
ANNUAL

TACOMA WATER

2014

**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 WATER

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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, Water Division
Tacoma Washington

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Water Division (the Division), which comprise the statements of net position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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 Matter

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 12 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 basic 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 42 through 61 and the superintendent's report presented on pages 62 through 71 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 do not express an opinion or provide any assurance on it.



Tacoma, Washington
April 10, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Water's financial performance provides an overview of the financial activities for the years ended December 31, 2014 and 2013. 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, 2014 and 2013, 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 Water's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- The net position of Tacoma Water was \$516.7 million in 2014, \$480.3 million in 2013 and by \$449.9 million in 2012. Of these amounts, \$46.7 million in 2014, \$37.9 million in 2013, and \$42.5 million in 2012 were available to meet Tacoma Water's ongoing obligations to citizens and creditors.
- Tacoma Water's total net positions increased by \$36.4 (7.6%) million in 2014, \$30.4 (6.8%) million in 2013 and \$23.9 (5.5%) million in 2012.
- Operating revenues were \$98.3 million in 2014, an increase of \$2.2 million (2.3%) compared to 2013. Operating revenues were \$96.1 million in 2013, an increase of \$15.4 million (19.1%) compared to \$80.7 million in 2012. These increases are due to two average rate increases of 6.0% that went into effect January 1, 2014 and April 1, 2013. In 2013, the increase is also attributable to increases in other operating revenues and contract resource obligations.

- In 2014, Tacoma Water's net utility plant of \$872.1 million represented an increase of \$59.0 million (7.3%) over the 2013 \$813.1 million balance. In 2013, net utility plant was \$90.2 million (12.5%) more than 2012's \$722.9 million balance. Major projects contributing to the increases include the Green River Water Filtration Facility and Main Replacements Projects.

Overview of the Financial Statements

Tacoma Water reported net operating income of \$39.8, \$40.2 and \$29.3 million for 2014, 2013 and 2012 respectively. In 2014, operating revenues increased by \$2.2 million and operating expenses increased \$2.7 million. For 2013, operating revenues increased \$15.4 million and operating expenses increased \$4.5 million compared to 2012.

The following tables highlight Tacoma Water's past three years' operating results and gallons billed.

Operating Results (In thousands)

Category	2014	2013	2012	14/13 Increase (Decrease)	13/12 Increase (Decrease)
Operating Revenues	\$ 98,320	\$ 96,119	\$ 80,681	\$ 2,201	\$ 15,438
Operating Expenses	58,557	55,897	51,350	2,660	4,547
Net Operating Income	39,763	40,222	29,331	(459)	10,891
Net Non-Operating Income (Expense)	(9,657)	(14,580)	(11,854)	4,923	(2,726)
Capital Contributions	8,671	7,139	7,834	1,532	(695)
Federal BAB Subsidies & Grants	3,959	3,572	3,841	387	(269)
Transfers Out	(6,352)	(5,922)	(5,227)	(430)	(695)
Change in Net Position	\$ 36,384	\$ 30,431	\$ 23,925	\$ 5,953	\$ 6,506

Gallons Billed (In millions)

Type of Customer	2014	2013	2012	14/13 Increase (Decrease)	13/12 Increase (Decrease)
Residential	7,968.8	7,761.2	7,784.3	207.6	(23.1)
Commercial & Industrial	9,142.8	8,787.8	8,810.6	355.0	(22.8)
Municipal & Wholesale	1,255.7	1,278.8	787.6	(23.1)	491.2
Total	18,367.3	17,827.8	17,382.5	539.5	445.3

Net Position

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

Statements of Net Position (In thousands)

Description	2014	2013	2012	14/13 Increase (Decrease)	13/12 Increase (Decrease)
Net utility & Non-Utility Plant	\$ 872,576	\$ 813,543	\$ 723,400	\$ 59,033	\$ 90,143
Current & Other Assets	208,947	225,068	223,023	(16,121)	2,045
Total Assets	1,081,523	1,038,611	946,423	42,912	92,188
Deferred Outflows	1,588	1,814	1,764	(226)	50
Total Assets & Deferred Outflows	\$ 1,083,111	\$ 1,040,425	\$ 948,187	\$ 42,686	\$ 92,238
Net Position:					
Net Investment in Capital Assets	\$ 468,209	\$ 409,638	\$ 381,718	\$ 58,571	\$ 27,920
Restricted	1,797	32,703	25,634	(30,906)	7,069
Unrestricted	46,667	37,948	42,506	8,719	(4,558)
Total Net Position	516,673	480,289	449,858	36,384	30,431
Long-Term Debt	483,542	455,877	401,465	27,665	54,412
Current & Other LT Liabilities	47,321	68,684	61,289	(21,363)	7,395
Total Liabilities	530,863	524,561	462,754	6,302	61,807
Deferred Inflows	35,575	35,575	35,575	-	-
Total Net Position, Liabilities & Deferred Inflows	\$ 1,083,111	\$ 1,040,425	\$ 948,187	\$ 42,686	\$ 92,238

Revenues

Tacoma Water's operating revenues were \$98.3 million in 2014, an increase of \$2.2 million (2.3%) compared to 2013. This is primarily due to an increase in sales of water of \$5.6 million of which \$4.2 million is due an average rate increase of 6.0% effective January 1, 2014 and \$1.4 million is due to an increase in usage. However, this is offset by a decrease in contract resource obligations of \$3.6 million. As the construction of the Green River Filtration Facility approaches completion the partners were billed less accordingly. Operating revenues were \$96.1 million in 2013, an increase of \$15.4 million (19.1%) compared to 2012. This was largely due to an increase in contract resource obligations of \$12.6 million, an average rate increase of 6.0% effective April 1 and increased volume because of a warmer and drier summer than usual.

The following table highlights water sales by type of customer for 2014, 2013 and 2012.

Water Sales
(In thousands)

Type of Customer	2014	2013	2012	14/13 Increase (Decrease)	13/12 Increase (Decrease)
Residential & Domestic	\$ 44,585	\$ 40,928	\$ 38,738	\$ 3,657	\$ 2,190
Commercial & Industrial	15,022	13,508	12,479	1,514	1,029
Special Rate	5,802	5,242	5,032	560	210
Municipal	455	446	383	9	63
Wholesale	3,718	3,520	2,090	198	1,430
Unbilled Revenue	121	468	417	(347)	51
Total	\$ 69,703	\$ 64,112	\$ 59,139	\$ 5,591	\$ 4,973

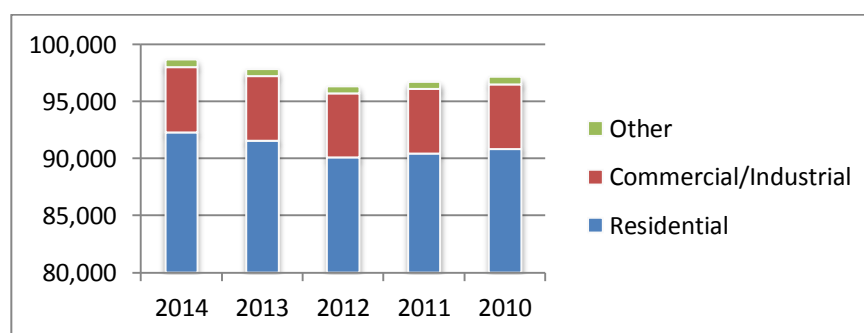
Approximately 64.0%, 63.8% and 65.5% of water sales were to residential and domestic customers in 2014, 2013 and 2012 respectively. Commercial and industrial sales were 21.6%, 21.1% and 21.1% of total sales for each year. Special rate sales were 8.3%, 8.2%, 8.5% of sales respectively.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2014, 93.5% of all customers were residential compared to 93.6% in 2013 and 93.5% in 2012. Commercial and industrial customers were 6.2% of all customers in 2014, and 5.8% in 2013 and 2012. The remaining customer classes were 0.3% of all customers in 2014, 0.6% in 2013 and 0.7% in 2012.

Below is a graphical representation of the number of customers by customer type for the last 5 years.

Number of Customers



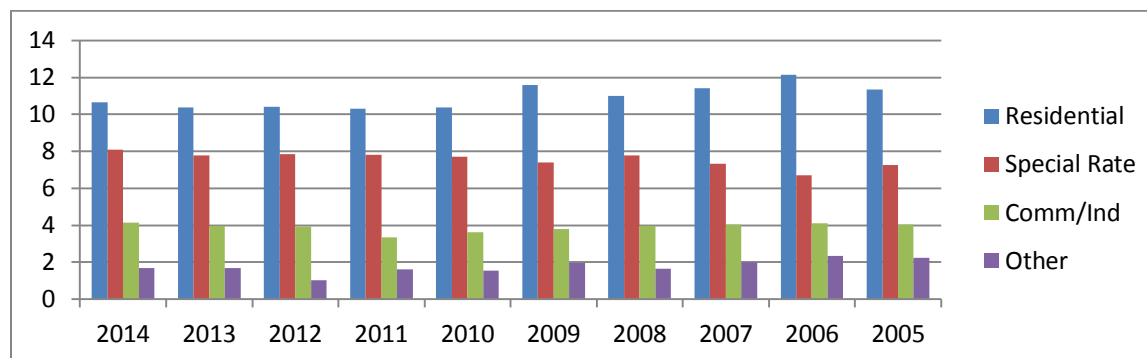
Water Users

Tacoma Water generates the majority of its revenues from its residential and domestic customer base. Consumption is measured in 100 cubic feet (CCF). In the years 2014, 2013 and 2012 residential customers used 10.7 million CCF (43.4%), 10.4 million CCF (43.5%) and 10.4 million CCF (44.9%) of total sales respectively. Special Rate customers used approximately 8.1 million CCF (33.0%), 7.8 million CCF (32.7%) and 7.8 million CCF (33.8%) respectively. Commercial and industrial customers used 4.1

million CCF (16.8%), 3.4 million CCF (14.2%) and 3.3 million CCF (14.4%) respectively. The remaining 1.7 million CCF (6.8%), 2.3 million CCF (9.6%) and 1.6 million CCF (6.9%) respectively was consumed by other customers.

Below is a graphical representation of the annual water usage by customer type for the last 10 years.

Annual Water Usage
(In millions of CCF)



Expenses

In 2014, operating expenses increased \$2.7 million (4.8%), compared to an increase of \$4.5 million in 2013. Source of Supply increased \$0.9 million compared to 2013 primarily due to less labor charged out to the Regional Water Supply System and capital projects. Water Treatment increased by \$0.2 million due to additional employees assigned to the Headworks that previously worked for Supply.

Depreciation expense increased by \$0.7 million (4.4%) in 2014 due to an increase in depreciable assets of \$28.3 million during 2013.

Administrative and General expense increased \$0.6 million (5.3%). Of this, \$0.2 million was related to Customer Accounting and Consumer Services expense. These increases are largely due to higher assessments for services provided by internal departments.

In 2013, operating expenses increased \$4.5 million (8.9%), compared to an increase of \$1.0 million in 2012. Source of Supply increased \$0.4 million compared to 2012 primarily due to a \$0.3 million increase in labor expense because of a shift in focus from capital to maintenance work and an increase in the number of full time employees. Source of Supply also had a \$0.2 million increase in electricity expense. This is partially offset by a \$0.1 million decrease in miscellaneous materials. Water Treatment increased \$0.3 million in labor expense primarily due to an increased number of employees. Transmission increased \$0.5 million due to \$0.2 million in increased labor expense because of increased maintenance work, \$0.2 in operating supplies and \$0.1 in external contract services. Distribution saw an increase of \$0.8 million largely due to \$0.4 million increase in labor expense for maintenance and \$0.3 million in equipment costs.

Depreciation expense increased by \$0.8 million (5.3%) in 2013 due to an increase in depreciable assets of \$26.4 million during 2012. The State Department of Revenue conducted a routine audit of revenues received and taxes paid by Tacoma Water for the years 2008 – 2011. As a result Tacoma Water owed an additional \$0.3 million. This was accrued in December 2013 and is a large part of the \$0.4 million increase in tax expense. An additional \$0.1 million was due to increased water sales.

Administrative and general expense increased \$0.9 million (12.8%) primarily due to an increase in overhead costs charged to capital projects of \$0.4 million. Tacoma Water incurred expenses of \$0.1 million from an internal department providing desktop PC support and \$0.2 million from the Customer Service IT department.

The following table highlights Tacoma Water’s operating expenses for 2014 – 2012.

Operating Expenses					
(In thousands)					
Category	2014	2013	2012	14/13 Increase (Decrease)	13/12 Increase (Decrease)
Production Expense					
Source of Supply	\$ 6,333	\$ 5,483	\$ 5,044	\$ 850	\$ 439
Water Treatment	3,879	3,674	3,335	205	339
Total Production Expense	10,212	9,157	8,379	1,055	778
Power Pumping Expense	568	426	280	142	146
Transmission & Storage Expense	2,979	2,793	2,273	186	520
Distribution Expense	11,540	11,476	10,633	64	843
Customer Accounting & Service	4,157	3,930	3,833	227	97
Taxes	3,779	3,919	3,485	(140)	434
Depreciation	16,784	16,072	15,263	712	809
Administrative & General	8,537	8,124	7,204	413	920
Total Operating Expense	<u>\$ 58,556</u>	<u>\$ 55,897</u>	<u>\$ 51,350</u>	<u>\$ 2,659</u>	<u>\$ 4,547</u>

Capital Assets

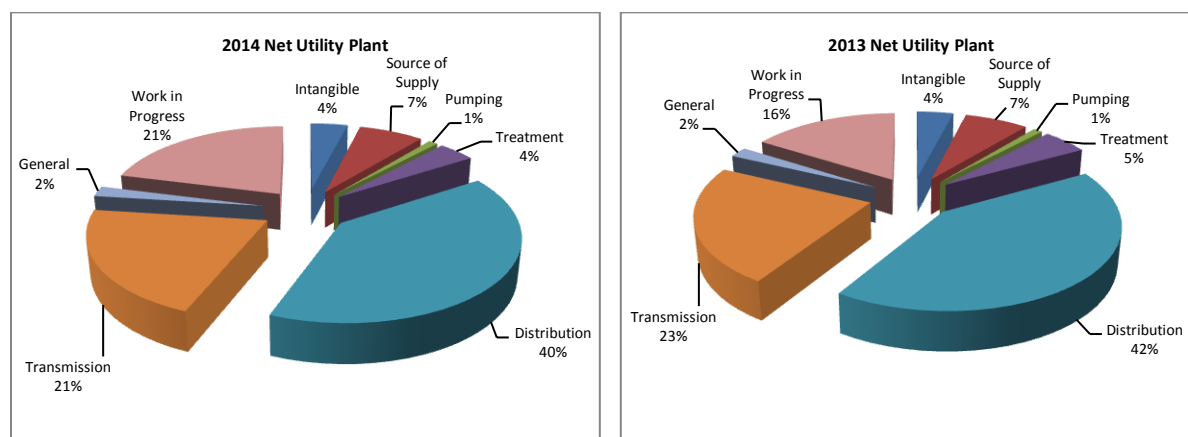
Tacoma Water invests in a broad range of utility assets and at the end of 2014 had \$872.1 million in net utility plant, an increase of \$59.0 million from 2013. The largest increase was in construction work in progress of \$53.7 million. In 2013, Tacoma Water had \$813.1 million in net utility plant, an increase of \$90.2 million compared to 2012. Both increases were primarily due to the construction of Green River Water Filtration project. In 2014, 11.5 miles of water main were added or replaced compared to 12.8 miles in 2013, and 12.7 miles in 2012. Construction was completed on 18 private contracts in 2014, resulting in 7.55 miles; 14 private contracts in 2013, added 4.86 miles; and 12 private contracts in 2012, added 2.44 miles.

The following table summarizes Tacoma Water’s capital assets, net of accumulated depreciation, for 2014 – 2012.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2014	2013	2012	14/13 Increase (Decrease)	13/12 Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 36,006	\$ 35,484	\$ 35,086	\$ 522	\$ 398
Source of Supply Plant	62,218	59,653	60,843	2,565	(1,190)
Pumping Plant	5,748	5,862	6,037	(114)	(175)
Water Treatment Plant	36,260	37,963	33,244	(1,703)	4,719
Transmission Plant	183,974	186,959	187,349	(2,985)	(390)
Distribution Plant	348,655	340,470	326,563	8,185	13,907
General Plant	12,868	13,987	14,189	(1,119)	(202)
Construction Work In Progress	186,354	132,673	59,541	53,681	73,132
Total	\$ 872,083	\$ 813,051	\$ 722,852	\$ 59,032	\$ 90,199

The following graphs provide a visual presentation of the allocation of Tacoma Water’s capital investments in 2014 and 2013.



Additional information on capital assets can be found in Note 3 of the financial statements.

Debt Administration

At December 31, 2014 Tacoma Water had outstanding revenue bond obligations of \$407.3 million (net of unamortized bond premiums), a decrease of \$8.3 million compared to 2013. As of year-end 2013, the Utility had outstanding revenue bond obligations of \$415.6 million (net of unamortized bond premiums); an increase of \$46.1 million compared to \$369.5 million in 2012. Tacoma Water issued \$64.8 million in Regional Water Supply System Revenue Refunding Bonds in April 2013 and \$78.3 million of Water System Revenue and Refunding Bonds in May 2013.

All outstanding bonds are rated Aa2 by Moody's Investors Service and AA by Standard & Poor's.

Tacoma Water is required by bond covenants to maintain debt service coverage ratio 1.25 for principle and interest. Debt service coverage ratios were 2.40, 2.18, and 2.02 in 2014, 2013 and 2012 respectively.

At the end of 2014, Tacoma Water had an outstanding State loan balance of \$86.7 million compared to \$51.0 million in 2013 and \$42.0 million in 2012. During 2014, Tacoma Water received \$39.6 million in Drinking Water State Revolving Fund (DWSRF) Loans. Tacoma Water received \$2.4 million against the 2011 DWSRF Loan specifically for McMillin Reservoir. For the Green River Filtration Facility \$5.5 million was received against the 2010 DWSRF Loan, \$5.4 million was received against the 2011 DWSRF Loan, \$10.8 million was received against the 2012 DWSRF Loan, \$10.9 Million was received against the 2013 DWSRF Loan, and \$4.6 million was received against the 2013 Fall DWSRF Loan.

Additional information on Tacoma Water's long-term debt can be found in Note 5 of the financial statements and in the supplementary statistical data.

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 Water'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 internal 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 WATER

STATEMENTS OF NET POSITION

ASSETS	DECEMBER 31,	
	2014	2013
UTILITY PLANT		
In Service, at Original Cost	\$866,279,607	\$848,502,779
Less - Accumulated Depreciation	(180,549,889)	(168,125,255)
Total	685,729,718	680,377,524
Construction Work In Progress	186,353,639	132,672,994
Net Utility Plant	872,083,357	813,050,518
NON-UTILITY PROPERTY	492,963	492,963
SPECIAL FUNDS		
Construction Funds	39,509,127	46,470,902
Debt Service Funds	3,597,672	3,509,020
Bond Reserve Funds	22,110,124	22,095,502
System Development Charge Fund	53,255,060	53,719,777
Other Cash & Equity in Pooled Investments	27,968,224	31,023,815
Total Special Funds	146,440,207	156,819,016
CURRENT ASSETS		
Operating Funds Cash and Equity in Pooled Investments	45,768,035	39,622,355
Accounts Receivable	4,632,733	7,423,746
(Net of Allowance for Doubtful Accounts of \$258,344 in 2014 and \$581,207 in 2013)		
BABs Interest Subsidies Receivable	320,064	320,064
Accrued Unbilled Revenues	4,616,056	4,494,710
Materials and Supplies	2,401,523	2,336,648
Interfund Receivable	292,294	8,815,962
Prepayments.....	706,564	555,190
Total Current Assets	58,737,269	63,568,675
OTHER ASSETS		
Regulatory Asset-Public Fire Protection Fees ...	2,940,674	3,756,025
Regulatory Asset-Hyada Surcharges	828,534	923,574
Total Other Assets	3,769,208	4,679,599
TOTAL ASSETS	1,081,523,004	1,038,610,771
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	1,587,851	1,813,858
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$1,083,110,855	\$1,040,424,629

The accompanying notes are an integral part of these financial statements

	DECEMBER 31,	
NET POSITION AND LIABILITIES	2014	2013
NET POSITION		
Invested in Capital Assets, Net of Related Debt ...	\$434,283,342	\$409,638,036
Restricted for:		
Water Capital and System Development Charge	33,925,829	30,986,617
Debt Service Funds	1,797,057	1,716,391
Unrestricted	46,667,017	37,947,929
Total Net Position	516,673,245	480,288,973
LONG-TERM DEBT		
Revenue Bonds	400,991,813	408,638,188
Public Works Trust Fund Loans	28,101,548	30,798,319
Drinking Water State Revolving Fund Loan	54,448,644	16,440,468
Total Long-Term Debt	483,542,005	455,876,975
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	10,442,544	10,693,020
Current Maturities of Long-Term Liabilities	195,299	200,182
Accrued Taxes	1,405,334	1,629,919
Accrued Expenses and Contracts Payable	4,015,959	16,911,220
Salaries, Wages and Fringe Benefits Payable	1,293,035	1,212,661
Interest Payable	1,800,615	1,792,629
Customers' Deposits	275,591	281,844
Interfund Payables	1,339,199	9,757,330
Total Current Liabilities	20,767,576	42,478,805
LONG-TERM LIABILITIES		
Muckleshoot Agreements	7,320,231	7,515,530
Customer Advances for Construction	4,338,242	3,970,932
Unearned Revenue	8,573,685	8,889,446
Long-Term Accrued Compensated Absences	2,300,497	2,245,968
Other Long-Term Liabilities	4,019,927	3,582,553
Total Long-Term Liabilities	26,552,582	26,204,429
 TOTAL LIABILITIES	 530,862,163	 524,560,209
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,083,110,855	\$1,040,424,629

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2014	2013
OPERATING REVENUES		
Sale of Water	\$69,702,657	\$64,111,896
Other Operating Revenues	9,454,498	9,242,674
Contract Resource Obligation Revenues	19,162,799	22,764,850
Total Operating Revenues	98,319,954	96,119,420
OPERATING EXPENSES		
Operations	15,087,555	14,694,345
Production	10,212,403	9,156,746
Administrative and General	12,693,605	12,055,265
Depreciation	16,783,698	16,072,243
Taxes	3,779,373	3,918,944
Total Operating Expenses	58,556,634	55,897,543
Net Operating Income	39,763,320	40,221,877
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	1,718,226	807,466
Other	537,052	(1,246,053)
Interest on Long-Term Debt	(20,363,130)	(20,195,198)
Amortization of Premium and Loss on Refunding ..	1,115,369	1,668,313
Interest Charged to Construction	7,335,911	4,385,849
Total Non-Operating Expenses	(9,656,572)	(14,579,623)
Net Income Before Capital Contributions and Transfers	30,106,748	25,642,254
Capital Contributions		
Cash	5,002,301	4,877,687
Donated Fixed Assets	3,668,338	2,261,651
Federal BAB Subsidies	3,562,311	3,535,426
Grants	397,135	36,237
Transfers		
City of Tacoma Gross Earnings Tax	(6,274,494)	(5,838,335)
Transfer to/from Other Funds	(78,067)	(84,083)
CHANGE IN NET POSITION	36,384,272	30,430,837
TOTAL NET POSITION - BEGINNING OF YEAR	480,288,973	449,858,136
TOTAL NET POSITION - END OF YEAR	\$516,673,245	\$480,288,973

The accompanying notes are an integral part of these financial statements

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$101,860,957	\$99,105,625
Cash Paid to Suppliers	(28,273,532)	(14,790,800)
Cash Paid to Employees	(22,558,299)	(21,118,769)
Taxes Paid	(4,003,958)	(3,884,815)
Net Cash From		
Operating Activities	47,025,168	59,311,241
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(78,067)	(84,083)
Transfer Out for Gross Earnings Tax	(6,274,494)	(5,838,335)
Net Cash From Non-Capital		
Financing Activities	(6,352,561)	(5,922,418)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(64,812,288)	(99,568,474)
Proceeds from P WTF Loan	-	10,000,000
Proceeds from State Drinking Water Loan	39,570,473	2,197,735
Proceeds from Sale of Bonds	-	143,100,000
Debt Issuance Costs	(299,999)	(1,574,009)
Premium on Sale of Bonds	-	12,889,179
Principal Payments on Long-Term Debt	(10,814,544)	(9,942,463)
Principal Payments on Muckleshoort LT Liability ..	(200,182)	(820,747)
Payments on Refunding of Bonds	-	(101,210,000)
Interest Paid	(20,355,144)	(20,351,944)
BABs Federal Interest Subsidies	3,562,311	3,535,426
Grants Received	397,135	36,237
System Development Charges, CIAC and Other	5,491,223	5,441,649
Net Cash From Capital and		
Related Financing Activities	(47,461,015)	(56,267,411)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	1,718,226	807,466
Other Net Non-Op Revenues and Expenses	837,053	(4,627)
Net Cash From Investing Activities	2,555,279	802,839
Net Change in Cash and Equity in		
Pooled Investments	(4,233,129)	(2,075,749)
Cash & Equity in Pooled Investments at January 1 ...	196,441,371	198,517,120
Cash & Equity in Pooled Investments at December 31 .	\$192,208,242	\$196,441,371

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

	YEAR ENDED DECEMBER 31,	
	2014	2013
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$39,763,320	\$40,221,877
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	16,783,698	16,072,243
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	2,669,667	2,611,384
Interfund Receivables	8,523,668	(7,868,582)
Regulatory Asset-Public Fire Protection Fees	815,351	518,567
Regulatory Asset-Hyada Surcharges.....	95,040	102,019
Materials and Supplies	(64,876)	4,526
Prepayments	(151,374)	47,416
Unearned Rental Revenues	(32,802)	(240,648)
Accrued Taxes	(224,585)	34,129
Salaries, Wages and Fringe Benefits Payable	74,315	135,315
Accrued Compensated Absences	60,588	137,454
Customers' Deposits	(6,253)	(6,117)
Accrued Expenses and Contracts Payable	(12,862,458)	(844,611)
Interfund Payables	(8,418,131)	8,386,269
Total Adjustments	<u>7,261,848</u>	<u>19,089,364</u>
Net Cash From Operating Activities	<u>\$47,025,168</u>	<u>\$59,311,241</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$146,440,207	\$156,819,016
Cash and Equity in Pooled Investments in Operating Funds	<u>45,768,035</u>	<u>39,622,355</u>
Cash and Equity in Pooled Investments at December 31	<u>\$192,208,242</u>	<u>\$196,441,371</u>

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA WATER – The Division, doing business as Tacoma Water, is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department). The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations such as system expansion, issuance of bonds and fixing of utility rates and charges are initiated and executed by the Board, but also require formal City Council approval.

Tacoma Water owns and operates the City's Water System which includes a surface water supply source (the Watershed); several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water supplies water to approximately 98,600 customers and had 240 employees as of December 31, 2014. Tacoma Water's service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties and multiple other cities. Tacoma Water is organized functionally as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Asset and Information Management, and Water Rates and Financial Planning.

WATER DISTRIBUTION ENGINEERING - To engineer, design, inspect, and oversee the distribution system and its facilities; to provide engineering and construction supervision for mains, hydrants, services, meters, pressure reducing valves and pressure zones; to provide efficient customer service and support for development; promote water conservation through outreach and customer programs.

WATER DISTRIBUTION OPERATIONS - To effectively manage, construct, inspect, operate and maintain the distribution system and its facilities including mains, hydrants, valves, services and meters in an environmentally responsible manner; to provide efficient customer service and support for development; to operate apprenticeship program to train and develop staff for positions in Distribution, Supply and Quality.

WATER QUALITY - To manage, operate and maintain the Green River Headworks and Watershed; to assure natural resource management of Water utility lands including the Watershed; to provide for fish and wildlife habitat management; to install, operate and maintain water treatment equipment within the system; to respond to all matters relating to water quality from the source to the customer; to monitor for contaminants and assure regulatory compliance; to participate in shaping water quality legislation and regulations; to be aware of changes in water system security needs and to coordinate as needed; to support wholesale water customers.

WATER SUPPLY - To design, construct, operate and maintain the City's water supply structures, wells, pump stations, reservoirs, standpipes, transmission mains, Tacoma Water buildings and associated property, and electrical and mechanical equipment; to maintain pressure reducing stations and pipeline rights-of-way; to administer water rights; to track water system security issues and coordinate as needed; to oversee and manage Tacoma Water emergency preparedness and coordination with outside agencies.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

WATER ASSET AND INFORMATION MANAGEMENT – To prepare system and strategic plans for Tacoma Water, to support strategy and performance management; to provide GIS, SAP, Hydraulic Modeling and other technology support for Tacoma Water, and to manage strategic maintenance management, and incorporate risk and lifecycle costs into how Tacoma Water makes decisions.

WATER RATES AND FINANCIAL PLANNING – To construct financial planning scenarios, develop and implement rates and charges to recover utility costs, forecast demands, lead the development of capital and operating budgets, develop and ensure compliance with rate and financial policies, provide financial and customer statistic reporting to management team, policymakers, and RWSS Partners, develop and administer the financial features of water supply agreements, and maintain cost objects in SAP.

REGIONAL WATER SUPPLY SYSTEM - The Regional Water Supply System (RWSS) is a partnership formed by Tacoma, the City of Kent, Covington Water District and Lakehaven Utility District (the “Participants”) to permit, design, finance, construct, operate, maintain and receive delivery of water from the Second Supply Project. The Second Supply Project consists of the following components: (i) water from the exercise of Tacoma Water’s Second Diversion Water Right, (ii) the Second Supply Pipeline, (iii) improvements made at the Headworks diversion dam and intake, (iv) Second Supply Project fisheries and environmental enhancements, (v) the right to store water as a result of the Howard Hanson Dam Additional Storage Project, and (vi) associated Treatment Facilities. Participants’ rights and obligations with regard to the Second Supply Project are called out in the Second Supply Project Agreement. Tacoma has a 15/36 Participant Share and each of the others have a 7/36 Participant Share. A Participant Share represents a Participant’s proportional right to receive water delivered by the Second Supply Project and represents a Participant’s obligation to pay project costs, including Fixed and Variable Operation & Maintenance Costs, Initial Project Construction Costs and ongoing Capital Expenditures. Tacoma, consistent with the Project Agreement, is the owner and operator of the Second Supply Project.

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 business 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.

The Division follows the provisions set forth in regulatory accounting guidance. In general, regulatory accounting permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers.

The Division generally follows the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners and the Division of Audits of the State Auditor’s Office.

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds 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/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2014 and 2013 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 Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP operated like a 2A7 fund and is collateralized by short-term legal investments.

ACCOUNTS RECEIVABLE AND ACCRUED UNBILLED REVENUES - 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. The Division accrues an estimated amount for services that have been provided but not billed.

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 City 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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

RESTRICTED ASSETS - 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. Generally, restricted assets include bond construction, reserve and debt service funds, system development charges funds, notes and contracts receivable, and customer deposits.

BOND PREMIUM AND LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Losses on refunding are amortized on a straight-line basis over the applicable bond period.

RATE STABILIZATION - The Division has established a rate stabilization account to reduce significant year-to-year variations in rates. Amounts deposited into the account are excluded from the statement of revenues, expenses and changes in net position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions and debt service covenants.

UTILITY PLANT AND DEPRECIATION - Utility plant is 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 a straight-line composite method based on National Association of Regulatory Utility Commissioners recommended economic asset lives from 13 to 60 years for related operating assets placed in service at the beginning of the year. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The economic lives for plant in service are as follows:

Source of Supply Plant	34 years
Pumping Plant	40 years
Water Treatment Plant	28 years
Transmission Plant	60 years
Distribution Plant	53 years
General Plant	13 years

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

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYSTEM DEVELOPMENT CHARGES - GASB Statement No. 33, which addresses accounting for contributed capital, requires that contributed capital be recognized as change in net position. Capital contributions include new

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

service connections and system development charges. System development charges are collected on all new services prior to installation to ensure required new source, transmission and storage facilities needed to meet new demands are funded. The charge was developed using a cost-of-service approach and includes a share of historical plant investment and projected future outlays that will increase system capacity. Because the funds collected for this charge can only be used for system expansion projects, the balance is reflected as restricted in the Division's net position. System development charges on uncompleted projects are recorded in other long term liabilities.

REGULATORY ASSETS - The Division has deferred Public Fire Protection Fees and Hyada Surcharges to future periods matching the time when the revenues and expenses are included in rates. The deferred balance is reduced as fees and surcharges are recovered and amortized as expenses on the statements of revenues, expenses and changes in net position.

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

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 REVENUE - 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. Utility revenues are derived primarily from the sale and transmission of water. Utility revenue from water sales is recognized when the water is delivered to and received by the customer.

Tacoma Water receives contract resource obligation revenue and debt service payments from our partners in the Second Supply Project Agreement which are recorded as operating revenue.

NON-OPERATING REVENUES AND EXPENSES – These are items that do not qualify as operating defined above such as interest and gain (loss) on disposition of property.

TAXES - The City charges the Division a Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.8% on certain other non-utility revenues. The Division is exempt from payment of federal income tax.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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 or 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, less outstanding construction funds 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” so that it can be used for daily operation of the Water Utility.

ARBITRAGE REBATE REQUIREMENT - The Division is subject to the Internal Revenue Code (“IRC”), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the fund would record such a rebate as a liability. The Division had no liability in the current or prior year.

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.

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 unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefit (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations and federal government regulations.

RECLASSIFICATIONS – Changes have been made to the prior year account classifications as needed to conform to the current year presentation format. Included in these classifications are items resulting from the implementation of GASB 65, such as unamortized loss on refunding bonds and rate stabilization.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 UTILITY PLANT - A summary of the balances and changes in utility plant for 2014 and 2013 follows:

	Balance December 31, 2013	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2014
Intangible Plant	\$ 35,484,224	\$ 739,974	\$ (217,820)	\$ -	\$ 36,006,378
Source of Supply Plant	79,208,344	4,432,850	(257,627)	-	83,383,567
Pumping Plant	9,278,296	118,293	(8,054)	-	9,388,535
Water Treatment Plant	50,663,085	73,173	-	-	50,736,258
Transmission Facilities	230,252,015	725,956	(13,162)	-	230,964,809
Distribution Facilities	409,827,797	14,379,945	(2,152,048)	-	422,055,694
General Plant	33,789,018	348,794	(315,379)	(78,067)	33,744,366
Total water Plant in Service	848,502,779	20,818,985	(2,964,090)	(78,067)	866,279,607
Less Accumulated Depreciation	168,125,255	16,783,698	(2,746,082)	(1,612,982)	180,549,889
	680,377,524	4,035,287	(218,008)	1,534,915	685,729,718
Construction Work in Progress	132,672,994	74,421,563	-	(20,740,918)	186,353,639
Net Utility Plant	\$ 813,050,518	\$ 78,456,850	\$ (218,008)	\$ (19,206,003)	\$ 872,083,357

	Balance December 31, 2012	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2013
Intangible Plant	\$ 35,086,180	\$ 1,218,791	\$ (820,747)	\$ -	\$ 35,484,224
Source of Supply Plant	78,876,177	649,602	(317,435)	-	79,208,344
Pumping Plant	9,222,029	59,780	(3,513)	-	9,278,296
Water Treatment Plant	44,401,944	6,267,140	(5,999)	-	50,663,085
Transmission Facilities	226,940,853	3,311,162	-	-	230,252,015
Distribution Facilities	392,859,012	19,819,008	(2,850,223)	-	409,827,797
General Plant	32,800,989	1,136,867	(64,755)	(84,083)	33,789,018
Total water Plant in Service	820,187,184	32,462,350	(4,062,672)	(84,083)	848,502,779
Less Accumulated Depreciation	156,876,447	16,072,243	(3,241,925)	(1,581,510)	168,125,255
	663,310,737	16,390,107	(820,747)	1,497,427	680,377,524
Construction Work in Progress	59,541,533	105,509,728	-	(32,378,267)	132,672,994
Net Utility Plant	\$ 722,852,270	\$ 121,899,835	\$ (820,747)	\$ (30,880,840)	\$ 813,050,518

Total Water Plant in Service includes non-depreciable assets of \$57,953,220 for 2014 and \$57,924,217 for 2013. The total amount of interest incurred and capitalized is \$7,335,911 for 2014 and \$4,385,849 for 2013.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 SPECIAL FUNDS - Cash and equity in pooled investments included in Tacoma Water's Special Funds consist of:

Cash and Equity in Pooled Investments	2014	2013
Construction Funds	\$ 39,509,127	\$ 46,470,902
Debt Service Funds	3,597,672	3,509,020
Bond Reserve Funds	22,110,124	22,095,502
System Development Charge Fund	53,255,060	53,719,777
Other Cash and Equity in Pooled Investments	27,968,224	31,023,815
Total	\$ 146,440,207	\$ 156,819,016

NOTE 5 LONG-TERM DEBT – The Division's Long-term Liabilities are primarily for the purpose of capital improvements. Long-term debt activities for 2014 and 2013 were as follows:

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Revenue Bonds	\$ 400,015,000	\$ -	\$ (6,950,000)	\$ 393,065,000	\$ 6,305,000
Plus: Unamortized Premium	15,573,188	-	(1,341,375)	14,231,813	
Net Revenue Bonds	415,588,188	-	(8,291,375)	407,296,813	6,305,000
Public Works Trust Fund Loans	33,495,090	-	(2,696,771)	30,798,319	2,696,771
Drinking Water State Revolving Fund Loans	17,486,717	39,570,473	(1,167,773)	55,889,417	1,440,773
Total Long-Term Debt	\$ 466,569,995	\$ 39,570,473	\$ (12,155,919)	\$ 493,984,549	\$ 10,442,544

	Balance December 31, 2012	Additions	Reductions	Balance December 31, 2013	Due Within One Year
Revenue Bonds	\$ 364,880,000	\$ 143,100,000	\$ (107,965,000)	\$ 400,015,000	\$ 6,950,000
Plus: Unamortized Premium	4,635,380	12,889,179	(1,951,371)	15,573,188	
Net Revenue Bonds	369,515,380	155,989,179	(109,916,371)	415,588,188	6,950,000
Public Works Trust Fund Loans	25,636,305	10,000,000	(2,141,215)	33,495,090	2,696,771
Drinking Water State Revolving Fund Loans	16,335,230	2,197,735	(1,046,248)	17,486,717	1,046,249
Total Long-Term Debt	\$ 411,486,915	\$ 168,186,914	\$ (113,103,834)	\$ 466,569,995	\$ 10,693,020

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Tacoma Water's long-term debt at December 31 consists of the following payable from revenues of Tacoma Water:

SENIOR LIEN BONDS

	2014	2013
2005 Water System Revenue and Refunding Bonds, with interest rates ranging from 4.125% to 5.0%, due in yearly installments ranging from \$1,695,000 to \$4,760,000 through 2025. Original Issue: \$46,550,000 Current Portion: \$4,295,000	\$ 29,365,000	\$ 33,450,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate ranging from 31.95% to 35.0%, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000 Current Portion: \$0	76,775,000	76,775,000
2010A Water System Revenue Refunding Bonds, with interest rates ranging from 2.0% to 5.0%, due in yearly installments ranging from \$550,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000 Current Portion: \$555,000	27,505,000	28,055,000
2010B Water System Revenue Bonds, with interest rates ranging from 4.581% to 5.621%, with Build America Bond (BAB) Rebate ranging from 31.95% to 35% of interest, due in yearly installments starting in 2024 ranging from \$2,115,000 to \$15,390,000 through 2040. Original Issue: \$74,985,000 Current Portion: \$0	74,985,000	74,985,000
2010A Regional Water Supply System Revenue Bonds, with interest rates ranging from 2.0% to 4.0%, due in yearly installments starting ranging from \$270,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000 Current Portion: \$270,000	3,070,000	3,335,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SENIOR LIEN BONDS CONTINUED

	2014	2013
2010B Regional Water Supply System Revenue Bonds, with interest rates ranging from 5.371% to 5.621%, with Build America Bond (BAB) rebate ranging from 31.95% to 35% of interest, due in yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 6)		
Original Issue: \$44,245,000	44,245,000	44,245,000
Current Portion: \$0		
2013 Water System Revenue and Refunding Bonds, with interest rates ranging from 2.0% to 4.0%, due in installments of \$980,000 in 2014 and yearly installments starting in 2041 ranging from \$23,820,000 to \$25,765,000 through 2043.		
Original Issue: \$78,305,000	74,355,000	75,335,000
Current Portion: \$0		
2013 Regional Water Supply System Revenue and Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$670,000 to \$6,425,000 through 2032.		
Original Issue: \$64,795,000	62,765,000	63,835,000
Current Portion: \$1,185,000		
Subtotal Sr. Lien Debt	\$ 393,065,000	\$ 400,015,000
Unamortized Premium	14,231,813	15,573,188
Less Current Portion of Revenue Bond Debt	(6,305,000)	(6,950,000)
Long-term Portion of Revenue Bond Debt	\$ 400,991,813	\$ 408,638,188

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

Year	Principal	Interest
2015	\$ 6,305,000	\$ 19,622,925
2016	6,025,000	19,326,875
2017	6,355,000	19,042,225
2018	6,685,000	18,741,475
2019	7,855,000	18,467,207
2020-2024	44,180,000	86,706,314
2025-2029	54,045,000	74,973,533
2030-2034	71,085,000	60,116,118
2035-2039	95,010,000	37,455,215
2040-2043	95,520,000	10,190,085
	\$ 393,065,000	\$ 364,641,972

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

The carrying amounts of the Washington State Public Works Board Loans and Drinking Water State Revolving Fund Loan approximate the fair value since such loans are exclusive and have no market.

Tacoma Water's revenue bonds are secured by the net revenue of Tacoma Water and all cash and investments held in the bond funds and construction funds. The bonds are also subject to certain financial and non-financial covenants.

JUNIOR LIEN DEBT

	<u>2014</u>	<u>2013</u>
Public Works Trust Fund Loans		
2001 Public Works Trust Fund pre-construction loan for the Second Supply Project (SSP) Howard Hanson Dam Additional Storage Project, with interest of .5% per annum, due in yearly installments of \$52,632 through 2021.	\$ 368,421	\$ 421,053
2001 Public Works Trust Fund construction loan for the SSP, with interest of .5% per annum, due in yearly installments of \$533,334 through 2021.	3,733,333	4,266,667
2002 Public Works Trust Fund pre-construction loan for Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$54,180 through 2022.	379,257	433,437
2002 Public Works Trust Fund construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$531,250 through 2021.	4,250,000	4,781,250
2004 Public Works Trust Fund pre-construction loan for the design of the Green River Ozone Facility with interest of .5% per annum, due in yearly installments of \$53,362 through 2024.	533,626	586,988
2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly installments of \$370,588 through 2026.	4,447,059	4,817,647
2008 Public Works Trust Fund construction loan for the McMillin Reservoir Reconstruction, with interest of .5% per annum, due in yearly installments of \$545,870 through 2028.	7,642,178	8,188,048

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2014	2013
2012 Public Works Trust Fund construction loan for the Green River Filtration Facility, with interest of .5% per annum, due in yearly installments of \$555,555 through 2031.	9,444,445	10,000,000
Drinking Water State Revolving Fund Loans		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,052 through 2021.	1,127,369	1,288,421
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,109 through 2028.	3,011,517	3,226,626
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	6,607,582	6,974,670
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	5,454,000	5,757,000
2010 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$273,000 through 2034.	5,460,000	-
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,524 through 2033.	2,308,949	60,000
2011 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$273,000 from 2016 through 2035.	5,460,000	60,000
2012 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$546,000 from 2017 through 2036.	10,920,000	120,000
2013 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$546,000 from 2018 through 2037.	10,920,000	-

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2014	2013
2013 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$231,000 from 2018 through 2037.	4,620,000	-
Subtotal Junior Lien Debt	86,687,736	50,981,807
Less Current Portion of Debt	(4,137,544)	(3,743,020)
Long-term Portion of Junior Lien Debt	\$ 82,550,192	\$ 47,238,787

Scheduled principal maturities of junior lien debt and interest payments are as follows:

Year	Principal	Interest
2015	\$ 4,137,544	\$ 491,767
2016	4,410,543	646,606
2017	4,956,543	663,633
2018	5,733,543	849,577
2019	5,733,543	790,767
2020-2024	25,201,625	3,096,011
2025-2029	19,865,926	1,843,440
2030-2034	12,952,469	773,583
2035-2037	3,696,000	98,595
	\$ 86,687,736	\$ 9,253,979

NOTE 6 SECOND SUPPLY PROJECT AGREEMENT - Four Washington municipalities are the Participants in the Second Supply Project under the terms of the Second Supply Project Agreement, which defines their rights and obligations with regard to the Second Supply Project. Tacoma Water has a 15/36 Participant Share and each of the City of Kent, Covington Water District and Lakehaven Utility District has a 7/36 Participant Share in the Second Supply Project. Each Participant has contractual rights under the Second Supply Project Agreement (i) to use an undivided share of the Project equal to its project capacity share and to use available excess project capacity; (ii) to schedule for delivery and receive its Participant Share of Second Diversion Water at its points of delivery; (iii) to schedule for delivery and receive additional water at its points of delivery; and (iv) to its Participant Share of storage. Each Participant has a contractual obligation (i) to receive Second Diversion Water and additional water scheduled for delivery and delivered to it and (ii) to pay its Participant Share of Project Costs, including but not limited to Fixed and Variable O & M Costs, Initial Project Construction Costs and Capital Expenditures. Kent and Covington, in the "Repayment Agreement", pledge to pay Tacoma Water a defined share of the principal and interest debt service on the Regional Water Supply System Bonds. The term of the Second Supply Project Agreement extends through the operating life of the Second Supply Project including all renewals and replacements thereof and additions thereto. The Second Supply Project Agreement provides that all obligations incurred during its term will survive its termination or expiration and will survive until satisfied.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 SIGNIFICANT CUSTOMER – In May of 2014, Simpson Tacoma Kraft Company (Simpson) was sold to RockTenn CP LLC. Combined, these two customers accounted for 8.3% of Tacoma Water's total water sales in 2014. In 2013 Simpson accounted for 8.2% of Tacoma Water's total water sales. There were no outstanding accounts receivables from these customers at year-end 2014 or 2013.

Tacoma Water has contracted with RockTenn to supply certain quantities of water at a specified rate through July 31, 2015.

NOTE 8 FLEET SERVICES FUND - Tacoma Water pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Water in 2014 and 2013 were \$2,453,302 and \$2,367,199, respectively.

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 a three-year cycle. The solvency of the Replacement Fund allowed Fleet Services to return a portion of interest earned on Fund investments for the year to their customers. In 2014 and 2013, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2014 and 2013 were \$32,345 and \$38,356, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 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 Water and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Water 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 Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Fund. Tacoma Water's premium payments were \$180,000 in 2014 and \$180,000 in 2013. Assets in the Self-Insurance Fund total \$6.2 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchases 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 \$1.0 million Crime policy for employee dishonesty and for fraudulent or dishonest acts 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 vehicles and \$1.5 million for general comprehensive liability. The public official's 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 comprehensive 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 (\$1 million self-insured retention).

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS) - Employees of the Division are covered by the Tacoma Employees' Retirement System (the System), an actuarially funded system operated by the City. The following information is provided on a city-wide basis.

This note emphasizes the employer disclosures and detailed information presented in an independent CAFR issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 3628 South 35th Street, Tacoma, Washington 98409.

Plan Description and Contribution Information - The 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 or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and the South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,166 retirees and beneficiaries currently receiving benefits, 459 vested terminated members entitled to future benefits and 2,884 active members of the System, as of December 31, 2014.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by our custodian bank utilizing standard industry practices. Private equity investments are reported by the managers subject to their fair market value policies. No investment in any one corporation or organization exceeded five percent of net position available for benefits.

Investments and Contracts - The System has no securities of the employer and related parties included in the plan assets. The System has not made any loans to the employer in the form of notes, bonds, or other instruments.

Benefits - There are two formulas that are used for calculating retirement benefits. The benefit will be determined 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 determined based on the member's age and years of service. Several options are available for the retiree to provide for the beneficiaries. The System also provides death and disability retirement.

Contributions - Covered employees are required by Chapter 1.30 of the Tacoma Municipal Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

The contribution rates are provided in the following table:

<u>Applicable Period</u>	<u>Employer Rate</u>	<u>Member Rate</u>	<u>Total Rate</u>
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

Funding Status and Progress - Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2014, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Funding Progress (\$ in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (c)=(b)-(a)</u>	<u>Funded Ratio (d)=(a)/(b)</u>	<u>Covered Payroll (e)</u>	<u>UAAL as of Percentage of Covered Payroll (f)=(c)/(e)</u>
1/1/2012	\$ 1,068.3	\$ 1,185.5	\$ 117.2	90.1%	\$ 219.4	53.4%
1/1/2013	\$ 1,187.1	\$ 1,306.6	\$ 119.5	90.9%	\$ 210.6	56.7%
1/1/2014	\$ 1,297.0	\$ 1,400.0	\$ 103.0	92.6%	\$ 213.8	48.2%

Both the City and employees made 100% of the required contributions. The City's required contributions for the years ended December 31 were:

2012	\$20,919,787
2013	\$21,188,984
2014	\$22,149,246

Actuarial Methods and Significant Actuarial Assumptions

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Asset are valued at market value, with a four year smoothing of all market value gains and losses.

Actuarial Summptions:

Investment Rate of Return	7.25%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Schedule of Employer Contributions (\$ in millions):

Year Ending December 31,	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions	Actual Employer Contribution Rate ⁽²⁾	Annual Required Contribution (ARC) ⁽²⁾	Percentage of ARC Contributed
2012	210.6	22.7	10.80%	10.80%	100%
2013	213.8	23.1	10.80%	11.06%	98%
2014	221.3	23.9	10.80%	11.77%	92%

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contributions rate, expressed as a percentage of payroll.

(2) The actual and required employer contributions are expressed as a percentage of payroll.

NOTE 11 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 Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2014 is 23 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 balance sheet. The City has a Net OPEB Obligation as of December 31, 2014 as the City has not set aside funds for OPEB.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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. The 2018 annual thresholds for qualified retirees aged 55-64 are \$11,580 for single coverage and \$30,950 for a family plan. 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 “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 the 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 January 1, 2013 valuation, the total AAL was \$251,839,846, 3% lower than expected primarily due to lower than expected medical costs partially offset by the new excise tax for “Cadillac” health plans, demographic experience and assumptions, and economic assumptions.

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

	<u>January 1, 2011</u>	<u>January 1, 2013</u>
Total Membership:		
Active Employees	3,675	3,335
Terminated vested employees	363	394
Retired employees & dependents	790	846
Total	<u>4,828</u>	<u>4,575</u>
Annual Benefit Payments	\$ 9,569,648	\$ 9,887,335
Discount Rate	4.00%	3.75%
Present Value of Benefits (PVB)	\$ 319,550,419	\$ 326,742,538
Actuarial Accrued Liability (AAL)	\$ 248,571,791	\$ 251,839,846
Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 248,571,791</u>	<u>\$ 251,839,846</u>
Normal Cost	\$ 5,559,350	\$ 5,484,587
Annual Required Contribution (ARC)	\$ 19,734,040	\$ 20,058,760

TACOMA WATER 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, 2013.

<u>Value of Subsidy at 3.75% Interest Rate</u>	<u>Total Value of Benefits</u>	<u>Member Paid Premiums</u>	<u>City Paid Benefits</u>
Present Value of Benefits (PVB)	\$ 488,143,650	\$ 161,401,112	\$ 326,742,538
Actuarial Accrued Liability (AAL)	\$ 331,339,973	\$ 79,500,127	\$ 251,839,846
Normal Cost	\$ 11,227,919	\$ 5,743,332	\$ 5,484,587
Annual Benefit Payments	\$ 13,500,240	\$ 3,612,905	\$ 9,887,335

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, 2014.

	<u>City</u>	<u>Water</u>
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 412,290
Amortization of UAAL	14,574,173	175,541
Annual Required Contribution (ARC)	<u>\$ 20,058,760</u>	<u>\$ 587,831</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 587,831
Interest on prior year Net OPEB Obligation	2,104,155	93,664
Adjustments to ARC	<u>(2,842,971)</u>	<u>(105,745)</u>
Annual OPEB Cost	19,319,944	575,750
Actual benefits paid	<u>(9,292,539)</u>	<u>(165,318)</u>
Increase in Net OPEB Obligation	10,027,405	410,432
Net OPEB Obligation - beginning of year	<u>56,110,801</u>	<u>2,497,707</u>
Net OPEB Obligation - end of year	<u>\$ 66,138,206</u>	<u>\$ 2,908,139</u>

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

Funding 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 4.00% interest rate for 2012 and 3.75% for 2013 and 2014.

Year Ended	<u>Annual OPEB Cost</u>		<u>Benefits Paid</u>		<u>Net OPEB Obligation</u>	
	City	Division	City	Division	City	Division
12/31/2012	\$ 19,469,178	\$ 540,137	\$ 9,393,431	\$ 138,439	\$ 46,469,368	\$ 2,055,309
12/31/2013	\$ 19,528,767	\$ 581,617	\$ 9,887,335	\$ 139,219	\$ 56,110,801	\$ 2,497,707
12/31/2014	\$ 19,319,944	\$ 575,750	\$ 9,292,539	\$ 165,318	\$ 66,138,206	\$ 2,908,139

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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).

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 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 23 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2013
Census Date	January 1, 2013
Actuarial Cost Method:	Entry Age
Amortization Date:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	23 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate	3.75% for pay-as-you-go funding
Medical Cost Trend	2013 8.90%
	2014 6.50%
	2015 5.80%
	2020 6.00%
	2030 5.90%
	2040 5.60%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. 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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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
- 20 years of service

NOTE 12 COMMITMENTS AND CONTINGENCIES

Capital Improvements – The financial requirement for Tacoma Water’s 2015-2016 biennial Capital Improvement program is approximately \$32.9 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2014 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$4.5 million.

Muckleshoot Indian Tribe Settlement - A mutually beneficial settlement agreement was reached with the Muckleshoot Indian Tribe in 1995. The settlement package has a cost of approximately \$30 million and includes five basic elements: 1) building a fish restoration facility and annual operation and maintenance of that facility, or in the alternative, providing \$12 million (indexed at 1995 dollars) into a fish restoration fund; 2) providing for enhanced flows in the Green River; 3) transferring certain lands; 4) establishing a trust fund payable over 40 years which is intended to provide for the general welfare, educational and other needs of the Tribe; and 5) limited access into the Green River Watershed. The settlement resolved past damage claims by the Tribe for Tacoma Water’s historical operations on the river, gain the Tribe’s support for the Second Supply Project and provide the basis for a long-term, cooperative working relationship on the Green River. Tacoma Water has been implementing this agreement.

General Legal Matters - The Utility has received several other miscellaneous claims or litigation that either do not allege material amounts or that the Legal Department has determined do not pose a risk of liability to the Utility.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2014	2013	2012	2011
ASSETS				
Utility Plant - Net	\$872,083,357	\$813,050,518	\$722,852,270	\$661,153,297
Special Funds & Non-Util Prop	146,933,170	157,311,979	161,863,075	214,619,106
Current Assets	58,737,269	63,568,675	56,407,560	31,403,521
Other Assets	3,769,208	4,679,599	5,300,185	4,664,090
Total Assets	<u>1,081,523,004</u>	<u>1,038,610,771</u>	<u>946,423,090</u>	<u>911,840,014</u>
Deferred Outflows	<u>1,587,851</u>	<u>1,813,858</u>	<u>1,764,332</u>	<u>2,056,555</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS .	<u>1,083,110,855</u>	<u>1,040,424,629</u>	<u>948,187,422</u>	<u>913,896,569</u>
 NET POSITION	 516,673,245	 480,288,973	 449,858,136	 425,932,810
LIABILITIES AND EQUITY				
Long-Term Debt	483,542,005	455,876,975	401,465,338	419,800,757
Current Liabilities	20,767,576	42,478,805	35,106,590	18,201,697
Long-Term Liabilities	26,552,582	26,204,429	26,181,911	19,385,858
Total Liabilities	<u>530,862,163</u>	<u>524,560,209</u>	<u>462,753,839</u>	<u>457,388,312</u>
Deferred Inflows	<u>35,575,447</u>	<u>35,575,447</u>	<u>35,575,447</u>	<u>30,575,447</u>
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,083,110,855</u>	<u>\$1,040,424,629</u>	<u>\$948,187,422</u>	<u>\$913,896,569</u>
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential and Domestic	\$44,584,042	\$40,928,355	\$38,737,505	\$36,730,275
Commercial and Industrial	15,022,142	13,507,899	12,478,932	11,868,976
Special Rate-Simpson/Other	5,801,842	5,242,359	5,031,760	4,774,237
Municipal	454,970	445,844	383,385	400,322
Wholesale	3,718,315	3,519,409	2,090,430	1,625,163
Unbilled	121,346	468,030	416,986	478,594
Total Water Sales	<u>69,702,657</u>	<u>64,111,896</u>	<u>59,138,998</u>	<u>55,877,567</u>
Other Operating Revenues	<u>28,617,297</u>	<u>32,007,524</u>	<u>21,541,733</u>	<u>9,526,467</u>
Total Operating Revenues	<u>98,319,954</u>	<u>96,119,420</u>	<u>80,680,731</u>	<u>65,404,034</u>
 OPERATING EXPENSES				
Operation and Maintenance	37,993,563	35,906,356	32,602,452	32,821,611
Taxes	3,779,373	3,918,944	3,485,243	3,106,516
Depreciation	16,783,698	16,072,243	15,262,686	14,389,681
Total Operating Expenses	<u>58,556,634</u>	<u>55,897,543</u>	<u>51,350,381</u>	<u>50,317,808</u>
NET OPERATING INCOME (LOSS)	39,763,320	40,221,877	29,330,350	15,086,226
NON-OPERATING REVENUES (EXPENSES)				
Other Income	537,052	(1,246,053)	288,182	(12,371)
Interest Income	1,718,226	807,466	2,320,753	3,141,374
Gain from Disposition of Property	-	-	-	-
Interest Charges (Net)	<u>(11,911,850)</u>	<u>(14,141,036)</u>	<u>(14,462,441)</u>	<u>(14,867,263)</u>
Net Income (Loss) Before				
Contributions & Transfers	30,106,748	25,642,254	17,476,844	3,347,966
Total Capital Contributions	8,670,639	7,175,575	7,834,345	9,250,677
Grants & Federal BAB Subsidies	3,959,446	3,535,426	3,840,767	4,006,209
Transfers Out	<u>(6,352,561)</u>	<u>(5,922,418)</u>	<u>(5,226,630)</u>	<u>(4,960,736)</u>
CHANGE IN NET POSITION	<u>\$36,384,272</u>	<u>\$30,430,837</u>	<u>\$23,925,326</u>	<u>\$11,644,116</u>

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.

2010	2009	2008	2007	2006	2005
\$636,592,771	\$604,657,775	\$590,593,258	\$568,493,015	\$542,837,619	\$515,240,672
240,132,895	133,949,294	80,858,401	99,062,414	111,884,788	124,884,569
30,200,303	35,753,843	22,151,467	23,150,235	20,256,759	15,880,090
4,654,608	3,654,494	3,319,156	2,123,339	2,622,731	2,938,485
911,580,577	778,015,406	696,922,282	692,829,003	677,601,897	658,943,816
-	-	-	-	-	-
911,580,577	778,015,406	696,922,282	692,829,003	677,601,897	658,943,816
417,695,083	412,592,671	404,010,304	391,763,317	374,885,816	345,583,601
421,228,553	292,165,406	218,869,015	227,315,790	231,066,402	224,760,581
20,548,451	15,167,938	16,288,305	15,169,687	21,418,548	12,820,700
52,108,490	58,089,391	57,754,658	58,580,209	50,231,131	75,778,934
493,885,494	365,422,735	292,911,978	301,065,686	302,716,081	313,360,215
-	-	-	-	-	-
\$911,580,577	\$778,015,406	\$696,922,282	\$692,829,003	\$677,601,897	\$658,943,816
\$35,503,069	\$36,695,919	\$34,651,756	\$32,719,149	\$31,332,264	\$27,748,546
11,703,099	11,467,636	10,600,262	9,868,874	9,231,740	8,446,232
3,798,922	4,153,327	4,371,527	3,917,760	3,222,324	3,511,199
364,357	380,267	349,722	396,131	363,455	316,562
1,530,116	1,776,686	1,251,815	1,433,705	1,640,803	1,599,919
(648,438)	187,966	417,145	37,113	1,067,323	-
52,251,125	54,661,801	51,642,227	48,372,732	46,857,909	41,622,458
10,735,630	9,331,955	5,382,313	4,353,478	1,919,802	1,428,135
62,986,755	63,993,756	57,024,540	52,726,210	48,777,711	43,050,593
34,453,742	34,055,463	33,387,663	31,076,515	29,165,168	26,448,761
3,142,772	3,093,311	2,881,877	2,924,930	3,407,187	2,995,424
14,474,964	13,845,799	13,016,544	11,363,970	11,556,821	9,386,363
52,071,478	50,994,573	49,286,084	45,365,415	44,129,176	38,830,548
10,915,277	12,999,183	7,738,456	7,360,795	4,648,535	4,220,045
33,795	497,331	61,265	306,680	2,293,477	2,841,371
2,370,993	1,955,385	3,730,407	5,255,881	4,603,137	1,695,578
-	26,100	-	4,199,382	-	4,622,927
(15,175,660)	(9,076,156)	(8,406,264)	(8,484,405)	(8,403,448)	(7,185,197)
(1,855,595)	6,401,843	3,123,864	8,638,333	3,141,701	6,194,724
9,713,596	7,120,993	14,137,605	12,801,825	30,462,788	24,453,875
2,355,132	244,683	-	-	-	-
(5,110,721)	(5,185,152)	(5,014,482)	(4,562,657)	(4,302,274)	(3,951,776)
\$5,102,412	\$8,582,367	\$12,246,987	\$16,877,501	\$29,302,215	\$26,696,823

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
REGIONAL WATER SUPPLY SYSTEM

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION

	2014	2013	2012	2011
ASSETS				
Utility Plant - Net	\$293,110,553	\$264,883,717	\$223,896,711	\$203,938,358
Current Assets	11,321,557	20,473,681	41,256,611	55,640,447
Total Assets	304,432,110	285,357,398	265,153,322	259,578,805
Deferred Outflows	288,520	304,624	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS .	304,720,630	285,662,022	265,153,322	259,578,805
NET POSITION	183,898,541	154,285,209	136,200,206	132,830,089
LIABILITIES AND EQUITY				
Long-Term Debt	117,798,157	120,006,348	122,882,652	124,045,739
Current Liabilities	1,993,880	10,436,851	5,253,742	1,931,325
Total Liabilities	119,792,037	130,443,199	128,136,394	125,977,064
Deferred Inflows	1,030,052	933,614	816,722	771,652
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	304,720,630	285,662,022	265,153,322	259,578,805

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

OPERATING REVENUES				
CRO - Debt Service	\$6,008,599	\$6,208,432	\$6,272,476	\$6,239,797
CRO - O&M	2,706,023	2,740,645	2,478,238	1,778,186
CRO - Capital	15,132,508	18,535,695	5,665,557	274,081
Total Operating Revenues	23,847,130	27,484,772	14,416,271	8,292,064
OPERATING EXPENSES				
Operation and Maintenance	2,735,246	2,895,385	2,510,085	2,485,977
Depreciation	4,542,912	4,505,158	4,495,971	4,482,820
Total Operating Expenses	7,278,158	7,400,543	7,006,056	6,968,797
NET OPERATING INCOME (LOSS)	16,568,972	20,084,229	7,410,215	1,323,267
NON-OPERATING REVENUES (EXPENSES)				
Other Income	(18,732)	(373,899)	-	-
Interest Income	114,387	51,743	407,622	396,391
Interest Charges (Net)	(880,966)	(2,665,310)	(4,901,784)	(7,574,948)
Net Income (Loss) Before Contributions & Transfers	15,783,661	17,096,763	2,916,053	(5,855,290)
Total Capital Contributions	13,024,297	148,865	(414,376)	(508,791)
Grants & Federal BAB Subsidies	805,374	799,296	868,328	868,328
Transfers Out	-	40,079	112	79,043
CHANGE IN NET POSITION	\$29,613,332	\$18,085,003	\$3,370,117	(\$5,416,710)

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.

2010	2009	2008	2007	2006	2005
\$207,242,527	\$206,708,069	\$231,099,649	\$234,373,114	\$213,434,158	\$203,311,344
59,811,400	15,845,604	9,519,659	8,924,226	6,721,684	11,318,970
267,053,927	222,553,673	240,619,308	243,297,340	220,155,842	214,630,314
1,194,533	807,387	856,484	906,294	956,724	1,161,513
268,248,460	223,361,060	241,475,792	244,203,634	221,112,566	215,791,827
138,246,799	142,801,029	151,581,061	149,348,807	136,863,991	133,125,039
124,890,764	77,694,584	88,122,323	92,649,652	80,471,326	81,480,440
5,110,897	2,865,447	1,772,408	2,205,175	3,588,936	1,032,453
130,001,661	80,560,031	89,894,731	94,854,827	84,060,262	82,512,893
-	-	-	-	188,313	153,895
268,248,460	223,361,060	241,475,792	244,203,634	221,112,566	215,791,827
\$5,119,047	\$4,293,912	\$2,016,804	\$1,999,664	\$2,095,323	\$1,774,443
2,732,956	2,517,129	6,074,980	4,646,715	4,162,516	2,415,213
1,301,346	(339,930)	-	-	-	-
9,153,349	6,471,111	8,091,784	6,646,379	6,257,839	4,189,656
2,458,379	2,629,850	2,300,026	2,377,499	2,130,748	314,507
4,426,113	4,792,037	4,803,549	3,513,441	3,413,341	768,841
6,884,492	7,421,887	7,103,575	5,890,940	5,544,089	1,083,348
2,268,857	(950,776)	988,209	755,439	713,750	3,106,308
-	-	14,360	43,532	56,160	-
861,775	184,332	293,709	355,782	282,278	185,041
(4,833,300)	(3,918,240)	(3,411,937)	(4,083,294)	(4,354,244)	(3,775,570)
(1,702,668)	(4,684,684)	(2,115,659)	(2,928,541)	(3,302,056)	(484,221)
(4,593,787)	8,085,876	1,287,306	10,186,209	7,041,008	35,703,146
306,327	-	-	-	-	-
1,435,898	(12,181,224)	3,060,607	5,227,148	-	(25)
(\$4,554,230)	(\$8,780,032)	\$2,232,254	\$12,484,816	\$3,738,952	\$35,218,900

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

	WATER		RWSS		ADJUSTMENTS		TACOMA WATER STATEMENTS
	W/O RWSS		W/O RWSS				
ASSETS							
UTILITY PLANT							
In Service, at Original Cost	\$ 630,856,710	\$	235,422,897			\$	866,279,607
Less - Accumulated Depreciation	(135,923,955)		(44,625,934)				(180,549,889)
Total	494,932,755		190,796,963				685,729,718
Construction Work In Progress	84,040,049		102,313,590				186,353,639
Net Utility Plant	578,972,804		293,110,553				872,083,357
NET UTILITY PROPERTY	492,963	-					492,963
SPECIAL FUNDS							
Construction Funds	39,458,385		50,742				39,509,127
Debt Service Funds	3,252,826		344,846				3,597,672
Bond Reserve Funds	13,667,516		8,442,608				22,110,124
System Development Charge Fund	53,255,060		-				53,255,060
Other Cash & Equity in Pooled Investments	26,002,368		-		1,965,856		27,968,224
Total Special Funds	135,636,155		8,838,196		1,965,856		146,440,207
CURRENT ASSETS							
Operating Funds Cash & Equity in Pooled Investments	45,768,035		1,965,856		(1,965,856)		45,768,035
Accounts Receivable	4,272,225		360,508				4,632,733
(Net of Allowance for Doubtful Accounts of \$258,344 in 2014)							
BABs Interest Subsidies Receivable	247,703		72,361				320,064
Accrued Unbilled Revenues	4,616,056		-				4,616,056
Materials and Supplies	2,401,523		-				2,401,523
Interfund Receivable	268,252		24,042				292,294
Prepayments	645,970		60,594				706,564
	58,219,764		2,483,361		(1,965,856)		58,737,269
OTHER ASSETS							
Regulatory Asset - Public Fire Protection Fees	2,940,674		-				2,940,674
Regulatory Asset - Hyada Surcharges	828,534		-				828,534
Total Other Assets	3,769,208		-				3,769,208
DEFERRED OUTFLOWS OF RESOURCES							
Unamortized Losses on Refunding Bonds	1,299,331		288,520				1,587,851
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 778,390,225	\$	304,720,630			\$	1,083,110,855

	NET ASSETS	NET ASSETS AND LIABILITIES	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
NET ASSETS						
Net Investment in Capital Assets	\$ 251,644,076	\$ 182,639,266	\$ 251,644,076	\$ 182,639,266		\$ 434,283,342
Restricted for:						
Water Capital and System Development Charge	33,925,829	-	33,925,829	-		33,925,829
Debt Service Funds	1,931,996	-	1,931,996	-		1,931,996
Unrestricted	45,272,803	1,259,275	45,272,803	1,259,275		46,532,078
Total Net Position	332,774,704	183,898,541	332,774,704	183,898,541	-	516,673,245
LONG-TERM DEBT						
Revenue Bonds	283,193,656	117,798,157	283,193,656	117,798,157		400,991,813
Public Works Trust Fund Loans	28,101,548	-	28,101,548	-		28,101,548
Drinking Water State Revolving Fund Loan	54,448,644	-	54,448,644	-		54,448,644
Total Long-Term Debt	365,743,848	117,798,157	365,743,848	117,798,157	-	483,542,005
CURRENT LIABILITIES						
Current Maturities of Long-Term Debt	8,987,544	1,455,000	8,987,544	1,455,000		10,442,544
Current Maturities of Long-Term Liabilities	195,299	-	195,299	-		195,299
Accrued Taxes	1,405,334	-	1,405,334	-		1,405,334
Accrued Expenses and Contracts Payable	3,954,503	61,456	3,954,503	61,456		4,015,959
Salaries, Wages and Fringe Benefits Payable	1,293,035	-	1,293,035	-		1,293,035
Interest Payable	1,339,420	461,195	1,339,420	461,195		1,800,615
Customers' Deposits	275,591	-	275,591	-		275,591
Interfund Payables	1,322,970	16,229	1,322,970	16,229		1,339,199
Total Current Liabilities	18,773,696	1,993,880	18,773,696	1,993,880	-	20,767,576
LONG-TERM LIABILITIES						
Muckleshoot Agreements	7,320,231	-	7,320,231	-		7,320,231
Customer Advances for Construction	4,338,242	-	4,338,242	-		4,338,242
Unearned Revenue	7,543,633	1,030,052	7,543,633	1,030,052		8,573,685
Long-Term Accrued Compensated Absences	2,300,497	-	2,300,497	-		2,300,497
Other Long-Term Liabilities	4,019,927	-	4,019,927	-		4,019,927
Total Long-Term Liabilities	25,522,530	1,030,052	25,522,530	1,030,052	-	26,552,582
DEFERRED INFLOWS OF RESOURCES						
Rate Stabilization	35,575,447	-	35,575,447	-		35,575,447
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$ 778,390,225	\$ 304,720,630	\$ 778,390,225	\$ 304,720,630	\$ -	\$ 1,083,110,855

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
OPERATING REVENUES				
Sale of Water	\$ 69,702,657	\$ -		\$ 69,702,657
Other Operating Revenues	9,454,498	-		9,454,498
Contract Resource Obligation Revenues	-	23,847,130	(4,684,331)	19,162,799
Total Operating Revenues	79,157,155	23,847,130	(4,684,331)	98,319,954
OPERATING EXPENSES				
Operations	14,780,809	306,746		15,087,555
Production	7,882,700	2,329,703		10,212,403
Administrative and General	17,279,139	98,797	(4,684,331)	12,693,605
Depreciation	12,240,786	4,542,912		16,783,698
Taxes	3,779,373	-		3,779,373
Total Operating Expenses	55,962,807	7,278,158	(4,684,331)	58,556,634
Net Operating Income	23,194,348	16,568,972	-	39,763,320
NON-OPERATING REVENUES (EXPENSES)				
Interest Income	1,603,839	114,387		1,718,226
Other	555,784	(18,732)		537,052
Interest on Long-Term Debt	(14,763,957)	(5,599,173)		(20,363,130)
Amortization of Premium and Loss on Refunding	378,282	737,087		1,115,369
Interest Charged to Construction	3,354,791	3,981,120		7,335,911
Total Non-Operating Expenses	(8,871,261)	(785,311)	-	(9,656,572)
Net Income Before Capital Contributions and Transfers	14,323,087	15,783,661	-	30,106,748
Capital Contributions				
Cash	(8,021,996)	13,024,297		5,002,301
Donated Fixed Assets	3,668,338	-		3,668,338
Federal BABs Subsidies	2,756,937	805,374		3,562,311
Grants	397,135	-		397,135
Transfers				
City of Tacoma Gross Earnings Tax	(6,274,494)	-		(6,274,494)
Transfer to/from Other Funds	(78,067)	-		(78,067)
CHANGE IN NET POSITION	6,770,940	29,613,332	-	36,384,272
TOTAL NET POSITION - BEGINNING OF YEAR	326,003,764	154,285,209		480,288,973
TOTAL NET POSITION - END OF YEAR	\$ 332,774,704	\$ 183,898,541	\$ -	\$ 516,673,245

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2014

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2015	4,850,000	14,088,589	1,455,000	5,534,336	25,927,925
2016	5,080,000	13,857,189	945,000	5,469,686	25,351,875
2017	5,330,000	13,614,289	1,025,000	5,427,936	25,397,225
2018	5,630,000	13,359,189	1,055,000	5,382,286	25,426,475
2019	5,865,000	13,131,870	1,990,000	5,335,337	26,322,207
2020	6,095,000	12,895,064	2,100,000	5,241,836	26,331,900
2021	6,390,000	12,606,370	2,205,000	5,143,037	26,344,407
2022	6,645,000	12,348,383	2,315,000	5,035,936	26,344,319
2023	6,485,000	12,016,133	2,455,000	4,923,486	25,879,619
2024	4,560,000	11,691,883	4,930,000	4,804,186	25,986,069
2025	4,740,000	11,473,792	5,190,000	4,561,236	25,965,028
2026	4,930,000	11,244,560	5,420,000	4,300,363	25,894,923
2027	5,085,000	11,003,926	5,700,000	4,027,936	25,816,862
2028	5,265,000	10,730,811	5,970,000	3,741,451	25,707,262
2029	5,445,000	10,448,028	6,300,000	3,441,430	25,634,458
2030	5,640,000	10,155,577	6,595,000	3,124,853	25,515,430
2031	5,835,000	9,852,652	6,880,000	2,855,022	25,422,674
2032	6,050,000	9,524,667	6,660,000	2,572,446	24,807,113
2033	11,915,000	9,184,597	4,495,000	2,298,427	27,893,024
2034	12,360,000	8,502,114	4,655,000	2,045,763	27,562,877
2035	12,820,000	7,794,144	4,830,000	1,784,106	27,228,250
2036	13,295,000	7,059,824	5,005,000	1,512,611	26,872,435
2037	13,790,000	6,298,290	5,185,000	1,231,280	26,504,570
2038	14,305,000	5,508,405	5,375,000	939,832	26,128,237
2039	14,835,000	4,689,020	5,570,000	637,703	25,731,723
2040	15,390,000	3,839,272	5,775,000	324,613	25,328,885
2041	23,820,000	2,974,200			26,794,200
2042	24,770,000	2,021,400			26,791,400
2043	25,765,000	1,030,600			26,795,600
	<u>\$282,985,000</u>	<u>\$272,944,838</u>	<u>\$110,080,000</u>	<u>\$91,697,134</u>	<u>\$757,706,972</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

FUNDS AVAILABLE FOR DEBT SERVICE

	2014	2013	2012	2011	2010
Total Income	\$105,092,009	\$100,839,801	\$88,715,624	\$76,867,233	\$73,366,699
Less: Operating Exp	41,772,936	39,825,300	36,087,695	35,928,127	37,596,514
Income Available for Debt Service ..	<u>\$63,319,073</u>	<u>\$61,014,501</u>	<u>\$52,627,929</u>	<u>\$40,939,106</u>	<u>\$35,770,185</u>
Bond Redemption	6,896,250	8,485,830	6,668,750	6,308,333	6,092,083
Bond Interest	19,828,835	19,562,422	19,342,423	19,624,326	15,700,645
Debt Service Payable	<u>\$26,725,085</u>	<u>\$28,048,252</u>	<u>\$26,011,173</u>	<u>\$25,932,659</u>	<u>\$21,792,728</u>
Times Debt Service Covered	2.37	2.18	2.02	1.58	1.64

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER SALES - 2014

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
RESIDENTIAL AND DOMESTIC SERVICE						
Inside City						
1 <i>Single and Multiple House</i>	54,437	4,549,698	\$ 17,341,377	24.9%	9.32	18.4%
2 <i>Multiple Unit Dwellings</i>	3,205	1,638,860	\$ 4,815,060	6.9%	3.36	6.7%
3 <i>Parks & Irrigation Services</i>	183	93,466	\$ 341,859	0.5%	0.19	0.4%
4 <i>Private Fire Services</i>	98	52	\$ 62,181	0.1%	0.00	0.0%
	57,923	6,282,076	\$ 22,560,477	32.4%	12.87	25.5%
Outside City						
5 <i>Single and Multiple Houses</i>	32,167	3,276,220	\$ 17,604,781	25.3%	6.71	13.3%
6 <i>Multiple Unit Dwellings</i>	1,843	983,707	\$ 3,932,576	5.6%	2.02	4.0%
7 <i>Parks & Irrigation Services</i>	216	110,755	\$ 452,691	0.6%	0.23	0.5%
8 <i>Private Fire Services</i>	77	4	\$ 33,517	0.0%	0.00	0.0%
	34,303	4,370,686	\$ 22,023,565	31.5%	8.96	17.8%
COMMERCIAL AND INDUSTRIAL SERVICE						
Inside City						
9 <i>Large Volume Service</i>	3	573,301	\$ 878,101	1.3%	1.18	2.3%
10 <i>General Service</i>	3,691	2,274,772	\$ 6,643,995	9.5%	4.66	9.3%
11 <i>Parks & Irrigation Services</i>	291	340,972	\$ 1,181,991	1.7%	0.70	1.4%
12 <i>Private Fire Services</i>	1,026	19,028	\$ 2,577,029	3.7%	0.04	0.1%
	5,011	3,208,073	\$ 11,281,116	16.2%	6.58	13.1%
Outside City						
13 <i>Large Volume Service</i>	4	412,388	\$ 788,247	1.1%	0.85	1.7%
14 <i>General Service</i>	853	417,621	\$ 1,721,246	2.5%	0.86	1.7%
15 <i>Parks & Irrigation Services</i>	74	95,247	\$ 386,686	0.6%	0.20	0.4%
16 <i>Private Fire Services</i>	201	1,012	\$ 844,847	1.2%	0.00	0.0%
	1,132	926,268	\$ 3,741,026	5.4%	1.91	3.8%
17 ROCKTENN	1	8,087,783	\$ 5,801,842	8.3%	16.58	32.9%
CITY OF TACOMA						
18 <i>General Service</i>	104	66,452	\$ 267,760	0.4%	0.14	0.3%
19 <i>Parks & Irrigation Services</i>	83	26,715	\$ 119,852	0.2%	0.06	0.1%
20 <i>Private Fire Services</i>	33	95	\$ 67,358	0.1%	0.00	0.0%
	220	93,262	\$ 454,970	0.7%	0.20	0.4%
21 WHOLESALE	18	1,585,380	\$ 3,718,315	5.3%	3.25	6.5%
<i>Unbilled Revenue</i>			\$ 121,346	0.2%		
TOTAL WATER SALES	98,608	24,553,528	\$ 69,702,657	100.0%	50.35	100.0%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2014

Tacoma Water System:		
Average daily delivery exclusive of pulp mill		36.71 MG
Average daily delivery of pulp mill		16.57 MG
Total average daily delivery		<u>53.28 MG</u>
Maximum daily production	7/12/2014	80.82 MG
Minimum daily production	10/22/2014	28.45 MG
Total water produced in 2014*		19,444 MG
Regional Water Supply System (RWSS):		
Total average daily delivery		10.53 MG
Average daily consumption per single family residential service		171.3 GPD
Miles of transmission and wells supply mains - 28" to 96" diameter (includes North Fork wells system)		150 mi
Miles of distribution mains - 2" to 24" in diameter		1,224 mi
Fire Hydrants (Inside)		6,044
Fire Hydrants (Outside)		4,457

The primary source of Tacoma's water supply is the Green River. Additionally the North Fork well field provides blending options during periods of excessive river turbidity. The Green River source consists of a 73 million gallons per day (MGD) water right. Tacoma is also partner in the Regional Water Supply System (RWSS) and holds a 27 MGD average share of that 64.6 MGD interruptible, junior water right on the Green River. Tacoma also has ground water rights totaling 87 MGD with an installed pumping capacity of 55 MGD.

Tacoma's water supply is robust and of very high quality, benefiting from decades of source protection and substantial investment in treatment. City of Tacoma business and residents continued to receive extraordinary service reliability while meeting or exceeding all regulatory requirements of the United States Environmental Protection Agency and the Washington Department of Health.

Storage facilities are provided at 15 locations. These facilities consist of 10 concrete tanks and 12 steel standpipes. The combined storage capacity is equal to approximately 140.7 million gallons. Of this storage capacity 67.6 million gallons are located at the McMillin Reservoir approximately 14 miles southeast of Tacoma.

**Includes losses and water for self-consumption excludes RWSS*

MG equals million gallons

GPD equals gallons per day

mi equals miles

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2014

FEDERAL

Social Security (FICA)		\$1,488,814
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STATE OF WASHINGTON

Retail Sales Tax	\$5,237,454	
Utilities and Business Activities Tax	3,188,144	
Total		8,425,598

COUNTY

Real Property	33,826	
Total		33,826

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	6,274,494	
City of Fircrest Administrative Fee	7,624	
City of Lakewood Administrative Fee	6,113	
City of Puyallup Administrative Fee	35,369	
City of University Place Administrative Fee	530,036	
		6,853,636

TOTAL TAXES		\$16,801,874
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Taxes as a % of Non-CRO Revenues of \$79,157,155		21.23%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$467,343	
Pensions	2,020,282	
Medical Insurance	3,580,924	
Dental Insurance	352,727	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$6,421,276

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2014 WATER RATES

METER SIZE		READY TO SERVE CHARGE PER MONTH	
		INSIDE TACOMA	OUTSIDE TACOMA
5/8	inch	\$18.85	\$22.62
3/4	inch	\$28.28	\$33.93
1	inch	\$47.13	\$56.55
1-1/2	inch	\$94.25	\$113.10
2	inch	\$150.80	\$180.96
3	inch	\$282.75	\$339.30
4	inch	\$471.25	\$565.50
6	inch	\$942.50	\$1,131.00
8	inch	\$1,508.00	\$1,809.60
10	inch	\$2,167.75	\$2,601.30
12	inch	\$3,180.94	\$3,817.13

		CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET	
		INSIDE TACOMA	OUTSIDE TACOMA
<u>Residential Service</u>			
Each 100 cubic ft. of water consumption during the winter months of October through May		\$1.538	\$1.846
First 500 cubic ft. of water consumption per month during the summer months of June through September		\$1.538	\$1.846
Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September		\$1.923	\$2.308
<u>Commercial and Industrial</u>			
General Service		\$1.712	\$2.054
Large Volume Service (over 65,000 cubic feet annually)		\$1.469	\$1.763
<u>Parks and Irrigation Service</u>			
Each 100 cubic feet of water consumption		\$2.431	\$2.917

City of Tacoma water services are 100% metered.

Where service conditions are considered extraordinary, the Water Division may, with City Council approval, enter into contracts for periods up to 20 years.

Water rates were established by Ordinance No. 28133 and were effective January 1, 2014.

Residential service rate for outside Tacoma does not include Fircrest, Puyallup, University Place, and Lakewood.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2014 FIRE PROTECTION RATES

RATES FOR PRIVATE FIRE PROTECTION SERVICE ON A SEPARATE METER INSIDE THE CITY OF TACOMA ARE AS FOLLOWS:

METER SIZE		MONTHLY CHARGE	WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
2	inch	\$24.74	2.99
3	inch	\$36.02	2.99
4	inch	\$60.18	2.99
6	inch	\$135.00	2.99
8	inch	\$240.32	2.99
10	inch	\$375.90	2.99
12	inch	\$601.24	2.99

No charge is made for water used through a fire service in extinguishing fires of incendiary or accidental origin if the customer, at the location where the use occurs, gives written notice to the Division within ten days from the time of such fire. Use of water through a fire service for purposes other than extinguishing fires of incendiary or accidental origin is charged as follows:

MONTHLY CHARGE

12 times the monthly service charge (minimum).

CONSUMPTION

Rates per 100 cubic feet per month \$3.960

The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

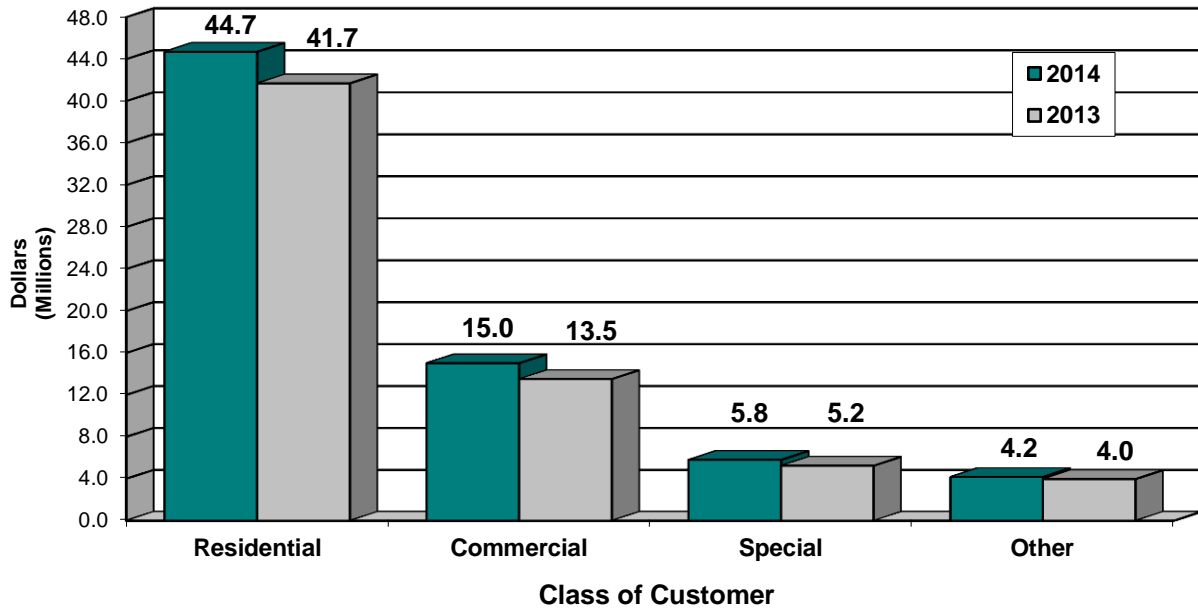
Costs associated with fire hydrant services are currently recovered from customers in two different ways, depending on their location in the service area. Customers outside the City of Tacoma with residential and commercial accounts pay a flat monthly franchise "Franchise Hydrant Service Fee" as shown below:

Outside City, other contract.....	\$4.72
Fircrest Franchise.....	\$5.07
Lakewood, Puyallup, and University Place Franchises...	\$5.20

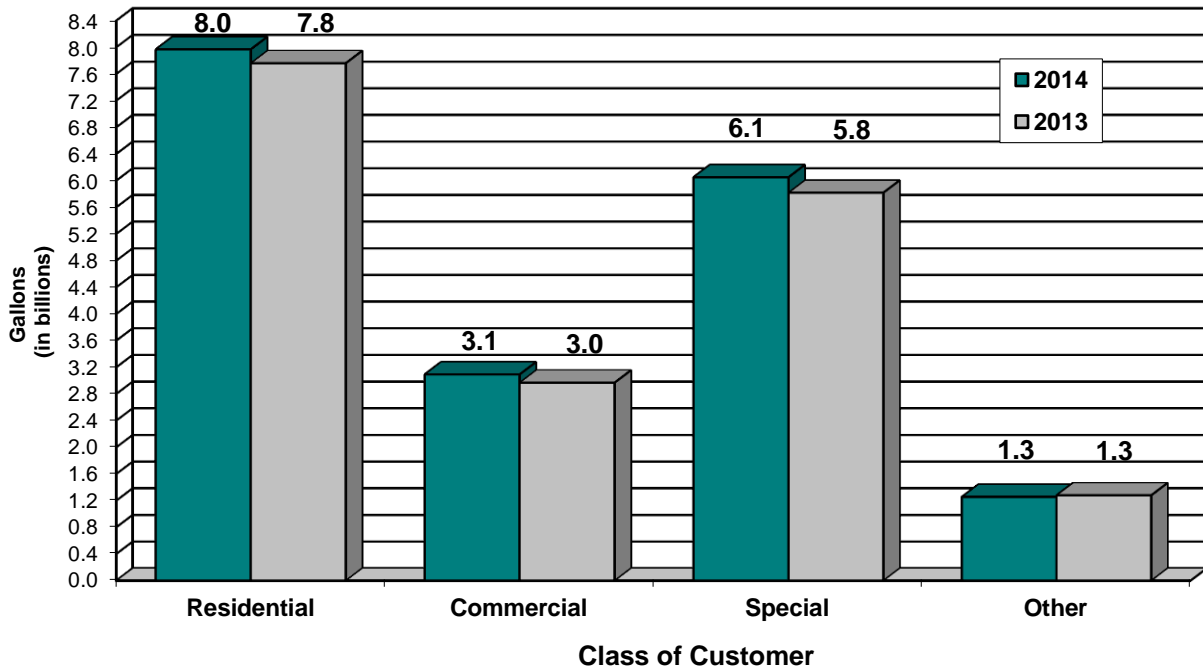
Inside the City of Tacoma, the general government is directly billed an annual "Fire Hydrant Services Fee" of \$266.95 per hydrant.

The Fire Protection Rates were established by Ordinance No. 28133 and were effective January 1, 2014.

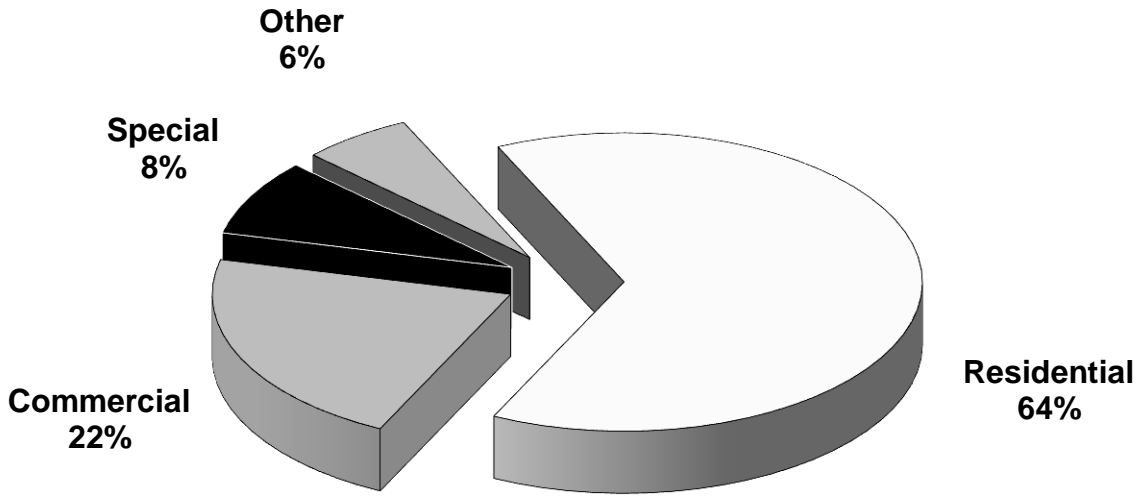
WATER SALES
Year to Date - December 2014 & 2013



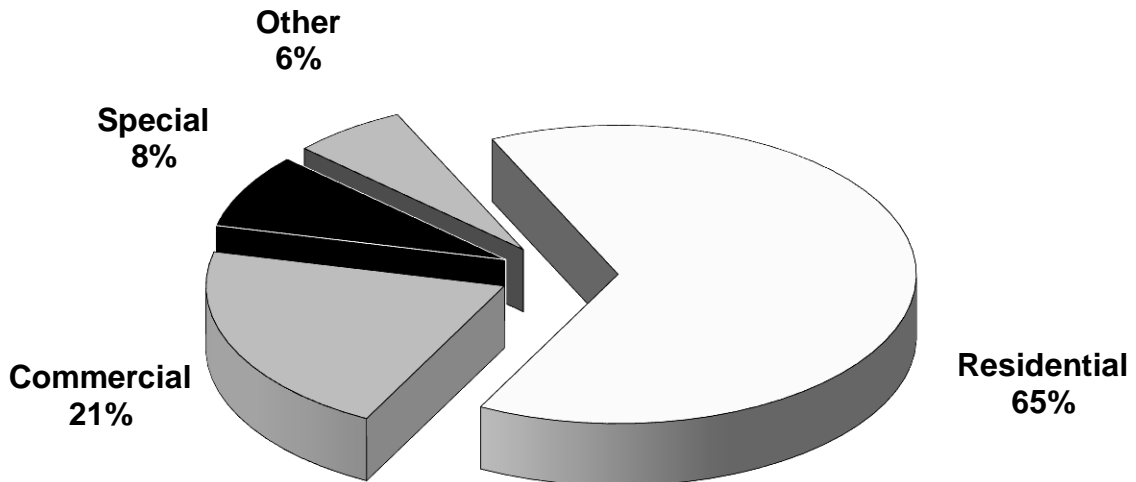
WATER CONSUMPTION
Year to Date - December 2014 & 2013



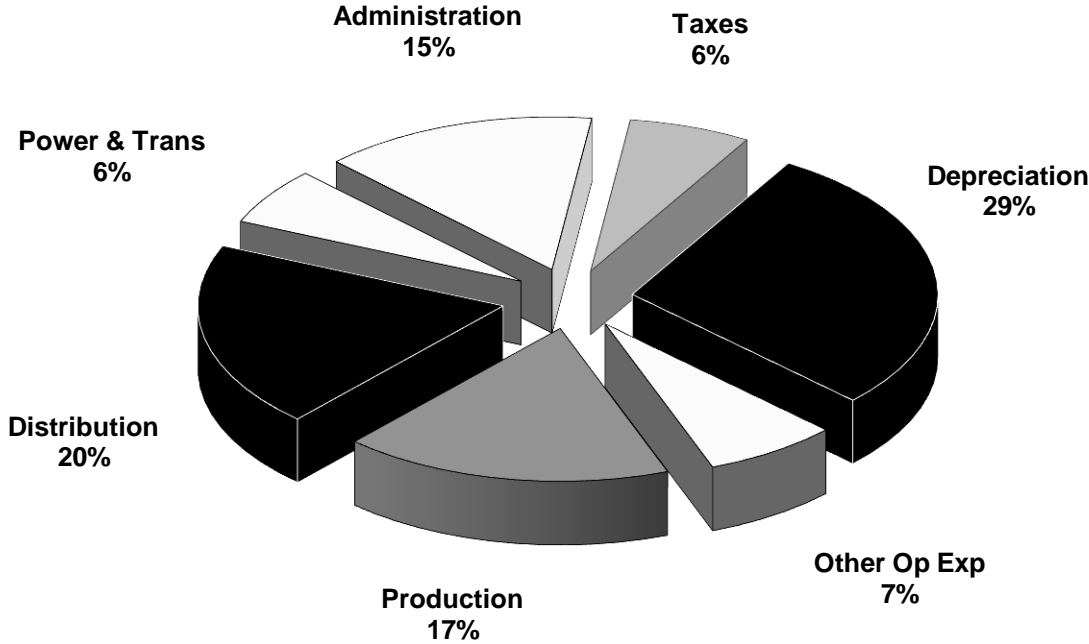
WATER SALES
Year to Date - December 2014
(\$69,702,657)



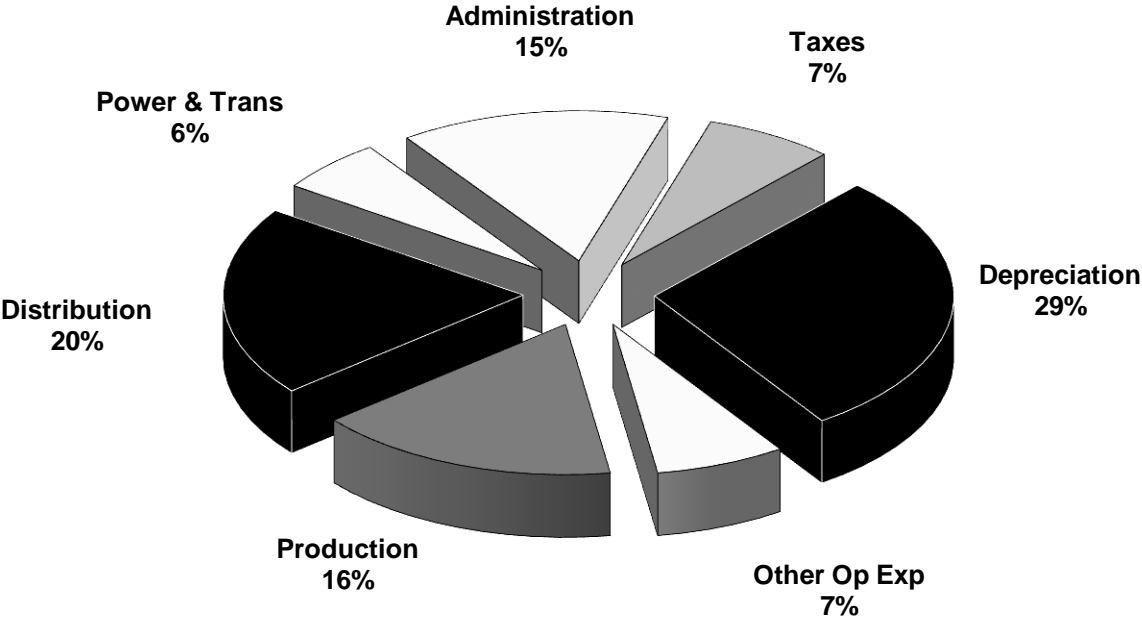
WATER SALES
Year to Date - December 2013
(\$64,111,896)



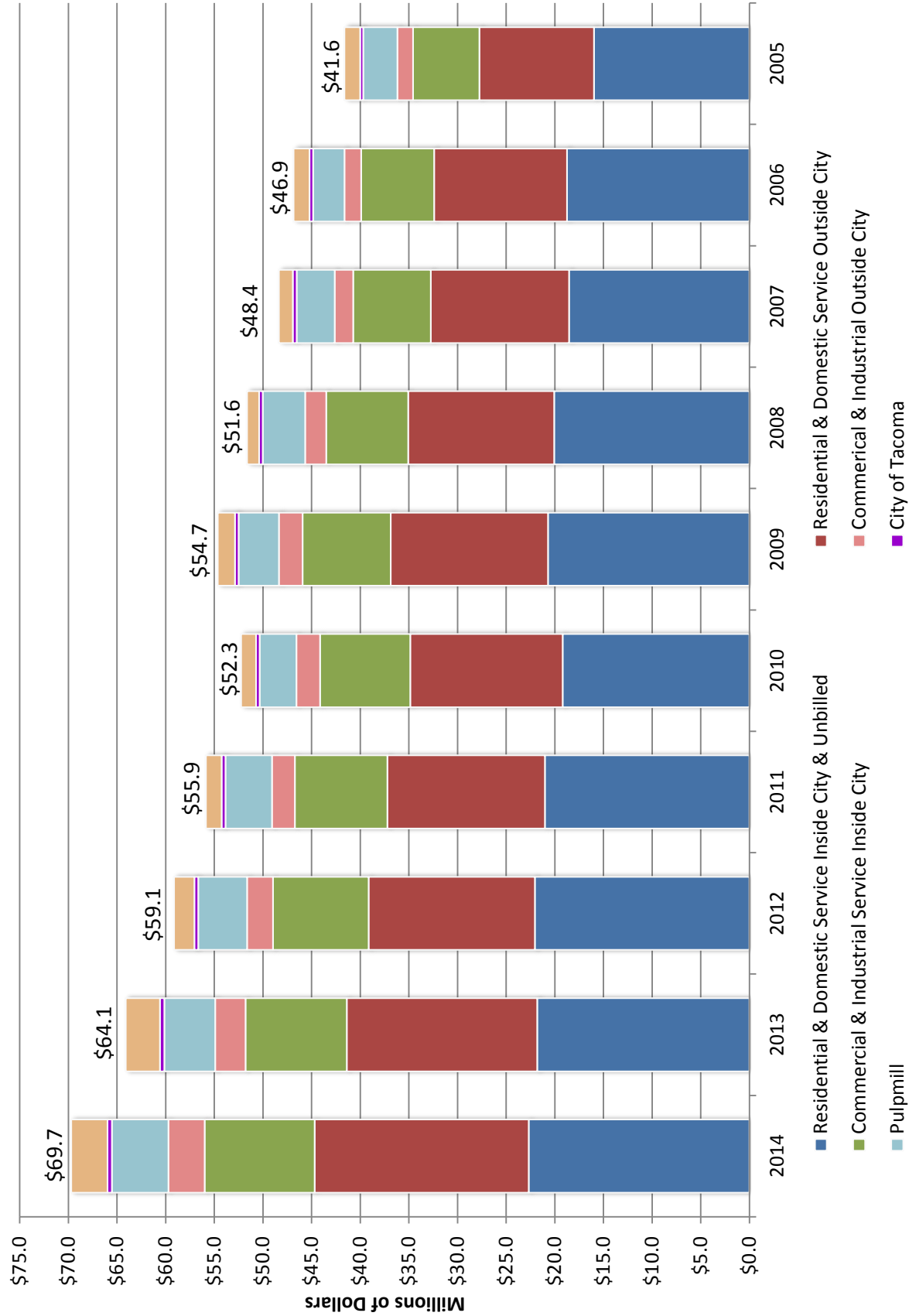
TOTAL OPERATING EXPENSES
Year to Date - December 2014
(\$58,556,634)



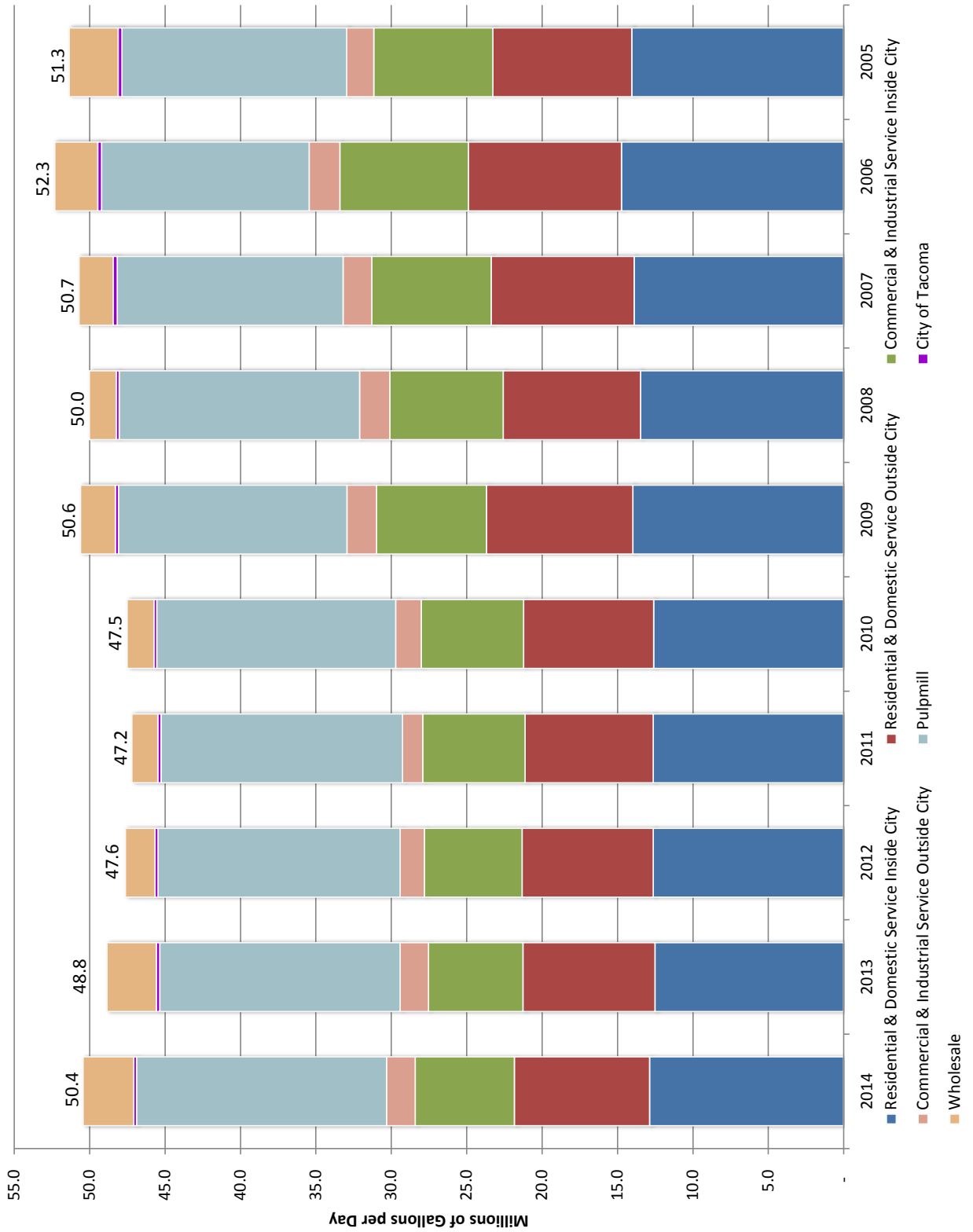
TOTAL OPERATING EXPENSES
Year to Date - December 2013
(\$55,897,543)



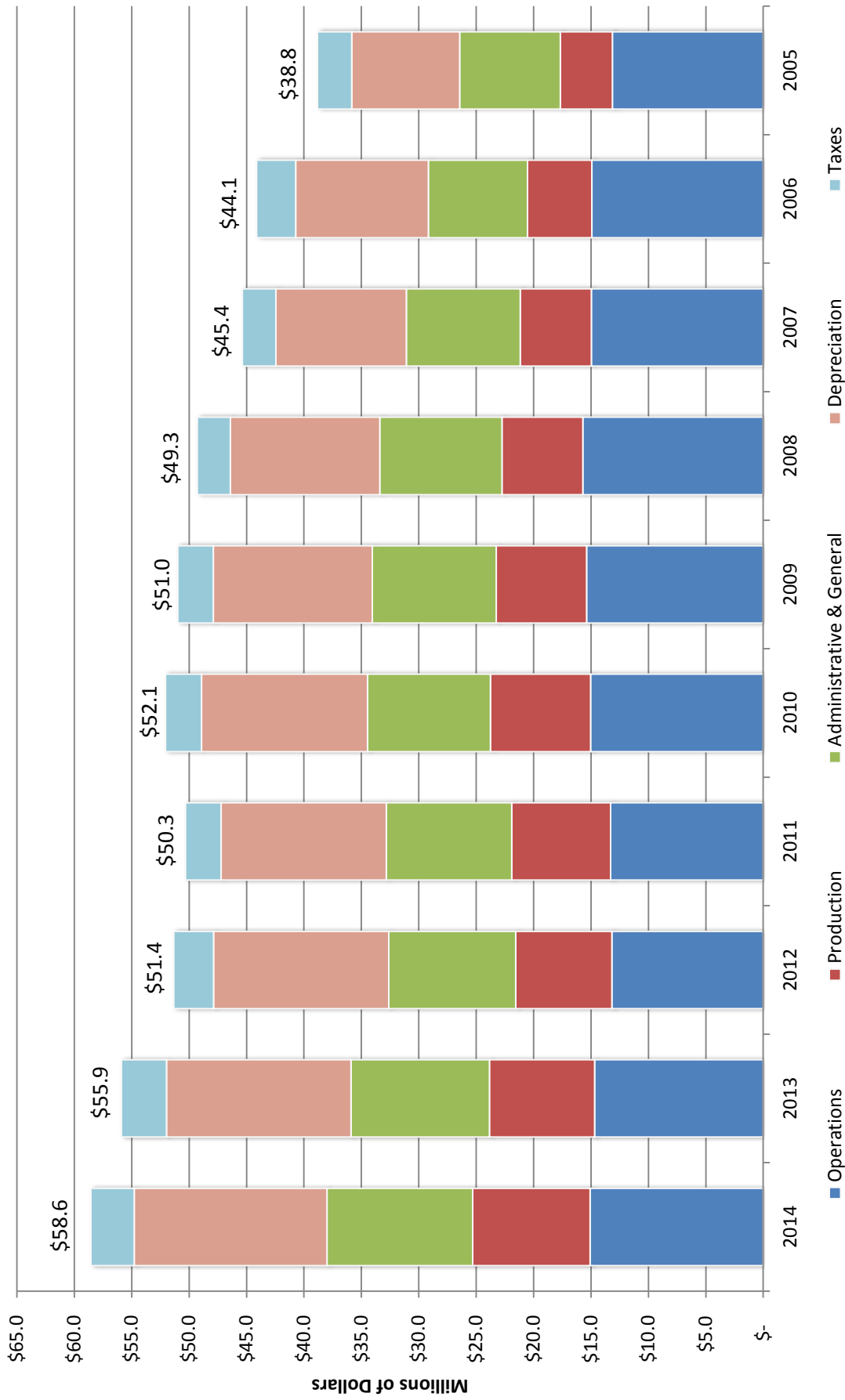
TEN-YEAR SUMMARY OF WATER SALES (MILLIONS OF \$)



TEN-YEAR SUMMARY OF WATER DEMAND (MGD)



TEN-YEAR SUMMARY OF O&M EXPENSE (MILLIONS OF \$)



2014 SUPERINTENDENT'S REPORT TACOMA WATER

One year after celebrating the centennial of Tacoma's Green River water supply, 2014 marked a new milestone: the beginning of filtration for this critical source of water supply. On December 16, 2014, the first filtered water was introduced into Tacoma's historic Pipeline 1, and began its voyage to customers. Starting in early 2015, all drinking water from the Green River, our primary water source, will be filtered. The Green River has been a high quality, low cost supply source for now over 100 years, and with new treatment, it will continue that tradition for generations to come. The Green River supply system is one of the most valued assets of our community and we are blessed by the foresight of Tacoma's early leaders who made the decision to select the Green River for their drinking water, even though it was the most expensive option at the time. Today we serve 50 percent more customers from the system than it was anticipated to be capable of serving and we project the existing supply should be able to meet the growth and development needs of our service area for at least the next 50 to 60 years.

While certainly a large project, constructing and starting filtration was by no means the only place Tacoma Water made progress in 2014. We continue to move forward initiatives identified as significant in our strategic plan. Advanced asset management planning and financial analysis was applied to capital project development work, and used in making capital budgeting decisions. Financial results for Tacoma Water are healthy and strong as a result of updated policy direction, improved forecasting and comprehensive financial management. Our 2015-2016 budget effort reflected this fiscal discipline, and resulted in proposed rate increases that are approximately one half of what they were a few years ago, despite large, required investments.

The premier accomplishment of 2013 was the attraction of Niagara Bottling Company, the largest family-owned bottled water manufacturer in the United States, to Pierce County. They began production in 2014 with one bottling line, and as they bring on the planned addition of another bottling line, will become one of Tacoma Water's largest customers. The success of attracting this new company to the area was a win for both Tacoma Water's rate payers and the region in general with the creation of good jobs and considerable capital investment.

Tacoma Water accomplishments of 2014 as detailed below are considerable thanks to the dedication and efforts of the very capable Tacoma Water staff. From innovation adopted and applied to marketing of surplus water, rehabilitation of infrastructure and technology implementation, to our Top Ops and Tapping teams competing successfully at the Pacific Northwest Section/American Water Works Association conference and at the national competition in Boston, to the numerous customer compliments received throughout the year for the responsive, caring, quality service delivered and appreciated by our customers, Tacoma Water staff have performed their work with pride and a commitment to our mission of providing clean, reliable water now and in the future.

ASSET & INFORMATION MANAGEMENT

Strategy Management (Balanced Scorecard)

2014 marked the second year of using a Balanced Scorecard approach to managing our strategic work. In 2014 we adopted a vision to help drive our strategic efforts: Engaged and Informed. We planned our initiatives and measured our progress toward defined objectives. Our objectives related to three perspectives: employee (employee engagement), internal process (customer focus and effective decision making), and outcome (financial and

customers). Through our strategy management efforts we worked to ensure that we prioritized our strategic work, adequately resourced the highest priorities, planned our actions, measured progress, and resolved issues. We continued to work on exercising the discipline to say no to some work to ensure higher priority efforts were resourced well. The result was 14 strategic initiatives completed in 2014. A 2014 highlight was the creation of a Supervisor Advisory Team, consisting of everyone in Tacoma Water with at least one direct report. This group assembled quarterly to receive training on improving employee-supervisor relationships and to come together to discuss and decide on topics such as response to the 2nd year of a TPU-wide all employee survey.

Planning, Scheduling and Communicating

The Asset and Information Management section focused on planning, scheduling and communicating how our Asset Management approach and Information Management tools work together to support all Tacoma Water sections. A work plan with a visual representation of that plan was developed and presented throughout Tacoma Water to help with understanding and promote discussions and engagement. This was an excellent opportunity to continue relationship building and face to face communication vital to the successful adoption of Asset Management, supporting technology tools, and new business and decision making processes across all levels of Tacoma Water.

Asset Management

In 2014, Tacoma Water entered the “Operationalization” phase of the Asset Management (AM) program. This self-coined term was meant to reflect the stage of the program where the Operating Sections begin to take on a leadership role in the planning for their assets from the Asset and Information Management Section. This involves continued development of Strategic Asset Management Plans and the implementation of the Strategic Maintenance Management Program. Central to this effort was continued long term planning and the update of the Asset Management Plan.

Asset Management Plan

The original 2009 AM framework was reviewed and all 14 initiatives were measured for progress against the respective tasks assigned to them. Each of the initiatives was then reviewed and recommendations regarding work efforts were created. This culminated with the development of a Gantt chart of AM efforts needed through 2020.

Operationalization of Strategic Asset Management Plans (SAMPs)

Each component of the water system is captured in a Strategic Asset Management Plan (SAMP). A large part of the year was focused on engaging with SAMP leads to measure the progress of each SAMP and based on a prescriptive list of criteria define a Phase 1 of the SAMP process. Working directly with the SAMP leads, punch lists were developed and the SAMP reports were worked on for the 11 active SAMPs. By the end of the year, all SAMPs had been measured, 4 SAMPs attained the Phase 1 milestone and 4 more are in the final stages of editing to pass this milestone.

After much discussion with SAMP leads and section managers it was decided that a new asset class should be created to deal specifically with valves rather than including them in the main SAMP, giving Tacoma Water a total of 18 SAMPs. There are now SAMPs developed for 12 of the 18 asset classes with two more started in Q4, the Valve and Electrical SAMPs. With this many SAMPs underway, the importance of each Section

and the SAMP lead taking ownership over the direction and progress of each SAMP cannot be understated. This transfer of ownership and responsibility will be a primary focus over the coming year.

The storage SAMP developed in 2014 is a great example of the benefit of developing and utilizing SAMPs. The team that developed this SAMP represented staff from multiple sections, many disciplines and both the engineering and field perspective. They produced a report that serves as a common resource regarding our water storage facilities, including facility details, calculated risk (likelihood and consequence of failure), and a consensus based set of next steps for the asset class. The next steps include future work activities around system design as well as data, process and procedure improvements that span organizational structure section boundaries.

Strategic Maintenance Management Program (SMMP)

The SMMP made great strides in 2014 with the adoption of discrete work orders within SAP for the completion and tracking of maintenance work. Maintenance plans were created for Pressure Reducing Valves (PRVs), GenSets and the existing equipment at the Green River Treatment Facility (for Ozone processes, the Intake and the Chemical building). The plans enable comparisons of estimates versus actuals, for both time and costs related to maintenance activities. In addition to understanding of O&M costs, this effort also enables the opportunity to collect feedback from staff and to improve the process over time. Specifically for PRVs, field staff identified cost cutting measures for performing maintenance along with additional condition assessment information needing to be captured and the maintenance plans were adjusted accordingly.

The above success was the result of a large amount of hands on training and support provided by the AM team to the Water Supply and Water Quality sections on the topics of maintenance plans, work order management and failure notifications.

Information Management

Significant progress was made in the area of technology and information management in 2014. The preeminent accomplishment was launching BlueWave, our new GIS.

Tacoma Water's New GIS

Successful implementation of the new ESRI-based Geographic Information System (GIS) (BlueWave) for Tacoma Water was completed in June. Training was provided for all Tacoma Water staff and overview presentations made to other city departments. Following system stabilization, the focus has been on data quality, in particular, data currency, accuracy, and adding of data to support various work groups and new map applications. The first annual GIS Day was held in November showcasing the work of our team and other GIS groups in the region. Focused work with the citywide GIS Advisory Team (GAT) has resulted in broader development and utilization of the ESRI platform and greater data sharing and collaboration.

Utility Technology Governance

Tacoma Water worked closely with Tacoma Power Utility Technology Services (UTS) regarding technology project support services, project delivery and governance including business case reviews. The Utility Technology Architecture Board's role was expanded in 2014 to develop standards and best practices for development and implementation of technology solutions at TPU. A Utility Technology Strategic Plan was produced for TPU

in 2014 with input from Tacoma Water regarding our future needs and direction. A final highlight was the IT Department's upgrade of SAP to enhancement pack 7 in the fourth quarter of 2014. This upgrade included needed capability for managing our linear assets that we plan to enable in 2015.

WATER QUALITY

Green River Treatment

The Green River Filtration Facility construction continued through the year, and reached the point of substantial completion when filtered water entered the system on December 16, 2014. With a competitive bidding climate and high quality project management from the Contractor, Design team, and the Tacoma Water team, overall project costs continued to be tightly controlled. At year close, the total project cost estimated to range from \$182M - \$233M at project approval, is now at \$187M, including an additional \$3M of work needed at the Green River Intake, and within untreated pipelines and a tunnel. In addition to construction, staffing changes have been implemented to assure reliable engineering, operation and maintenance support for this critical facility.

Regulatory Compliance & Customer Service

Water Quality personnel respond to customers who call about the quality of the water they are receiving, and we know that these calls often come with heightened concern. Timely response is extremely important. We have an established goal that at least 98.5 percent of all customers receive a call back the same business day. Staff met that goal, returning 549 of the 557 calls received in the time required (98.6 percent).

Members of our Water Quality group have been part of a multi-sectional effort to improve our operating relationships with new and long-standing Wholesale customers, and to develop new processes and approaches to ensure that these accounts are well served. In 2014, this team developed & delivered three accredited training opportunities for Wholesale and Partner Utility staff.

Watershed & Natural Resource Management

Vigorous management of the Green River Watershed continues to be a high priority for Tacoma Water. This important resource is our first treatment barrier, while contributing a wide range of ecosystem services. 2014 saw our Environmental Programs group heavily involved in tracking and reviewing the developments and documents associated with the US Army Corps of Engineers Biological Assessment for Howard Hanson Dam, along with other key elements of implementing our Habitat Conservation Plan. Ongoing management of noxious weeds, trespass, and oversight of commercial activities to protect water quality remain high priorities.

WATER SUPPLY

Transmission Mains

A leak survey of Pipeline 1 was performed in the summer of 2014. Flow in the pipeline was increased to an abnormally high level and held for several weeks. The increased flow caused an increase in the pressure in the pipeline and allowed any leakage to become visible at ground surface. Crews had cleared portions of the pipeline right-of-way in advance and monitored the area, looking for where water may be surfacing. Several potential water sources found were tested for chlorine and fluoride to determine if they were sources leaking from Pipeline 1. One leak was found during the survey.

As a follow-on to the leak survey described above, Tacoma Water then conducted a pilot project to evaluate two forms of non-destructive pipeline testing on a portion of Pipeline 1 with a history of leaks. Pipe condition assessment data was gathered from the two types of technologies which will be compared and contrasted in the final phase of the project. The two technologies used were Ultrasonic Thickness detectors and the Enhanced Electro-Magnetic detector system. Overall the pipeline in the vicinity of Boise Creek appeared to be in fairly good condition. Detailed reports of the condition assessment findings will be analyzed in the 1st Quarter of 2015.

This Condition Assessment effort required an unprecedented lengthy, yet successful shutdown of Pipeline 1 lasting 4 days (a typical shutdown for this pipeline has historically lasted no more than 1-2 days). This success was due to excellent planning and coordination within various sections of Tacoma Water and the use of Incident Command System (ICS). Following the Pipeline 1 shutdown and inspection, a disinfection and flushing plan was executed by staff, ensuring no unacceptable water was delivered to customers.

An electric valve actuator was also mounted on a vital valve during the shutdown. This will allow the valve to be operated remotely after it is fully programmed. Five (5) blow-off valves were also inspected and replaced.

Another successful pipeline shutdown was conducted on Pipeline 2 from just south of HWY-512 to S 35th St and S J St. This was a very complicated portion of the system to isolate. The shutdown was necessary to replace a critical valve at the intersection of S 64th St and S Park Ave. The valve which had failed in the open position was made to be operable again.

A large milestone in the Asset Management Program was accomplished by completing Phase 1 of the Transmission main Strategic Asset Management Plan (SAMP). There were 12 recommendations included in the report and subsequently adopted. The SAMP team has continued to make excellent progress on several of the 12 recommendations.

Storage

Several storage reservoirs were removed from service for scheduled inspection and their tri-annual cleaning. The cleanings and inspections were successfully completed and each reservoir was returned to service.

Another significant accomplishment was the completion of Phase 1 of the Storage SAMP. There were 6 recommendations included in the report. Each of the recommendations is currently being addressed.

Work Process Improvement

Preliminary work process mapping for Water Supply functions was completed as a portion of the Business Improvement Process Initiative, and as a result, several "next steps" were identified. Going forward these will be vetted and Water Supply will coordinate with the Asset Management group on training and process improvements for 2015.

Water Supplier's Forum

The Water Supply Forum (which includes utilities such as Tacoma Water, Seattle Public Utilities, City of Everett, Cascade Water Alliance, etc.) has embarked on a major regional project to help the utilities' ability to respond and thus improve the resiliency at a regional level. Tacoma

is providing leadership in the Water Quality area, and technical expertise in the Earthquake field. In Q4 of 2014 a Consultant was selected and brought on board to assist with this project. The work which is anticipated to be completed in 2015 will evaluate the risk to water service in the Puget Sound tri-county area of Snohomish, King and Pierce, from earthquakes, climate change, and drought and water quality events.

Vulnerability Assessment

Significant progress was made in Tacoma's All Hazard Vulnerability Assessment (VA) Project. Major activities successfully accomplished included site visits of Tacoma Water's critical facilities, a customer expectation survey, Malevolent Threats Workshop, Risk Tolerance/Critical Asset workshop, and Earthquake Scenario/Recovery Time Workshop. The project continues to be on schedule and will be completed in mid-2015.

Emergency Management

Tacoma Water successfully responded to two real-life emergencies that required multi-sectional and interagency cooperation and coordination. The large main leak at E 11th St & Portland Ave was the largest leak in memory and was a good test of our use of the ICS system. A turbidity event that originated at the Headworks was also encountered and handled without impacts to our customers. Tacoma Water continues to learn from and improve our use of the ICS system.

The successful manner in which these issues were handled continues to reinforce the necessity of our continued work in emergency preparation. Tacoma Water conducts emergency drills each year to ensure the best possible response when a real-life crisis occurs.

Instrumentation/Control/Electrical

The Instrumentation/Control/Electrical group in Water Supply has had a remarkably successful and busy year that includes the following highlights:

1. As suggested in the 2013 Cyber Vulnerability report, the SCADA servers were relocated from the Water Control Center to TPU-ABS basement data center.
2. The facility intrusion systems at several key facilities were improved. The motor starting contactor McMillin Pump Station #1 - pump #3 was replaced with a Variable Frequency Drive.
3. McMillin Pump Station #1 was modified and tested in pressure control mode for the anticipated Sunrise Standpipe shutdown.
4. Sparling flow meters at Northend PS and Headworks 10MG Reservoir outlet, Well 1B and Well 7B were replaced.
5. Hardware and software designs at Fennel Creek Pump Station were upgraded to accommodate a new valve actuator for valve #592. Installed power and control wiring for PL1 Valve 592. Calibrated valve position.
6. Fennel Creek PS genset power and control lines were converted to a permanent set-up to deter vandalism. Portable connections remain available as a backup for the local genset.
7. Operational flowcharts for 214th PS and McMillin PS #1 were developed. These will be used as a model for process documentation going forward.

8. Provided engineering support to Hoffman, S&B, and Headworks for the Green River Filtration Facility project (GRFF), and attended trainings to familiarize staff with the electrical equipment, processes, SCADA, and controls of the new facility.
9. Designed, drilled, and installed 2 Cathodic Protection deep wells (these wells will provide protection to approximately 11,000 feet of main).
10. Designed, purchased, and installed galvanic anode system to replace the existing system at North End Standpipe and Fletcher Standpipe.
11. Developed annual flow meter calibration form, scheduled and calibrated SSP flow meters.
12. Developed Headworks fiber optic cable network. Maximized fiber optic cable utilization.
13. Installed/Modified single-phase electrical services to each NF Wells.
14. Supported the upgrade of the lighting system for Water Distribution Offices.

WATER RATES & FINANCIAL PLANNING

2015-2016 Biennial Budget

On December 9, 2014, the City Council unanimously approved the utility's 2015-2016 biennial budget. This budget has been under development by utility staff since late 2013, and includes provisions for 4 percent overall increases in both 2015 and 2016, as well as the introduction of a "hydrant service fee" for ratepayers inside the City of Tacoma. The capital portion of the budget was informed by data from our Strategic Asset Management Plans and Business Case Evaluations, tools that have been developed and utilized by staff across the organization for the first time. As the utility transitions out of a very capital intensive decade of system improvements into a more operational mode, it will be focused more on repairing and maintaining its capital infrastructure. It is for this reason that making decisions based on analytics in targeted areas is a major emphasis going forward, and the approval of the 2015-2016 budget represents a major step towards working across the organization to employ analytics in decision-making.

The approval of the 2015-2016 budget was developed in the context of a multi-year financial plan that includes a capital funding strategy that utilizes much of our capital fund balances to pay directly for capital projects in the coming decade. This will enable the utility to avoid issuing additional debt in order to reduce leverage over time.

Demand Forecasting

Development of updated short- and long-term demand forecasts was initiated in 2014, and has already provided valuable outputs that have informed our multi-year financial planning efforts. Ultimately, this will provide the utility with a documented, repeatable, and transparent process for conducting forecasting on 10- and 60-year horizons, and will enhance our ability to account for uncertainty in our system planning and water supply agreement development.

Wholesale Market Pricing and Service Offerings

For the past few years, Tacoma Water has been working to make use of near-term surplus water supply capacity to increase net revenues. In 2014, the utility conducted various stages of policymaker and customer review that enables the utility to move forward with the development of agreements that incorporate customer-specific terms for pricing, duration and seasonal characteristics, among other factors. While these agreements will need to be brought back for review and approval by both the Public Utility Board and City Council, the conceptual approach

has been endorsed by both policymaking bodies, and policy changes have been adopted to enable negotiations to proceed in good faith.

Tacoma Water also executed an agreement with the City of Auburn in 2014 to increase available wholesale capacity from 1.0 million gallons per day to 3.5 million gallons per day. While water purchased under this agreement is conventionally priced, the execution of this agreement is aligned with our objective to increase net revenue from wholesale sales.

DISTRIBUTION ENGINEERING

Economic Development and New Services

After a number of years of slow economic development activity in both the commercial and residential sectors, 2014 was a positive year for growth and development. As new homes were built on the inventory of already developed lots, work on new plats started back up. Although we had good activity in this area, it is still not where it was before the economic downturn in 2008. Economic development downtown Tacoma included additions of the UW Tacoma YMCA and the St. Joseph Medical Center expansion. Planning for the 2015 US Open at Chambers Bay Golf Course in University Place continued. Distribution Engineering staff, Tacoma's Community and Economic Development Department, Tacoma Pierce County Economic Development Board and the Port of Tacoma have been actively engaged in support of the region's economic development agenda.

In 2014, Tacoma Water developed an acquisition agreement with the Andrain Road Water Association (Andrain), presently a wholesale customer of Tacoma Water. Andrain operates a water system serving 59 residential customers in the vicinity of 128th Street East and 78th Avenue East in Pierce County. Due to the limited capacity of their water system, Andrain has not allowed new service connections within their service area. In response, the Washington State Department of Health required Andrain to develop a water system plan that would provide service for up to 150 service connections. In lieu of developing a new water system plan, Andrain requested Tacoma Water acquire their service area and provide direct retail service to their members. Following approval of the acquisition agreement by the Public Utility Board and City Council, Tacoma Water will begin the process of replacing the existing Andrain water system and provide direct retail service to customers within the Andrain service area. Replacement of the water system will be paid for through a customer surcharge upon those customers located within the Andrain service area.

Main Replacement Program

Progress continued in the area of distribution main replacements targeting mains with a history of breaks and substandard performance. A little less than 4 miles of distribution main were replaced in 2014. A considerable effort was invested in building an economic model for the distribution main strategic asset management plan. As refinements are made to that model over the next few years, mains targeted for rehabilitation or replacement will be an output of the model. The 2014 main projects were distributed throughout our service area, both within and outside the City of Tacoma.

Customer Service

In an effort to continuously improve service to our customers; many Water Distribution Engineering staff attended comprehensive customer service training offered through the American Water Works Association. Additionally, analysis of the consolidation of customer service functions for all Tacoma Public Utilities divisions led to a recommendation that development and permitting services all be located in a central location on the main floor of the

Utilities' Building. Design of the main floor lobby to support all TPU customer service functions was completed in 2014. Additionally, looking for opportunities to expedite permitting, online options have been developed by Distribution Engineering staff and have been rolled out in coordination with new software installed by the City for their development services. Finally, improvements to Tacoma Public Utilities' website include customer request forms for Tacoma Water services. Customer Relationship Management software was installed and is currently used to track all contacts with our key accounts.

Distribution Engineering staff worked with Metro Parks staff to design and construct a new main in Point Defiance Park to provide improved fire flow to Fort Nisqually. With the passage of a Capital Improvement Bond in 2014, Metro Parks is in the process of developing a master plan for Point Defiance Park. Tacoma Water is actively engaged in the determination of the best means of providing utility service to the Park.

DISTRIBUTION OPERATIONS

Construction

New service installations, increased to 943 in 2014 and the average number of new meter installs increased by 50% over 2013.

Water Service Supervisors continued to identify improvements to the planning and scheduling of construction work. By use of an electronic shared calendar, unscheduled and scheduled absences along with training are more able to be considered when scheduling jobs. A two-week job/project forecast is tracked in the same calendar which helps facilitate matching staffing levels to scheduled work. Real time afternoon updates provide the ability to modify planned work with additional personnel or equipment needs to be prepared for the next day. At 7:30 the next morning, last minute, emergency crew staffing/equipment adjustments can also be made to the planned work. The Mobile Dispatch screen is monitored for workload to determine if one or two man crew vacancies need to be backfilled. Once the planned work is reviewed and finalized, the magnetic staffing board is updated and displayed in the hallway.

Operations

In 2014, we had 54 main breaks, with an average response time of 29 minutes. Over half of the breaks occurred during cold, dry weather in November and December. Even with the increased main failures and significant number of frozen meters/pipes, our response to each event was quick and we received good feedback from customers.

In October of 2014, our crews did an outstanding job responding to a significant main break which required turning off service to our largest customer (Rock Tenn). The break occurred in the evening and caused flooding putting the intersection under several feet of water. Our first responders did an exceptional job of controlling the leak and securing the intersection.

Maintenance

Systematic flushing

In 2014, our unidirectional flush crews cleaned 201 miles of distribution mains, about a fifth of the system and in addition 2,282 dead end mains were flushed. We have a number of projects with a limited number of homes built in the projects and as a result we spent 80 days flushing in these areas to maintain good water quality.

Fire Hydrant Maintenance

All fire hydrants receive comprehensive maintenance every other year. Efficient routing, improved record keeping, replacement of old scissor style hydrants and a mature hydrant maintenance program has resulted in a high degree of hydrant reliability and low incidence of issues. In 2014, 3,079 hydrants were inspected and maintained.

Meters

In 2014, we started a pilot project to select a replacement for our antiquated analog phone read AMR system. We installed new cell phone based registers on eight meters in our water distribution system with good results. As a result, we are preparing to install forty six more on key meters using the Sensus PhoneRead system. The new system uses cellular technology to collect meter reading data in five minute increments and the data is stored on a cloud server for our use. Our Rates and Finance group is working to identify additional locations where we would benefit from the data these units will provide.

Fleet Improvements

To ensure the best possible service from Fleet Operations a service level agreement document was completed through collaboration (with the departure of the fleet manager this document was not signed). The document will be used as a tool to improve communications and expectations.

Linda McCrea
Water Superintendent



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