
ANNUAL

FLEET SERVICES FUND

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

FLEET SERVICES FUND

TABLE OF CONTENTS

FINANCIAL DATA

MANAGEMENT DISCUSSION AND ANALYSIS	3 - 8
STATEMENTS OF NET POSITION	10 - 11
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS	12 - 13
STATEMENT OF NET POSITION	14
EQUITY DISTRIBUTION	15
STATEMENTS OF CASH FLOWS	16 - 17
NOTES TO FINANCIAL STATEMENTS	18 - 25

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY ...	28
SCHEDULE OF THE CITY OF TACOMA'S CONTRIBUTIONS	28

STATISTICAL DATA

TEN YEAR FINANCIAL REVIEW	30 - 31
FLEET PLANT IN SERVICE.....	32-33
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS	34
GRAPHS	35 - 36

MANAGER'S REPORT	37 - 38
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FINANCIAL DATA

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MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Fleet Services Fund provides an overview of the financial activities for the years ended December 31, 2015 and 2014. The information presented here should be read in conjunction with the financial statements as a whole, including the footnotes and other supplementary information that is provided.

Overview of the Financial Statements

The City of Tacoma Finance Department and the management of Fleet Services are responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles 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 the Fund'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 operations, investing and financing activities.

The notes to the financial statements, presented at the end of the basic financial statements, provide additional disclosures that are essential to a full understanding of data provided in the financial statements. They are an integral part of the Fund's presentation of financial position, results of operations, and changes in cash flows.

Management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived.

With the implementation of GASB Statement No. 68, the Division's 2015 beginning net position has been adjusted to conform to the new reporting and accounting requirements (See Note 2 to the Financial Statements). The year of 2014 has not been restated due to the unavailability of the historic information from the plan.

Financial Statement Analysis

During 2015, Fleet Services realized net gain of \$1.4 million compared to net gain of \$1.6 million recorded in 2014. Operating revenues increased \$20,000 in 2015 (0.2%). Operating expenses decreased \$392,000 (5.2%). The overall result is a net increase in operating income of \$412,000 from a year earlier.

In 2014, Fleet Services realized net gain of \$1.6 million compared to net loss of \$1.1 million recorded in 2013. Operating revenues increased \$3.4 million in 2014 (72.7%). Operating expenses increased \$1.1 million (17.1%). The overall result is a net increase in operating income of \$2.3 million from a year earlier.

Selected Financial Information

(in thousands)

Category	2013	2014	2015
Operating Revenues	4,664	8,054	8,074
Operating Expenses	6,495	7,603	7,211
Operating Income (Loss)	(1,831)	451	863
Other Income	65	530	169
Transfers In	645	653	339
Change in Net Position	\$ (1,121)	\$ 1,634	\$ 1,371
Current Assets	\$22,007	\$23,472	\$23,334
Other Assets			101
Deferred Outflows			240
Capital Assets (Net)	20,270	21,386	22,275
Total Assets	42,277	44,858	45,950
Total Liabilities	1,039	1,987	1,476
Deferred Inflows			107
Net Investment in Capital Assets	20,270	21,386	22,275
Restricted	25,294	25,946	26,387
Unrestricted	(4,326)	(4,461)	(4,295)
Total Net Position	\$41,238	\$42,871	\$44,367

Revenues

Fleet Services operating revenue is comprised of five categories: Maintenance, Capital Recovery, Administrative Overhead, Fuel and Fuel Loading and Pool Car Rentals. Operating revenues were \$8.1 in both 2015 and 2014 and \$4.7 million in 2013.

Maintenance revenues are mainly related to staff labor and were \$2.2 million in 2015 and \$2.1 million in both 2014 and 2013.

Capital recovery revenues are collected on each vehicle and piece of equipment based on anticipated equipment replacement needs for each business unit. Capital recovery revenues were \$4.8, \$4.7, and \$1.4 million in 2015, 2014, and 2013 respectively. Capital recovery revenue increased \$136,000 in 2015 compared to 2014, which had increased \$3.3 million compared to 2013. Transmission and Distribution resumed their previously deferred replacement vehicle and equipment contributions in July 2014 causing the increased revenue in 2014.

Administrative Overhead revenue is the fee charged for each vehicle that is in service. The number of vehicles in service varies from month to month and the rate can vary based on type of vehicle. Administrative Overhead revenue was \$853,000, \$1.1 million and \$1.0 million in 2015, 2014, and 2013 respectively.

Fuel and fuel loading revenues are affected by year to year changes in vehicle usage and fluctuations in fuel prices. Fuel related revenues were \$61,000, \$86,000, and \$89,000 for 2015, 2014, and 2013 respectively.

Pool car revenues are based on usage and were \$137,000, \$125,000 and \$74,000 for 2015, 2014 and 2013 respectively.

Expenses

Fleet Services operating expense is comprised of four major categories: Repairs and service, stores operations, administration and depreciation. Fleet services expenses were \$7.2, \$7.6 and \$6.5 million in 2015, 2014 and 2013 respectively.

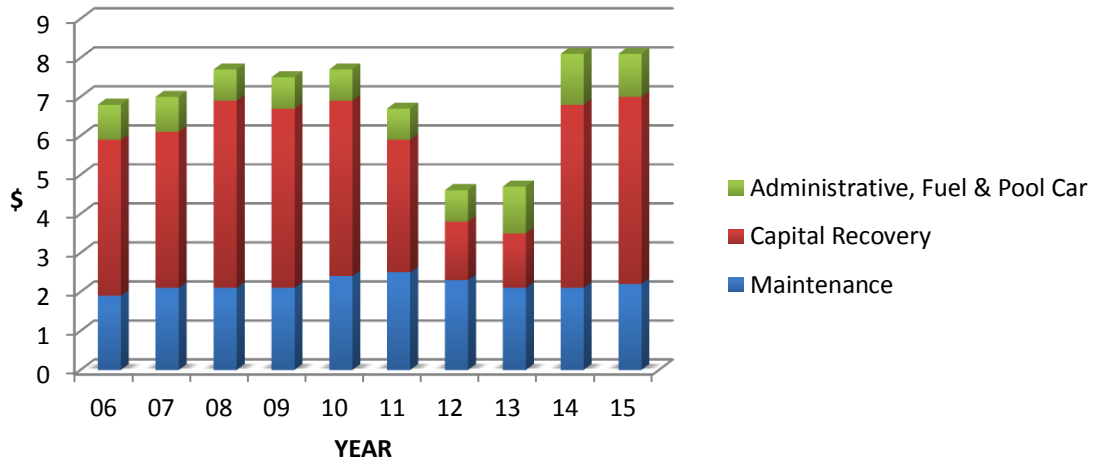
Repairs and service expense relates to shop operations which provide preventive and corrective maintenance and repairs to vehicles and pieces of equipment for Tacoma Public Utilities and other service groups. Repair and service expenses were \$2.6, \$2.8 and \$2.3 million in 2015, 2014 and 2013 respectively.

Stores operation is a parts warehouse maintained by Fleet which had expenses of \$309,000, \$398,000 and \$327,000 in 2015, 2014 and 2013 respectively.

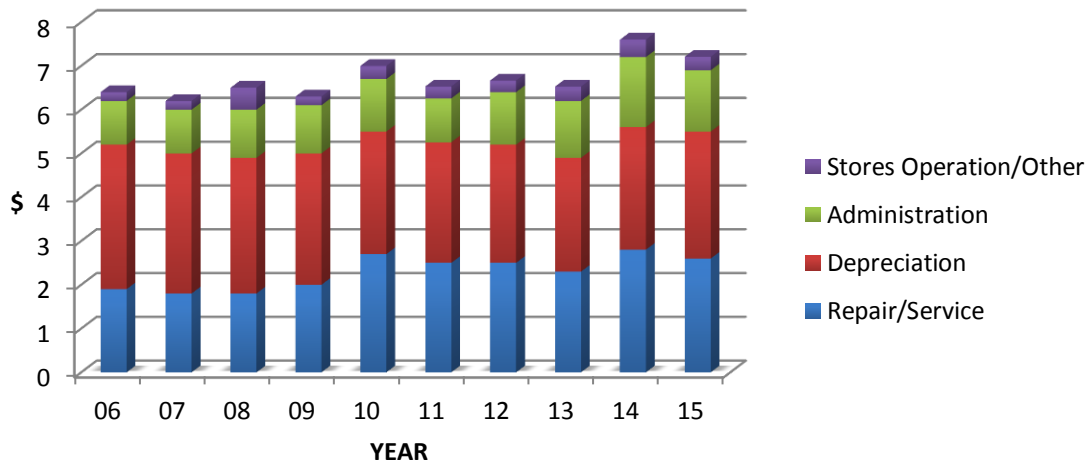
Administration expenses were \$1.4, \$1.6 and \$1.3 million in 2015, 2014 and 2013 respectively.

Depreciation expense was \$2.9, \$2.8 and \$2.6 million in 2015, 2014 and 2013 respectively. Fluctuations in depreciation expense are the result of timing in equipment retirements, capitalization of replacements and changes in fleet size.

OPERATING REVENUES (in millions)

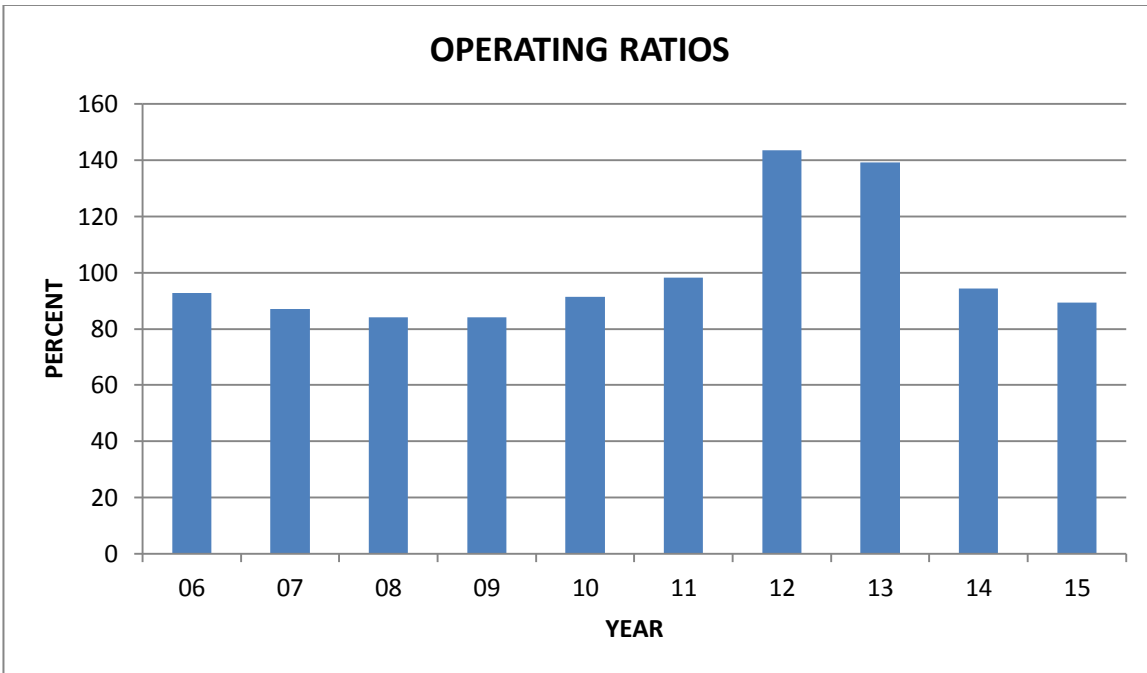


OPERATING EXPENSES (in millions)



Operating Ratio

The Fund's operating ratios, a common measure of efficiency and defined as operating expenses as a percentage of revenue, for 2015, 2014, and 2013 are 89.3%, 94.4%, and 139.3%. The Fund needs to maintain a low operating ratio in order to generate the funds necessary for its extensive capital outlay program. The graph shows how that percentage has fluctuated over the years.



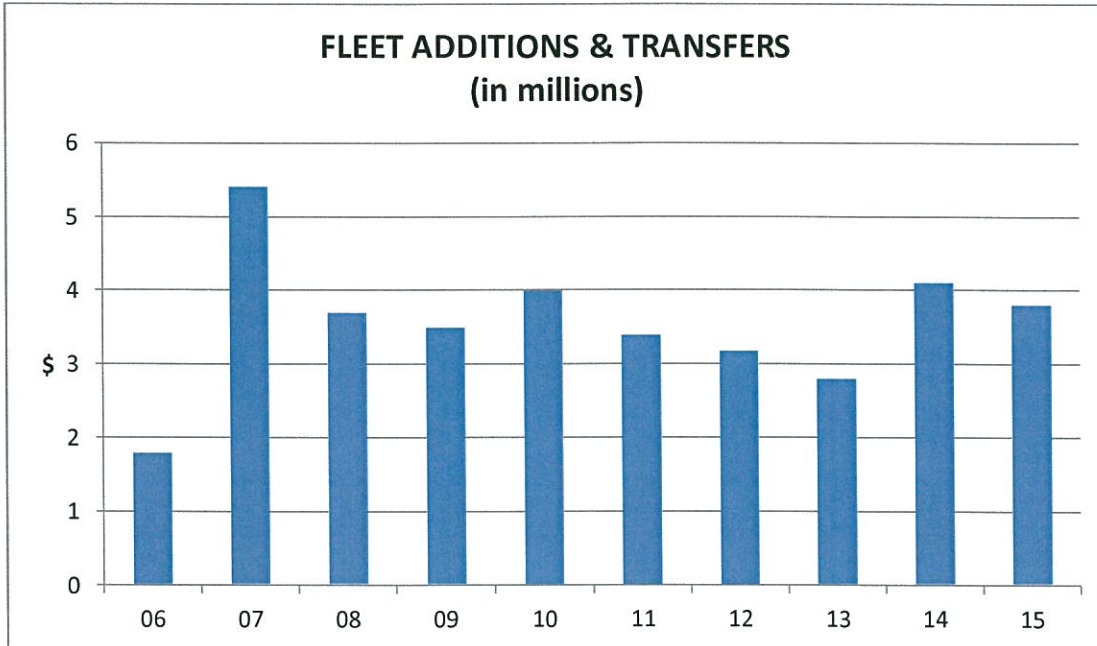
Non-Operating Revenues (Expenses)

Interest income decreased \$79,000 from \$55,000 in 2014 to (\$24,000) in 2015 primarily due to the GASB 31 mark to market adjustment. Interest income in 2014 increased \$155,000 compared to 2013 due to more interest earned on the revenue pool.

It is the practice of Fleet Services to arrange for public auction sale of vehicles and equipment that are declared surplus by the assigned sections. Thirty-three vehicles and pieces of equipment were retired in 2015 for a net gain of \$193,000, a decrease of \$281,000 compared to 2014. Fleet Services reported a net gain of \$475,000 in 2014, an increase of \$310,000 compared to 2013.

Fixed Asset Additions

Purchases of fleet vehicles and equipment in 2015 were \$3.8 million with forty-seven vehicles and pieces of equipment placed into service compared with \$4.1 million in 2014 with sixty-one vehicles and pieces of equipment placed into service. Purchases of fleet vehicles and equipment in 2013 were \$2.8 million with forty vehicles and pieces of equipment placed into service.



Summary

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Fleet Services fund's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Division Manager of Utilities Accounting, 3628 South 35th Street, Tacoma, Washington, 98409.

William A. Gaines
Director of Utilities/CEO

Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND DECEMBER 31, 2014

	2015	2014
ASSETS		
FIXED		
Office Furniture and Equipment	\$540,905	\$540,905
Stores and Shop Equipment	692,125	692,125
Transportation Equipment	37,977,162	37,245,555
Power-Operated Equipment	19,291,995	18,454,799
Accumulated Depreciation	(37,594,946)	(36,040,788)
Total Fixed Assets	20,907,241	20,892,596
Construction Work in Progress	1,367,980	493,741
Net Fixed Assets	22,275,221	21,386,337
CURRENT		
Current Fund Cash & Equity in Pooled Investments	22,238,453	21,721,836
Accounts Receivable	43,820	-
Interdivision Receivable	766,391	1,423,980
Materials and Supplies	284,424	326,271
Total Current Assets	23,333,088	23,472,087
OTHER ASSETS		
Net Pension Asset	101,261	-
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pensions	240,412	-
TOTAL ASSETS AND DEFERRED OUTFLOWS.....	\$45,949,982	\$44,858,424

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

NET POSITION AND LIABILITIES	2015	2014
NET POSITION		
Net Investment in Capital Assets	\$22,275,221	\$21,386,337
Restricted for:		
Tacoma Power	18,104,265	18,023,938
Tacoma Water	7,199,933	6,986,734
Tacoma Rail	981,147	935,770
Net Pension Asset	101,261	-
Unrestricted	(4,295,086)	(4,461,564)
TOTAL NET POSITION	44,366,741	42,871,215
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable & Other	409,092	602,074
Wages Payable	62,077	127,126
Interdivision Payable	785,250	1,046,674
Total Current Liabilities	1,256,419	1,775,874
LONG-TERM LIABILITIES		
Employee Vacation and Sick Leave Accrual	219,922	211,335
Total Long-term Liabilities	219,922	211,335
TOTAL LIABILITIES	1,476,341	1,987,209
DEFERRED INFLOW OF RESOURCES		
Deferred Inflows for Pensions	106,900	-
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	\$45,949,982	\$44,858,424

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2015 AND DECEMBER 31, 2014

	DECEMBER 2015	DECEMBER 2014
OPERATING REVENUE		
Maintenance Revenue	195,605	\$167,698
Capital Recovery	388,233	711,459
Administrative Overhead	69,704	89,944
Fuel and Fuel Loading	4,315	6,221
Pool Car Rental	8,179	61,225
Total Operating Revenue	666,036	1,036,547
OPERATING EXPENSES		
Repairs and Servicing		
Shop Operations	153,561	270,843
Outside Services	6,294	925
Total Repairs and Servicing	159,855	271,768
Stores Operations	9,606	35,769
Administration	121,813	166,866
Depreciation	242,871	241,756
Total Operating Expenses	534,145	716,159
OPERATING INCOME	131,891	320,388
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	(57,315)	15,810
Gain (Loss) on Disposition of Equipment	43,187	-
Sale of Scrap	15	-
Total Non-Operating Revenues (Expenses)	(14,113)	15,810
Net Gain/Loss Before Transfers	117,778	336,198
Transfers In	232,064	429,392
CHANGE IN NET POSITION	\$349,842	\$765,590
TOTAL NET POSITION - BEGINNING OF YEAR		
ACCUMULATED ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE		
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED		
TOTAL NET POSITION - END OF YEAR		

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

<u>YEAR TO DATE</u>	<u>YEAR TO DATE</u>		
<u>DECEMBER</u> <u>2015</u>	<u>DECEMBER</u> <u>2014</u>	<u>2015/2014</u> <u>VARIANCE</u>	<u>PERCENT</u> <u>CHANGE</u>
\$2,196,833	\$2,097,335	\$99,498	4.7%
4,826,427	4,689,984	136,443	2.9%
853,415	1,055,905	(202,490)	-19.2%
60,963	85,880	(24,917)	-29.0%
136,685	125,367	11,318	9.0%
<u>8,074,323</u>	<u>8,054,471</u>	<u>19,852</u>	<u>0.2%</u>
2,490,044	2,767,935	(277,891)	-10.0%
88,768	76,089	12,679	16.7%
<u>2,578,812</u>	<u>2,844,024</u>	<u>(265,212)</u>	<u>-9.3%</u>
308,946	398,011	(89,065)	-22.4%
1,386,437	1,592,691	(206,254)	-13.0%
<u>2,937,475</u>	<u>2,768,745</u>	<u>168,730</u>	<u>6.1%</u>
<u>7,211,670</u>	<u>7,603,471</u>	<u>(391,801)</u>	<u>-5.2%</u>
862,653	451,000	411,653	91.3%
(24,043)	54,921	(78,964)	-143.8%
187,638	473,175	(285,537)	-60.3%
5,855	1,717	4,138	241.0%
<u>169,450</u>	<u>529,813</u>	<u>(360,363)</u>	<u>-68.0%</u>
1,032,103	980,813	51,290	5.2%
<u>338,904</u>	<u>652,698</u>	<u>(313,794)</u>	<u>-48.1%</u>
1,371,007	1,633,511	(\$262,504)	-16.1%
42,871,215	41,237,704		
124,519			
<u>42,995,734</u>			
<u>\$44,366,741</u>	<u>\$42,871,215</u>		

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENT OF NET POSITION
DECEMBER 31, 2015

Invested in Capital Assets:		
Balance January 1, 2015	\$21,386,337	
Capital Additions	2,443,042	
Depreciation	<u>(1,554,158)</u>	
Total Invested in Capital Assets		\$22,275,221
Restricted Net Position:		
Balance January 1, 2015	25,946,441	
Net Additions through December 31, 2015	<u>440,165</u>	
Total Restricted Net Position December 31, 2015		26,386,606
Unrestricted Net Position:		
Balance January 1, 2015	(4,461,564)	
Net Reductions through December 31, 2015	<u>65,217</u>	
Total Unrestricted Net Position December 31, 2015 ..		<u>(4,295,086)</u>
TOTAL NET POSITION DECEMBER 31, 2015		<u><u>\$44,366,741</u></u>

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

EQUITY DISTRIBUTION AS OF DECEMBER 31, 2015

	TACOMA POWER	TACOMA WATER	TACOMA RAIL	TOTAL
Balance January 1, 2015	\$29,413,945	\$12,097,792	\$1,359,478	\$42,871,215
Accumulated Adjustment For Change in Accounting Principle	85,432	35,138	3,949	124,519
Contributions During Year	80,327	213,200	45,377	338,904
Equity Contrib. at Dec 31, 2015 ...	29,579,704	12,346,130	1,408,804	43,334,638
Current Year Operations:				
Total Operating Revenue *	5,539,794	2,278,486	256,043	8,074,323
Less: Repairs & Servicing Expense *	1,769,323	727,713	81,776	2,578,812
Administration Expense ** ...	1,263,361	375,222	56,800	1,695,383
Depreciation Expense	2,283,221	591,035	63,219	2,937,475
Total Expenses	5,315,905	1,693,970	201,795	7,211,670
Net Operating Revenue	223,889	584,516	54,248	862,653
Add: Other Income ***	117,480	47,683	4,287	169,450
Net Operating Results	341,369	632,199	58,535	1,032,103
Total Equity	\$29,921,073	\$12,978,329	\$1,467,339	\$44,366,741

* Allocated to each division based on total receipts from the divisions.

** Allocated to each division based on vehicle count.

*** Allocated to each division based on total equity in the Fund.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DEC 31, 2015	DEC 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash From Customers	\$8,688,092	\$6,993,664
Cash Paid to Suppliers	(1,804,439)	(717,346)
Cash Paid to Employees	(3,049,031)	(3,183,653)
Net Cash Provided by Operating Activities	3,834,622	3,092,665
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(3,487,455)	(3,232,330)
Disposition of Equipment/Scrap.....	193,493	474,892
Net Cash Used in Financing Activities	(3,293,962)	(2,757,438)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	(24,043)	54,921
Net Cash Provided By (Used in) Investing Activities	(24,043)	54,921
Net Increase in Cash and Equity in Pooled Investments	516,617	390,148
Cash and Equity in Pooled Investments at January 1	21,721,836	21,331,688
Cash and Equity in Pooled Investments at December 31	\$22,238,453	\$21,721,836

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

	YEAR TO DATE	
	DEC 31, 2015	DEC 31, 2014
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$862,653	\$451,000
Pension (Credits) Expenses	(110,254)	-
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,937,475	2,768,745
Interdivision Receivable	657,589	(1,060,807)
Materials and Supplies	41,847	(14,064)
Accounts Payable and Other	(192,982)	311,505
Interdivision Payable	(261,424)	599,490
Salaries, Fringe Benefits and Compensated Absences Payable	(56,462)	36,796
Total Adjustments	<u>3,082,223</u>	<u>2,641,665</u>
Net Cash Provided by Operating Activities	<u>\$3,834,622</u>	<u>\$3,092,665</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fleet Services Fund was established in 1984 by City of Tacoma Ordinance No. 23295. On January 1, 1985, most vehicles owned by the Tacoma Power, Tacoma Water and Tacoma Rail were transferred to this Fund. The purpose of the Fund is to provide for scheduled maintenance, repair, and replacement of Department vehicles.

Basis of Financial Statements - The Fleet Service Fund is an Internal Service Fund of the City of Tacoma used for the operation of the Department of Public Utilities consolidated fleet management program with responsibilities for all vehicle administration under a fleet manager.

The Fund accounts for its financial operation by using a self-balancing set of accounts established primarily for handling transactions of a nature peculiar to Fleet Service operations. A description of the Fund's principal accounting policies follows.

Fixed Assets - Fixed assets are stated at cost and are depreciated primarily using a straight-line method over the estimated useful life of the asset.

Inventory - The inventory is valued on the moving average cost method.

Revenues - Revenues are based on services rendered through the end of the year.

Cash and Equity in Pooled Investments and Investments - The Fund'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 Assets. 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 Fund, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in a certificate of deposit with East West Bank.

The Fund's equity in that portion of the City of 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).

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

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 operated like a 2A7 fund and is collateralized by short-term legal investments.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

In fiscal year 2015, the Division implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. In addition, prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan. Upon adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current year pension contributions are reported subsequent to the measurement date. The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the adjustment of 2015 beginning balances by \$124,519 for the Division's portion of the net pension asset or liability and related deferrals incurred in prior years. See Note 3 for further details.

NOTE 3 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

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

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

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

FLEET SERVICES FUND
 NOTES TO FINANCIAL STATEMENTS
 (continued)

Administration of The System - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

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

The breakdown of membership as of December 31, 2014 is as follows:

Retirees and beneficiaries currently receiving benefits	2,167
Terminated vested and other terminated participants	627
Active members:	
City of Tacoma	2,622
South Sound 911	4
Pierce Transit	6
Tacoma-Pierce County Health Department	<u>252</u>
Total active members	<u>2,884</u>
Total membership	<u><u>5,678</u></u>

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

Benefits - There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement.

FLEET SERVICES FUND
 NOTES TO FINANCIAL STATEMENTS
 (continued)

Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

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

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

Contributions - The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council. Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the UAAL of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

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

Measurement Date	December 31, 2014
Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
	Funding is based on statutory contributions rate.
	This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows:
Amortization Method	<ul style="list-style-type: none"> • Level percent • Open periods • 30 year amortization period at 01/01/2015 • 4% amortization grown rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	4% general wage increase assumption
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.13%
Retirement Age	Varies by age, gender, eligibility
Turnover	Varies by age, gender, eligibility
Mortality	RP-2000 mortality for healthy and disabled annuitants, with age adjustments

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. Between January 1, 2014 and January 1, 2015 no assumptions were changed.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation.

The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of June 30, 2014. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

Asset Class	Long-term Expected	
	Target Allocation	Arithmetic Real Rate of Return
Investment grade fixed income	15.0%	2.03%
US inflation-indexed bonds	5.0	1.41
High yield bonds	9.0	4.49
Emerging market debt	5.0	5.05
Global equity	41.5	6.02
Public real estate	2.0	6.38
Private real estate	2.5	3.72
Private equity	10.0	9.02
Master limited partnerships	4.0	4.46
Timber	2.0	3.84
Infrastructure	2.0	5.88
Agriculture	2.0	4.38
Assumed inflation - mean		3.00
Assumed inflation - standard deviation		1.85
Portfolio arithmetic real mean return		5.11
Portfolio median nominal geometric return		7.21
Portfolio standard deviation		12.02
Long-term expected rate of return, net of investment expenses		7.25

Sensitivity Analysis - The following presents the net pension liability of the System, calculated using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability (asset)	\$ 1,742,232	\$ (101,261)	\$ (1,652,848)

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ (28,410)	\$ -
Changes of proportionate share	-	642
Net difference between projected and actual earnings	(68,490)	-
Contributions made subsequent to the measurement date	-	239,770
Total	(106,900)	240,412

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

Year-ended December 31,	
2016	(33,238)
2017	(33,238)
2018	(33,238)
2019	(6,544)

The proportionate share of the Fleet Division is 1.05%. The proportionate share was based on the actual contributions for the year.

NOTE 3 FLEET SERVICES REFUND

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for two budget cycles and to return any excess funds to customers based on their scheduled monthly payments. In 2015 and 2014, Fleet Services returned 75% of the interest earned on the capital replacement reserve to the appropriate users. The amounts refunded in 2015 and 2014 were \$151,322 and \$129,732 respectively.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

The balances of deferred outflows of resources and deferred inflows of resources, presented by source (for example, experience gains and losses, or differences between assumed and actual investment earnings)

As of December 31, 2014, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ (4,783,832)	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings	(8,530,117)	-
Contributions made subsequent to the measurement date	-	-
Total	(13,313,949)	-

The net amount of deferred inflows and outflows that will be recognized as pension expense and the amount of deferred outflows that will reduce the net pension liability—for each of the next five years and in the aggregate thereafter

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year-ended December 31	
2015	\$ (3,172,492)
2016	(3,172,492)
2017	(3,172,492)
2018	(3,172,492)
2019	(623,981)
Thereafter	-

The employer's percentage of the collective net pension liability, how it was determined, and any change in the percentage since the previous measurement.

FLEET SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
(continued)

The following table is a schedule of the proportionate share by employer. Each employer in TERS contributes at the same rate of payroll. Using the actual contributions for the year provides a reasonable basis for each employer's projected long-term contribution effort.

Employer	2014 Employer Contributions	Rounded Percentage of Total Contributions	Proportionate Share* of 2014 Pension Expense	Proportionate Share* of Net Pension Liability as of December 31, 2014
City of Tacoma	\$ 22,149,246	92.67%	\$ 15,502,930	\$ (9,606,514)
South Sound 911	39,105	0.16%	27,371	(16,961)
Pierce Transit	48,847	0.20%	34,189	(21,186)
Health Department	1,666,694	6.97%	1,166,570	(722,874)
Grand Total	23,903,892	100.00%	16,731,060	(10,367,535)

NOTE 3 FLEET SERVICES REFUND

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for two budget cycles and to return any excess funds to customers based on their scheduled monthly payments. In 2015 and 2014, Fleet Services returned 75% of the interest earned on the capital replacement reserve to the appropriate users. The amounts refunded in 2015 and 2014 were \$151,322 and \$129,732 respectively.

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REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2015	2014-2006
Employer's proportion of the net pension liability(asset) as a percentage	1.05%	N/A
Employer's proportion share of net pension liability(asset)	(\$101,261)	N/A
Employer's covered payroll	\$2,244,782	N/A
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-4.51%	N/A
Plan fiduciary net position as a percentage the total pension liability	100.71%	N/A

**The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.*

Schedule of Contributions Last 10 Fiscal Years

	Fiscal Year Ended December 31st,	
	2015	2014-2006
Contractually required employer contribution	\$239,770	N/A
Contributions in relation to the contractually required employer contribution	(239,770)	N/A
Employer contribution deficiency (excess)	-	N/A
Employer's covered employee payroll	\$2,244,782	N/A
Employer contribution as a percentage of covered-employee payroll	10.68%	N/A

STATISTICAL DATA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
ASSETS				
Fixed - Net	\$15,026,707	\$17,162,675	\$17,666,394	\$18,100,171
Current	20,585,239	20,805,271	23,370,520	23,665,442
Other	-	-	-	-
Total Assets	<u>35,611,946</u>	<u>37,967,946</u>	<u>41,036,914</u>	<u>41,765,613</u>
Deferred Outflows	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>35,611,946</u>	<u>37,967,946</u>	<u>41,036,914</u>	<u>41,765,613</u>
LIABILITIES				
Current	528,266	1,049,064	1,802,197	753,706
Deferred Inflows	-	-	-	-
NET POSITION	<u>35,083,680</u>	<u>36,918,882</u>	<u>39,234,717</u>	<u>41,011,907</u>
TOTAL LIABILITIES, NET POSITION AND DEFERRED INFLOWS				
	\$35,611,946	\$37,967,946	\$41,036,914	\$41,765,613
STATEMENTS OF INCOME				
OPERATING REVENUES				
Maintenance Revenue	\$1,913,593	\$2,110,494	\$2,128,335	\$2,096,838
Capital Recovery	3,974,155	4,048,384	4,831,680	4,568,298
Pool Car Rental	67,295	69,371	98,226	93,436
Administrative and Fuel	854,802	868,384	756,571	723,748
Total Operating Revenues	<u>6,809,845</u>	<u>7,096,633</u>	<u>7,814,812</u>	<u>7,482,320</u>
OPERATING EXPENSES				
Repairs and Servicing	1,880,979	1,781,438	1,793,119	2,004,911
Stores Operations	176,562	165,065	546,055	202,206
Administration	952,489	997,401	1,143,615	1,092,601
Depreciation	<u>3,309,694</u>	<u>3,230,966</u>	<u>3,100,034</u>	<u>2,999,842</u>
Total Operating Expenses	<u>6,319,724</u>	<u>6,174,870</u>	<u>6,582,823</u>	<u>6,299,560</u>
OPERATING INCOME (LOSS)	490,121	921,763	1,231,989	1,182,760
NON-OPERATING INCOME (EXPENSE)				
Interest Income	334,788	420,599	222,535	148,018
Net Other Income (Expense)	<u>86,438</u>	<u>63,918</u>	<u>14,828</u>	<u>112,895</u>
Total Non-Operating Income (Expense)	<u>421,226</u>	<u>484,517</u>	<u>237,363</u>	<u>260,913</u>
Net Income (Loss) Before Contributions & Transfers ...	911,347	1,406,280	1,469,352	1,443,673
Total Capital Contributions	-	-	-	-
Transfers In *	<u>458,891</u>	<u>428,922</u>	<u>846,483</u>	<u>333,517</u>
NET INCOME (LOSS)	<u>\$1,370,238</u>	<u>\$1,835,202</u>	<u>\$2,315,835</u>	<u>\$1,777,190</u>

2010	2011	2012	2013	2014	2015
\$19,164,435	\$19,631,756	\$20,043,909	\$20,270,054	\$21,386,337	\$22,275,221
26,034,139	24,425,237	26,873,162	22,007,068	23,472,087	23,333,088
-	-	-	-	-	101,261
45,198,574	44,056,993	46,917,071	42,277,122	44,858,424	45,709,570
-	-	-	-	-	240,412
45,198,574	44,056,993	46,917,071	42,277,122	44,858,424	45,949,982
2,728,220	431,649	4,558,862	1,039,418	1,987,209	1,476,341
-	-	-	-	-	106,900
42,470,354	43,625,344	42,358,209	41,237,704	42,871,215	44,366,741
\$45,198,574	\$44,056,993	\$46,917,071	\$42,277,122	\$44,858,424	\$45,949,982
\$2,369,705	\$2,499,589	\$2,333,084	\$2,101,367	\$2,097,335	\$2,196,833
4,462,261	3,382,819	1,497,410	1,372,888	4,689,984	4,826,427
86,625	68,411	82,423	73,772	125,367	136,685
731,116	730,871	727,395	1,115,860	1,141,785	914,378
7,649,707	6,681,690	4,640,312	4,663,887	8,054,471	8,074,323
2,713,546	2,488,151	2,451,583	2,274,301	2,844,024	2,578,812
257,075	274,399	267,989	326,773	398,011	308,946
1,181,369	1,047,029	1,228,920	1,323,636	1,592,691	1,386,437
2,838,774	2,756,785	2,716,103	2,570,362	2,768,745	2,937,475
6,990,764	6,566,364	6,664,595	6,495,072	7,603,471	7,211,670
658,943	115,326	(2,024,283)	(1,831,185)	451,000	862,653
(5,943)	360,639	92,913	(99,756)	54,921	(24,043)
230,375	253,627	247,292	165,334	474,892	193,493
224,432	614,266	340,205	65,578	529,813	169,450
883,375	729,592	(1,684,078)	(1,765,607)	980,813	1,032,103
4,000	174,815	46,877	0	-	-
571,072	250,583	370,066	645,102	652,698	338,904
\$1,458,447	\$1,154,990	(\$1,267,135)	(\$1,120,505)	\$1,633,511	\$1,371,007

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

FLEET PLANT IN SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2015

FIXED ASSET ACCOUNTS

	Book Cost 1/1/15	Additions 2015
Office Furniture and Equipment	\$540,905	\$ -
Stores and Shop Equipment	692,125	-
Transportation Equipment	37,245,555	1,285,394
Power-Operated Equipment	18,454,799	1,315,183
Construction Work in Progress.....	493,741	1,231,194
TOTAL FIXED ASSETS	\$57,427,125	\$3,831,771

ACCUMULATED DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/15
Office Furniture and Equipment	Various	\$540,905
Stores and Shop Equipment	Various	550,473
Transportation Equipment	Various	20,434,106
Power-Operated Equipment	Various	14,515,304
TOTAL ACCUMULATED DEPRECIATION		\$36,040,788

<u>Retirements 2015</u>	<u>Transfers & Adjustments</u>	<u>Book Cost 12/31/15</u>
\$ -	\$ -	\$540,905
-	-	692,125
(876,367)	322,580	37,977,162
(512,362)	34,375	19,291,995
<u>-</u>	<u>(356,955)</u>	<u>1,367,980</u>
<u>(\$1,388,729)</u>	<u>\$ -</u>	<u>\$59,870,167</u>

<u>Annual Accrual Cr.</u>	<u>Transfers & Adjustments</u>	<u>Accumulated Depreciation 12/31/15</u>
\$ -	\$ -	\$540,905
18,374	-	568,847
2,384,738	(870,955)	21,947,889
<u>534,363</u>	<u>(512,362)</u>	<u>14,537,305</u>
<u>\$2,937,475</u>	<u>(\$1,383,317)</u>	<u>\$37,594,946</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
FLEET SERVICES FUND

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2015

FEDERAL

Social Security (FICA)		\$162,817
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STATE OF WASHINGTON

Retail Sales Tax	336,102	
State Employment Security	2,341	
Total		338,443

TOTAL TAXES		\$501,260
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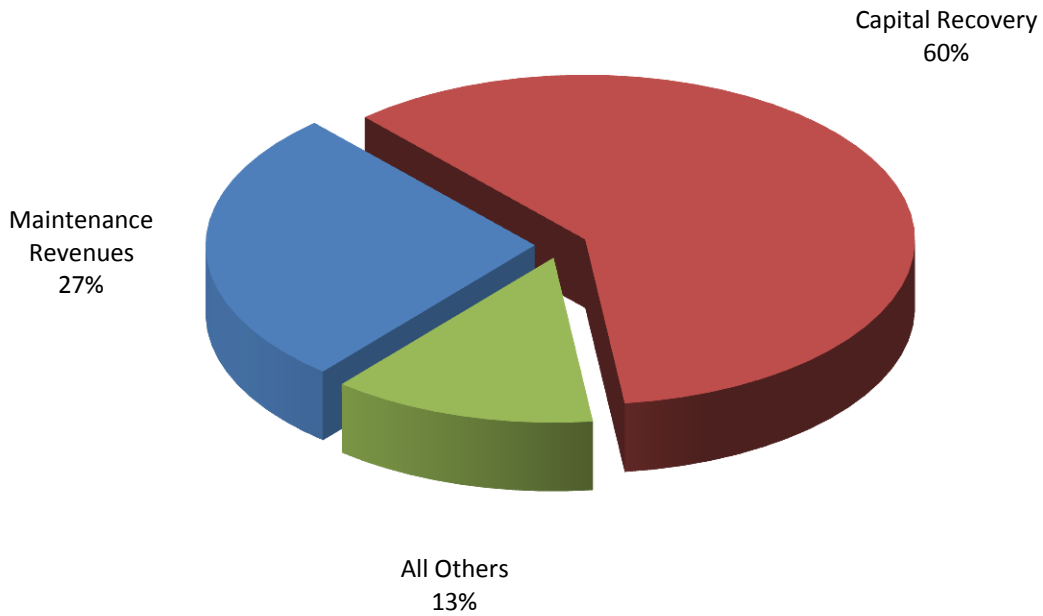
Taxes as a % of Total Revenues of \$8,074,323.....		6.21%
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EMPLOYEE WELFARE CONTRIBUTIONS

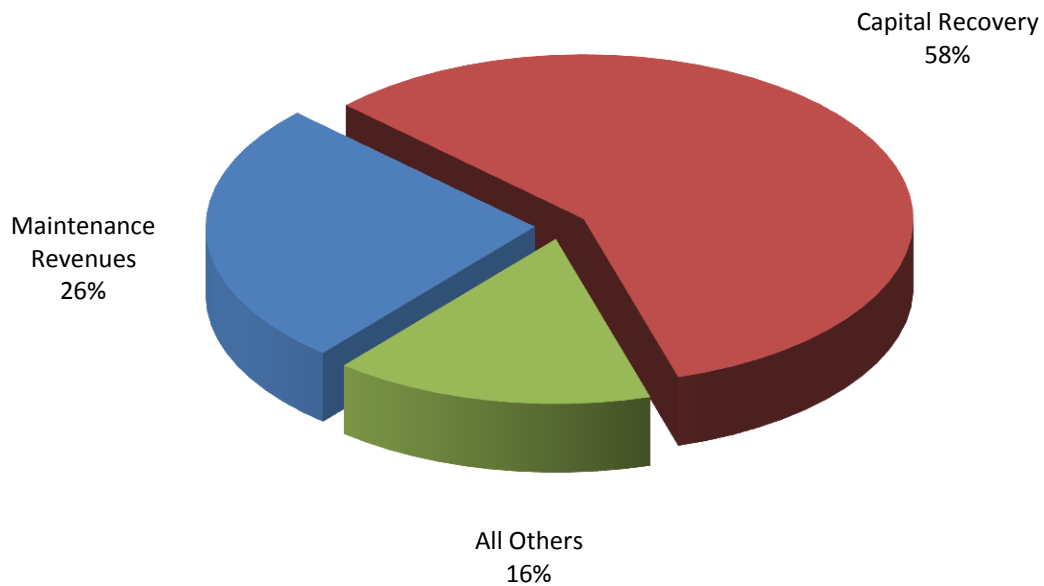
Industrial Insurance and Medical Aid	\$58,941	
City of Tacoma Pension Fund	226,454	
Washington Dental Service	38,510	
Pierce County Medical Bureau	465,624	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$789,529
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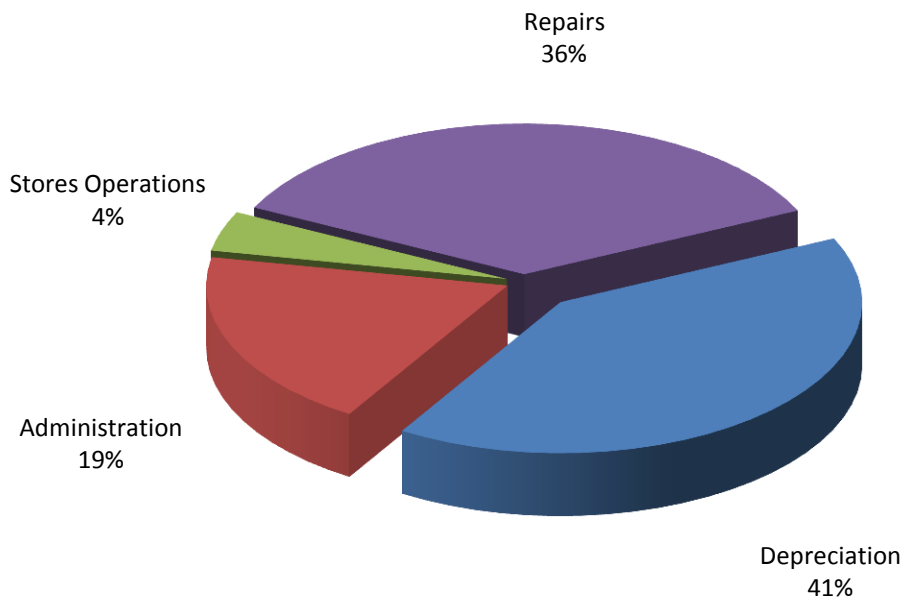
TOTAL OPERATING REVENUES
Year to Date - December 2015 (\$8,074,323)



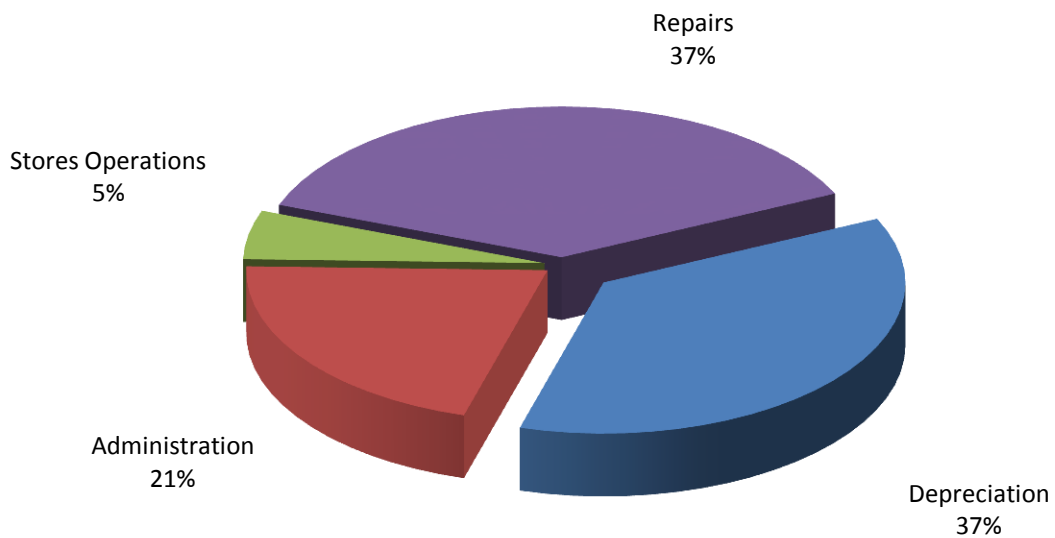
TOTAL OPERATING REVENUES
Year to Date - December 2014 (\$8,054,471)



TOTAL OPERATING EXPENSES
Year to Date - December 2015 (\$7,211,670)



TOTAL OPERATING EXPENSES
Year to Date - December 2014 (\$7,603,471)



FLEET MANAGER'S REPORT

Fleet Services completed a successful year providing vehicle and equipment maintenance and management services to our customers.

Fleet Finance

Fleet Services worked with customers during the year to assure they had the vehicles and equipment needed to perform their duties. Specification and purchasing procedures were completed for 63 pieces of equipment. Fleet Services arranged for public auction sale of 38 pieces of equipment that were declared surplus by the assigned sections.

Fleet Services continued to return interest earned on fund investments for the year to our customers. A total of \$151,322 was credited to individual vehicle replacement funds through December 2015, with the allocation based on the amount each had paid into the fund.

After returning these funds to customers, the Fleet Fund ended the year with a \$22,300,526 cash and investment balance.

Fleet Maintenance

Fleet Services maintenance shop performed 2,047 preventive maintenance services and inspections and 3,830 corrective work orders on Public Utilities vehicles and equipment.

Fleet Services also performed state-mandated emissions testing on 291 vehicles without any failures.

Fleet Initiatives

TPU Fleet Services efforts continued in 2015 to make improvements by working with the City of Tacoma's Information Technology department and TPU Utility Information Services to enhance SAP for TPU Fleet Services. Enhancements in SAP will create better tracking and reporting functionality by capturing information and creating an easier reporting infrastructure.

TPU Fleet Services management has been actively participating on a State Alternative Fuels & Vehicles Technical Advisory Group working to develop alternative fuels and vehicles requirements of local governments to meet goals set forth in RCW 43.19.648 that call for all local governments, to the extent practicable, to satisfy fuel usage requirements effective June 1, 2018.

Fleet Parts

Fleet Services parts warehouse issued \$937,631.70 in parts in support of the maintenance shop. Of this amount, 51 percent (\$470,295.12) was issued from stock and 49 percent (\$467,336.58) was ordered non-stock from vendors. The Fleet parts warehouse accomplished 11,724 issue transactions totaling 26,984 items.

Fleet Staff Development

Fleet Services employees received an average of 17.8 hours of technical, personal development, and safety-oriented training per person.

The Fleet Services Tool and Training Committee helped specify and obtain tools and shop equipment designed to increase productivity and safety.

Don Ashmore
Fleet Manager



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.