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*ANNUAL*

*TACOMA WATER*

2015

**FINANCIAL  
REPORT**





# Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES  
CITY OF TACOMA



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES

# 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, 2015 and 2014, 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, 2015 and 2014, 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.

### **Emphasis of Matter**

#### *Change in Accounting Principle*

As discussed in Note 2 to the financial statements, effective January 1, 2015, the Division adopted requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The beginning net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *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, schedule of proportionate share of net pension liability on page 46, and schedule of the city of Tacoma's contributions employer contributions on page 46 be presented to supplement the basic 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 48 through 67 and the superintendent's report presented on pages 68 through 80 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 express no opinion on it.



Tacoma, Washington  
April 1, 2016

## 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, 2015 and 2014. 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, 2015 and 2014, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of 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.

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

### Financial Highlights

- The net position of Tacoma Water was \$542.5 million in 2015, \$516.7 million in 2014 and \$480.3 million in 2013. Of these amounts, \$53.8 million in 2015, \$46.7 million in 2014, and \$37.9 million in 2013 were available to meet Tacoma Water's ongoing obligations to citizens and creditors.
- Tacoma Water's total net positions increased by \$24.7 (32.0%) million in 2015, \$36.4 (7.6%) million in 2014 and \$30.4 (6.8%) million in 2013.

- Operating revenues were \$98.1 million in 2015, a decrease of \$0.2 million (0.2%) compared to 2014. While sales revenue increased by \$7.3 million, contract resource obligation revenue decreased by (\$7.5) million because the Green River Filtration Facility is complete and the partners were billed less. Operating revenues were \$98.3 million in 2014, an increase of \$2.2 million (2.3%) compared to \$96.1 million in 2013. This increase is due to an average rate increase of 6.0% that went into effect January 1, 2014.
- In 2015, Tacoma Water's net utility plant of \$884.7 million represented an increase of \$12.6 million (1.4%) over the 2014 \$872.1 million balance. In 2014, net utility plant was \$59.0 million (7.3%) more than 2013's \$813.1 million balance. Major projects contributing to the increases include the Green River Water Filtration Facility and Main Replacements.

### Overview of the Financial Statements

Tacoma Water reported net operating income of \$34.6, \$39.8 and \$40.2 million in 2015, 2014 and 2013 respectively. In 2015, operating revenues increased by \$0.2 million and operating expenses increased \$5.0 million. For 2014, operating revenues increased \$2.2 million and operating expenses increased \$2.7 million compared to 2013.

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

### Operating Results (In thousands)

Category	2015	2014	2013	15/14 Increase (Decrease)	14/13 Increase (Decrease)
Operating Revenues	\$ 98,139	\$ 98,320	\$ 96,119	\$ (181)	\$ 2,201
Operating Expenses	63,588	58,557	55,897	5,031	2,660
Net Operating Income	34,551	39,763	40,222	(5,212)	(459)
Net Non-Operating Income (Expense)	(15,595)	(9,657)	(14,580)	(5,938)	4,923
Capital Contributions	9,053	8,671	7,139	382	1,532
Federal BAB Subsidies & Grants	3,610	3,959	3,572	(349)	387
Transfers Out	(6,874)	(6,352)	(5,922)	(522)	(430)
Change in Net Position	\$ 24,745	\$ 36,384	\$ 30,431	\$ (11,639)	\$ 5,953

**Gallons Billed**  
(In millions)

Type of Customer	2015	2014	2013	15/14	14/13
				Increase (Decrease)	Increase (Decrease)
Residential	8,486.7	7,968.7	7,761.2	518.0	207.5
Commercial & Industrial	8,994.1	9,118.6	8,787.8	(124.5)	330.8
Municipal & Wholesale	1,959.0	1,256.2	1,278.8	702.8	(22.6)
<b>Total</b>	<b>19,439.8</b>	<b>18,343.5</b>	<b>17,827.8</b>	<b>1,096.3</b>	<b>515.7</b>

**Net Position**

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

**Statements of Net Position**  
(In thousands)

Description	2015	2014	2013	15/14	14/13
				Increase (Decrease)	Increase (Decrease)
Net utility & Non-Utility Plant	\$ 885,214	\$ 872,576	\$ 813,543	\$ 12,638	\$ 59,033
Current & Other Assets	212,475	208,947	225,068	3,528	(16,121)
<b>Total Assets</b>	<b>1,097,689</b>	<b>1,081,523</b>	<b>1,038,611</b>	<b>16,166</b>	<b>42,912</b>
Deferred Outflows	4,003	1,588	1,814	2,415	(226)
<b>Total Assets &amp; Deferred Outflows</b>	<b>\$ 1,101,692</b>	<b>\$ 1,083,111</b>	<b>\$ 1,040,425</b>	<b>\$ 18,581</b>	<b>\$ 42,686</b>
<b>Net Position:</b>					
Net Investment in Capital Assets	\$ 485,977	\$ 468,209	\$ 409,638	\$ 17,768	\$ 58,571
Restricted	2,733	1,797	32,703	936	(30,906)
Unrestricted	53,792	46,667	37,948	7,125	8,719
<b>Total Net Position</b>	<b>542,502</b>	<b>516,673</b>	<b>480,289</b>	<b>25,829</b>	<b>36,384</b>
Long-Term Debt	478,401	483,542	455,877	(5,141)	27,665
Current & Other LT Liabilities	44,283	47,321	68,684	(3,038)	(21,363)
<b>Total Liabilities</b>	<b>522,684</b>	<b>530,863</b>	<b>524,561</b>	<b>(8,179)</b>	<b>6,302</b>
Deferred Inflows	36,506	35,575	35,575	931	-
<b>Total Net Position, Liabilities &amp; Deferred Inflows</b>	<b>\$ 1,101,692</b>	<b>\$ 1,083,111</b>	<b>\$ 1,040,425</b>	<b>\$ 18,581</b>	<b>\$ 42,686</b>

**Revenues**

Tacoma Water's operating revenues were \$98.1 million in 2015, a decrease of (\$0.2) million (0.2%) compared to 2014. Sales of water increased in 2015 by \$7.3 million of which \$1.2 million is due to an average rate increase of 4.0% effective April 1, 2015 and \$6.0 million is due to an increase in usage. This is offset by a decrease in contract resource obligations of \$7.5 million. The construction of the Green River Filtration Facility is complete and the partners were billed less.

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.

The following table highlights water sales by type of customer for 2015, 2014 and 2013.

**Water Sales**  
(In thousands)

Type of Customer	2015	2014	2013	15/14 Increase (Decrease)	14/13 Increase (Decrease)
Residential & Domestic	\$ 48,258	\$ 44,585	\$ 40,928	\$ 3,673	\$ 3,657
Commercial & Industrial	16,751	15,022	13,508	1,729	1,514
Special Rate	5,951	5,802	5,242	149	560
Municipal	488	455	446	33	9
Wholesale	5,192	3,718	3,520	1,474	198
Unbilled Revenue	319	121	468	198	(347)
<b>Total</b>	<b>\$ 76,959</b>	<b>\$ 69,703</b>	<b>\$ 64,112</b>	<b>\$ 7,256</b>	<b>\$ 5,591</b>

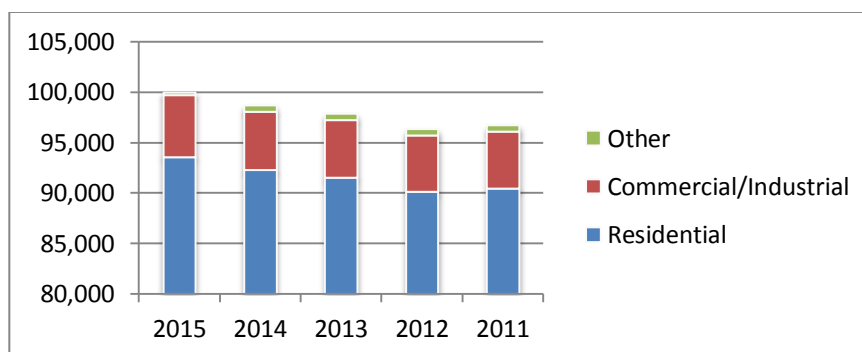
Approximately 62.7%, 64.0% and 63.8% of water sales were to residential and domestic customers in 2015, 2014 and 2013 respectively. Commercial and industrial sales were 21.8%, 21.6% and 21.1% of total sales for each year. Special rate sales were 7.7%, 8.3%, 8.2% of sales respectively.

**Customers**

Over the last five years, the overall number of customers has remained relatively stable. In 2015, 93.6% of all customers were residential compared to 93.5% in 2014 and 93.6% in 2013. Commercial and industrial customers were 6.2% of all customers in 2015 and 2014 and 5.8% in 2013. The remaining customer classes were 0.2% of all customers in 2015, 0.3% in 2014 and 0.6% in 2013.

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

**Number of Customers**

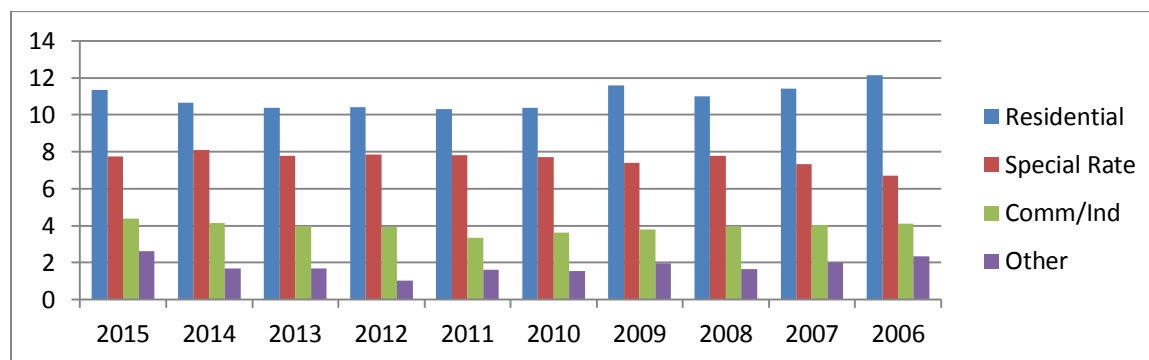


## Water Users

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 2015, 2014 and 2013 residential customers used 11.3 million CCF (43.5%), 10.7 million CCF (43.4%) and 10.4 million CCF (43.5%) of total sales respectively. Special Rate customers used approximately 7.7 million CCF (29.7%), 8.1 million CCF (33.0%) and 7.8 million CCF (32.7%) respectively. Commercial and industrial customers used 4.4 million CCF (16.8%), 4.1 million CCF (16.8%) and 3.4 million CCF (14.2%) respectively. The remaining 2.6 million CCF (10.0%), 1.7 million CCF (6.8%) and 2.3 million CCF (9.6%) 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 2015, operating expenses increased \$5.0 million (8.6%), compared to an increase of \$2.7 million (4.8%) in 2014. Not only did the Green River Filtration Facility come online in 2015 but a statewide drought was declared as well. Source of Supply experienced the largest increase, \$1.7 million (26.6%). Two major projects during the drought were the purchase of water from Lakehaven, \$0.6 million, and the pumping of Eagle Lake, \$0.3 million. Source of Supply also experienced an increase in labor, approximately \$0.7 million, as labor was shifted from Transmission to Source.

Treatment saw an increase this year of \$1.1 million (28.3%) compared to 2014. Most of this increased cost of treatment can be attributed to the Green River Filtration Facility coming online. This shift in focus from capital to maintenance caused labor to increase by \$0.9 million. The drought also played a part by causing the need to purchase additional chemicals, \$0.2 million, to treat well water.

Power Pumping experienced an increase of \$0.3 million largely due to increased electricity expense due to the drought.

Administrative and General expense increased \$0.7 million (8.1%). In 2015, the department filled previously vacant positions causing a \$0.5 million increase in labor expense. Insurance expense also increased by \$0.2 million because Tacoma Water is now insuring the Plant and other facilities in the Headworks.

Due to the shift in focus from capital to maintenance, Distribution saw an increase of \$0.3 million. However, Transmission experienced a decrease of (\$0.2) million because labor was shifted from Transmission to Source of Supply.

Depreciation expense increased by \$0.3 million (1.9%) in 2015 due to an increase in depreciable assets of \$17.8 million during 2014.

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.

The following table highlights Tacoma Water's operating expenses for 2015 – 2013.

<b>Operating Expenses</b>					
(In thousands)					
Category	2015	2014	2013	15/14 Increase (Decrease)	14/13 Increase (Decrease)
Production Expense					
Source of Supply	\$ 8,015	\$ 6,333	\$ 5,483	\$ 1,682	\$ 850
Water Treatment	4,978	3,879	3,674	1,099	205
Total Production Expense	12,993	10,212	9,157	2,781	1,055
Power Pumping Expense	847	568	426	279	142
Transmission & Storage Expense	2,826	2,979	2,793	(153)	186
Distribution Expense	11,881	11,540	11,476	341	64
Customer Accounting & Service	4,327	4,435	3,930	(108)	505
Taxes	4,681	3,779	3,919	902	(140)
Depreciation	17,103	16,784	16,072	319	712
Administrative & General	8,930	8,259	8,124	671	135
Total Operating Expense	<u>\$ 63,588</u>	<u>\$ 58,556</u>	<u>\$ 55,897</u>	<u>\$ 5,032</u>	<u>\$ 2,659</u>



## Capital Assets

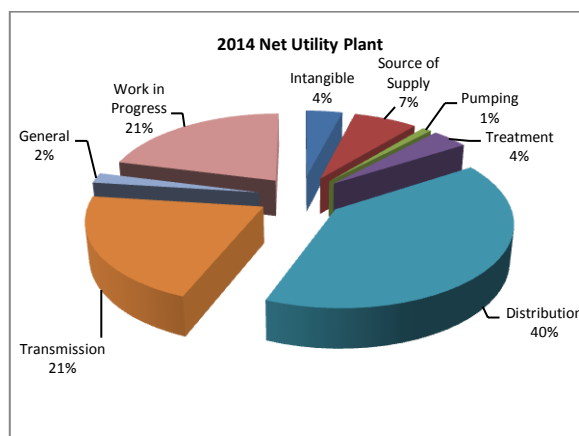
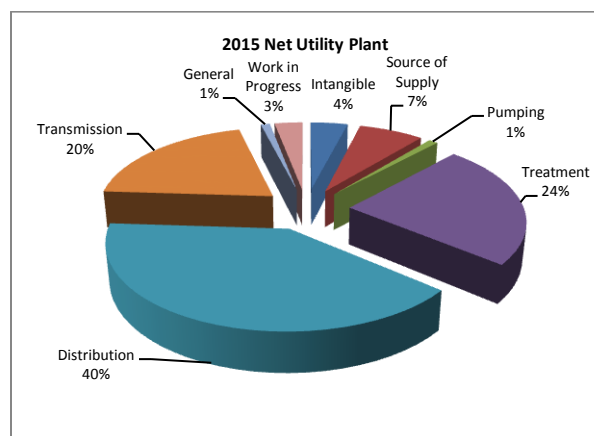
Tacoma Water invests in a broad range of utility assets and at the end of 2015 had \$884.7 million in net utility plant, an increase of \$12.6 million from 2014. Plant in Service increased \$192.3 million primarily due to the completion and capitalization of the Green River Filtration Facility. The capitalization of the new facility also attributed to the decrease of \$165.7 million in construction work in progress. In 2014, Tacoma Water had \$872.1 million in net utility plant, an increase of \$59.0 million compared to 2013 which was primarily the filtration plant still considered as construction work in progress. In 2015, 11.7 miles of water main were added or replaced compared to 11.5 miles in 2014, and 12.8 miles in 2013. Construction was completed on 17 private contracts in 2015, resulting in 5.87 miles; 18 private contracts in 2014, added 7.55 miles; and 14 private contracts in 2013, added 4.86 miles.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for 2015 – 2013.

**Capital Assets, Net of Accumulated Depreciation**  
(In thousands)

	2015	2014	2013	15/14 Increase (Decrease)	14/13 Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 36,368	\$ 36,006	\$ 35,484	\$ 362	\$ 522
Source of Supply Plant	60,534	62,218	59,653	(1,684)	2,565
Pumping Plant	5,542	5,748	5,862	(206)	(114)
Water Treatment Plant	213,512	36,260	37,963	177,252	(1,703)
Transmission Plant	180,209	183,974	186,959	(3,765)	(2,985)
Distribution Plant	355,557	348,655	340,470	6,902	8,185
General Plant	12,368	12,868	13,987	(500)	(1,119)
Construction Work In Progress	20,631	186,354	132,673	(165,723)	53,681
<b>Total</b>	<b>\$ 884,721</b>	<b>\$ 872,083</b>	<b>\$ 813,051</b>	<b>\$ 12,638</b>	<b>\$ 59,032</b>

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investments in 2015 and 2014.



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

## Debt Administration

At December 31, 2015 Tacoma Water had outstanding revenue bond obligations of \$399.9 million (net of unamortized bond premiums), a decrease of \$7.4 million compared to 2014. Tacoma Water issued \$23.0 million of Water System Refunding Bonds in May 2015. As of year-end 2014, the Utility had outstanding revenue bond obligations of \$407.3 million (net of unamortized bond premiums); a decrease of \$8.3 million compared to 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 a debt service coverage ratio of 1.25 for principle and interest. Debt service coverage ratios (excluding RWSS) were 2.33, 2.14, and 1.72 in 2015, 2014 and 2013 respectively.

At the end of 2015, Tacoma Water had an outstanding State loan balance of \$89.0 million compared to \$86.7 million in 2014 and \$51.0 million in 2013. During 2015, Tacoma Water received \$6.4 million in Drinking Water State Revolving Fund (DWSRF) Loans. In 2015, Tacoma Water received \$6.3 million against the 2013 Fall DWSRF Loan and the \$0.1 million fee was recognized for the 2015 DWSRF Loan. These loans were specifically for the Green River Filtration Facility.


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

	DECEMBER 31,	
ASSETS AND DEFERRED OUTFLOWS	2015	2014
<b>UTILITY PLANT</b>		
In Service, at Original Cost .....	\$1,058,533,815	\$866,279,607
Less - Accumulated Depreciation .....	(194,443,324)	(180,549,889)
Total .....	864,090,491	685,729,718
Construction Work In Progress .....	20,630,616	186,353,639
Net Utility Plant .....	884,721,107	872,083,357
<b>NON-UTILITY PROPERTY</b> .....	492,963	492,963
<b>SPECIAL FUNDS</b>		
Construction Funds .....	33,587,187	39,509,127
Debt Service Funds .....	3,633,933	3,597,672
Bond Reserve Funds .....	22,037,730	22,110,124
System Development Charge Fund .....	55,889,603	53,255,060
Other Cash & Equity in Pooled Investments .....	28,161,316	27,968,224
Total Special Funds .....	143,309,769	146,440,207
<b>CURRENT ASSETS</b>		
Operating Funds Cash and Equity in		
Pooled Investments .....	49,778,192	45,768,035
Accounts Receivable .....	5,321,184	4,632,733
(Net of Allowance for Doubtful Accounts of \$287,805 in 2015 and \$258,344 in 2014)		
BABs Interest Subsidies Receivable .....	298,300	320,064
Accrued Unbilled Revenues .....	4,935,000	4,616,056
Materials and Supplies .....	2,487,075	2,401,523
Interfund Receivable .....	686,030	292,294
Prepayments.....	970,331	706,564
Total Current Assets .....	64,476,112	58,737,269
<b>OTHER ASSETS</b>		
Regulatory Asset-Public Fire Protection Fees ...	2,124,573	2,940,674
Regulatory Asset-Surcharges .....	1,683,348	828,534
Net Pension Asset .....	881,279	-
Total Other Assets .....	4,689,200	3,769,208
 TOTAL ASSETS .....	 1,097,689,151	 1,081,523,004
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized Losses on Refunding Bonds .....	1,910,392	1,587,851
Deferred Outflows for Pensions .....	2,092,307	-
Total Deferred Outflows of Resources .....	4,002,699	1,587,851
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b> .....	\$1,101,691,850	\$1,083,110,855

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

	DECEMBER 31,	
NET POSITION, LIABILITIES AND DEFERRED INFLOWS	2015	2014
<b>NET POSITION</b>		
Net Investment in Capital Assets .....	\$446,537,863	\$434,283,342
Restricted for:		
Water Capital and System Development Charge ....	39,439,003	33,925,829
Debt Service Funds .....	1,852,099	1,797,057
Net Pension Asset .....	881,279	-
Unrestricted .....	53,791,579	46,667,017
Total Net Position .....	<u>542,501,823</u>	<u>516,673,245</u>
<b>LONG-TERM DEBT</b>		
Revenue Bonds .....	393,841,093	400,991,813
Public Works Trust Fund Loans .....	25,404,777	28,101,548
Drinking Water State Revolving Fund Loan .....	59,154,872	54,448,644
Total Long-Term Debt .....	<u>478,400,742</u>	<u>483,542,005</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt .....	10,490,543	10,442,544
Current Maturities of Long-Term Liabilities .....	190,536	195,299
Accrued Taxes .....	1,863,652	1,405,334
Accrued Expenses and Contracts Payable .....	1,418,870	4,015,959
Salaries, Wages and Fringe Benefits Payable .....	584,328	1,293,035
Interest Payable .....	1,781,834	1,800,615
Customers' Deposits .....	348,793	275,591
Interfund Payables .....	1,582,992	1,339,199
Total Current Liabilities .....	<u>18,261,548</u>	<u>20,767,576</u>
<b>LONG-TERM LIABILITIES</b>		
Muckleshoot Agreements .....	7,129,695	7,320,231
Customer Advances for Construction .....	4,502,578	4,338,242
Unearned Revenue .....	7,905,152	8,573,685
Long-Term Accrued Compensated Absences .....	2,340,426	2,300,497
Other Long-Term Liabilities .....	4,144,086	4,019,927
Total Long-Term Liabilities .....	<u>26,021,937</u>	<u>26,552,582</u>
TOTAL LIABILITIES .....	<u>522,684,227</u>	<u>530,862,163</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate Stabilization .....	35,575,447	35,575,447
Deferred Inflows for Pensions .....	930,353	-
Total Deferred Inflows of Resources .....	<u>36,505,800</u>	<u>35,575,447</u>
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	<u><u>\$1,101,691,850</u></u>	<u><u>\$1,083,110,855</u></u>

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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,	
	2015	2014
<b>OPERATING REVENUES</b>		
Sale of Water .....	\$76,959,187	\$69,702,657
Other Operating Revenues .....	9,487,934	9,454,498
Contract Resource Obligation Revenues .....	11,691,703	19,162,799
Total Operating Revenues .....	98,138,824	98,319,954
<b>OPERATING EXPENSES</b>		
Operations .....	15,553,845	15,087,555
Production .....	12,992,883	10,212,403
Administrative and General .....	13,257,505	12,693,605
Depreciation .....	17,102,664	16,783,698
Taxes .....	4,681,114	3,779,373
Total Operating Expenses .....	63,588,011	58,556,634
Net Operating Income .....	34,550,813	39,763,320
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income .....	1,112,850	1,718,226
Other .....	(30,042)	537,052
Interest on Long-Term Debt .....	(20,022,582)	(20,363,130)
Amortization of Premium and Loss on Refunding ..	1,678,959	1,115,369
Interest Charged to Construction .....	1,665,978	7,335,911
Total Non-Operating Expenses .....	(15,594,837)	(9,656,572)
Net Income Before Capital Contributions and Transfers .....	18,955,976	30,106,748
Capital Contributions		
Cash .....	6,442,694	5,002,301
Donated Fixed Assets .....	2,609,980	3,668,338
Federal BAB Subsidies .....	3,548,228	3,562,311
Grants .....	61,478	397,135
Transfers		
City of Tacoma Gross Earnings Tax .....	(6,778,140)	(6,274,494)
Transfer to/from Other Funds .....	(95,327)	(78,067)
<b>CHANGE IN NET POSITION</b> .....	24,744,889	36,384,272
<b>NET POSITION - BEGINNING OF YEAR</b> .....	516,673,245	480,288,973
<b>ACCUMULATED ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE</b> .....	1,083,689	
<b>TOTAL NET POSITION - BEGINNING OF YEAR, AS ADJUSTED</b> .....	517,756,934	
<b>TOTAL NET POSITION - END OF YEAR</b> .....	\$542,501,823	\$516,673,245

*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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers .....	\$97,165,918	\$101,860,957
Cash Paid to Suppliers .....	(20,972,089)	(28,543,337)
Cash Paid to Employees .....	(25,556,817)	(22,288,493)
Taxes Paid .....	(4,222,796)	(4,003,959)
Net Cash From		
Operating Activities .....	46,414,216	47,025,168
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer to Other Funds .....	(95,327)	(78,067)
Transfer Out for Gross Earnings Tax .....	(6,778,140)	(6,274,494)
Net Cash From Non-Capital		
Financing Activities .....	(6,873,467)	(6,352,561)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures, net.....	(25,464,456)	(64,812,288)
Proceeds from State Drinking Water Loan .....	6,420,000	39,570,473
Proceeds from Sale of Bonds .....	23,010,000	-
Debt Issuance Costs .....	(986,513)	(299,999)
Premium on Sale of Bonds .....	2,921,513	-
Principal Payments on Long-Term Debt .....	(10,442,545)	(10,814,544)
Principal Payments on Muckleshoort LT Liability ..	(195,300)	(200,182)
Payments on Refunding of Bonds .....	(25,065,000)	-
Interest Paid .....	(20,041,363)	(20,355,144)
BABs Federal Interest Subsidies .....	3,569,992	3,562,311
Grants Received .....	61,478	397,135
Contributions in Aid of Construction .....	6,442,694	5,002,301
System Development Charges & Other LT Liabilities.	(380,032)	488,922
Net Cash From Capital and		
Related Financing Activities .....	(40,149,532)	(47,461,015)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments .....	1,112,850	1,718,226
Other Net Non-Op Revenues and Expenses .....	375,652	837,053
Net Cash From Investing Activities .....	1,488,502	2,555,279
Net Change in Cash and Equity in		
Pooled Investments .....	879,719	(4,233,129)
Cash & Equity in Pooled Investments at January 1 ...	192,208,242	196,441,371
Cash & Equity in Pooled Investments at December 31 .	\$193,087,961	\$192,208,242

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



	YEAR ENDED DECEMBER 31,	
	2015	2014
<b>Reconciliation of Net Operating Income to Net Cash From Operating Activities:</b>		
Net Operating Income .....	\$34,550,813	\$39,763,320
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation .....	17,102,664	16,783,698
Pension (Credits) Expense .....	(959,544)	-
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue .....	(1,007,395)	2,669,667
Interfund Receivables .....	(393,736)	8,523,668
Regulatory Asset-Public Fire Protection Fees ....	816,101	815,351
Regulatory Asset-Hyada Surcharges.....	(854,814)	95,040
Materials and Supplies .....	(85,552)	(64,875)
Prepayments .....	(263,767)	(151,374)
Unearned Rental Revenues .....	-	(32,802)
Accrued Taxes .....	458,318	(224,586)
Salaries, Wages and Fringe Benefits Payable .....	(713,143)	74,315
Accrued Compensated Absences .....	44,365	60,588
Customers' Deposits .....	73,202	(6,253)
Accrued Expenses and Contracts Payable .....	(2,597,089)	(12,862,458)
Interfund Payables .....	243,793	(8,418,131)
Total Adjustments .....	<u>11,863,403</u>	<u>7,261,848</u>
Net Cash From Operating Activities	<u>\$46,414,216</u>	<u>\$47,025,168</u>
<b>Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:</b>		
Cash and Equity in Pooled Investments in Special Funds .....	\$143,309,769	\$146,440,207
Cash and Equity in Pooled Investments in Operating Funds .....	<u>49,778,192</u>	<u>45,768,035</u>
Cash and Equity in Pooled Investments at December 31 .....	<u>\$193,087,961</u>	<u>\$192,208,242</u>

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

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

**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) and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. 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 99,945 customers and had 234 employees as of December 31, 2015. 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 plan, forecast and model distribution system expansion and renewal and replacements; engineer, design, and oversee construction of mains, hydrants, services, meters, pressure reducing valves and pressure zones; provide excellent customer service and key account management; support growth and development through coordination, permitting and contracting; promote water conservation through outreach and customer programs.

**WATER DISTRIBUTION OPERATIONS** – To effectively operate and maintain the various components of the distribution system including mains, hydrants, valves, services and meters; to respond to and repair main breaks and leaks; to install new services and hydrants as need for development; to manage the warehouse and materials purchasing; to provide customer service for outages and all other water service issues; to oversee and manage the apprenticeship program; and to provide effective leadership for Tacoma Water's safety program.

**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)**

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**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.

**CHANGE IN ACCOUNTING PRINCIPLE** – In fiscal year 2015, the Division implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. In addition, prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan. Upon adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current year pension contributions are reported subsequent to the measurement date. The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the adjustment of 2015 beginning balances by \$1.08 million for the Division's portion of the net pension asset or liability and related deferrals incurred in prior years. See Note 10 for further details.

**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 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 in a certificate of deposit with East West Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2015 and 2014 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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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 is 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 as of December 31st.

**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.

**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.

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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 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

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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.

**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

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefit (OPEB), pension, 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.

**NOTE 3 UTILITY PLANT** – A summary of the balances and changes in utility plant for 2015 and 2014 follows:

	Balance December 31, 2014	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2015
Intangible Plant	\$ 36,006,378	\$ 556,588	\$ (195,300)	\$ -	\$ 36,367,666
Source of Supply Plant	83,383,567	287,929	-	-	83,671,496
Pumping Plant	9,388,535	32,123	(20,616)	-	9,400,042
Water Treatment Plant	50,736,258	179,028,769	(156)	-	229,764,871
Transmission Facilities	230,964,809	22,097	-	-	230,986,906
Distribution Facilities	422,055,694	13,647,713	(1,969,022)	-	433,734,385
General Plant	33,744,366	1,106,582	(29,300)	(213,199)	34,608,449
Total water Plant in Service	866,279,607	194,681,801	(2,214,394)	(213,199)	1,058,533,815
Less Accumulated Depreciation	180,549,889	17,102,664	(2,019,094)	(1,190,135)	194,443,324
	685,729,718	177,579,137	(195,300)	976,936	864,090,491
Construction Work in Progress	186,353,639	28,745,579	-	(194,468,602)	20,630,616
Net Utility Plant	\$ 872,083,357	\$ 206,324,716	\$ (195,300)	\$ (193,491,666)	\$ 884,721,107



**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

	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
<b>Total water Plant in Service</b>	<b>848,502,779</b>	<b>20,818,985</b>	<b>(2,964,090)</b>	<b>(78,067)</b>	<b>866,279,607</b>
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

Total Water Plant in Service includes non-depreciable assets of \$58,149,481 for 2015 and \$57,953,220 for 2014. The total amount of interest incurred and capitalized is \$1,665,979 for 2015 and \$7,335,913 for 2014.

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

<b>Cash and Equity in Pooled Investments</b>	2015	2014
Construction Funds	\$ 33,587,187	\$ 39,509,127
Debt Service Funds	3,633,933	3,597,672
Bond Reserve Funds	22,037,730	22,110,124
System Development Charge Fund	55,889,603	53,255,060
Other Cash and Equity in Pooled Investments	28,161,316	27,968,224
<b>Total</b>	<b>\$ 143,309,769</b>	<b>\$ 146,440,207</b>

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 5 LONG-TERM DEBT** – The Division’s Long-term Liabilities are primarily for the purpose of capital improvements. Long-term debt activities for 2015 and 2014 were as follows:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Revenue Bonds	\$ 393,065,000	\$ 23,010,000	\$ (31,370,000)	\$ 384,705,000	\$ 6,080,000
Plus: Unamortized					
Premium	14,231,813	2,921,513	(1,937,233)	15,216,093	
Net Revenue Bonds	407,296,813	25,931,513	(33,307,233)	399,921,093	6,080,000
Public Works Trust					
Fund Loans	30,798,319	-	(2,696,771)	28,101,548	2,696,771
Drinking Water State					
Revolving Fund Loans	55,889,417	6,420,000	(1,440,773)	60,868,644	1,713,772
<b>Total Long-Term Debt</b>	<b>\$ 493,984,549</b>	<b>\$ 32,351,513</b>	<b>\$ (37,444,777)</b>	<b>\$ 488,891,285</b>	<b>\$ 10,490,543</b>

	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
<b>Total Long-Term Debt</b>	<b>\$ 466,569,995</b>	<b>\$ 39,570,473</b>	<b>\$ (12,155,919)</b>	<b>\$ 493,984,549</b>	<b>\$ 10,442,544</b>

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

**SENIOR LIEN BONDS**

	2015	2014
2005 Water System Revenue and Refunding Bonds, with interest rate of 5.0%, due in 2025.		
Original Issue: \$46,550,000	\$ 5,000	\$ 29,365,000
Current Portion: \$0		

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

**SENIOR LIEN BONDS CONTINUED**

	2015	2014
<p>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</p>	76,775,000	76,775,000
<p>2010A Water System Revenue Refunding Bonds, with interest rates ranging from 3.0% to 5.0%, due in yearly installments ranging from \$555,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000 Current Portion: \$555,000</p>	26,950,000	27,505,000
<p>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</p>	74,985,000	74,985,000
<p>2010A Regional Water Supply System Revenue Bonds, with interest rates ranging from 3.0% to 4.0%, due in yearly installments starting ranging from \$275,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000 Current Portion: \$275,000</p>	2,800,000	3,070,000
<p>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 Current Portion: \$0</p>	44,245,000	44,245,000

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

**SENIOR LIEN BONDS CONTINUED**

	2015	2014
<p>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 Current Portion: \$0</p>	74,355,000	74,355,000
<p>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 Current Portion: \$670,000</p>	61,580,000	62,765,000
<p>2015A Water System Refunding Bonds with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$1,460,000 to \$2,845,000 through 2025. Original Issue: \$16,645,000 Current Portion: \$0</p>	16,645,000	-
<p>2015B Water System Refunding Bonds with interest rates ranging from 0.8% to 1.15%, due in yearly installments ranging from \$1,785,000 to \$4,580,000 through 2017. Original Issue: \$6,365,000 Current Portion: \$4,580,000</p>	6,365,000	-
<p style="padding-left: 40px;">Subtotal Sr. Lien Debt</p> <p style="padding-left: 40px;">Unamortized Premium</p> <p style="padding-left: 40px;">Less Current Portion of Revenue Bond Debt</p> <p style="padding-left: 40px;">Long-term Portion of Revenue Bond Debt</p>	<p>\$ 384,705,000</p> <p>15,216,093</p> <p>(6,080,000)</p> <p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 393,841,093</p>	<p>\$ 393,065,000</p> <p>14,231,813</p> <p>(6,305,000)</p> <p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 400,991,813</p>

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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

Year	Principal	Interest
2016	\$ 6,080,000	\$ 18,983,037
2017	6,225,000	18,887,997
2018	6,450,000	18,690,919
2019	7,610,000	18,428,169
2020	7,950,000	18,094,669
2021-2025	44,660,000	84,428,154
2026-2030	56,350,000	72,218,935
2031-2035	76,500,000	56,413,938
2036-2040	98,525,000	32,040,850
2041-2043	74,355,000	6,026,200
	\$ 384,705,000	\$ 344,212,868

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.

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

**JUNIOR LIEN DEBT**

	2015	2014
<b>Public Works Trust Fund Loans</b>		
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 \$52,631 through 2021.	\$ 315,789	\$ 368,421
2001 Public Works Trust Fund construction loan for the SSP, with interest of .5% per annum, due in yearly installments of \$533,333 through 2021.	3,200,000	3,733,333
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 2021.	325,077	379,257
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 2022.	3,718,750	4,250,000

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNIOR LIEN DEBT CONTINUED**

	2015	2014
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 \$53,363 through 2024.	480,263	533,626
2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly intallments of \$370,588 through 2026.	4,076,471	4,447,059
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.	7,096,308	7,642,178
2012 Public Works Trust Fund construction loan for the Green River Filtration Facility, with interest of .5% per annum, due in yearly installments of \$555,556 through 2031.	8,888,889	9,444,445
<b>Drinking Water State Revolving Fund Loans</b>		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,053 through 2021.	966,316	1,127,369
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,108 through 2028.	2,796,409	3,011,517
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	6,240,494	6,607,582
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	5,151,000	5,454,000
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.	5,187,000	5,460,000
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$121,523 through 2033.	2,187,426	2,308,949

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNIOR LIEN DEBT CONTINUED**

	<u>2015</u>	<u>2014</u>
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	5,460,000
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	10,920,000
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	10,920,000
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	4,620,000
2015 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$6,000 from 2017 through 2036.	<u>120,000</u>	<u>-</u>
Subtotal Junior Lien Debt	88,970,192	86,687,736
Less Current Portion of Debt	<u>(4,410,543)</u>	<u>(4,137,544)</u>
Long-term Portion of Junior Lien Debt	<u>\$ 84,559,649</u>	<u>\$ 82,550,192</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 4,410,543	\$ 644,331
2017	4,962,543	1,038,288
2018	6,054,543	1,842,812
2019	6,054,543	882,072
2020	6,054,543	818,446
2021-2025	25,420,815	3,189,178
2026-2030	20,339,358	1,851,502
2031-2035	12,937,302	715,388
2035-2037	2,736,000	57,420
	<u>\$ 88,970,192</u>	<u>\$ 11,039,435</u>

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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**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.

**NOTE 7 SIGNIFICANT CUSTOMER** – In October of 2015, RockTenn CP LLC changed their name to WestRock CP LLC. In 2015 this customer accounted for 7.7% of Tacoma Water’s total water sales. 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. There were no outstanding accounts receivables from these customers at year-end 2015 or 2014.

Tacoma Water has contracted with WestRock to supply certain quantities of water at a specified rate through July 31, 2020.

**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 2015 and 2014 were \$2,305,433 and \$2,517,992, 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 2015 and 2014, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Water’s replacement fund. The amounts refunded in 2015 and 2014 were \$36,966 and \$32,345, 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 \$240,000 in 2015 and \$180,000 in 2014. Assets in the Self-Insurance Fund total \$6.9 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.



## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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 purchased 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 Crime policy with a \$1 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest act 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 property within buildings and \$10,000 per vehicle. There is a self-insured retention of \$1.5 million for general liability. The public official liability 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 general liability and public official 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 and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12 month policy period.

**NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS)** – The Tacoma Employees' Retirement System (TERS), a pension trust fund of the City of Tacoma, issues a publicly available CAFR that includes financial statements and required supplementary information may be obtained by writing to:

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

Or the TERS CAFR may be downloaded from the TERS website at [www.cityoftacoma.org/retirement](http://www.cityoftacoma.org/retirement).

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

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

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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

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

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

**Benefits** – There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, “service retirement”, is a product of the member’s average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member’s age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

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

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

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

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net Pension Liability (asset)	\$ 15,162,650	\$ (881,279)	\$ (14,384,741)

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ (334,285)	\$ -
Changes in proportionate share	-	5,588
Net difference between projected and actual earnings	(596,068)	-
Contributions made subsequent to the measurement date	-	2,086,719
<b>Total</b>	<b>\$ (930,353)</b>	<b>\$ 2,092,307</b>

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

Amounts will be recognized in pension expense as follows:

Year-ended December 31,	
2016	\$ 289,272
2017	289,272
2018	289,272
2019	56,949

The proportionate share of the Water Division is 9.17%. The proportionate share was based on the actual contributions for the year.

**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

## TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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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 UAAL on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2015 is 22 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 liability or Net OPEB Obligation on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2015 as the City has not set aside funds for OPEB.

**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 are \$10,200 for single coverage and \$27,500 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 released two new statements for Post Employment Benefits Other than Pension Plans, or OPEB. The new GASB Statements 74 and 75 were released in June 2015 and will replace GASB 43 and 45. The statements are available via the GASB website. GASB 74 is effective for fiscal years beginning after June 15, 2016, and GASB 75 is effective for fiscal years beginning June 15, 2017. These statements will mean fundamental changes in financial reporting for OPEB.

**Summary of Changes** – As of January 1, 2013 valuation, the total AAL was \$251.840 million. The expected value as of January 1, 2015, based on the 2013 valuation, was \$262.388 million. The total AAL of \$208.814 million was 20% lower than expected. The City experienced a liability gain since the last valuation caused by numerous factors, including a clarification in spouse benefits, which cease once a member attains age 65. It was also caused by smaller than expected changes in medical costs, demographic experience, and a change to the assumption for future medical trends.

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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

	<u>January 1, 2013</u>	<u>January 1, 2015</u>
Total Membership:		
Active Employees	3,335	3,404
Terminated vested employees	394	442
Retired employess & dependents	846	744
Total	<u>4,575</u>	<u>4,590</u>
Annual Benefit Payments	\$ 9,887,335	\$ 8,963,089
Discount Rate	3.75%	3.75%
Present Value of Benefits (PVB)	\$ 326,742,538	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 251,839,846	\$ 208,814,312
Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 251,839,846</u>	<u>\$ 208,814,312</u>
Normal Cost	\$ 5,484,587	\$ 3,832,131
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 16,966,964

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

<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)	\$ 420,832,932	\$ 158,648,737	\$ 262,184,195
Actuarial Accrued Liability (AAL)	\$ 291,228,295	\$ 82,413,983	\$ 208,814,312
Normal Cost	\$ 9,501,758	\$ 5,669,627	\$ 3,832,131
Annual Benefit Payments	\$ 12,325,369	\$ 3,362,280	\$ 8,963,089

**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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, 2015.

	City	Water
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 3,832,131	\$ 263,819
Amortization of UAAL	13,134,833	113,394
Annual Required Contribution (ARC)	<u>\$ 16,966,964</u>	<u>\$ 377,213</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 16,966,964	\$ 377,213
Interest on prior year Net OPEB Obligation	2,480,183	109,055
Adjustments to ARC	<u>(3,492,760)</u>	<u>(128,875)</u>
Annual OPEB Cost	15,954,387	357,393
Actual benefits paid	<u>(8,963,089)</u>	<u>(115,102)</u>
Increase in Net OPEB Obligation	6,991,298	242,291
Net OPEB Obligation - beginning of year	<u>66,138,204</u>	<u>2,908,139</u>
Net OPEB Obligation - end of year	<u>\$ 73,129,502</u>	<u>\$ 3,150,430</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 3.75% interest rate.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
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	\$66,138,204	\$ 2,908,139
12/31/2015	\$15,954,387	\$ 357,394	\$ 8,963,089	\$ 115,102	\$73,129,502	\$ 3,150,430

**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 22 years.



**TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)**

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Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2015
Census Date	January 1, 2015
Actuarial Cost Method:	Entry Age
Amortization Date:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	22 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	2015	6.90%
	2016	6.60%
	2017	5.90%
	2020	5.50%
	2030	5.90%
	2040	5.70%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2071 and beyond. 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.

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
- Age 40 with 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, 2015 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$4.1 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.

# **REQUIRED SUPPLEMENTARY INFORMATION**

Proportionate Share of the Net Pension Liability Last 10 Years\*

	Fiscal Year Ended December 31st,	
	2015	2014-2006
Employer's proportion of the net pension liability(asset) as a percentage	9.17%	N/A
Employer's proportion share of net pension liability(asset)	(\$881,279)	N/A
Employer's covered payroll	\$20,931,070	N/A
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-4.21%	N/A
Plan fiduciary net position as a percentage the total pension liability	100.71%	N/A

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

Schedule of Contributions Last 10 Fiscal Years

	Fiscal Year Ended December 31st,	
	2015	2014-2006
Contractually required employer contribution	\$2,086,719	N/A
Contributions in relation to the contractually required employer contribution	(2,086,719)	N/A
Employer contribution deficiency (excess)	-	N/A
Employer's covered employee payroll	\$20,931,070	N/A
Employer contribution as a percentage of covered-employee payroll	9.97%	N/A

# **STATISTICAL DATA (Unaudited)**

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2015	2014	2013	2012
<b>ASSETS</b>				
Utility Plant - Net .....	\$884,721,107	\$872,083,357	\$813,050,518	\$722,852,270
Special Funds & Non-Util Prop ....	143,802,732	146,933,170	157,311,979	161,863,075
Current Assets .....	64,476,112	58,737,269	63,568,675	56,407,560
Other Assets .....	4,689,200	3,769,208	4,679,599	5,300,185
Total Assets .....	<u>1,097,689,151</u>	<u>1,081,523,004</u>	<u>1,038,610,771</u>	<u>946,423,090</u>
Deferred Outflows .....	4,002,699	1,587,851	1,813,858	1,764,332
TOTAL ASSETS AND DEFERRED OUTFLOWS .	<u>1,101,691,850</u>	<u>1,083,110,855</u>	<u>1,040,424,629</u>	<u>948,187,422</u>
 NET POSITION .....	 542,501,823	 516,673,245	 480,288,973	 449,858,136
<b>LIABILITIES AND EQUITY</b>				
Long-Term Debt .....	478,400,742	483,542,005	455,876,975	401,465,338
Current Liabilities .....	18,261,548	20,767,576	42,478,805	35,106,590
Long-Term Liabilities .....	26,021,937	26,552,582	26,204,429	26,181,911
Total Liabilities .....	<u>522,684,227</u>	<u>530,862,163</u>	<u>524,560,209</u>	<u>462,753,839</u>
Deferred Inflows .....	36,505,800	35,575,447	35,575,447	35,575,447
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS .....	<u>\$1,101,691,850</u>	<u>\$1,083,110,855</u>	<u>\$1,040,424,629</u>	<u>\$948,187,422</u>
 <b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>				
<b>OPERATING REVENUES</b>				
Residential and Domestic .....	\$48,258,246	\$44,584,042	\$40,928,355	\$38,737,505
Commercial and Industrial .....	16,750,552	15,022,142	13,507,899	12,478,932
Special Rate-Simpson/Other .....	5,951,348	5,801,842	5,242,359	5,031,760
Municipal .....	487,947	454,970	445,844	383,385
Wholesale .....	5,192,149	3,718,315	3,519,409	2,090,430
Unbilled .....	318,945	121,346	468,030	416,986
Total Water Sales .....	<u>76,959,187</u>	<u>69,702,657</u>	<u>64,111,896</u>	<u>59,138,998</u>
Other Operating Revenues .....	21,179,637	28,617,297	32,007,524	21,541,733
Total Operating Revenues .....	<u>98,138,824</u>	<u>98,319,954</u>	<u>96,119,420</u>	<u>80,680,731</u>
 <b>OPERATING EXPENSES</b>				
Operation and Maintenance .....	41,804,233	37,993,563	35,906,356	32,602,452
Taxes .....	4,681,114	3,779,373	3,918,944	3,485,243
Depreciation .....	17,102,664	16,783,698	16,072,243	15,262,686
Total Operating Expenses .....	<u>63,588,011</u>	<u>58,556,634</u>	<u>55,897,543</u>	<u>51,350,381</u>
NET OPERATING INCOME (LOSS) .....	34,550,813	39,763,320	40,221,877	29,330,350
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Other Income .....	(30,042)	537,052	(1,246,053)	288,182
Interest Income .....	1,112,850	1,718,226	807,466	2,320,753
Gain from Disposition of Property	-	-	-	-
Interest Charges (Net) .....	<u>(16,677,645)</u>	<u>(11,911,850)</u>	<u>(14,141,036)</u>	<u>(14,462,441)</u>
Net Income (Loss) Before				
Contributions & Transfers .....	18,955,976	30,106,748	25,642,254	17,476,844
Total Capital Contributions .....	9,052,674	8,670,639	7,175,575	7,834,345
Grants & Federal BAB Subsidies	3,609,706	3,959,446	3,535,426	3,840,767
Transfers Out .....	<u>(6,873,467)</u>	<u>(6,352,561)</u>	<u>(5,922,418)</u>	<u>(5,226,630)</u>
CHANGE IN NET POSITION .....	<u>\$24,744,889</u>	<u>\$36,384,272</u>	<u>\$30,430,837</u>	<u>\$23,925,326</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.

2011	2010	2009	2008	2007	2006
\$661,153,297	\$636,592,771	\$604,657,775	\$590,593,258	\$568,493,015	\$542,837,619
214,619,106	240,132,895	133,949,294	80,858,401	99,062,414	111,884,788
31,403,521	30,200,303	35,753,843	22,151,467	23,150,235	20,256,759
4,664,090	4,654,608	3,654,494	3,319,156	2,123,339	2,622,731
911,840,014	911,580,577	778,015,406	696,922,282	692,829,003	677,601,897
2,056,555	-	-	-	-	-
913,896,569	911,580,577	778,015,406	696,922,282	692,829,003	677,601,897
425,932,810	417,695,083	412,592,671	404,010,304	391,763,317	374,885,816
419,800,757	421,228,553	292,165,406	218,869,015	227,315,790	231,066,402
18,201,697	20,548,451	15,167,938	16,288,305	15,169,687	21,418,548
19,385,858	52,108,490	58,089,391	57,754,658	58,580,209	50,231,131
457,388,312	493,885,494	365,422,735	292,911,978	301,065,686	302,716,081
30,575,447	-	-	-	-	-
\$913,896,569	\$911,580,577	\$778,015,406	\$696,922,282	\$692,829,003	\$677,601,897
\$36,730,275	\$35,503,069	\$36,695,919	\$34,651,756	\$32,719,149	\$31,332,264
11,868,976	11,703,099	11,467,636	10,600,262	9,868,874	9,231,740
4,774,237	3,798,922	4,153,327	4,371,527	3,917,760	3,222,324
400,322	364,357	380,267	349,722	396,131	363,455
1,625,163	1,530,116	1,776,686	1,251,815	1,433,705	1,640,803
478,594	(648,438)	187,966	417,145	37,113	1,067,323
55,877,567	52,251,125	54,661,801	51,642,227	48,372,732	46,857,909
9,526,467	10,735,630	9,331,955	5,382,313	4,353,478	1,919,802
65,404,034	62,986,755	63,993,756	57,024,540	52,726,210	48,777,711
32,821,611	34,453,742	34,055,463	33,387,663	31,076,515	29,165,168
3,106,516	3,142,772	3,093,311	2,881,877	2,924,930	3,407,187
14,389,681	14,474,964	13,845,799	13,016,544	11,363,970	11,556,821
50,317,808	52,071,478	50,994,573	49,286,084	45,365,415	44,129,176
15,086,226	10,915,277	12,999,183	7,738,456	7,360,795	4,648,535
(12,371)	33,795	497,331	61,265	306,680	2,293,477
3,141,374	2,370,993	1,955,385	3,730,407	5,255,881	4,603,137
-	-	26,100	-	4,199,382	-
(14,867,263)	(15,175,660)	(9,076,156)	(8,406,264)	(8,484,405)	(8,403,448)
3,347,966	(1,855,595)	6,401,843	3,123,864	8,638,333	3,141,701
9,250,677	9,713,596	7,120,993	14,137,605	12,801,825	30,462,788
4,006,209	2,355,132	244,683	-	-	-
(4,960,736)	(5,110,721)	(5,185,152)	(5,014,482)	(4,562,657)	(4,302,274)
\$11,644,116	\$5,102,412	\$8,582,367	\$12,246,987	\$16,877,501	\$29,302,215

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

TEN-YEAR FINANCIAL REVIEW

<b>STATEMENTS OF NET POSITION</b>	2015	2014	2013	2012
<b>ASSETS</b>				
Utility Plant - Net .....	\$295,780,351	\$293,110,553	\$264,883,717	\$223,896,711
Current Assets .....	9,274,080	11,321,557	20,473,681	41,256,611
Total Assets .....	305,054,431	304,432,110	285,357,398	265,153,322
Deferred Outflows .....	272,417	288,520	304,624	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS .</b>	<b>305,326,848</b>	<b>304,720,630</b>	<b>285,662,022</b>	<b>265,153,322</b>
NET POSITION .....	186,712,448	183,898,541	154,285,209	136,200,206
<b>LIABILITIES AND EQUITY</b>				
Long-Term Debt .....	116,113,730	117,798,157	120,006,348	122,882,652
Current Liabilities .....	1,496,773	1,993,880	10,436,851	5,253,742
Total Liabilities .....	117,610,503	119,792,037	130,443,199	128,136,394
Deferred Inflows .....	1,003,897	1,030,052	933,614	816,722
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS .....</b>	<b>305,326,848</b>	<b>304,720,630</b>	<b>285,662,022</b>	<b>265,153,322</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>				
<b>OPERATING REVENUES</b>				
CRO - Debt Service .....	\$6,047,314	\$6,008,599	\$6,208,432	\$6,272,476
CRO - O&M .....	2,840,435	2,706,023	2,740,645	2,478,238
CRO - Capital .....	7,621,901	15,132,508	18,535,695	5,665,557
Other Operating Revenue .....	1,675	-	-	-
Total Operating Revenues .....	16,511,325	23,847,130	27,484,772	14,416,271
<b>OPERATING EXPENSES</b>				
Operation and Maintenance .....	2,864,326	2,735,246	2,895,385	2,510,085
Depreciation .....	4,582,300	4,542,912	4,505,158	4,495,971
Total Operating Expenses .....	7,446,626	7,278,158	7,400,543	7,006,056
<b>NET OPERATING INCOME (LOSS) .....</b>	<b>9,064,699</b>	<b>16,568,972</b>	<b>20,084,229</b>	<b>7,410,215</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Other Income .....	(120,564)	(18,732)	(373,899)	-
Interest Income .....	64,497	114,387	51,743	407,622
Interest Charges (Net) .....	(4,072,780)	(880,966)	(2,665,310)	(4,901,784)
Net Income (Loss) Before Contributions & Transfers .....	4,935,852	15,783,661	17,096,763	2,916,053
Total Capital Contributions .....	(2,924,135)	13,024,297	148,865	(414,376)
Grants & Federal BAB Subsidies .....	802,190	805,374	799,296	868,328
Transfers Out .....	-	-	40,079	112
<b>CHANGE IN NET POSITION .....</b>	<b>\$2,813,907</b>	<b>\$29,613,332</b>	<b>\$18,085,003</b>	<b>\$3,370,117</b>

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.



2011	2010	2009	2008	2007	2006
\$203,938,358	\$207,242,527	\$206,708,069	\$231,099,649	\$234,373,114	\$213,434,158
55,640,447	59,811,400	15,845,604	9,519,659	8,924,226	6,721,684
259,578,805	267,053,927	222,553,673	240,619,308	243,297,340	220,155,842
-	1,194,533	807,387	856,484	906,294	956,724
259,578,805	268,248,460	223,361,060	241,475,792	244,203,634	221,112,566
132,830,089	138,246,799	142,801,029	151,581,061	149,348,807	136,863,991
124,045,739	124,890,764	77,694,584	88,122,323	92,649,652	80,471,326
1,931,325	5,110,897	2,865,447	1,772,408	2,205,175	3,588,936
125,977,064	130,001,661	80,560,031	89,894,731	94,854,827	84,060,262
771,652	-	-	-	-	188,313
259,578,805	268,248,460	223,361,060	241,475,792	244,203,634	221,112,566
\$6,239,797	\$5,119,047	\$4,293,912	\$2,016,804	\$1,999,664	\$2,095,323
1,778,186	2,732,956	2,517,129	6,074,980	4,646,715	4,162,516
274,081	1,301,346	(339,930)	-	-	-
-	-	-	-	-	-
8,292,064	9,153,349	6,471,111	8,091,784	6,646,379	6,257,839
2,485,977	2,458,379	2,629,850	2,300,026	2,377,499	2,130,748
4,482,820	4,426,113	4,792,037	4,803,549	3,513,441	3,413,341
6,968,797	6,884,492	7,421,887	7,103,575	5,890,940	5,544,089
1,323,267	2,268,857	(950,776)	988,209	755,439	713,750
-	-	-	14,360	43,532	56,160
396,391	861,775	184,332	293,709	355,782	282,278
(7,574,948)	(4,833,300)	(3,918,240)	(3,411,937)	(4,083,294)	(4,354,244)
(5,855,290)	(1,702,668)	(4,684,684)	(2,115,659)	(2,928,541)	(3,302,056)
(508,791)	(4,593,787)	8,085,876	1,287,306	10,186,209	7,041,008
868,328	306,327	-	-	-	-
79,043	1,435,898	(12,181,224)	3,060,607	5,227,148	-
(\$5,416,710)	(\$4,554,230)	(\$8,780,032)	\$2,232,254	\$12,484,816	\$3,738,952

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER

STATEMENTS OF NET POSITION

	WATER		RWSS		TACOMA WATER STATEMENTS	
	W/O RWSS				ADJUSTMENTS	
<b>ASSETS</b>						
<b>UTILITY PLANT</b>						
In Service, at Original Cost .....	\$ 721,400,296	\$	337,133,519	\$	1,058,533,815	
Less - Accumulated Depreciation .....	(145,235,110)		(49,208,214)		(194,443,324)	
Total .....	576,165,186		287,925,305		864,090,491	
Construction Work In Progress .....	12,775,570		7,855,046		20,630,616	
Net Utility Plant .....	588,940,756		295,780,351		884,721,107	
<b>NET UTILITY PROPERTY</b> .....	492,963	-	-	-	492,963	
<b>SPECIAL FUNDS</b>						
Construction Funds .....	33,564,728		22,459		33,587,187	
Debt Service Funds .....	3,337,902		296,031		3,633,933	
Bond Reserve Funds .....	13,621,007		8,416,723		22,037,730	
System Development Charge Fund .....	55,889,603		-		55,889,603	
Other Cash & Equity in Pooled Investments .....	28,258,521		-	(97,205)	28,161,316	
Total Special Funds .....	134,671,761		8,735,213	(97,205)	143,309,769	
<b>CURRENT ASSETS</b>						
Operating Funds Cash & Equity in Pooled Investments .....	49,778,192		(97,205)	97,205	49,778,192	
Accounts Receivable .....	4,867,032		454,152		5,321,184	
(Net of Allowance for Doubtful Accounts of \$258,344 in 2014)						
BABs Interest Subsidies Receivable .....	230,860		67,440		298,300	
Accrued Unbilled Revenues .....	4,935,000		-		4,935,000	
Materials and Supplies .....	2,487,075		-		2,487,075	
Interfund Receivable .....	683,597		2,433		686,030	
Prepayments .....	858,284		112,047		970,331	
Total Other Assets .....	63,840,040		538,867	97,205	64,476,112	
<b>OTHER ASSETS</b>						
Regulatory Asset - Public Fire Protection Fees .....	2,124,573		-		2,124,573	
Regulatory Asset - Surcharges .....	1,683,348		-		1,683,348	
Pension Asset .....	881,279		-		881,279	
Total Other Assets .....	4,689,200		-		4,689,200	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Unamortized Losses on Refunding Bonds .....	1,637,975		272,417		1,910,392	
Pension Contributions .....	2,092,307		-		2,092,307	
Total Deferred Outflows .....	3,730,282		272,417		4,002,699	
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b> .....	\$ 796,365,002	\$	305,326,848	\$	1,101,691,850	

	NET ASSETS	WATER W/O RWSS	RWSS	ADJUSTMENTS	TACOMA WATER STATEMENTS
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt . . . . .	\$ 259,104,643	\$ 187,433,220	\$	\$	446,537,863
Restricted for:					
Water Capital and System Development Charge . . . . .	39,439,003	-	-	-	39,439,003
Debt Service Funds . . . . .	2,011,876	(159,777)	(159,777)		1,852,099
Unrestricted . . . . .	55,233,853	(560,995)	(560,995)		54,672,858
Total Net Position . . . . .	355,789,375	186,712,448	186,712,448	-	542,501,823
<b>LONG-TERM DEBT</b>					
Revenue Bonds . . . . .	277,727,363	116,113,730	116,113,730		393,841,093
Public Works Trust Fund Loans . . . . .	25,404,777	-	-		25,404,777
Drinking Water State Revolving Fund Loan . . . . .	59,154,872	-	-		59,154,872
Total Long-Term Debt	362,287,012	116,113,730	116,113,730	-	478,400,742
<b>CURRENT LIABILITIES</b>					
Current Maturities of Long-Term Debt . . . . .	9,545,543	945,000	945,000		10,490,543
Current Maturities of Long-Term Liabilities . . . . .	190,536	-	-		190,536
Accrued Taxes . . . . .	1,863,652	-	-		1,863,652
Accrued Expenses and Contracts Payable . . . . .	1,397,428	21,442	21,442		1,418,870
Salaries, Wages and Fringe Benefits Payable . . . . .	584,328	-	-		584,328
Interest Payable . . . . .	1,326,028	455,806	455,806		1,781,834
Customers' Deposits . . . . .	348,793	-	-		348,793
Interfund Payables . . . . .	1,508,467	74,525	74,525		1,582,992
Total Current Liabilities . . . . .	16,764,775	1,496,773	1,496,773	-	18,261,548
<b>LONG-TERM LIABILITIES</b>					
Muckleshoot Agreements . . . . .	7,129,695	-	-		7,129,695
Customer Advances for Construction . . . . .	4,502,578	-	-		4,502,578
Unearned Revenue . . . . .	6,901,255	1,003,897	1,003,897		7,905,152
Long-Term Accrued Compensated Absences . . . . .	2,340,426	-	-		2,340,426
Other Long-Term Liabilities . . . . .	4,144,086	-	-		4,144,086
Total Long-Term Liabilities . . . . .	25,018,040	1,003,897	1,003,897	-	26,021,937
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Rate Stabilization . . . . .	35,575,447	-	-		35,575,447
Pension Contribution . . . . .	930,353	-	-		930,353
Total Inflows of Resources . . . . .	36,505,800	-	-		36,505,800
<b>TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS</b>	\$ 796,365,002	\$ 305,326,848	\$	\$	\$ 1,101,691,850

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
<b>OPERATING REVENUES</b>				
Sale of Water	\$ 76,959,187	\$ -		\$ 76,959,187
Other Operating Revenues	9,486,259	1,675		9,487,934
Contract Resource Obligation Revenues	-	16,509,650	(4,817,947)	11,691,703
Total Operating Revenues	86,445,446	16,511,325	(4,817,947)	98,138,824
<b>OPERATING EXPENSES</b>				
Operations	19,798,973	82,313		19,881,286
Production	10,436,282	2,556,601		12,992,883
Administrative and General	13,522,599	225,412	(4,817,947)	8,930,064
Depreciation	12,520,364	4,582,300		17,102,664
Taxes	4,681,114	-		4,681,114
Total Operating Expenses	60,959,332	7,446,626	(4,817,947)	63,588,011
Net Operating Income	25,486,114	9,064,699	-	34,550,813
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest Income	1,048,353	64,497		1,112,850
Other	90,522	(120,564)		(30,042)
Interest on Long-Term Debt	(14,485,957)	(5,536,625)		(20,022,582)
Amortization of Premium and Loss on Refunding	955,635	723,324		1,678,959
Interest Charged to Construction	925,457	740,521		1,665,978
Total Non-Operating Expenses	(11,465,990)	(4,128,847)	-	(15,594,837)
Net Income Before Capital Contributions and Transfers	14,020,124	4,935,852	-	18,955,976
Capital Contributions				
Cash	9,366,829	(2,924,135)		6,442,694
Donated Fixed Assets	2,609,980	-		2,609,980
Federal BABs Subsidies	2,746,038	802,190		3,548,228
Grants	61,478	-		61,478
Transfers				
City of Tacoma Gross Earnings Tax	(6,778,140)	-		(6,778,140)
Transfer to/from Other Funds	(95,327)	-		(95,327)
<b>CHANGE IN NET POSITION</b>	21,930,982	2,813,907	-	24,744,889
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	363,471,725	154,285,209		517,756,934
<b>TOTAL NET POSITION - END OF YEAR</b>	\$ 385,402,707	\$ 157,099,116	\$ -	\$ 542,501,823

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS  
DECEMBER 31, 2015

YEAR	WATER W/O RWSS		RWSS		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2016	5,135,000	13,513,350	945,000	5,469,686	25,063,036
2017	5,200,000	13,460,060	1,025,000	5,427,936	25,112,996
2018	5,395,000	13,308,633	1,055,000	5,382,286	25,140,919
2019	5,620,000	13,092,833	1,990,000	5,335,336	26,038,169
2020	5,850,000	12,852,833	2,100,000	5,241,836	26,044,669
2021	6,150,000	12,560,333	2,205,000	5,143,036	26,058,369
2022	6,410,000	12,297,633	2,315,000	5,035,936	26,058,569
2023	6,240,000	11,977,133	2,455,000	4,923,486	25,595,619
2024	4,300,000	11,665,133	4,930,000	4,804,186	25,699,319
2025	4,465,000	11,460,042	5,190,000	4,561,236	25,676,278
2026	4,930,000	11,244,560	5,420,000	4,300,364	25,894,924
2027	5,085,000	11,003,926	5,700,000	4,027,935	25,816,861
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	3,124,854	25,515,431
2031	5,835,000	9,852,652	6,880,000	2,855,021	25,422,673
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	1,784,105	27,228,249
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	939,831	26,128,236
2039	14,835,000	4,689,020	5,570,000	637,702	25,731,722
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>\$276,080,000</u>	<u>\$258,050,070</u>	<u>\$108,625,000</u>	<u>\$86,162,793</u>	<u>\$728,917,863</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER  
without RWSS  
FUNDS AVAILABLE FOR DEBT SERVICE

	2015	2014	2013	2012	2011
Total Income	\$92,203,086	\$86,134,608	\$77,677,321	\$77,504,402	\$72,166,103
Less: Operating Exp	48,438,968	43,722,021	41,649,837	37,833,621	37,954,425
Income Available for Debt Service	<u>\$43,764,118</u>	<u>\$42,412,587</u>	<u>\$36,027,484</u>	<u>\$39,670,781</u>	<u>\$34,211,678</u>
Bond Redemption	4,873,754	5,551,250	6,957,496	5,817,917	5,506,250
Bond Interest	<u>13,913,407</u>	<u>14,303,864</u>	<u>14,032,328</u>	<u>19,342,423</u>	<u>19,624,326</u>
Debt Service Payable	<u>\$18,787,161</u>	<u>\$19,855,114</u>	<u>\$20,989,824</u>	<u>\$25,160,340</u>	<u>\$25,130,576</u>
Times Debt Service Covered	2.33	2.14	1.72	1.58	1.36

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER

SUMMARY OF WATER SALES - 2015

	AVERAGE MONTHS BILLED	CONSUMPTION (CCF)	REVENUE	% of TOTAL REVENUE	MGD	% of TOTAL MGD
<b>RESIDENTIAL AND DOMESTIC SERVICE</b>						
<b>Inside City</b>						
1 <i>Single and Multiple House</i>	55,072	4,774,139	\$ 18,706,837	24.3%	9.78	18.3%
2 <i>Multiple Unit Dwellings</i>	3,216	1,673,279	\$ 5,156,517	6.7%	3.43	6.4%
3 <i>Parks &amp; Irrigation Services</i>	183	103,126	\$ 385,654	0.5%	0.21	0.4%
4 <i>Private Fire Services</i>	101	265	\$ 68,887	0.1%	0.00	0.0%
	<b>58,572</b>	<b>6,550,809</b>	<b>\$ 24,317,895</b>	<b>31.6%</b>	<b>13.42</b>	<b>25.1%</b>
<b>Outside City</b>						
5 <i>Single and Multiple Houses</i>	32,814	3,596,079	\$ 19,090,693	24.9%	7.37	13.8%
6 <i>Multiple Unit Dwellings</i>	1,843	1,045,069	\$ 4,204,067	5.5%	2.14	4.0%
7 <i>Parks &amp; Irrigation Services</i>	225	153,045	\$ 611,630	0.8%	0.31	0.6%
8 <i>Private Fire Services</i>	76	3	\$ 33,962	0.0%	0.00	0.0%
	<b>34,958</b>	<b>4,794,196</b>	<b>\$ 23,940,352</b>	<b>31.2%</b>	<b>9.82</b>	<b>18.4%</b>
<b>COMMERCIAL AND INDUSTRIAL SERVICE</b>						
<b>Inside City</b>						
9 <i>Large Volume Service</i>	4	504,922	\$ 827,586	1.1%	1.04	1.9%
10 <i>General Service</i>	3,700	2,292,868	\$ 7,497,231	9.7%	4.70	8.8%
11 <i>Parks &amp; Irrigation Services</i>	298	377,898	\$ 1,354,559	1.8%	0.77	1.4%
12 <i>Private Fire Services</i>	1,026	19,314	\$ 2,651,086	3.4%	0.04	0.1%
	<b>5,028</b>	<b>3,195,002</b>	<b>\$ 12,330,462</b>	<b>16.0%</b>	<b>6.55</b>	<b>12.2%</b>
<b>Outside City</b>						
13 <i>Large Volume Service</i>	4	596,335	\$ 1,142,593	1.5%	1.22	2.3%
14 <i>General Service</i>	860	473,821	\$ 1,901,018	2.5%	0.97	1.8%
15 <i>Parks &amp; Irrigation Services</i>	72	119,981	\$ 487,747	0.6%	0.25	0.5%
16 <i>Private Fire Services</i>	207	1,572	\$ 888,731	1.2%	0.00	0.0%
	<b>1,143</b>	<b>1,191,709</b>	<b>\$ 4,420,089</b>	<b>5.8%</b>	<b>2.44</b>	<b>4.6%</b>
17 <b>WESTROCK</b>	<b>1</b>	<b>7,736,747</b>	<b>\$ 5,951,348</b>	<b>7.7%</b>	<b>15.86</b>	<b>29.7%</b>
<b>CITY OF TACOMA</b>						
18 <i>General Service</i>	100	76,401	\$ 287,075	0.4%	0.16	0.3%
19 <i>Parks &amp; Irrigation Services</i>	89	27,597	\$ 133,240	0.2%	0.06	0.1%
20 <i>Private Fire Services</i>	34	125	\$ 67,632	0.1%	0.00	0.0%
	<b>223</b>	<b>104,123</b>	<b>\$ 487,947</b>	<b>0.7%</b>	<b>0.22</b>	<b>0.4%</b>
21 <b>WHOLESALE</b>	<b>18</b>	<b>2,514,662</b>	<b>\$ 5,192,149</b>	<b>6.7%</b>	<b>5.15</b>	<b>9.6%</b>
<i>Unbilled Revenue</i>			\$ 318,945	0.3%		
<b>TOTAL WATER SALES</b>	<b>99,943</b>	<b>26,087,248</b>	<b>\$ 76,959,187</b>	<b>100.0%</b>	<b>53.46</b>	<b>100.0%</b>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER

STATISTICS  
AS OF DECEMBER 31, 2015

Tacoma Water System:		
Average daily delivery exclusive of pulp mill		39.87 MGD
Average daily delivery of pulp mill		15.65 MGD
Total average daily delivery		55.52 MGD
Maximum daily production	7/4/2015	96.58 MG
Minimum daily production	1/14/2015	33.05 MG
Total water produced in 2015*		20,261 MG
Regional Water Supply System (RWSS):		
Total average daily delivery		7.67 MGD
Average daily consumption per single family residential service		195.1 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		1,231 mi
Fire Hydrants (Inside)		6,081
Fire Hydrants (Outside)		4,495

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*

*MGD equals million gallons per day*

*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 2015

**FEDERAL**

Social Security (FICA) .....		\$1,545,472
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**STATE OF WASHINGTON**

Retail Sales Tax .....	\$1,214,694	
Utilities and Business Activities Tax .....	4,047,630	
Total .....		5,262,324

**COUNTY**

Real Property .....	58,250	
Total .....		58,250

**MUNICIPALITIES**

City of Tacoma Gross Earnings Tax .....	6,778,140	
City of Fircrest Administrative Fee .....	6,554	
City of Lakewood Administrative Fee .....	5,211	
City of University Place Administrative Fee ....	586,215	
		7,376,120

TOTAL TAXES .....		\$14,242,166
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Taxes as a % of Non-CRO Revenues of \$86,447,121 ..		16.48%
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**EMPLOYEE WELFARE CONTRIBUTIONS**

Industrial Insurance and Medical Aid .....	\$523,223	
Pensions .....	2,111,258	
Medical Insurance .....	3,832,996	
Dental Insurance .....	318,159	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS .....		\$6,785,636
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CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA WATER

2015 WATER RATES

METER SIZE		READY TO SERVE CHARGE PER MONTH	
		INSIDE TACOMA	OUTSIDE TACOMA
5/8	inch .....	\$19.60	\$23.52
3/4	inch .....	\$29.40	\$35.28
1	inch .....	\$49.00	\$58.80
1-1/2	inch .....	\$98.00	\$117.60
2	inch .....	\$156.80	\$188.16
3	inch .....	\$294.00	\$352.80
4	inch .....	\$490.00	\$588.00
6	inch .....	\$980.00	\$1,176.00
8	inch .....	\$1,568.00	\$1,881.60
10	inch .....	\$2,254.00	\$2,704.80
12	inch .....	\$3,307.50	\$3,969.00

		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 .....		\$1.645	\$1.974
First 500 cubic ft. of water consumption per month during the summer months of June through September		\$1.645	\$1.974
Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September .....		\$2.056	\$2.468
<u>Commercial and Industrial</u>			
General Service .....		\$1.817	\$2.180
Large Volume Service (over 65,000 cubic feet annually) .....		\$1.510	\$1.812
<u>Parks and Irrigation Service</u>			
Each 100 cubic feet of water consumption .....		\$2.586	\$3.103

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. 28286 and were effective April 1, 2015.

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

2015 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 .....	\$24.82	2.99
3 inch .....	\$36.14	2.99
4 inch .....	\$60.38	2.99
6 inch .....	\$135.43	2.99
8 inch .....	\$241.10	2.99
10 inch .....	\$377.11	2.99
12 inch .....	\$603.19	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.

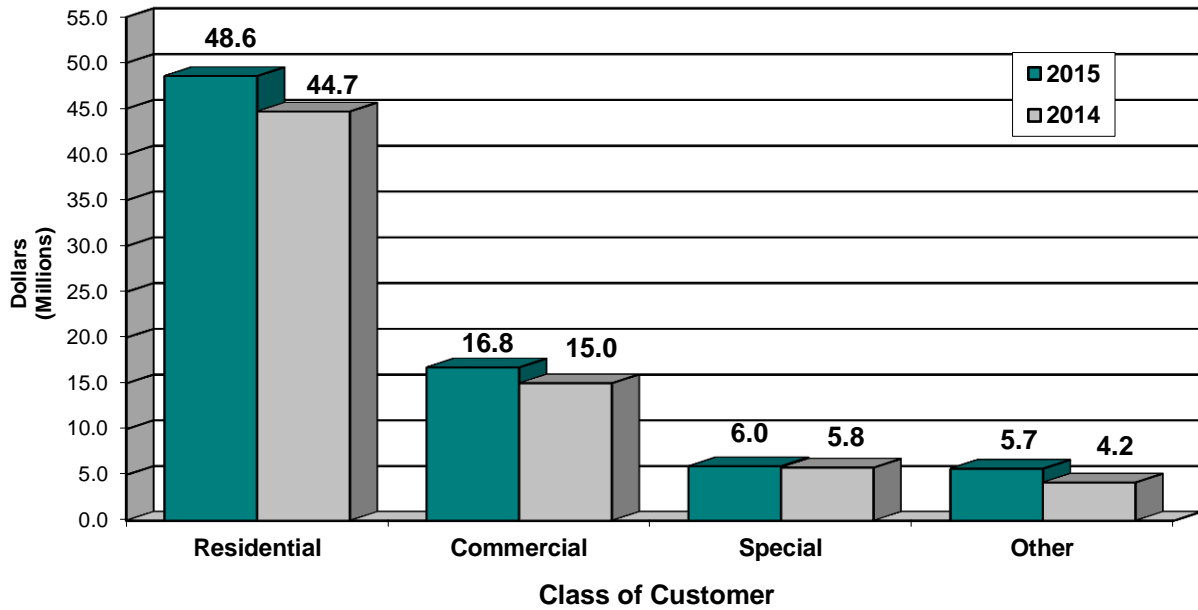
Costs associated with fire hydrant services are currently recovered from customers in two different ways, depending on their location in the service area. Customers outside the City of Tacoma with residential and commercial accounts pay a flat monthly franchise "Franchise Hydrant Service Fee" as shown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

Outside City, other contract.....	\$4.752
Fircrest Franchise.....	\$4.909
Lakewood, Puyallup, and University Place Franchises...	\$5.034

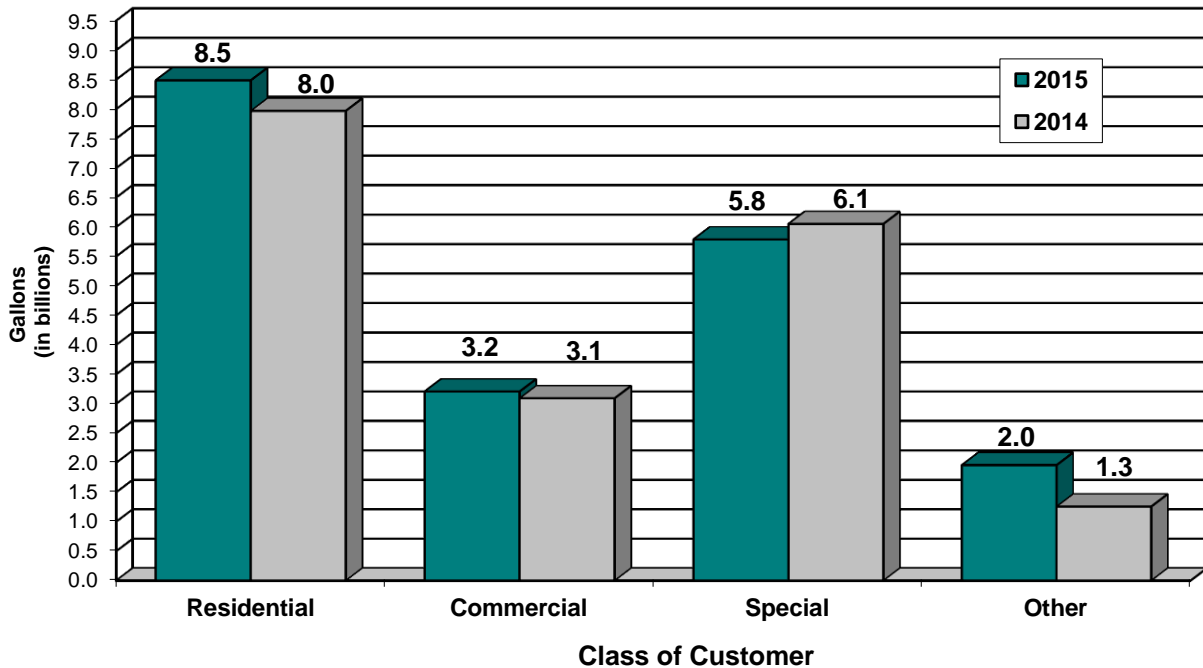
Inside the City of Tacoma, the general government is directly billed an annual "Fire Hydrant Services Fee" of \$266.95 per hydrant.

The Fire Protection Rates were established by Ordinance No. 28286 and were effective April 1, 2015.

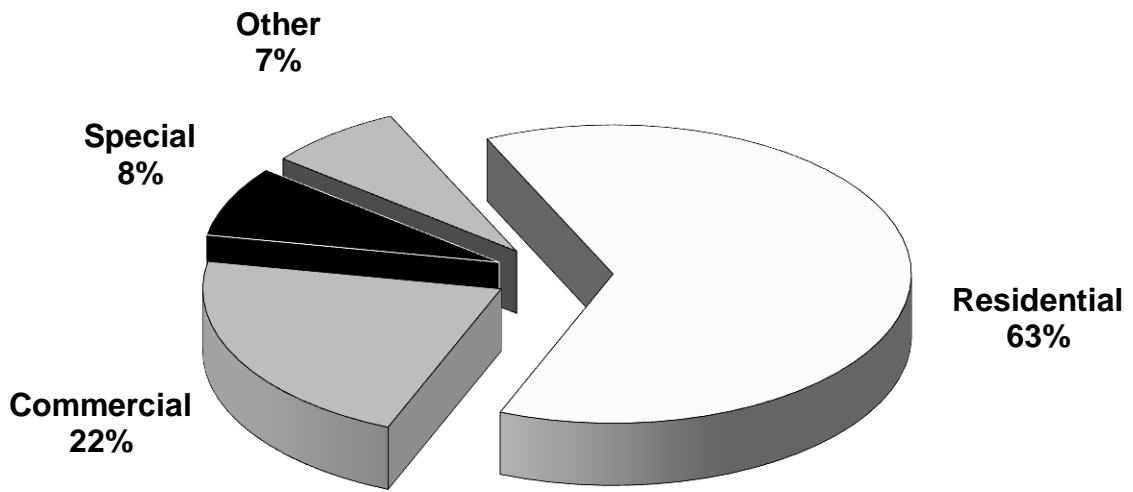
**WATER SALES**  
Year to Date - December 2015 & 2014



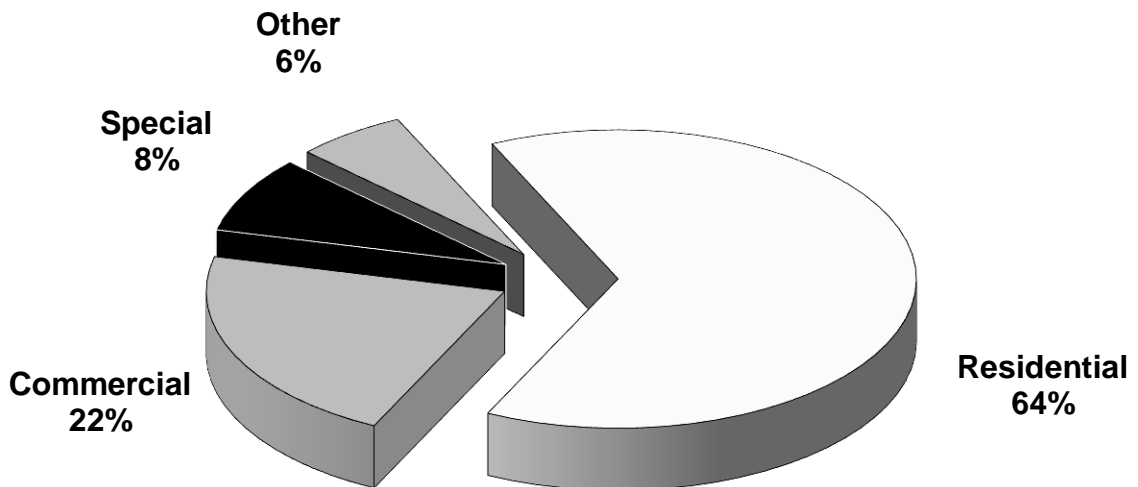
**WATER CONSUMPTION**  
Year to Date - December 2015 & 2014



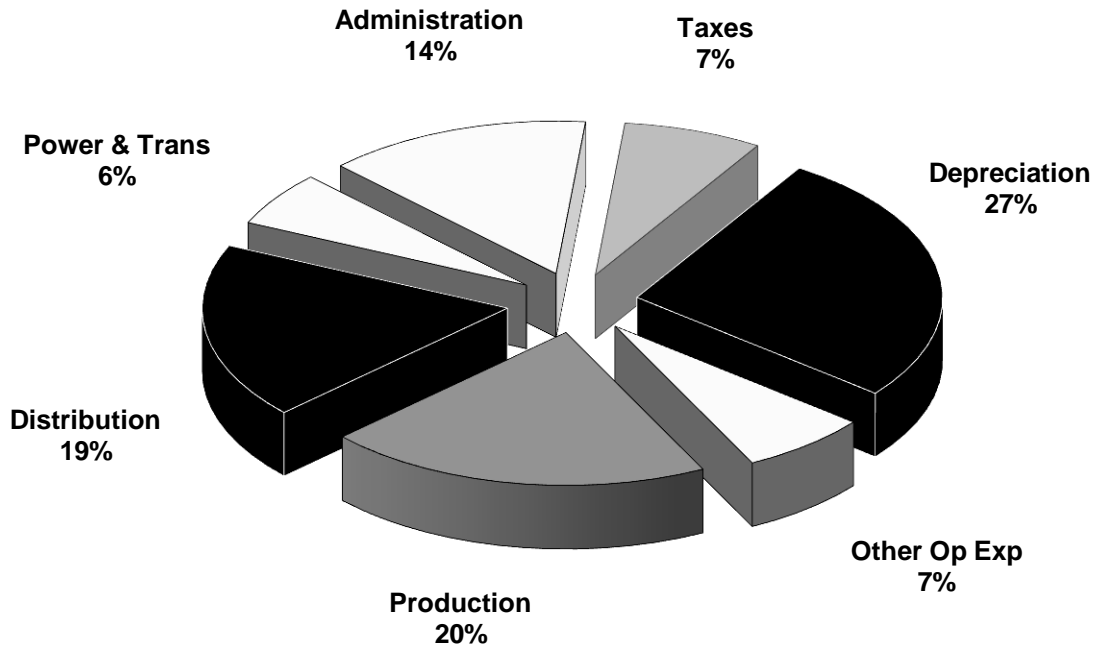
**WATER SALES**  
Year to Date - December 2015  
(\$76,959,187)



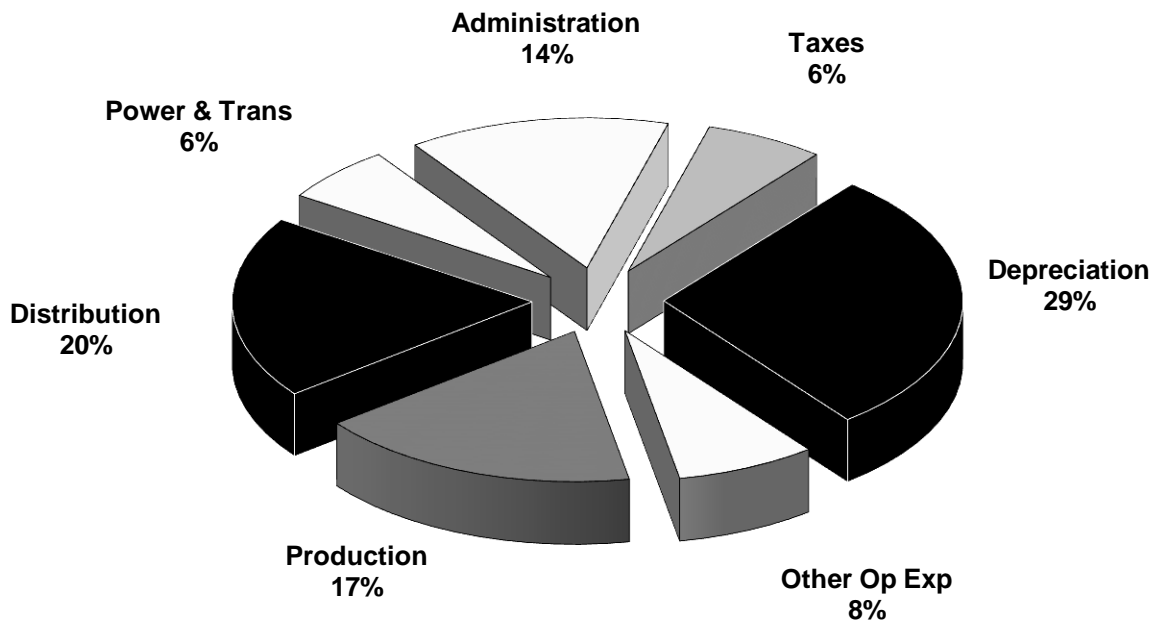
**WATER SALES**  
Year to Date - December 2014  
(\$69,702,657)



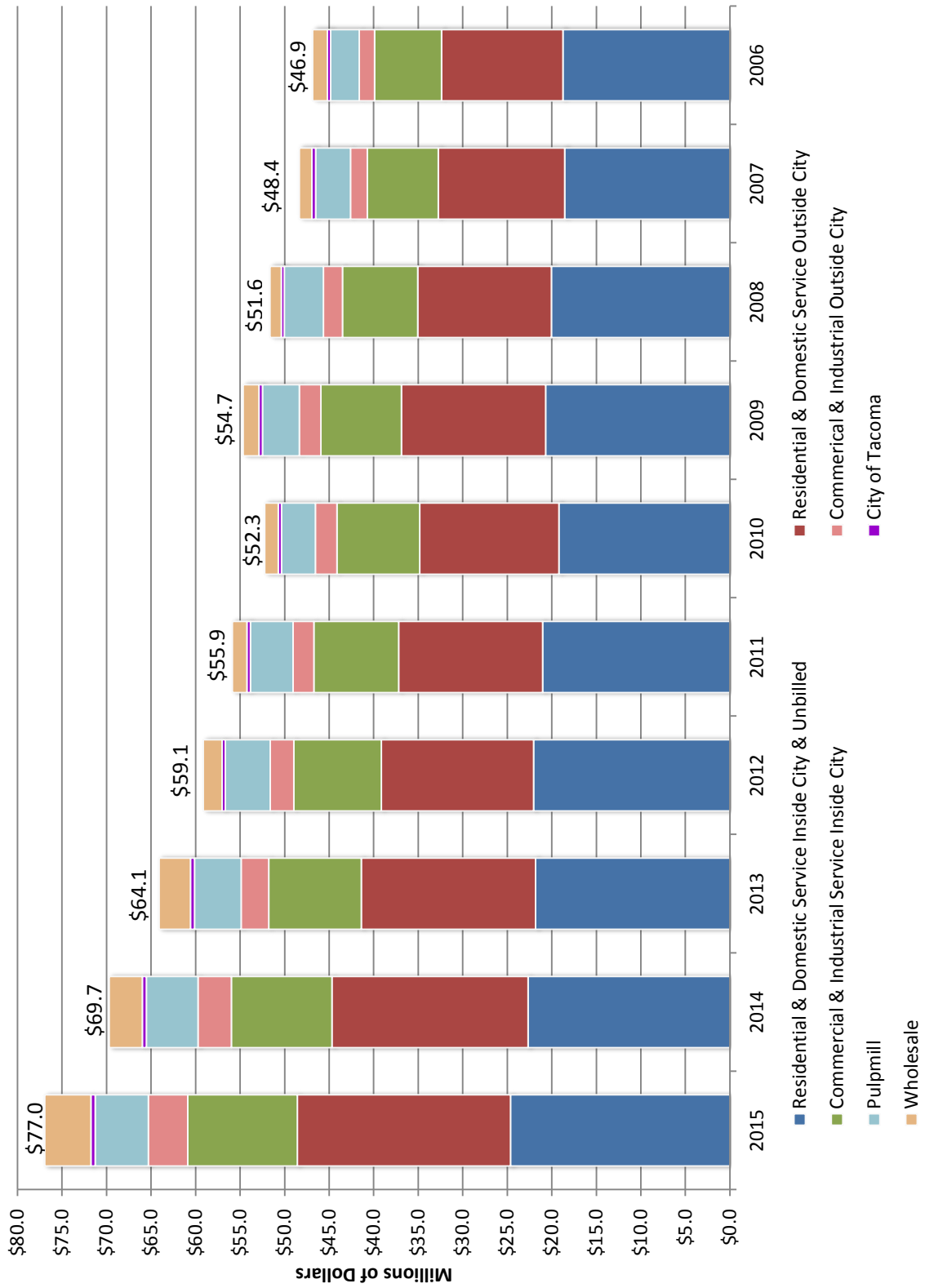
**TOTAL OPERATING EXPENSES**  
Year to Date - December 2015  
(\$63,588,011)



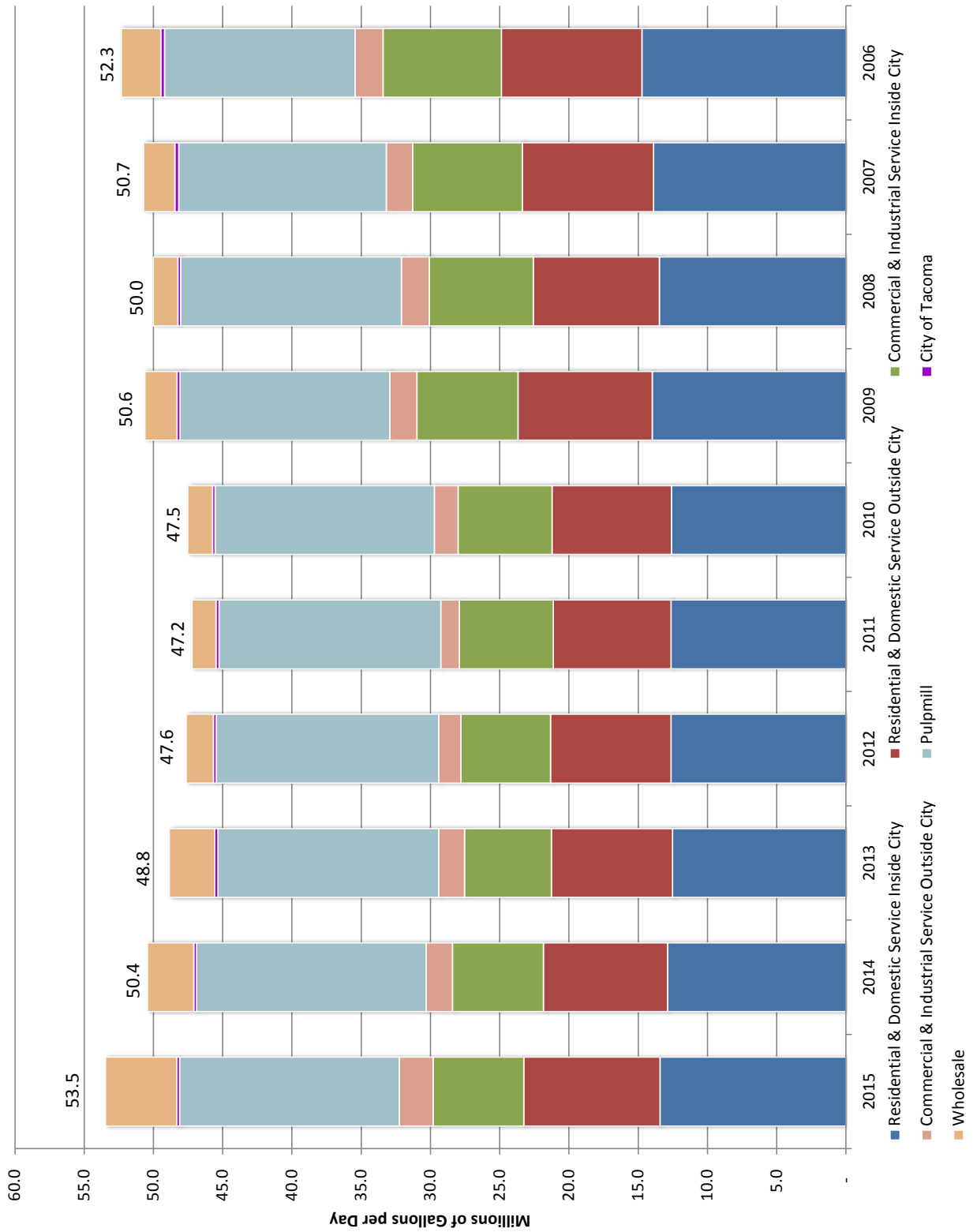
**TOTAL OPERATING EXPENSES**  
Year to Date - December 2014  
(\$58,556,634)



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

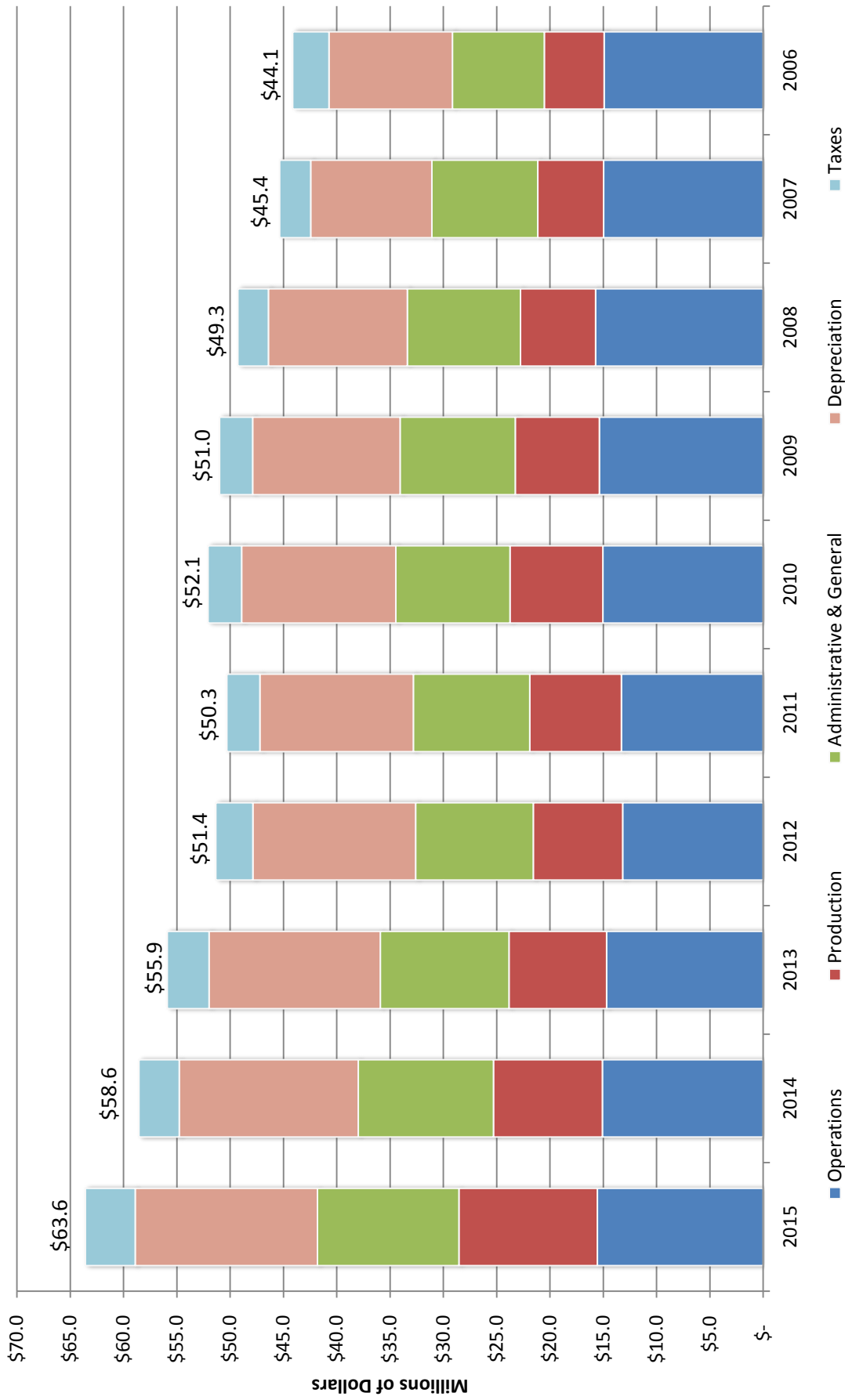


# TEN-YEAR SUMMARY OF WATER DEMAND (MGD)





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



## 2015 SUPERINTENDENT'S REPORT TACOMA WATER

Tacoma Water experienced significant additional workload in 2015 resulting from the need to respond to a historic drought. In spite of that, excellent progress on strategic initiatives was made along with continuing to provide reliable, high quality water service to the satisfaction of Tacoma Water customers as reflected by the high scores received on the 2015 Customer Satisfaction survey. Highlights of 2015 accomplishments are described below:

### Drought

No snowpack, an early end to spring rains and historic high temperatures in May, June, and July resulted in high customer demands and river flows lower than previously recorded in the Green River, Tacoma's primary water supply. The unprecedented weather created drought conditions. The utility is fortunate to have abundant groundwater supplies from wells located throughout south Tacoma and Pierce County for use in years such as 2015. Those resources were used extensively from early spring through late fall. By late July, Tacoma along with its partner utilities in the region, activated its Water Shortage Response Plan and asked customers to voluntarily eliminate lawn watering in order to conserve water. This was primarily driven by long range forecasts predicting no fall rains until near the end of the year. This would have strained needed river flows for ESA protected salmon during the critical spawning period. Customers responded very effectively and demands dropped by more than 10% saving nearly 750 million gallons of water for fish.

In addition to pumping groundwater and asking for help from customers, Tacoma Water undertook a number of projects to increase water supply and storage in the reservoir behind Howard Hanson Dam. The projects included temporary pumping to withdraw 1000 acre feet of water from Eagle Lake in the upper watershed, buying excess stored water from Lakehaven Utility District, purchasing well water from Lakehaven Utility District to further reduce Green River diversions in the late summer, early fall and making repairs and water quality improvements to Prairie Ridge Springs.

The comprehensive approach to meeting customer demands and instream flow commitments during the drought was very effective and minimized customer impacts. The long range forecasts did not turn out as had been predicted and fall rains did return as usual in October. That resolved the water supply issue and the year ended with normal snow pack and full groundwater recharge. Many of the temporary water supply solutions adopted in 2015 will be a great value in future droughts.

### GRFF

2015 was a milestone year for Tacoma Water as the new Green River Filtration Plant was officially brought on line. The filtration plant will significantly improve Tacoma's water quality. It will also increase supply availability since turbid water previously not available for use can now be treated through the plant. The project was successfully completed on time and \$30 million under budget. Additionally, operating costs have

been less than anticipated as a result of lower solids handling costs, reduced chemical use and other improvements implemented by the staff.

#### Joint Base Lewis – McChord (JBLM) Privatization Solicitation:

The United States Defense Logistics Agency issued a solicitation to interested parties on June 19, 2015 for privatization of the potable water and wastewater systems. This involved purchasing the JBLM system, and entering into a 50 year contract to meet all operating, maintenance, capital development and reinvestment needs of the JBLM utility.

The privatization of the water system offered an incremental opportunity for Tacoma Water to modestly increase rate base, and provide a high level of water service to an important national and regional military installation. After careful consideration of the contracting mechanisms available to Water, particularly the cost recovery mechanisms, it was determined that the uncertainty and risk were too large for the modest increase to rate base offered, notwithstanding other benefits. In consultation with legal, it was also determined that contractual constraints and their associated risks would make meeting the Tacoma Public Utility Board/City Council adopted “Service Area Expansion Policy” criteria very difficult. Although this work did not result in a recommendation to propose, the effort and analysis involved was substantial, and was useful in further developing understanding of system operating costs, and risk areas.

#### Budget Development Decision-Making Framework

Rates and Financial Planning developed a business case analytical tool tailored to Tacoma Water needs along with updated long and short form reporting templates. Workshops provided to capital planning staff offered training on the new tools as well as practice using concepts around risk, reference groups and planning assumptions. Discussions from the workshops were used to enhance the business case tools and create user manuals and documentation. Draft process documentation for the decision-making process around the capital budgeting effort has been developed along with process flow charts for projects recommended by the Vulnerability Assessment, Transmission & Distribution Main SAMP Economic Models, regulatory and other capital projects. A new Budget Development and Tracking SharePoint site went online in September, providing a streamlined platform for sharing and submitting budgeting tools, training and information. Capital projection, project management and O&M tracking and reporting tools were also developed.

#### Pierce County Franchise

Pierce County granted a new 15-year franchise to Tacoma Water to continue to operate the water system within unincorporated Pierce County. This new franchise replaced a 50-year franchise, and covers infrastructure within Pierce County rights-of-way, such as transmission main carrying water to Tacoma, and distribution system serving customers in unincorporated Pierce County. With the new franchise Tacoma Water remains a utility in good standing, which affords access to reduced permitting requirements and

fees. The franchise terms are favorable and result in ongoing positive coordination with Pierce County, which benefits all of Tacoma Water's customers.

### Labor Contracts

Successful contracts were negotiated with the largest unions representing Tacoma Water staff, including Local 483 Water, Local 117 Teamsters and Local 17 AFSCME. The 4-year term of the contracts is a significant outcome along with improved contract clarity regarding work rules and other issues.

## **ASSET & INFORMATION MANAGEMENT**

### Strategy Management (Balanced Scorecard)

Tacoma Water has addressed a number of the issues identified in the 2012 strategic plan, and continues to make strategic progress on the remaining areas. 2015 was year three of using a Balanced Scorecard approach to manage the strategic work. Each year the strategy map is updated to identify which strategic objectives will be addressed. In 2015, a playbook was also developed to reinforce and clearly communicate Tacoma Water's mission, values and highest priority work. The strategy map and playbook are intended to help align and focus resources on Tacoma Water's wide priorities.

For each objective on the strategy map, performance measures define progress and success. The objectives relate to three perspectives: employee (employee engagement); internal process (customer focus and effective decision making); and outcome (financial and customers). Through strategy management efforts Tacoma Water has worked to ensure that the strategic work is prioritized, adequately resourced, actions are planned, progress measured, and issues resolved. This discipline was put to the test in 2015 with the unanticipated drought and opportunity to respond to the JBLM RFP. These efforts were not planned for, and created additional workload for already overburdened staff. This was addressed through use of the strategy management tools to review the priorities and the resource capacity for both strategic initiatives and vital work in light of the JBLM project and the drought. That deliberate approach to managing priorities resulted in resources being changed, timelines adjusted, and approaches revised, improving Tacoma Water's ability to successfully navigate an unprecedented water supply situation.

### Asset Management

Tacoma Water continued to invest time and resources into documenting and understanding all assets in the system, their function, use, maintenance, and replacement. This information will enhance decision making. There is a continued effort to improve understanding of risk and how to use a data driven approach to deliver the best long term value to Tacoma Water's ratepayers.

As the Asset Management Program matures there is a transition to having Operating Sections take on leadership roles in implementing Asset Management (AM) within their respective sections. The success of which can be seen in the progress made in the

Strategic Asset Management Program, Strategic Asset Management Plans and our Decision Making.

#### Strategic Maintenance Management Program (SMMP)

Tacoma Water's SMMP is a strategic approach to maintenance practices to ensure the right maintenance is occurring on the right equipment at the right time. Doing so increases system reliability, lowers risk, provides better service for customers, produces data needed to drive decision making and delivers long term value to ratepayers.

Tacoma Water made significant progress in the implementation of its SMMP, particularly in the arena of advanced planning and scheduling practices and implementation of improved inspection and work management practices.

Early in the year, Tacoma Water entered into a contract with an industry leader in the area of reliability and maintenance management in order for the organization to better understand what a world class planning and scheduling program involves, the importance of such a program and the benefits it would bring to our organization. Furthermore, the consultant provided Tacoma Water with the necessary information to properly scope a plan to begin implementing these best practices within the organization.

The effort kicked off with a current best practices assessment of the Water Supply Operations section to thoroughly evaluate the effectiveness of the existing work processes that drive improved reliability, maintenance performance and costs of infrastructure. The assessment also included recommended action items for closing key gaps.

Three training sessions (2-day, 1-day and ½-day) on Planning and Scheduling were offered to staff at Tacoma Water with over 70 individuals attending 1 or more of the sessions.

The second half of the year focused on "Planning and Scheduling Implementation" in the Water Supply Section, with the AM team playing a large supporting role in this effort, particularly in the creation of data registries for the majority of the assets in SAP, running workshops with field staff to identify best practice maintenance activities (and frequencies) on the infrastructure, creating a SharePoint site for storing the step by step maintenance processes, training staff on the use of maintenance plans, developing a tool enabling field staff to create failure notifications in the field, ad-hoc training to facilitate the reporting of key performance indicators based on data captured in SAP and working closely with the Information Management Group to begin linking SAP assets with BlueWave GIS mapping. This effort will continue into 2016.

### Strategic Asset Management Plans (SAMPs)

SAMP teams are created for each of the 18 specific asset classes that compose the entire water system, such as fire hydrants, valves, generators, reservoirs, water meters, and pump stations. The teams are tasked with thoroughly documenting all that is known about the assets, including their function, how to care for them, renewal/replacement, the importance they have in our system, the consequences of failure, the risk and their history at Tacoma Water.

SAMPs were completed in 2015 for 2 new asset classes: Valves and Electrical Gensets. There are now a total of 14 SAMPs (out of 18) in flight. The remaining 4 SAMPs were scoped at a high level to better understand what assets (and sub-categories of assets) will be covered in each. This provides the organization more clarity regarding the body of work that remains to be accomplished and what resources will be necessary to realize it.

Additionally, with the support of the operating sections, substantial updates were made to the following SAMP reports: Fleet & Equipment, Hydrants, Distribution Water Services, Cathodic Protection and Distribution Mains. The original concept of SAMP reports being dynamic and perpetual documents is becoming reality.

As a result of SAMP reports being updated, subject matter experts from the teams documented recommendations for short and long term improvements for the asset classes. During Q4, the AM team, along with the SAMP Leads, compiled 160+ recommendations from the 14 SAMPs. By evaluating and prioritizing the recommendations for multiple assets side by side, critical work has been identified for the purpose of influencing 2016 goal setting and 2017/18 budget development.

### Decision Making

The transmission and distribution main economic models calculate the optimal replacement timing of a pipe segment by determining the lowest lifecycle cost where the capital cost of the pipe is spread over the longest time period possible without incurring excess risks or costs associated with the failure costs of an older pipe.

This marked the first time that the economic model was integrated with our BlueWave GIS mapping system. This functionality, which was built in-house, allows users to use a map to interface with the model; users are able to select pipes from the map to analyze and can view results of the analytics in map form. It also was the first year in which Tacoma Water was able to utilize published data from other jurisdictions outside of Tacoma for analysis (such as pavement types, street types, streams, wetlands, railroads, highways, steep slopes, etc.), resulting in an improvement to both data quality and quantity. The end result is a data driven model that is used to inform decision making and produce the most value out of distribution and transmission mains.

### Information Management

Significant progress was made in the area of technology and information management in 2015, including improved Master Data management and integration of BlueWave (GIS) with the new Hydraulic Modeling platform.

2015 was largely dedicated to data currency and accuracy. The map backlog was reduced from over 100 projects down to the target of 10 (or less) during the first half of the year. This work resulted in the mapping of over 3,000 water services and over 194,000 linear feet of water mains. The spatial adjustment of 8 large areas in Pierce County was completed, capturing GPS locations for the above-ground assets in the field and incorporating those adjustments in BlueWave. The spatial adjustment project has proven to be very important with for map data currency.

In the fourth quarter a new GIS user interface utilizing a 3<sup>rd</sup> party product called Geocortex was introduced. Water-wide training will be scheduled in early 2016. The second annual GIS Day was held in November including presentations showing GIS in action at Tacoma Water. Tacoma Water served as Chairperson of the citywide GIS Advisory Team (GAT), which currently has resulted in broader co-development and utilization of the ESRI platform and greater data sharing and collaboration across the GIS community. Nearly 100 modeling and mapping projects were completed in support of Water staff and customers.

In addition, 35 istar requests with the SAP support team were successfully completed.

### 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 (UTAB) role was very active in 2015 focused on development of standards and best practices for development and implementation of technology solutions at TPU. Key Deliveries in 2015 included: UT Reference Architecture and Application Integration Strategy & Services Oriented Architecture Roadmap, TPU UT Maturity Mode Developed, Approved TPU Cyber Security Policy and TPU Computer Replacement Policy w/ standards.

## **WATER QUALITY**

### Green River Treatment

The Green River Filtration Facility start-up was in its early stages at the beginning of 2015, and was completed by May. This was a challenging process to switch from unfiltered to fully filtered, requiring intensive training and staff commitment. Start-up involved two months of around-the-clock, intensive testing, while concurrently ensuring water supply continued uninterrupted. Unexpectedly, the drought conditions required minor modifications to some systems to allow the facility to operate a lower flow rate than was anticipated in design.

Through startup and transition to operating under the regulatory constraints of a filtered system, water entering the system is now much higher quality, with over 100 times less sediment, requires approximately half as much chlorine treatment, and looks and tastes terrific.

### Regulatory Compliance & Customer Service

Water Quality and Water Supply 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 exceeded that goal, returning each of the 574 calls received in the time required (100 percent). This is a remarkable feat, and is the result of strong employee dedication to customer service, and years of improving processes and attention to detail.

Members of our Water Quality group have continued to be 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 2015, this team developed & delivered three accredited training opportunities for Wholesale and Partner Utility staff.

### Water Quality Engineering

In response to the unprecedented 2015 drought, the Water Quality Engineering group was tasked with very rapidly designing and installing new water treatment systems at groundwater sources that have not been significantly used in many years. These efforts allowed the utilization of wells and a spring source that augmented supply by over ten million gallons per day, and improve the utility's resilience going forward. This group was also highly involved in driving one of Tacoma Water's major resiliency planning efforts. This work, in conjunction with the regional Water Supply Forum, focused on several critical areas of risk to Water Quality in municipal water systems, and paves the way for additional work in 2016.



### 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. 2015 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. The Natural Resource Manager also spent a significant amount of 2015 working both internal and public processes to manage the ongoing planning for disposition of some high profile surplus lands.

Watershed staff provided intensive patrol during very high fire risk periods, enforcing trespass controls on closed areas of the watershed, and enforcing burn bans on open US Forest Service lands in the upper watershed.

## **WATER SUPPLY**

### Vulnerability Assessment

Since 2014, Tacoma Water has been working on a Vulnerability Assessment using a new standard of analyzing impacts on service delivery due to hazards of a grand scale. A considerable effort has been made to identify significant threats to our system and develop a prioritized plan to mitigate those threats. The Vulnerability Assessment (VA) was completed in 2015 and the analysis included a quantification of likelihood, consequence and vulnerability for each threat/asset pair resulting in a comprehensive risk score and understanding of the most critical actions needed to improve overall water system resilience. A major focus for 2016 will be to implement the recommendations from the VA in accordance with the recommended schedule.

### Planning & Scheduling Implementation

Planning and Scheduling began early in the year. The Steering Team met to chart a course and to discuss the sixteen month implementation plan. This team supervises the formation of “action” teams to address specific elements identified during the execution of each phase. The Steering Team has been responsible for communication of the implementation plan and they ensured the schedule was met in 2015 and will continue to be met in 2016.

### 6/15 to 9/15 Phase 1: Daily Scheduling, Work Documentation/Records Management, Priority Coding

As part of this effort, priorities for levels of work were established and Key Performance Indicators (KPI's) were developed and began to be tracked. New business process flow charting was accomplished to ensure the work flow is as efficient as possible. We are working towards full utilization of SAP.

### 10/15 to 12/15 Phase 2: Basic Planning and Work Notifications

Many maintenance plans and inspection check lists were developed (and continue to be developed) for many of the Asset classes in Supply. The Planner has much deeper understanding of what is required and continues to advance us in this area.

### 10/15 Phase 1A - Preventive Maintenance, Essential Care and Condition Monitoring (PM/ECCM) training

Other than the apprenticeship program, there is currently no defined training plan for our O&M staff. A consultant has provided training on PM/ECCM to Supply O&M staff to establish baseline training and help start our thought process regarding how best to train and keep skills current. We will continue to work with the consultant to provide training to Supply O&M staff and other interested team members regarding the vision of what the current best practices look like and how we might strategize refining, creating, and implementing specific processes to improve our business and increase our rate payers' value.

The next steps for 2016 will be to implement and entrench, weekly scheduling and Backlog Management, to develop Precision Planning and Kitting program for jobs, and finally to begin a Root Cause Problem Elimination and Condition Monitoring program.

### Red Line to BlueWave

Members of the Water Supply Team conducted a formal Total Quality project to determine the best practices and most efficient ways to ensure that all data generated during the as-built process of an O&M or capital project is captured and moved to the various appropriate end repositories. The project was conducted over the course of 2015 and successfully developed a "Red-line to BlueWave" process that will be used moving forward.

### 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.) is in the process of completing the first phase of a major regional project to help the utilities' ability to respond and thus improve the resiliency at a regional level. Tacoma provided leadership in the Water Quality area, and technical expertise in the Earthquake field, Drought response area, and Climate Change area.

The final report for Phase I will be produced in the first quarter of 2016, there are 17 "take-aways" from this work that will need to be analyzed and moved into phase II.SAMP Work

As is mentioned in the Asset Management section of this report, there are now many SAMPs in various stages of development throughout Tacoma Water, and a majority of these are for Supply assets. Over 90 recommendations were developed from the SAMPs, for the assets that Supply has responsibility for. Working on prioritizing and addressing these recommendations will be a primary focus over the coming year.

### Emergency Operations Planning

Tacoma Water successfully conducted two drills in 2015 to continue to improve and expand our use of the Incident Command System (ICS). Another focus in 2015 was on training; the Water staff on aggregate have completed over fifty percent of the required emergency operations training, and we are on pace to complete the training early next year. In the coming year, recommendations from the Vulnerability Assessment will be analyzed and input into our Emergency Operating Plan (EOP).

## **WATER RATES & FINANCIAL PLANNING**

### 2015-2016 Cost of Service Rates

Approval from the Tacoma Public Utility Board and City Council was received early in 2015 for a 4 percent overall rate increase beginning April 1, 2015. The impact to a typical residential bill was about \$1.50 per month. Approval was also received for an additional 4 percent increase to go into effect January 1, 2016.

In addition to these rate increases, a “hydrant service fee” was introduced on customer bills inside the City of Tacoma, which will cost customers \$1.11 per month in 2015 and \$2.24 per month in 2016. At the same time, the hydrant fee charged to the City of Tacoma for hydrant service will be phased out, dropping from \$266.95 per hydrant in 2014 to \$134.67 in 2015. In 2016 this fee will be retired, and 100% of public fire protection costs will be recovered from ratepayers.

### Refunding of 2005 Bonds

In April 2015, Tacoma Water sold \$23.0 million of bonds to refund its 2005 bonds at lower interest rates. The total interest cost of the refunding bonds is 1.9%, and will deliver a total net present value savings of \$2.7 million over the remaining life of the bonds, which have a final maturity in 2025.

### Contract Extension with WestRock Paper Mill

The Public Utility Board approved a contract extension with the WestRock Paper Mill in June of 2015, which extends the term of the contract to 2020 with the same pricing and supply provisions as the previous contract. In 2015, the mill underwent a second ownership transition in recent history with the merger of RockTenn and MeadWestvaco to form an industry heavyweight with 42,000 employees in 30 countries, and capacity to produce 13 million tons a year of paper to make packaging. In the wake of this deal, and the supply and demand conditions that affected Tacoma Water in 2015, WestRock and Tacoma Water staff agreed to extend the contract in order to provide time to inform and negotiate major contract modifications.

### Demand Forecast

Tacoma Water published its 2015 demand forecast, which provides 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 financial planning, system planning and water supply agreement development.

### TPU Benchmarking

Water participated on a TPU-wide team to develop a utility benchmarking and reporting platform designed for executive-level staff and the Public Utility Board. In December of 2015, the first draft report was forwarded to the Board for their review. This will provide our executive leadership and Board with a quick view into the performance of the utility on many different fronts.

## **DISTRIBUTION ENGINEERING**

### Economic Development and New Services

After nearly two years of planning, the 115th U.S. Open Championship was played June 18–21, at Chambers Bay in University Place. Staff worked around the clock to ensure temporary water service connections were reliably and safely providing water for the approximately 235,000 spectators who attended the event. The Open is estimated to have brought \$140+ million in economic impact to the region.

Distribution Engineering staff participated in the City of Tacoma's subarea planning and Vision 2025. As a result, significant progress was made in project coordination for South Downtown, the Lincoln District, and Sound Transit Link Light Rail project. Through the Infrastructure Coordination team these projects are designed to mutually benefit utilities and future development. Distribution Engineering staff engaged actively in support of the region's economic development agenda, partnering with Tacoma's Community and Economic Development Department, Tacoma Pierce County Economic Development Board and the Port of Tacoma. Nearly 6 miles of new main were constructed by private development.

### System Acquisitions

In 2015, Tacoma Water completed construction of new water mains to begin direct retail service to customers of the acquired Andrain Road Water Association. Andrain had previously been an independent water system and a Tacoma Water wholesale customer. In response to impacts of growth and development on their inadequately sized water system, they opted to become retail customers of Tacoma Water. Similarly, Washington State Department of Health has required Curran Road Water Association, a Tacoma Water wholesale customer since the 1940's, to complete a Water System Plan that would detail needed system improvements to add capacity to serve growth projected by Pierce County's land use plan. Curran Road currently serves approximately 650 customers with a capacity to serve 690. In July, they were awarded a (\$30K) Consolidation Grant from the Washington State Department of Health to explore the feasibility of acquisition by Tacoma Water.

### Main Replacement Program

Distribution Engineering enhanced hydraulic modeling and business case development capacity with new staff. The added expertise will expedite progress on the economic model used to analyze various factors contributing to distribution main performance and

determine remaining useful life of the asset. Approximately 5.8 miles of distribution main were replaced in 2015 as recommended by the model.

Tacoma Water implemented new drafting standards and templates utilizing AutoCAD Civil 3D. The technology will allow both office and field staff to quickly setup projects and transfer data. 3D profiles are being created and will be available in 2016.

## **DISTRIBUTION OPERATIONS**

### Construction

New water service installations remained steady from the previous year at 923 and the number of new meter installs came in at 641. Although this is not as high as in the construction boom years, it is a strong, healthy level of new development.

In an effort to enhance communication, clarify roles, reinforce expectations and provide some minor training, Water Service Supervisors “huddle” every morning to check in with their crews. This short gathering first thing every morning facilitates discussion of the daily work, topics of interest to the staff and consistent messaging.

### Operations

In 2015, the system experienced 35 main breaks, with an average response time of 27 minutes. As in past years, more breaks occurred in November and December as temperatures became colder.

Spoil (excavated material) management processes were significantly improved with the purchase and use of an X-ray Fluorescence Analyzer (XRF) to meet soil testing requirements in the Tacoma Smelter Plume area. Approval of use of the Analyzer was received from the Tacoma Pierce County Health Department. The XRF machine improved spoil management by reducing double handling of soils and expense of using an independent laboratory.

### Systematic Flushing

In spite of a 3 month period where flushing was shut down because of the drought concerns, the unidirectional flush teams cleaned 226 miles of mains, about a fifth of the system in 2015. Additionally, 1,930 dead end mains were flushed.

### Fire Hydrant Maintenance

All fire hydrants receive comprehensive maintenance every other year. Efficient routing and a mature maintenance program resulted in 4175 hydrants inspected and maintained in 2015.

### Meters

633 commercial meters were exchanged and rebuilt in 2015.

To reduce meter maintenance costs on high water use meters, non-mechanical (electromagnetic) meters were purchased to replace our existing mechanical meter technology.

The meter project VNR (Virtual Network Remote) Phase 1 was completed at the end of 2015. This project identified a replacement solution for an obsolete Sensus phone read meters (MIU) using cell technology endpoints from Metron (VNR). 37 registers were replaced. This project includes physical MIU removal, VNR endpoint installation and automated reading from VNR register to SAP for billing. All 37 VNR meters are billing automatically through the cloud.

### Planning

In partnership with Tacoma Power a team was formed to identify requirements for a shared decant facility for wet soil disposal, including from vacuum excavators. This is a critical facility for both Tacoma Water and Tacoma Power. The final plan will result in shared construction and maintenance costs.

Linda McCrea  
Water Superintendent



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