
JUNE

TACOMA WATER

2014

**FINANCIAL
REPORT**



Public Utility Board

DAVID NELSON

Chair

WOODROW JONES

Vice-Chair

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Secretary

MARK PATTERSON

Member

MONIQUE TRUDNOWSKI

Member

WILLIAM A. GAINES
Director of Utilities/CEO

LINDA MCCREA
Superintendent

ANDREW CHERULLO
Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Financial Statements

Summary

For the second quarter of 2014, Tacoma Water is reporting year-to-date operating income of \$19.0 million compared to \$24.2 million in 2013. Operating revenues decreased \$4.2 million (8.3%) and operating expenses increased \$1.0 million (3.6%). The year to date change in net position for 2014 was \$15.5 million compared to \$16.0 million 2013.

Revenues

Water sales revenues increased by \$3.0 million (10.8%) for the first six months of 2014 compared to the same period in 2013. Of this increase, approximately 57.1% is due to a system average rate increase of 6.0% effective January 1, 2014. The remaining 42.9% is due to increased volume. The following table summarizes the impacts of rate and volume changes on water sales revenue by customer class for the first three months of 2014.

Customer Class	Changes Related to:		YTD Increase
	Rate	Volume	(Decrease)
Residential and Domestic	\$ 1,767,650	\$ (64,227)	\$ 1,703,423
Commercial and Industrial	266,078	465,247	731,325
Special Rate - RockTenn	265,518	96,750	362,268
Other	(569,779)	799,758	229,979
Total	\$ 1,729,467	\$ 1,297,528	\$ 3,026,995

Consumption for the first six months of 2014 was 8,248 million gallons, compared to 7,779 million gallons in the same period in 2013. Regional Water Supply System (RWSS) partners received 1,493 million gallons year to date compared to 1,653 million gallons year to date in 2013. The following table summarizes water consumption by customer class year-to-date.

Customer Class	Millions of Gallons		YTD Increase	%
	2014	2013	(Decrease)	
Residential and Domestic	3,212.92	3,224.40	(11.48)	-0.4%
Commercial and Industrial	1,167.11	1,070.12	96.99	9.1%
Special Rate - RockTenn	2,989.84	2,878.01	111.83	3.9%
Other	878.45	606.03	272.42	45.0%
Total	8,248.32	7,778.56	469.76	6.0%

Contract resource obligation (CRO) revenue was \$11.1 million in 2014 compared to \$18.6 million in 2013. The \$7.5 million decrease is primarily due to less capital contributed by the CRO partners for construction of the Green River Filtration Facility.

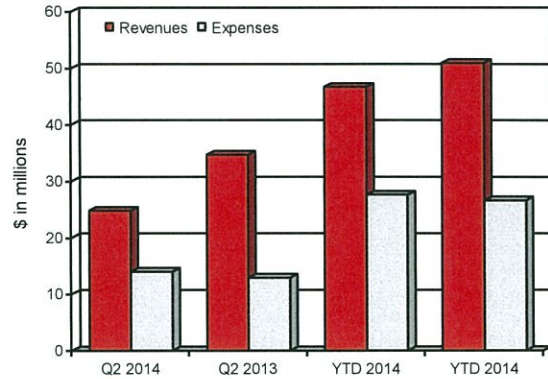
Expenses

Operating expenses were \$27.6 million for the first six months of 2014, an increase of \$1.0 million compared to 2013. This is largely due to increases in production and depreciation expenses. Total production expense increased \$0.7 million compared to 2013 primarily due to increases in labor and chemical costs. Several capital projects were postponed causing \$0.4 million less in labor cost to be charged to capital. The Groundwater Treatment Facility was started up late in 2013 and with

the unusual limitation of supply from the Green River/North Fork Wells the facility was run extensively into June this year resulting in an increased cost in chemical expense of \$82,000. Depreciation expense increased \$0.4 million year to date compared to the prior year due to an increase of \$28.3 million in depreciable assets capitalized in 2013.

Miscellaneous non-operating expense decreased \$1.0 million compared to the prior year which included \$1.1 million in debt issuance costs for the 2013 RWSS Refunding Bonds.

OPERATING REVENUES & EXPENSES




 William A. Gaines
 Director of Utilities/CEO


 Andrew Cherullo
 Finance Director

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

TACOMA WATER

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

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION - JUNE 30, 2014 AND JUNE 30, 2013

ASSETS	<u>2014</u>	<u>2013</u>
UTILITY PLANT		
Water Plant in Service	\$853,267,563	\$822,606,760
Less Depreciation and Amortization	(175,262,950)	(163,805,618)
Total	<u>678,004,613</u>	<u>658,801,142</u>
Construction Work in Progress	167,674,761	98,108,066
Net Utility Plant	<u>845,679,374</u>	<u>756,909,208</u>
NON-UTILITY PROPERTY	492,963	547,480
RESTRICTED ASSETS		
Cash and Equity in Pooled Investments:		
2009 Construction Fund	378	(372,488)
2010 Construction Fund	1,056,444	15,691,961
2010 RWSS Construction Fund	422,453	7,123,832
2013 Construction Fund	40,490,778	50,684,694
Regional Water Supply System Operating Fund	856,096	12,471,714
Provision for Debt Payment	8,407,915	8,100,261
Customer Water Main Deposits	3,020,902	2,923,183
Water Supply Forum Fund.....	438,745	438,214
Special Bond Reserves	22,094,039	22,091,476
Water Customer Contribution Fund	439,997	183,581
Water Capital Reserves	22,108,080	19,317,650
Water System Development Charge	53,477,770	53,479,447
Notes & Contracts Receivables - SDC	-	462,128
Total Restricted Assets	<u>152,813,597</u>	<u>192,595,653</u>
CURRENT ASSETS		
Cash and Equity in Pooled Investments:		
Current Fund	40,261,391	32,695,571
Working Funds	1,000	1,500
Customers' Deposits	268,206	269,305
Receivables:		
Customers	4,446,875	4,013,271
Accrued Unbilled Revenues	4,494,710	4,026,679
Others	4,104,567	8,702,862
BABs Interest Subsidies	320,064	320,064
Provision for Uncollectible Accounts	(537,427)	(438,343)
Materials and Supplies	2,458,372	2,272,931
Prepayments	392,090	451,796
Total Current Assets	<u>56,209,848</u>	<u>52,315,636</u>
TOTAL ASSETS	<u>1,055,195,782</u>	<u>1,002,367,977</u>
DEFERRED OUTFLOWS		
Regulatory Assets - Public Fire Protection Fees	3,378,095	4,346,195
Regulatory Assets - Hyada Surcharges	876,059	974,438
Unamortized Losses on Refunding Bonds	1,700,855	1,926,861
Total Deferred Outflows	<u>5,955,009</u>	<u>7,247,494</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$1,061,150,791</u></u>	<u><u>\$1,009,615,471</u></u>

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

NET POSITION AND LIABILITIES	<u>2014</u>	<u>2013</u>
NET POSITION		
Net Investment in Capital Assets	\$414,807,529	\$377,774,431
Restricted for:		
Water Capital Reserves	15,082,666	19,317,650
Water System Development Charge	18,364,451	19,417,782
Debt Service Funds	6,442,742	5,520,863
Unrestricted	<u>41,043,111</u>	<u>43,791,629</u>
TOTAL NET POSITION	495,740,499	465,822,355
LONG-TERM DEBT		
Revenue Bonds Outstanding:		
2005 Water Revenue Bonds Refunding	29,365,000	33,450,000
2009 Water Revenue Bonds	76,775,000	76,775,000
2010 Water Revenue Bonds Refunding	27,505,000	28,055,000
2010 Water Revenue Bonds	74,985,000	74,985,000
2013 Water Revenue Bonds Refunding	74,355,000	75,335,000
2010 RWSS Revenue Bonds, Series A	44,245,000	44,245,000
2010 RWSS Revenue Bonds, Series B	3,070,000	3,335,000
2013 RWSS Refunding Bonds	<u>62,765,000</u>	<u>63,835,000</u>
Total Outstanding Revenue Bonds	393,065,000	400,015,000
Plus: Unamortized Bond Premium	<u>14,902,501</u>	<u>16,404,432</u>
Net Outstanding Revenue Bonds	407,967,501	416,419,432
PWTF Pre-Construction Loans	5,728,363	1,441,477
PWTF Construction Loans	24,514,401	22,053,612
State Drinking Water Loan	<u>40,710,940</u>	<u>17,789,716</u>
Total Long-Term Debt	478,921,205	457,704,237
CURRENT LIABILITIES		
Salaries and Wages Payable	889,645	806,569
Purchases and Contracts Payable	6,311,936	6,881,626
Interest Expense Accrued	1,965,173	2,579,398
Taxes Accrued	1,361,855	1,224,332
Customers' and Contractors' Deposits	330,492	287,506
Current Portion of Long-Term Debt	10,888,319	9,681,966
Other Current Liabilities	2,800,000	2,690,048
Current Accrued Compensated Absences	<u>249,552</u>	<u>235,807</u>
Total Current Liabilities	24,796,972	24,387,252
LONG-TERM LIABILITIES		
Muckleshoot Agreements	7,320,231	7,515,530
Customer Advances for Construction	4,127,053	4,640,190
Unearned Revenue	8,830,956	8,884,975
Other Deferred Credits	3,592,461	2,963,227
Long Term Accrued Compensated Absences	<u>2,245,968</u>	<u>2,122,259</u>
Total Long-Term Liabilities	<u>26,116,669</u>	<u>26,126,181</u>
TOTAL LIABILITIES	<u>529,834,846</u>	<u>508,217,670</u>
DEFERRED INFLOWS		
Rate Stabilization	<u>35,575,446</u>	<u>35,575,446</u>
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS .	<u><u>\$1,061,150,791</u></u>	<u><u>\$1,009,615,471</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

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

	<u>June 2014</u>	<u>June 2013</u>
OPERATING REVENUES		
Sales of Water	\$5,609,100	\$5,409,987
Other Operating Revenues	762,597	699,208
Contract Resource Obligation Revenue	5,463,479	5,588,108
Total Operating Revenues	<u>11,835,176</u>	<u>11,697,303</u>
OPERATING EXPENSES		
Production Expense		
Source of Supply	519,326	395,464
Water Treatment	339,861	278,250
Total Production Expense	<u>859,187</u>	<u>673,714</u>
Power Pumping Expense	37,803	48,195
Transmission and Storage Expense	239,273	179,701
Distribution Expense	955,935	793,127
Customer Accounting and Consumer Service ...	319,651	296,103
Taxes	406,058	383,920
Depreciation	1,394,126	1,333,096
Administrative and General	612,716	561,148
Total Operating Expenses	<u>4,824,749</u>	<u>4,269,004</u>
OPERATING INCOME (LOSS)	7,010,427	7,428,299
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	132,861	143,001
Miscellaneous	(5,928)	(10,378)
Interest on Long-Term Debt	(1,381,322)	(1,434,155)
Interest on Long-Term Debt BABs Sub	(320,064)	(320,064)
Amortization Of Debt Premium	92,947	119,694
Interest Charged to Construction.....	617,867	57,472
Total Non-Operating Revenues (Expenses)	<u>(863,639)</u>	<u>(1,444,430)</u>
Net Income (Loss) Before Capital Contributions and Transfers	6,146,788	5,983,869
Capital Contributions		
Cash	445,063	305,809
Donated Fixed Assets	-	-
Federal BAB Subsidies	320,064	320,064
Transfers Out		
City Gross Earnings Tax	(502,909)	(451,360)
CHANGE IN NET POSITION	<u>\$6,409,006</u>	<u>\$6,158,382</u>
TOTAL NET POSITION - JANUARY 1		
TOTAL NET POSITION - JUNE 30		

YEAR TO DATE		2014 OVER (UNDER) 2013	PERCENT CHANGE
June 30 2014	June 30 2013		
\$ 30,950,080	\$ 27,923,085	\$3,026,995	10.8%
4,645,559	4,400,182	245,377	5.6%
11,089,478	18,594,097	(7,504,619)	-40.4%
<u>46,685,117</u>	<u>50,917,364</u>	<u>(4,232,247)</u>	-8.3%
2,912,064	2,465,143	446,921	18.1%
1,933,917	1,668,370	265,547	15.9%
<u>4,845,981</u>	<u>4,133,513</u>	<u>712,468</u>	17.2%
277,076	228,456	48,620	21.3%
1,429,012	1,505,283	(76,271)	-5.1%
5,506,190	5,467,027	39,163	0.7%
2,000,466	1,935,995	64,471	3.3%
1,688,267	1,661,054	27,213	1.6%
8,355,203	7,998,574	356,629	4.5%
3,538,139	3,742,295	(204,156)	-5.5%
<u>27,640,334</u>	<u>26,672,197</u>	<u>968,137</u>	3.6%
19,044,783	24,245,167	(5,200,384)	-21.4%
830,643	(34,077)	864,720	2537.5%
(274,298)	(1,232,075)	957,777	-77.7%
(8,400,827)	(8,232,992)	(167,835)	2.0%
(1,782,114)	(1,753,310)	(28,804)	1.6%
557,684	950,072	(392,388)	-41.3%
3,378,134	808,487	2,569,647	317.8%
<u>(5,690,778)</u>	<u>(9,493,895)</u>	<u>3,803,117</u>	-40.1%
13,354,005	14,751,272	(1,397,267)	-9.5%
2,652,298	1,911,270	741,028	38.8%
477,296	65,082	412,214	633.4%
1,782,116	1,753,310	28,806	1.6%
(2,814,189)	(2,516,715)	(297,474)	11.8%
15,451,526	15,964,219	(512,693)	-3.2%
<u>480,288,973</u>	<u>449,858,136</u>		
<u>\$495,740,499</u>	<u>\$465,822,355</u>		

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

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

	<u>JUNE</u> 2014	<u>JUNE</u> 2013
SALES OF WATER		
Residential and Domestic	\$3,921,030	\$3,568,560
Commercial and Industrial	987,801	952,657
Special Rate - RockTenn	232,473	440,574
Municipal	34,564	38,246
Other Public Buildings and Grounds	203,158	194,156
Sales to Other Utilities	<u>230,074</u>	<u>215,794</u>
Total	<u><u>\$5,609,100</u></u>	<u><u>\$5,409,987</u></u>

BILLINGS (NUMBER OF MONTHS BILLED)

Residential and Domestic	99,008	94,983
Commercial and Industrial	5,422	5,357
Municipal	223	228
Other Public Buildings and Grounds	434	414
Sales to Other Utilities	<u>18</u>	<u>16</u>
Total	<u><u>105,105</u></u>	<u><u>100,998</u></u>

YEAR TO DATE		2014 OVER (UNDER) 2013	PERCENT CHANGE
JUNE 2014	JUNE 2013		
\$19,751,780	\$18,048,357	\$1,703,423	9.4%
5,864,048	5,132,723	731,325	14.2%
2,851,892	2,489,624	362,268	14.6%
196,653	216,609	(19,956)	-9.2%
879,546	806,999	72,547	9.0%
<u>1,406,161</u>	<u>1,228,773</u>	<u>177,388</u>	14.4%
<u>\$30,950,080</u>	<u>\$27,923,085</u>	<u>\$3,026,995</u>	10.8%
555,995	545,236	10,759	2.0%
34,610	33,905	705	2.1%
1,280	1,237	43	3.5%
2,476	2,389	87	3.6%
<u>114</u>	<u>109</u>	<u>5</u>	4.6%
<u>594,475</u>	<u>582,876</u>	<u>11,599</u>	2.0%

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

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

	MILLION GALLONS, TOTAL			
	JUNE	JUNE	YEAR TO DATE	
	2014	2013	JUNE 2014	JUNE 2013
WATER BILLED				
Residential and Domestic	681.85	677.79	3,212.92	3,224.40
Commercial and Industrial	218.32	219.99	1,167.11	1,070.12
Special Rate - RockTenn ...	493.94	485.20	2,989.84	2,878.01
Municipal	4.66	5.96	27.70	41.39
Other Public Bldgs and Grounds	43.37	45.19	159.37	154.25
Sales to Other Utilities	116.85	40.54	691.38	410.39
	1,558.99	1,474.67	8,248.32	7,778.56

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

MILLION GALLONS, AVERAGE DAILY

<u>JUNE</u> <u>2014</u>	<u>JUNE</u> <u>2013</u>
22.73	22.59
7.28	7.33
16.46	16.17
0.16	0.20
1.45	1.51
<u>3.90</u>	<u>1.35</u>
<u><u>51.98</u></u>	<u><u>49.15</u></u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$49,286,139	\$51,538,431
Cash Paid to Suppliers	(18,607,779)	(17,840,342)
Cash Paid to Employees	(10,479,023)	(10,239,482)
Taxes Paid	(1,956,331)	(2,032,512)
Net Cash From		
Operating Activities	18,243,006	21,426,095
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(2,814,189)	(2,516,715)
Net Cash From Non-Capital		
Financing Activities	(2,814,189)	(2,516,715)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(37,128,629)	(41,181,943)
Proceeds from State Drinking Water Loan	24,270,473	2,197,735
Proceeds from Sale of Bonds	-	143,100,000
Debt Issuance Costs	(300,000)	(1,633,388)
Premium on Sale of Bonds	-	12,889,179
Principal Payments on Long-Term Debt and Bonds ...	(555,556)	-
Principal Payments on Muckleshoot LT Liability ...	(200,182)	(820,747)
Payments for Early Extinguishment of Debt	-	(101,210,000)
Interest Paid	(10,010,397)	(9,513,959)
System Development Charges, CIAC and Other	2,759,836	2,058,561
BABs Federal Interest Subsidies	1,782,116	1,753,310
Net Cash From Capital and		
Related Financing Activities	(19,382,339)	7,638,748
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	830,643	(34,077)
Other Net Non-Op Revenues and Expenses	25,702	68,730
Net Cash From Investing Activities	856,345	34,653
Net Change in Cash and Equity in		
Pooled Investments	(3,097,177)	26,582,781
Cash & Equity in Pooled Investments at January 1 ...	196,441,371	198,517,120
Cash & Equity in Pooled Investments at June 30	\$193,344,194	\$225,099,901

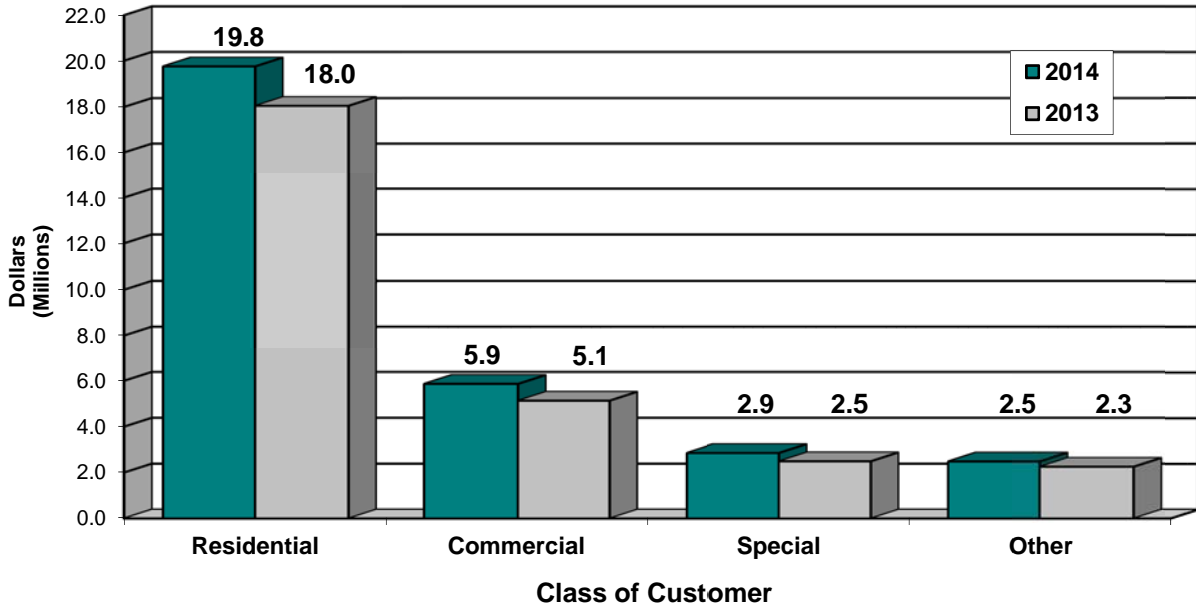
The accompanying notes are an integral part of these financial statements.

	YEAR TO DATE	
	2014	2013
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$19,044,783	\$24,245,167
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	8,355,203	7,998,574
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(590,269)	(1,774,628)
Interfund Receivables	8,815,962	947,380
Regulatory Asset-Public Fire Protection Fees	377,930	(71,603)
Regulatory Asset-Hyada Surcharges.....	47,515	51,155
Materials and Supplies	(121,724)	68,243
Prepayments	163,100	150,810
Unearned Rental Revenues	2,767,198	2,416,598
Accrued Taxes	(268,064)	(371,458)
Salaries, Wages and Fringe Benefits Payable	(73,464)	(21,225)
Customers' Deposits	(1,352)	(455)
Accrued Expenses and Contracts Payable	(10,516,482)	(10,841,402)
Interfund Payables	(9,757,330)	(1,371,061)
Total Adjustments	(801,777)	(2,819,072)
Net Cash From Operating Activities	<u>\$18,243,006</u>	<u>\$21,426,095</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$152,813,597	\$192,133,525
Cash and Equity in Pooled Investments in Operating Funds	<u>40,530,597</u>	<u>32,966,376</u>
Cash and Equity in Pooled Investments at June 30	<u>\$193,344,194</u>	<u>\$225,099,901</u>

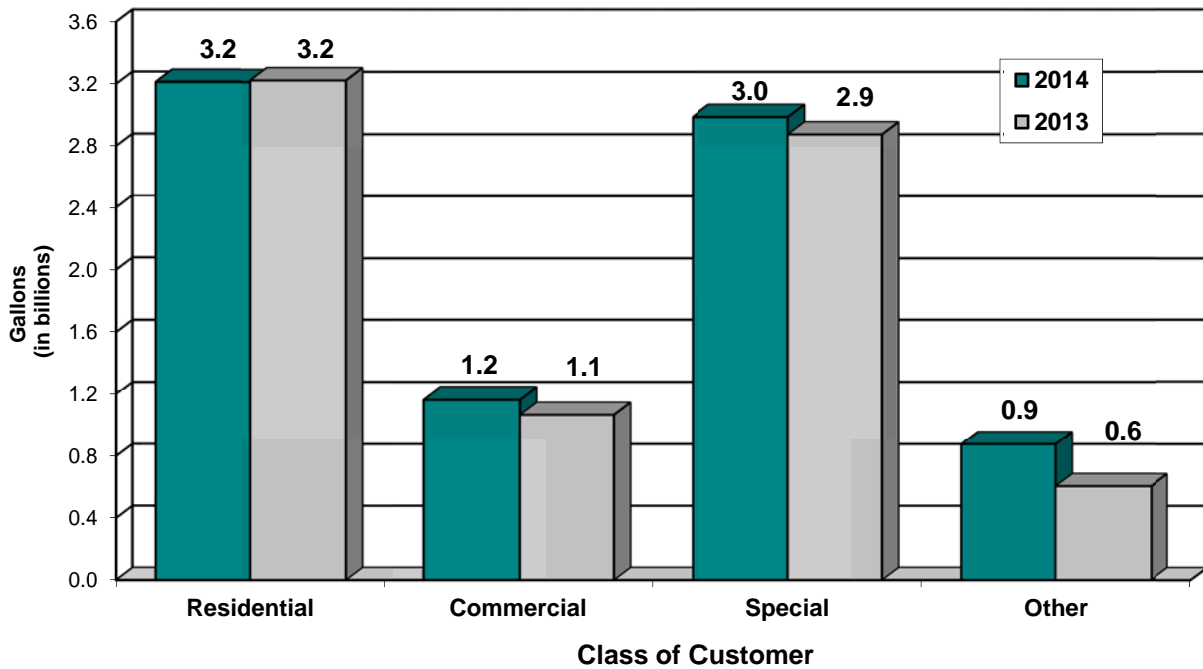
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Supplemental Data

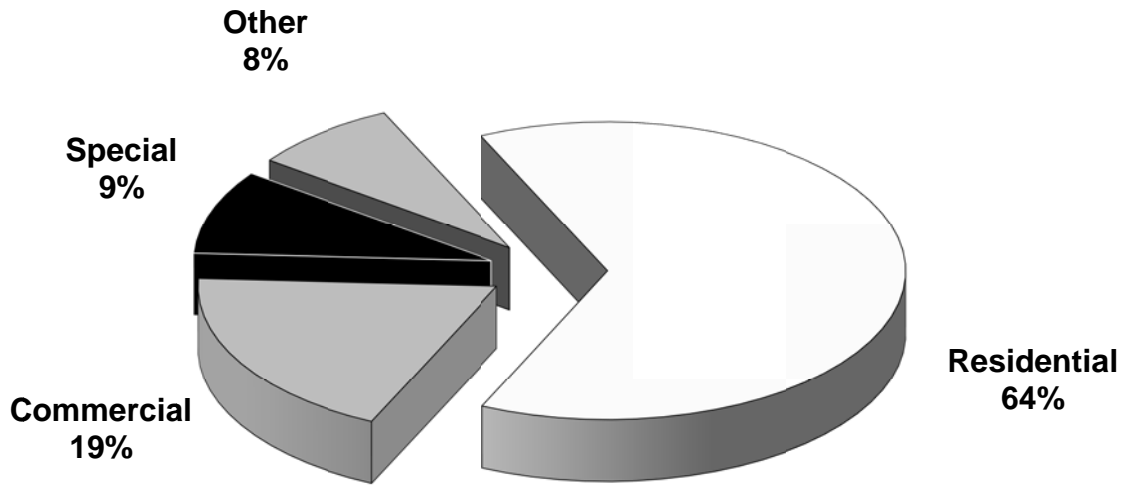
WATER SALES
Year to Date - June 2014 & 2013



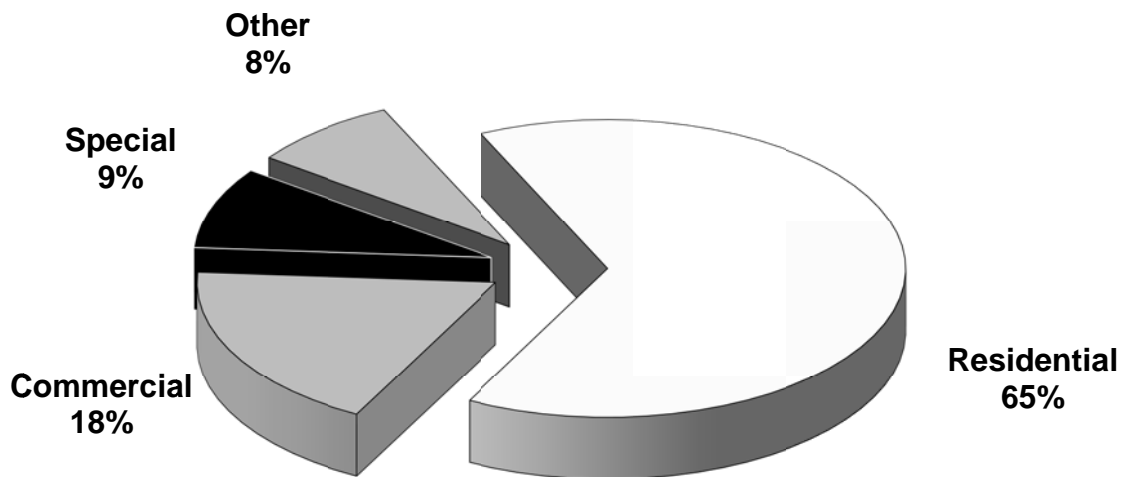
WATER CONSUMPTION
Year to Date - June 2014 & 2013



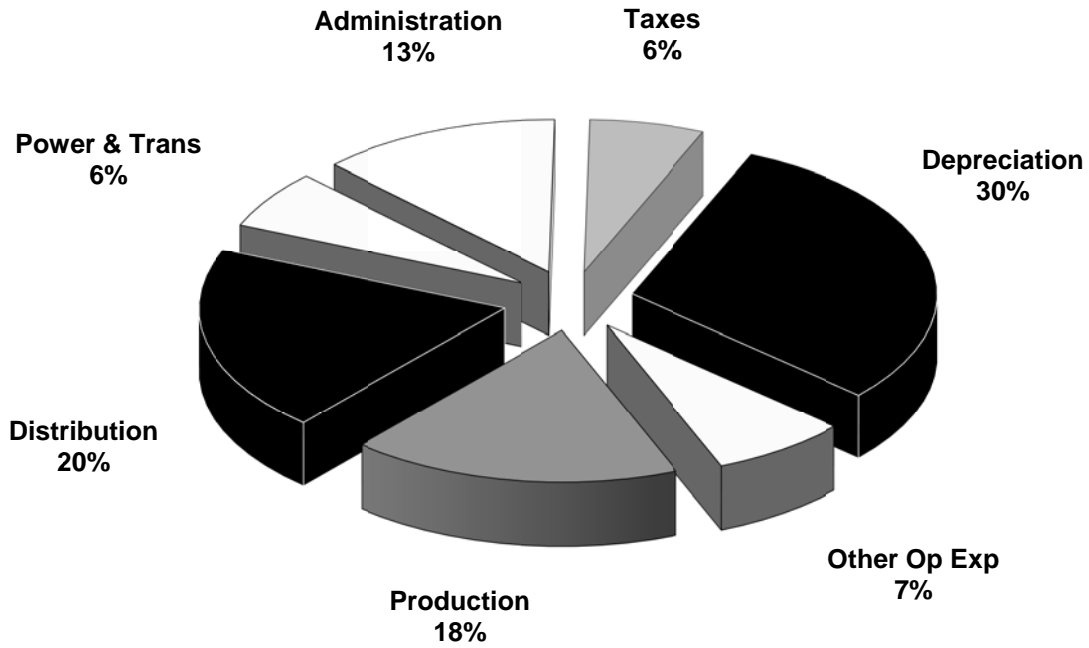
WATER SALES
Year to Date - June 2014
(\$30,950,080)



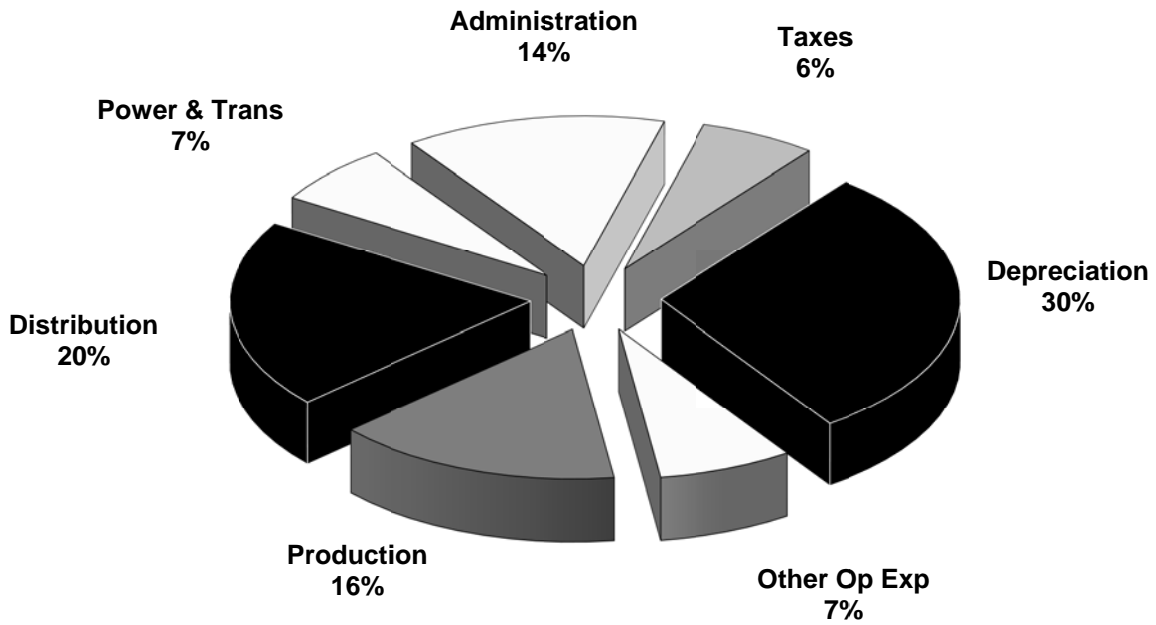
WATER SALES
Year to Date - June 2013
(\$27,923,085)



TOTAL OPERATING EXPENSES
Year to Date - June 2014
(\$27,640,334)



TOTAL OPERATING EXPENSES
Year to Date - June 2013
(\$26,672,197)





The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.