source of Supply	529,269	440,390
Water Treatment	322,974	306,534
Total Production Expense	<u>852,243</u>	<u>746,924</u>
Power Pumping Expense	44,923	26,156
Transmission and Storage Expense	243,609	209,664
Distribution Expense	1,079,121	912,798
Customer Accounting and Consumer Service ...	324,033	305,236
Taxes	424,917	385,886
Depreciation	1,397,251	1,332,674
Administrative and General	610,837	529,377
Total Operating Expenses	<u>4,976,934</u>	<u>4,448,715</u>
OPERATING INCOME (LOSS)	2,918,788	3,268,583
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	144,737	118,350
Miscellaneous	4,877	(6,852)
Interest on Long-Term Debt	(1,378,876)	(1,368,597)
Interest on Long-Term Debt BABs Sub	(320,064)	(320,064)
Amortization Of Debt Premium	92,947	119,707
Interest Charged to Construction.....	650,907	45,180
Total Non-Operating Revenues (Expenses)	<u>(805,472)</u>	<u>(1,412,276)</u>
Net Income (Loss) Before Capital Contributions and Transfers	2,113,316	1,856,307
Capital Contributions		
Cash	193,790	199,386
Donated Fixed Assets	-	-
Federal BAB Subsidies	320,064	320,064
Transfers Out		
City Gross Earnings Tax	<u>(597,858)</u>	<u>(558,229)</u>
CHANGE IN NET POSITION	<u>\$2,029,312</u>	<u>\$1,817,528</u>
TOTAL NET POSITION - JANUARY 1		
TOTAL NET POSITION - SEPTEMBER 30		

YEAR TO DATE		2014	
September 30	September 30	OVER	PERCENT
2014	2013	(UNDER)	CHANGE
		2013	
\$ 52,520,098	\$ 47,760,146	\$4,759,952	10.0%
6,905,879	7,039,110	(133,231)	-1.9%
12,169,878	19,603,161	(7,433,283)	-37.9%
<u>71,595,855</u>	<u>74,402,417</u>	<u>(2,806,562)</u>	<u>-3.8%</u>
4,576,425	3,985,983	590,442	14.8%
2,965,564	2,709,899	255,665	9.4%
<u>7,541,989</u>	<u>6,695,882</u>	<u>846,107</u>	<u>12.6%</u>
430,288	333,117	97,171	29.2%
2,149,174	2,037,632	111,542	5.5%
8,565,094	8,135,877	429,217	5.3%
3,044,008	2,907,234	136,774	4.7%
2,779,236	2,679,989	99,247	3.7%
12,540,672	11,999,559	541,113	4.5%
5,434,941	5,455,465	(20,524)	-0.4%
<u>42,485,402</u>	<u>40,244,755</u>	<u>2,240,647</u>	<u>5.6%</u>
29,110,453	34,157,662	(5,047,209)	-14.8%
1,249,322	324,323	924,999	285.2%
277,602	(1,305,259)	1,582,861	121.3%
(12,537,159)	(12,236,470)	(300,689)	2.5%
(2,742,305)	(2,713,502)	(28,803)	1.1%
836,527	1,309,193	(472,666)	-36.1%
5,306,067	994,115	4,311,952	433.7%
<u>(7,609,946)</u>	<u>(13,627,600)</u>	<u>6,017,654</u>	<u>-44.2%</u>
21,500,507	20,530,062	970,445	4.7%
3,441,611	3,016,788	424,823	14.1%
741,194	908,817	(167,623)	-18.4%
2,742,307	2,713,502	28,805	1.1%
<u>(4,700,341)</u>	<u>(4,300,886)</u>	<u>(399,455)</u>	<u>9.3%</u>
23,725,278	22,868,283	856,995	3.7%
<u>480,288,973</u>	<u>449,858,136</u>	<u>30,430,837</u>	<u>6.8%</u>
<u>\$504,014,251</u>	<u>\$472,726,419</u>	<u>\$31,287,832</u>	<u>6.6%</u>

These statements should be read in conjunction with the Management Discussion and Analysis in the September 2014 Financial Report.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF REVENUES AND BILLINGS
SEPTEMBER 30, 2014 AND SEPTEMBER 30, 2013

	<u>SEPTEMBER 2014</u>	<u>SEPTEMBER 2013</u>
SALES OF WATER		
Residential and Domestic	\$4,186,308	\$3,804,381
Commercial and Industrial	1,278,698	1,119,875
Special Rate - Simpson Tacoma Kraft Company	555,564	496,779
Municipal	41,491	35,535
Other Public Buildings and Grounds	294,771	248,554
Sales to Other Utilities	<u>450,629</u>	<u>605,526</u>
Total	<u><u>\$6,807,461</u></u>	<u><u>\$6,310,650</u></u>

BILLINGS (NUMBER OF MONTHS BILLED)

Residential and Domestic	81,511	80,718
Commercial and Industrial	5,609	5,444
Municipal	208	204
Other Public Buildings and Grounds	433	415
Sales to Other Utilities	<u>19</u>	<u>23</u>
Total	<u><u>87,780</u></u>	<u><u>86,804</u></u>

YEAR TO DATE		2014 OVER (UNDER) 2013	PERCENT CHANGE
SEPTEMBER 2014	SEPTEMBER 2013		
\$33,326,043	\$30,662,772	\$2,663,271	8.7%
9,756,725	8,502,133	1,254,592	14.8%
4,379,955	3,870,213	509,742	13.2%
323,660	330,478	(6,818)	-2.1%
1,799,791	1,615,582	184,209	11.4%
<u>2,933,924</u>	<u>2,778,968</u>	<u>154,956</u>	5.6%
<u>\$52,520,098</u>	<u>\$47,760,146</u>	<u>\$4,759,952</u>	10.0%
821,963	813,313	8,650	1.1%
52,011	51,124	887	1.7%
1,993	1,881	112	6.0%
3,749	3,647	102	2.8%
<u>172</u>	<u>170</u>	<u>2</u>	1.2%
<u>879,888</u>	<u>870,135</u>	<u>9,753</u>	1.1%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER BILLED
SEPTEMBER 30, 2014 AND SEPTEMBER 30, 2013

WATER BILLED	MILLION GALLONS, TOTAL			
	SEPTEMBER	SEPTEMBER	YEAR TO DATE	
	2014	2013	SEPTEMBER 2014	SEPTEMBER 2013
Residential and				
Domestic	865.69	826.96	6,002.45	5,952.70
Commercial and				
Industrial	295.34	264.11	2,048.80	1,891.90
Special Rate	539.80	529.17	4,548.43	4,434.62
Municipal	6.98	6.61	48.04	62.20
Other Public Bldgs and Grounds	73.22	68.65	387.60	370.62
Sales to Other Utilities	181.75	253.64	1,280.39	947.64
	1,962.78	1,949.14	14,315.71	13,659.68

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

MILLION GALLONS, AVERAGE DAILY

<u>SEPTEMBER</u> <u>2014</u>	<u>SEPTEMBER</u> <u>2013</u>
28.86	27.57
9.84	8.80
17.99	17.64
0.23	0.22
2.44	2.29
<u>6.06</u>	<u>8.45</u>
<u><u>65.42</u></u>	<u><u>64.97</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$75,077,595	\$80,307,519
Cash Paid to Suppliers	(24,502,231)	(19,822,007)
Cash Paid to Employees	(15,704,973)	(15,092,147)
Taxes Paid	(2,923,861)	(2,928,415)
Net Cash From		
Operating Activities	31,946,530	42,464,950
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(4,700,341)	(4,300,886)
Net Cash From Non-Capital		
Financing Activities	(4,700,341)	(4,300,886)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(51,554,021)	(63,199,564)
Proceeds from P WTF Loan	-	10,000,000
Proceeds from State Drinking Water Loan	24,270,473	2,197,735
Proceeds from Sale of Bonds	-	143,100,000
Debt Issuance Costs	(299,999)	(3,400,220)
Premium on Sale of Bonds	-	12,889,179
Principal Payments on Long-Term Debt and Bonds ...	(2,696,771)	(2,141,215)
Principal Payments on Muckleshoot LT Liability ...	(200,182)	(820,747)
Payments for Early Extinguishment of Debt	-	(101,210,000)
Interest Paid	(10,128,031)	(9,187,615)
System Development Charges, CIAC and Other	3,675,898	2,692,512
BABs Federal Interest Subsidies	1,782,115	1,753,310
Net Cash From Capital and		
Related Financing Activities	(35,150,518)	(7,326,625)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	1,249,322	324,323
Other Net Non-Op Revenues and Expenses	577,602	(1,953)
Net Cash From Investing Activities	1,826,924	322,370
Net Change in Cash and Equity in		
Pooled Investments	(6,077,405)	31,159,809
Cash & Equity in Pooled Investments at January 1 ...	196,441,371	198,517,120
Cash & Equity in Pooled Investments at September 30	\$190,363,966	\$229,676,929

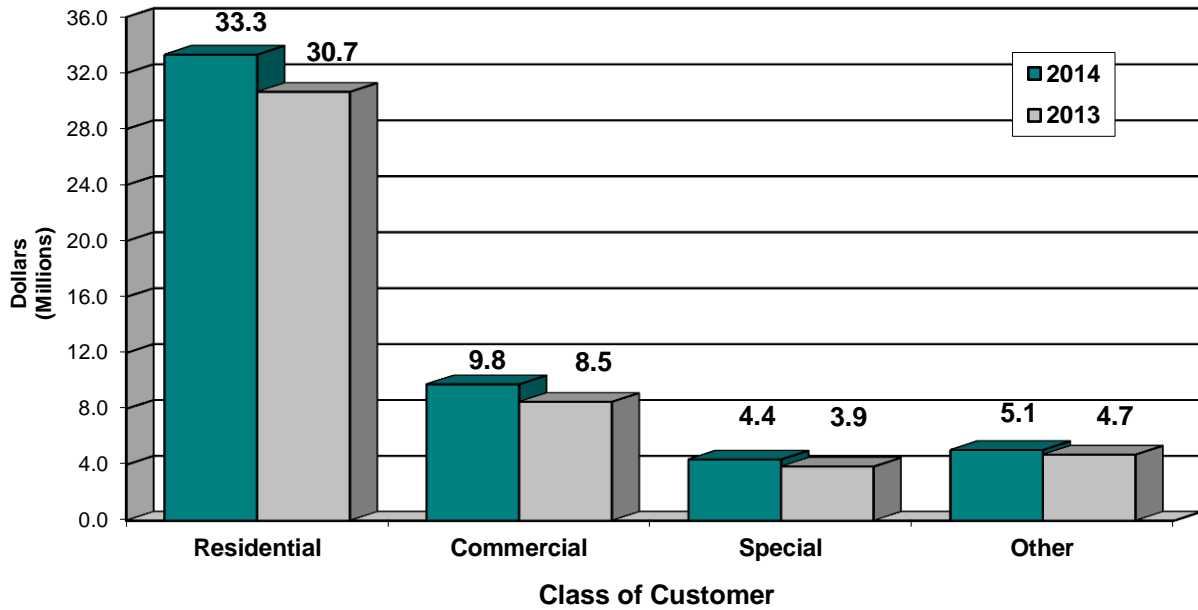
The accompanying notes are an integral part of these financial statements.

	YEAR TO DATE	
	2014	2013
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$29,110,453	\$34,157,662
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	12,540,672	11,999,559
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	1,347,965	4,616,051
Interfund Receivables	8,815,962	947,380
Regulatory Asset-Public Fire Protection Fees	566,895	117,362
Regulatory Asset-Hyada Surcharges.....	71,336	75,142
Materials and Supplies	(68,312)	(33,126)
Prepayments	164,380	1,919,248
Unearned Rental Revenues	1,492,198	1,087,975
Accrued Taxes	(144,625)	(248,426)
Salaries, Wages and Fringe Benefits Payable	(396,877)	(354,687)
Customers' Deposits	3,346	8,572
Accrued Expenses and Contracts Payable	(11,799,533)	(10,456,701)
Interfund Payables	(9,757,330)	(1,371,061)
Total Adjustments	<u>2,836,077</u>	<u>8,307,288</u>
Net Cash From Operating Activities	<u>\$31,946,530</u>	<u>\$42,464,950</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$146,619,836	\$192,919,165
Cash and Equity in Pooled Investments in Operating Funds	<u>43,744,130</u>	<u>36,757,764</u>
Cash and Equity in Pooled Investments at September 30	<u>\$190,363,966</u>	<u>\$229,676,929</u>

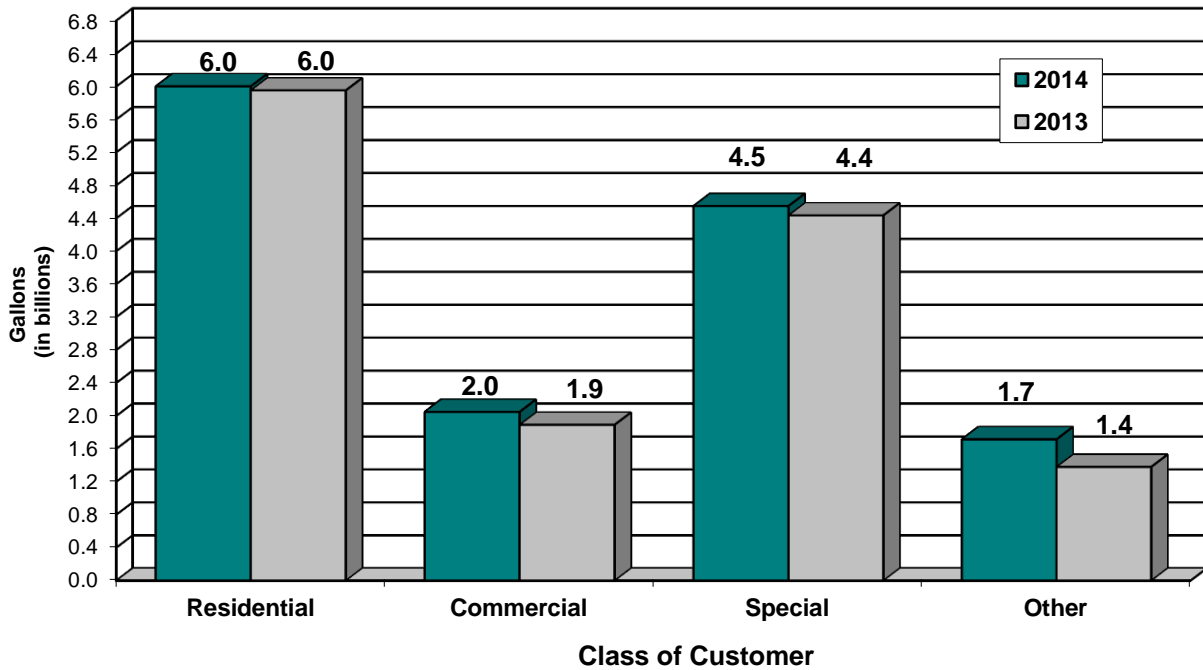
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Supplemental Data

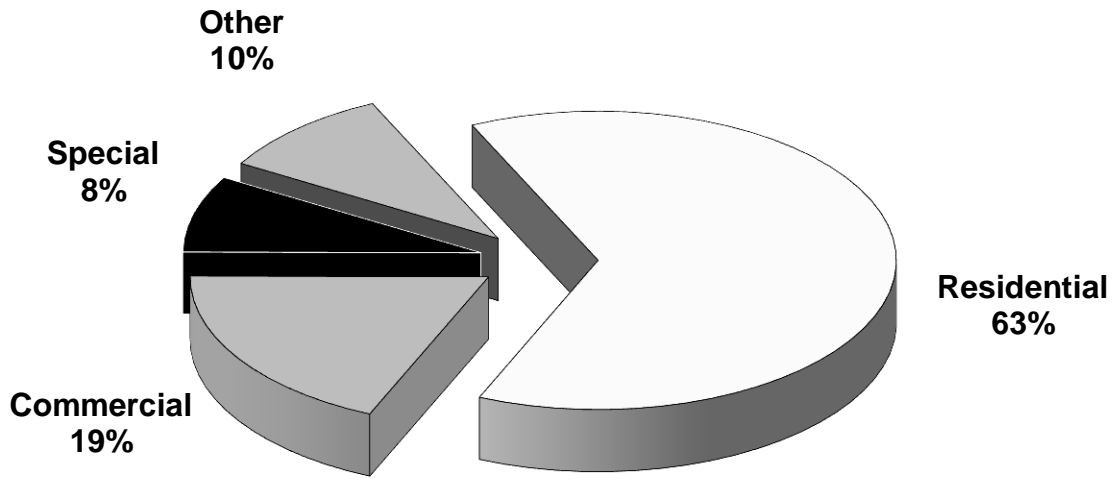
WATER SALES
Year to Date - September 2014 & 2013



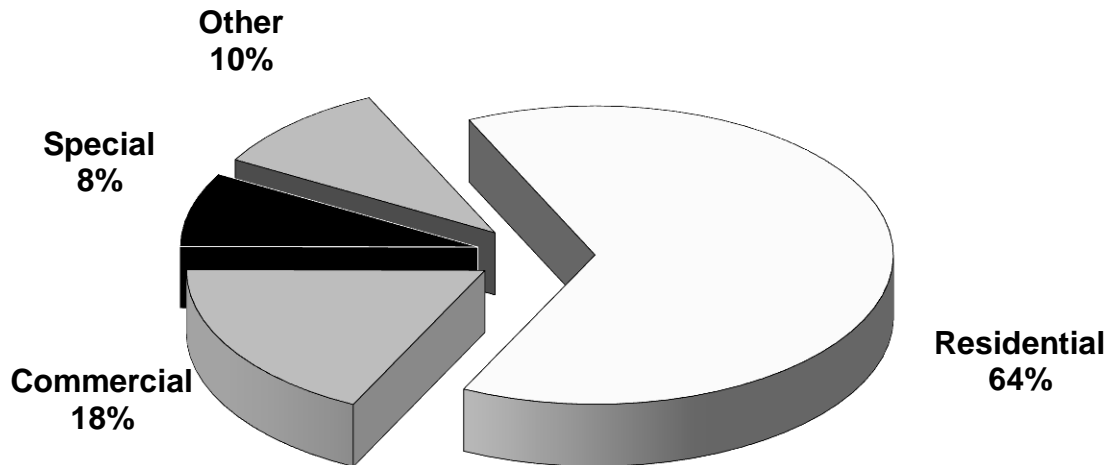
WATER CONSUMPTION
Year to Date - September 2014 & 2013



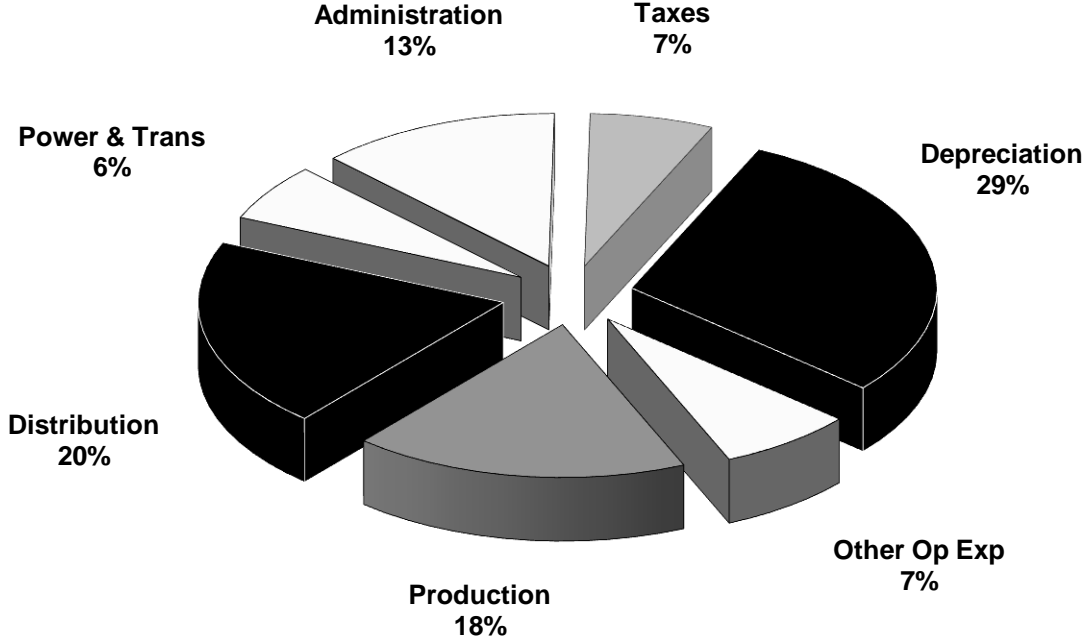
WATER SALES
Year to Date - September 2014
(\$52,520,098)



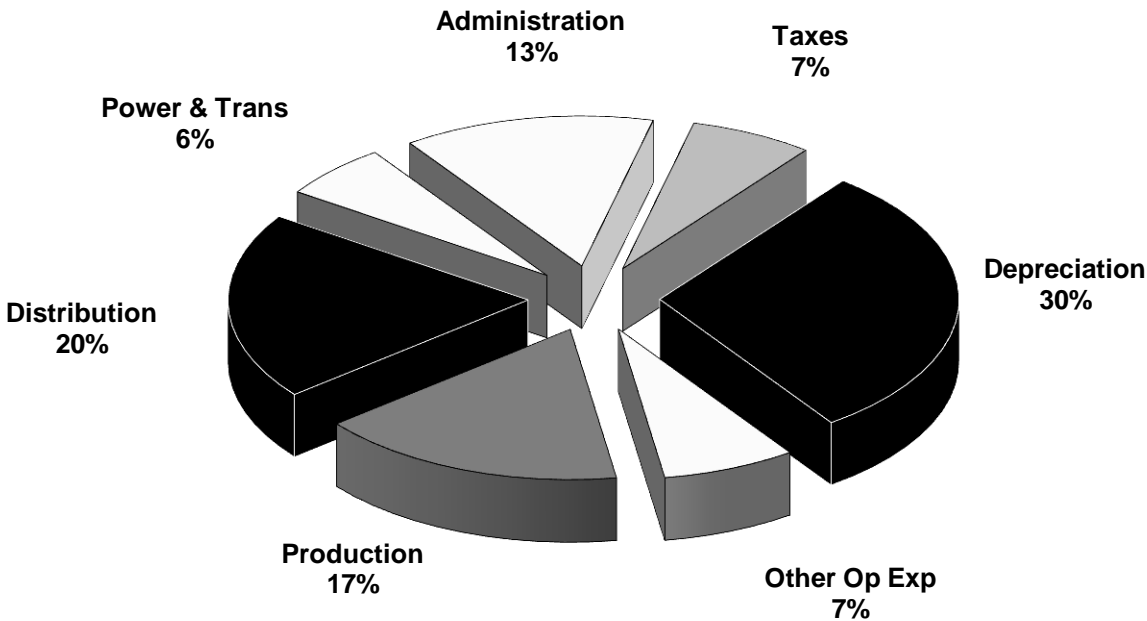
WATER SALES
Year to Date - September 2013
(\$47,760,146)



TOTAL OPERATING EXPENSES
Year to Date - September 2014
(\$42,485,402)



TOTAL OPERATING EXPENSES
Year to Date - September 2013
(\$40,244,755)





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