



*Wastewater and Surface Water  
Management  
Annual Financial Report  
For the fiscal year ended December 31, 2017  
Prepared by the Finance Department*



**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management**

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# *Independent Auditor's Report*

## **Report of Independent Auditors**

Honorable Mayor and City Council  
City of Tacoma, Environmental Services, Wastewater and Surface Water Management  
Tacoma, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of City of Tacoma, Environmental Services, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2017 and 2016, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

## ***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, 2017 and 2016, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of net pension liability, and schedule of employer contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 supplemental information on pages 53 through 60 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018, on our consideration of the City of Tacoma, Environmental Services, Wastewater and Surface Water Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington  
April 30, 2018

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# *Management's Discussion and Analysis*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

**Introduction**

The following discussion and analysis of City of Tacoma Wastewater and Surface Water Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2017, 2016 and 2015. 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, 2017 and 2016, 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 City of Tacoma Wastewater and Surface Water Management Division'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 the Division's presentation of financial position, results of operations and changes in cash flows.

The Division adopted GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, during fiscal year 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**Financial Highlights**

- Total net position is \$435.4 million at December 31, 2017 compared to \$422.1 million and \$409.3 million at year-end 2016 and 2015, respectively.
- Operating revenues were \$110.0 million in 2017, \$104.3 million in 2016 and \$96.4 million in 2015.
- Cash and equity in pooled investments was \$98.4 million at December 31, 2017 compared to \$77.7 million in 2016 and \$60.0 million in 2015.

## Financial Analysis – Condensed Statements of Net Position

Net position may serve over time as a useful indicator of an entity's financial position. The following condensed statement of net position provides a comparison of net position for the last three years.

	December 31,		
	2017	2016	2015
Current, restricted, and other assets	\$ 131,273,925	\$ 131,654,327	\$ 138,271,626
Net capital assets	582,197,274	575,975,737	556,525,347
Total assets	<u>713,471,199</u>	<u>707,630,064</u>	<u>694,796,973</u>
Deferred outflows of resources	13,974,660	14,723,782	5,989,822
Total assets and deferred outflows of resources	<u>\$ 727,445,859</u>	<u>\$ 722,353,846</u>	<u>\$ 700,786,795</u>
Long-term liabilities	\$ 247,477,870	\$ 256,177,254	\$ 248,294,752
Other liabilities	17,244,929	18,355,075	17,006,452
Total liabilities	<u>264,722,799</u>	<u>274,532,329</u>	<u>265,301,204</u>
Deferred inflows of resources	27,350,085	25,766,997	26,181,543
Total liabilities and deferred inflows of resources	<u>292,072,884</u>	<u>300,299,326</u>	<u>291,482,747</u>
Net position:			
Net investment in capital assets	386,408,990	392,364,966	392,427,935
Restricted	14,335,157	14,542,374	15,713,989
Unrestricted	<u>34,628,828</u>	<u>15,147,180</u>	<u>1,162,124</u>
Total net position	<u>435,372,975</u>	<u>422,054,520</u>	<u>409,304,048</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 727,445,859</u>	<u>\$ 722,353,846</u>	<u>\$ 700,786,795</u>

The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$435.4 million in 2017, compared to \$422.1 million in 2016, and \$409.3 million in 2015. The Division's net position increased by \$13.3 million to \$435.4 million in 2017 compared to an increase of \$12.8 million to \$422.1 million in 2016 and an increase of \$12.9 million to \$409.3 million in 2015. However, the largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The net investment in capital assets component of net position was \$386.4 million in 2017 and \$392.4 million for 2016 and 2015. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Division's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division's net position is \$14.3 million for 2017, compared to \$14.5 million in 2016, and \$15.7 million in 2015 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$34.6 million for 2017, \$15.1 million for 2016, and \$1.2 million for 2015 is unrestricted.

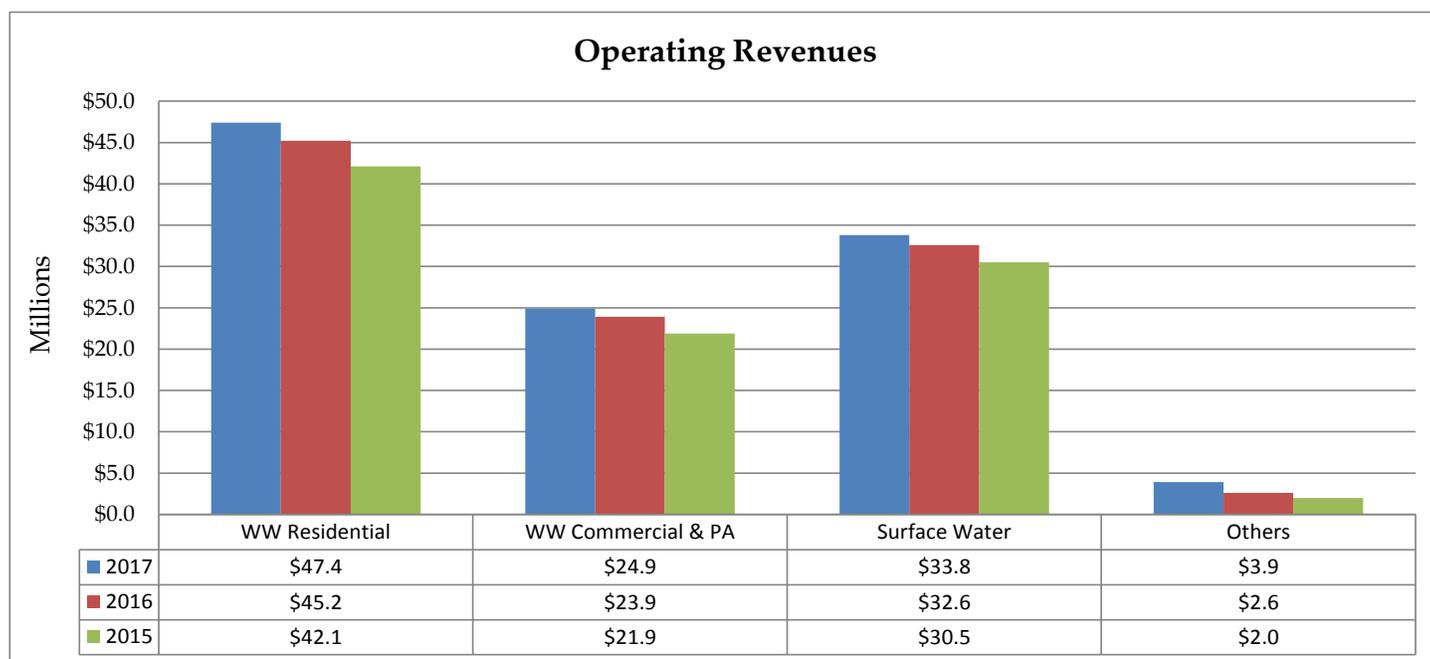
## Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

Year ended December 31,

	2017	2016	2015
Operating revenues	\$ 110,041,372	\$ 104,279,617	\$ 96,399,523
Operating expenses	88,605,925	84,577,168	76,456,455
Net operating income	21,435,447	19,702,449	19,943,068
Nonoperating revenues (expenses)	(4,808,373)	(4,843,543)	(6,474,992)
Increase (decrease) in net position before transfers	16,627,074	14,858,906	13,468,076
Capital contributions	4,470,024	5,957,003	5,642,860
Transfers	(7,778,643)	(8,065,437)	(7,541,902)
Increase (decrease) in net position	13,318,455	12,750,472	11,569,034
Net position - beginning of year	422,054,520	409,304,048	396,358,735
Accumulated adjustment for change in accounting principle	-	-	1,376,279
Net position - beginning of year, adjusted	422,054,520	409,304,048	397,735,014
Net position - ending	\$ 435,372,975	\$ 422,054,520	\$ 409,304,048

### Operating revenues

The following graph provides a comparison of operating revenues for the three years.

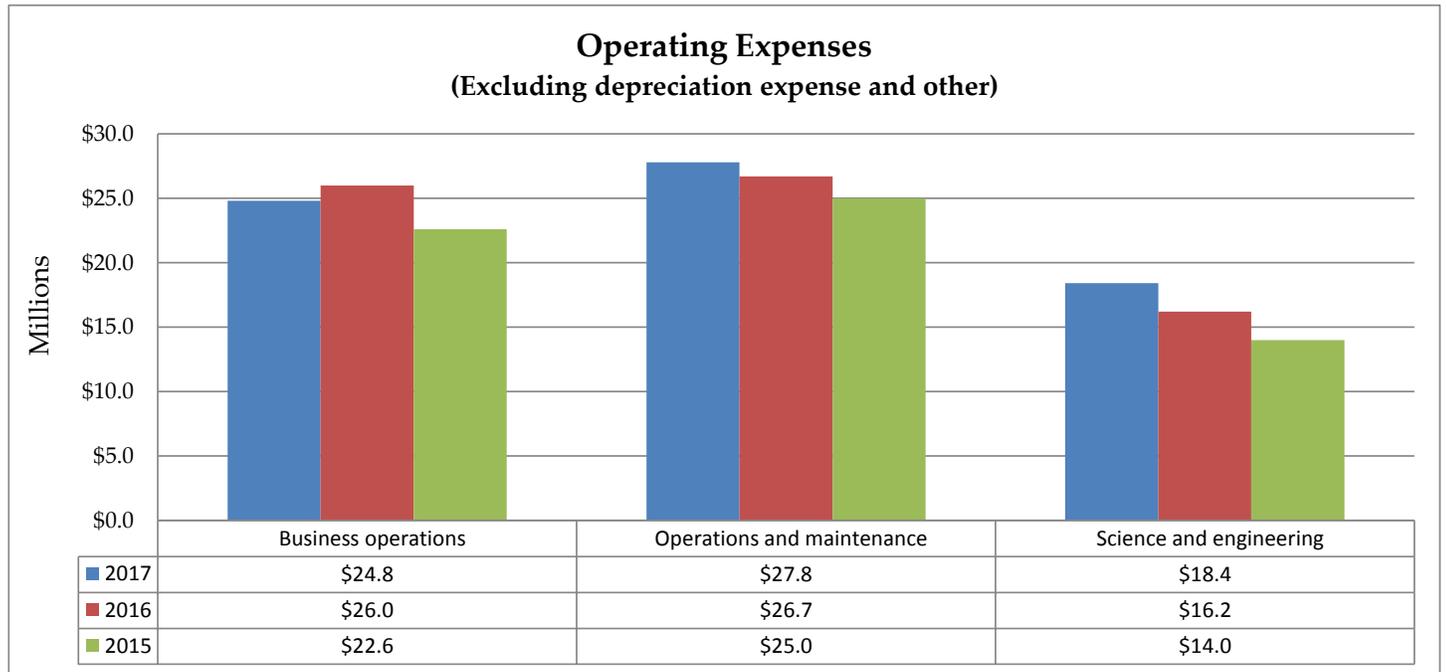


Operating revenues were \$110.0 million in 2017 compared to \$104.3 million in 2016 and \$96.4 million in 2015. The approved average rate increases for Wastewater were 5.5% for 2017 and 6.0% for 2016 and 2015. The average rate increases for Surface Water were 5.5% for 2017, 2016 and 2015. The rate increases went into effect January 1<sup>st</sup> of each year.

Wastewater residential revenues increased \$2.2 million (5%) in 2017 compared to \$3.1 million (7%) in 2016, and Wastewater commercial and public authority (PA) revenues increased \$1.0 million (4%) in 2017 compared to \$2.0 million (9%) in 2016. Surface Water increased \$1.3 million (4%) in 2017 compared to \$2.1 million (7%) in 2016. The reason for these increases was due in part to rate increases and increase in customer accounts. Other revenues increased \$1.3 million (51%) in 2017 compared to \$600,000 (31%) in 2016 due in part to processing leachate from the Land Recovery, Inc. (LRI) 304<sup>th</sup> street landfill.

Operating expenses

The graph below shows a three year comparison of operating expenses excluding depreciation expense and other.



2017 Activity

Operating expenses were \$88.6 million in 2017 and \$84.6 million in 2016, an increase of \$4.0 million.

- Business operation expenses decreased \$1.2 million. The significant events were:
  - Costs associated with the capital lease for the Center for Urban Waters (CUW) building decreased \$553,000 due to the termination of the capital lease agreement.
  - Vehicle expenses and replacement fees decreased \$509,000 due to no additional charges for vehicles maintained by Fleet.
  - Administrative and General (A&G) charges allocated to capital projects increased \$450,000 due to the adjusted A&G charge rate from 4% to the 7% and 6% increase for the Wastewater and Surface Water constructed capital respectively. The A&G charges for the Wastewater and Surface Water purchased capital decreased from 4% to 3%.
  - Assessment charges from other departments, including Customer Service and IT, increased \$310,000 for their internal services.
- Operations and maintenance expenses increased \$1.0 million. The significant events were:
  - Labor expenses including all payroll associated costs increased \$862,000. Of this increase, \$392,000 related to pension expense and there was a decrease of \$322,000 related to the secondary labor charges allocated to capital projects and outside activities due in part to reduced spending on capital projects.
  - Repair and maintenance service increased \$218,000, which includes the Atlas Copco’s compressor service for Plant 1 and 3, and Great Floors LLC’s new carpeting expense for the engineering building.
- Science and engineering expenses increased \$2.3 million. The significant events were:
  - Environmental liabilities increased \$1.3 million due to anticipated increase in monitoring costs for the Foss Waterway and new clean-up expected in the Olympic View Resource Area (OVRA).
  - Repair & maintenance services contract increased \$591,000 due to the new Center for Urban Water (CUW) building management and maintenance service contract with Kidder Mathew.
  - Pension expenses increased \$390,000.

### 2016 Activity

Operating expenses were \$84.6 million in 2016 and \$76.5 million in 2015, an increase of \$8.1 million.

- Business operation expenses increased \$3.4 million. The significant events were:
  - Labor expenses including all payroll associated costs increased \$731,000. Of this amount, \$473,000 is increased pension expense.
  - Vehicle replacement fees from Fleet Services increased \$509,000 due to additional fleet costs for vehicles transferred from the Construction division.
  - Assessment charges from other departments, including Customer Service and IT, for their internal services increased \$1.5 million.
  - Administrative and General (A&G) charges to capital projects decreased \$543,000 due to less spending on capital projects.
- Operations and maintenance expenses increased \$1.8 million. The significant events were:
  - Pension expense increased \$1.3 million, which was allocated based upon last year's labor expenses of each division.
  - Operating supplies and maintenance materials used for their services increased \$550,000.
  - External contract services decreased \$541,000 due to reduced contract services for the North End Treatment Plant (NETP) and pump station maintenance, engineering, and site development.
- Science and engineering expenses increased \$2.3 million. The significant events were:
  - Labor expenses including all payroll associated costs increased \$2.4 million; pension expense increased \$1.2 million, and labor expenses allocated to capital projects or outside activities decreased \$1.5 million.
  - Professional service expenses increased \$335,000, which includes the inspection services rendered by Ace Pipe Cleaning Inc. for the Wastewater Trunk Line Condition Assessment project.

### **Capital Assets**

Capital assets increased \$6.2 million in 2017 compared to \$19.5 million in 2016. (See Note 4.)

### 2017 Activity

Capital assets increased \$6.2 million over the prior year. Buildings decreased \$7.2 million mainly due to the reclassification of \$7.4 million for the 3-Screw Press Dewatering System as heavy equipment. Machinery and equipment increased \$12.4 million primarily due to the reclassification of \$7.4 million, and the capitalization of the Plant Control System upgrade project for \$4.7 million. Transmission lines and other improvements increased \$14.1 million: 4,945 feet of donated lines were recorded for \$1.2 million, 27,485 feet of old lines were retired at the historical cost of \$102,000, and 20,019 feet of new replacement lines and extended sewer lines were recorded for \$10.0 million. The Gravel Pit Expansion project was capitalized at \$3.0 million as other improvements. Accumulated depreciation increased \$16.0 million and construction in progress increased \$2.1 million.

### 2016 Activity

Capital assets increased \$19.5 million over the prior year. Buildings decreased \$5.2 million due to the value of the Solid Waste's share of the Center for Urban Waters capital lease building transferring to Wastewater and \$37.8 million was reclassified from capital lease building to building. Machinery and equipment increased \$34.0 million primarily due to the Plant Control System Upgrade project and Cleveland Pump Stations Upgrade project. Transmission lines and other improvements increased \$11.2 million: 4,397 feet of donated lines were recorded for \$1.2 million, 18,825 feet of old lines were retired at the historical cost of \$73,000, and 20,019 feet of new replacement lines and extended sewer lines were recorded for \$10.0 million. Accumulated depreciation increased \$16.6 million and construction in progress decreased \$18.5 million.

### **Debt Administration**

At December 31, 2017, the Division had \$239.0 million outstanding in long-term debt: \$44.4 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and the remaining balance is senior parity bonds debt. This compares to \$248.7 million in 2016 and \$222.9 million in 2015.

In 2016, the Division issued \$43.8 million in new Sewer revenue and refunding bonds. In June 2016, the 2016A Sewer Revenue Refunding Bonds were issued in the amount of \$31.9 million to provide funds necessary to advance refund and defease the outstanding TES Bonds for debt service savings, to make a deposit to the Reserve Fund, and to pay costs of issuance of the 2016A Bonds. In September 2016, the 2016B Sewer Revenue Refunding Bonds were issued in the amount of \$11.9 Million to provide funds necessary to refund on a current basis a portion of the City's outstanding 2006 Bonds for debt service saving, and to pay costs of issuance of the 2016B bonds.

The rating agencies maintained the Division's underlying credit ratings on parity bonds of Aa2, AA+, and AA+ from Moody's, Standard & Poor's, and Fitch respectively.

Additional information on the Division's long-term debt can be found in Note 5 of the financial statements.

### **Debt Service Coverage**

The bonds coverage ratio is calculated by dividing net revenue by debt service as defined by bonds covenants. The SRF loans are junior lien debt and excluded from the debt service in the bonds coverage ratio calculation.

The Division is required by its bond covenants to maintain a debt service coverage ratio of 1.3. The debt service coverage ratio is 3.36 at the end of 2017. This compares to a ratio of 2.98 in 2016 and 4.18 in 2015.

### **2018 Budgets and Rates**

The approved average rate increase for 2018 was 4.5% for Wastewater and 5.5% for Surface Water. These rate increases were determined after considering many internal and external factors impacting the Sewer Utility Systems' maintenance and operation such as revenues, expenditures, debt service obligations, and certain future capital needs, as well as planned growth, and utility services obligation, and forecasted cash flows.

The 2018 budget for operating revenues and expenses are \$74.9 million and \$52.3 million for Wastewater and \$36.1 million and \$23.1 million for Surface Water respectively. The 2017-2018 biennium budgets for capital expenditures were \$50.0 million for Wastewater and \$26.4 for Surface Water. After 2017 actual spending of \$14.7 million for Wastewater and \$8.3 million for Surface Water, the remaining budget on capital expenditures for 2018 is \$35.3 million for Wastewater and \$18.1 million for Surface Water. Capital spending varies from year to year due to multiyear projects, weather conditions, and other issues such as permitting and maintenance requirements.

### **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 the City of Tacoma Wastewater and Surface Water Management'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 independently 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 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.

### **Request for Information**

The Wastewater and Surface Water Management Division's (the Division) financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. For questions concerning any of the information provided in this report or requests for additional financial information, please contact the City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

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# *Financial Statements*

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Net Position**

	December 31,	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and equity in pooled investments	\$ 98,418,103	\$ 77,657,289
Accounts receivable, net	7,021,354	7,267,788
Unbilled revenues	6,970,787	6,272,787
Conservation loan fund receivables	139,339	216,067
Due from other funds	1,075	85,078
Due from other governments	822,875	901,326
Inventory	1,242,457	1,028,565
Prepayments	220,432	225,886
Restricted cash and equity in pooled investments:		
Debt service funds	1,058,386	1,057,424
Construction funds	56,387	21,162,655
Total restricted cash and equity in pooled investments	1,114,773	22,220,079
Total current assets	115,951,195	115,874,865
Non-current assets:		
Restricted cash and equity in pooled investments:		
Bond reserves	14,335,157	14,542,374
Conservation loan fund receivables	705,836	861,439
Prepayments	281,737	375,649
Capital assets:		
Land and easements	23,656,972	23,575,775
Buildings	191,776,652	198,993,226
Machinery and equipment	209,826,286	197,382,112
Transmission lines and other improvements	408,641,330	394,550,841
Computer software	8,940,494	8,225,336
Less: accumulated depreciation	(268,677,931)	(252,711,033)
Construction work in progress	8,033,471	5,959,480
Total capital assets, net	582,197,274	575,975,737
Total non-current assets	597,520,004	591,755,199
<b>TOTAL ASSETS</b>	713,471,199	707,630,064
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow - loss on refunding bonds	2,903,923	3,066,732
Deferred outflows - pensions	11,070,737	11,657,050
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	13,974,660	14,723,782
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 727,445,859	\$ 722,353,846

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

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Net Position**

	December 31,	
	2017	2016
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,264,951	\$ 3,373,137
Accrued wages payable and compensated absences payable	874,180	850,069
Accrued taxes payable	861,772	924,265
Due to other funds	732,084	1,852,218
Due to other governments	550,486	1,228,368
Accrued environmental liability	885,673	300,000
Accrued State Revolving Fund loan interest payable	202,410	219,603
Current portion of State Revolving Fund loan	3,867,742	3,798,001
Current portion of revenue bonds payable	4,606,250	4,427,499
Unearned revenues	340,995	324,491
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	418,750	402,501
Accrued revenue bond interest payable	639,636	654,923
Total current liabilities	17,244,929	18,355,075
Noncurrent liabilities:		
Long-term debt - revenue bonds, net	189,545,478	195,665,359
Long-term accrued compensated absences	2,979,424	2,891,479
Long-term accrued environmental liability	840,000	300,000
Long-term State Revolving Fund loan	40,574,795	44,442,536
Net pension liability	10,569,592	10,094,045
Net OPEB obligation	2,968,581	2,783,835
Total noncurrent liabilities	247,477,870	256,177,254
<b>TOTAL LIABILITIES</b>	<b>264,722,799</b>	<b>274,532,329</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - gain on refunding bonds	72,695	91,256
Deferred inflows - pensions	2,277,390	675,741
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>27,350,085</b>	<b>25,766,997</b>
<b>NET POSITION</b>		
Net investment in capital assets	386,408,990	392,364,966
Restricted for:		
Bond reserves	14,335,157	14,542,374
Unrestricted	34,628,828	15,147,180
<b>TOTAL NET POSITION</b>	<b>435,372,975</b>	<b>422,054,520</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 727,445,859</b>	<b>\$ 722,353,846</b>

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

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	December Year-to-Date	
	2017	2016
<b>OPERATING REVENUES</b>		
Wastewater residential	\$ 47,391,548	\$ 45,223,969
Wastewater commercial and public authorities	24,944,393	23,930,833
Surface water	33,837,829	32,565,853
Other revenues	3,867,602	2,558,962
Total operating revenues	<u>110,041,372</u>	<u>104,279,617</u>
<b>OPERATING EXPENSES</b>		
Business operations	24,845,913	26,020,054
Operations and maintenance	27,777,106	26,743,208
Science and engineering	18,405,783	16,136,764
Other	372,195	102,029
Depreciation	17,204,928	15,575,113
Total operating expenses	<u>88,605,925</u>	<u>84,577,168</u>
Net operating income	<u>21,435,447</u>	<u>19,702,449</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment and other earnings	934,126	1,080,340
Interest expenses and other related costs	(8,304,851)	(8,382,463)
Amortization of bond premium and gain/loss on refunding	950,634	770,646
Other nonoperating revenues	1,630,204	1,667,686
Gain or (loss) on sale/disposal of capital assets	(18,486)	20,248
Total nonoperating revenues (expenses)	<u>(4,808,373)</u>	<u>(4,843,543)</u>
Net income before contributions and transfers	<u>16,627,074</u>	<u>14,858,906</u>
Capital contributions and grants	4,470,024	5,957,003
Transfer in from other funds	1,218,305	2,276,566
Transfer out to other funds	(61,125)	(1,922,783)
Gross earnings tax	(8,935,823)	(8,419,220)
Total contributions and transfers	<u>(3,308,619)</u>	<u>(2,108,434)</u>
CHANGE IN NET POSITION	13,318,455	12,750,472
NET POSITION - JANUARY 1	422,054,520	409,304,048
NET POSITION - DECEMBER 31	<u>\$ 435,372,975</u>	<u>\$ 422,054,520</u>

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

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**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Cash Flows**

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 109,162,279	\$ 103,292,602
Payments to suppliers	(33,141,679)	(25,412,609)
Payments to employees	(33,347,198)	(34,828,747)
Payments for taxes	(1,778,479)	(1,634,026)
Other operating or non-operating revenues (expenses)	1,489,077	1,646,896
<b>NET CASH PROVIDED (USED) BY</b>		
<b>OPERATING ACTIVITIES</b>	<b>42,384,000</b>	<b>43,064,116</b>
<b>CASH FLOWS FROM NON-CAPITAL</b>		
<b>FINANCING ACTIVITIES:</b>		
Transfer in from other funds	350,000	26,500
Transfer out to other funds	(8,934,138)	(8,230,979)
Operating grants received	45,114	24,911
Principal paid on noncapital debt	(567,675)	(578,550)
Interest paid on noncapital debt	(1,810,819)	(1,813,327)
Contributions and donations	50	19,713
<b>NET CASH PROVIDED (USED) BY</b>		
<b>NONCAPITAL FINANCING ACTIVITIES</b>	<b>(10,917,468)</b>	<b>(10,551,732)</b>
<b>CASH FLOW FROM CAPITAL</b>		
<b>FINANCING ACTIVITIES:</b>		
Transfer in from other funds	868,305	1,258,455
Transfer out to other funds	(61,125)	(931,173)
Acquisition and construction of capital assets	(23,829,592)	(35,063,186)
Principal payments on capital debt	(8,060,326)	(20,476,062)
Interest and issuance costs paid on capital debt	(6,530,218)	(6,416,295)
Proceeds from the issuance of revenue and refunding bonds	-	47,936,197
Capital lease obligation disposition	-	(28,326,514)
Contributions and donations	4,614,172	5,639,184
Cash proceeds from sale of capital assets	35,700	75
Insurance recoveries	10,718	-
<b>NET CASH PROVIDED (USED) BY</b>		
<b>CAPITAL FINANCING ACTIVITIES</b>	<b>(32,952,366)</b>	<b>(36,379,319)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	934,125	1,138,196
<b>NET CASH PROVIDED (USED) BY</b>		
<b>INVESTING ACTIVITIES</b>	<b>934,125</b>	<b>1,138,196</b>
<b>NET INCREASE (DECREASE) IN CASH AND</b>		
<b>EQUITY IN POOLED INVESTMENTS</b>	<b>(551,709)</b>	<b>(2,728,739)</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	<b>114,419,742</b>	<b>117,148,481</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<b>\$ 113,868,033</b>	<b>\$ 114,419,742</b>

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

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Cash Flows**

	Year Ended December 31,	
	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income	\$ 21,435,447	\$ 19,702,449
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	17,204,928	15,575,113
Pension expense	2,663,509	1,707,629
Other non-operating revenues (expenses)	1,861,272	1,646,896
Cash provided from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	246,434	(1,274,385)
Accrued unbilled revenue	(698,000)	17,213
Due from other funds	84,003	315,969
Capital deferred debits	-	2,748,225
Due from other governments	-	1,223,240
Inventory	(213,892)	(15,610)
Prepayments	99,366	94,486
Conservation loan fund receivables	232,331	(45,813)
Accounts payable	(108,186)	(657,666)
Accrued wages and compensated absences payable	24,111	112,419
Accrued taxes payable	(64,175)	82,294
Due to other funds	(1,120,134)	541,424
Due to other governments	(677,882)	699,519
Accrued environmental liability	585,673	(348,000)
Unearned revenues	16,504	324,491
Long-term accrued environmental liability	540,000	150,000
Long-term accrued compensated absences	87,945	199,769
Net OPEB obligation	184,746	264,454
Total adjustments	20,948,553	23,361,667
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 42,384,000	\$ 43,064,116
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	\$ 1,250,802	\$ 1,407,416

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

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# *Notes to Financial Statements*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Notes to Financial Statements**  
**For the years ended December 31, 2017 and 2016**

**NOTE 1 OPERATIONS**

**OPERATIONS OF THE WASTEWATER AND SURFACE WATER MANAGEMENT DIVISION** - The Wastewater and Surface Water Management Division (the Division) is presented as an enterprise fund within the Environmental Services Department under the provisions of the City of Tacoma's (the City) Charter and is included in the City's Comprehensive Annual Financial Report.

The Division is responsible for the planning, design, construction, operation, and maintenance of the wastewater and surface water facilities owned by the City. In addition to providing wastewater service within the City, the Division provides sewage treatment and disposal services by contract to the towns of Fife, Ruston, and Fircrest, and portions of Pierce County.

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 and, additionally, must pay gross earnings tax to the City. These transactions are required to be arms-length transactions by law.

**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 accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

**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 certificates of deposit with East West Bank and Opus Bank.

## **Wastewater and Surface Water Management Notes to Financial Statements**

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2017 and 2016 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 FDIC insurance up to \$250,000.

All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

**ACCOUNTS RECEIVABLE AND UNBILLED REVENUE** - 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, which is included in accounts receivable.

**ALLOWANCE FOR UNCOLLECTIBLE 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 AND INTERGOVERNMENTAL TRANSACTIONS** - Unsettled transactions between entities at year end are recorded as due to or due from either other funds or other governmental units as appropriate.

**INVENTORY** - Materials and supplies consist primarily of items for capital construction and maintenance of Division assets and are valued at the lower of average cost or fair market value.

**RESTRICTED ASSETS** - In accordance with bond covenants, 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, and customer deposits.

**BOND PREMIUM AND GAIN/LOSS ON REFUNDING** - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Gains or losses on bond refunding represent the difference between reacquisition price and the carrying value of the old debt and are amortized on a straight-line basis over the applicable bond period, and are presented as deferred outflows on the statement of net position.

## Wastewater and Surface Water Management Notes to Financial Statements

**CAPITAL ASSETS AND DEPRECIATION** - Capital assets consist of utility plant and are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of capital assets contributed is recorded at donated fair value. The cost of maintenance and repairs is charged to expense as incurred while the costs of improvements, additions and major renewals that extend the life of an asset are capitalized.

Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method based upon estimated useful lives of the assets. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The estimated useful lives range as follows:

	Years
Collection and Transmission Mains	75
Structures and Improvements	50
Land Improvements	25
Intangible Plant	7 - 20
Equipment	3 - 20

**CONSTRUCTION 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.

**CAPITAL CONTRIBUTIONS**- In accordance with Generally Accepted Accounting Principles, capital grants and capital contributions are recorded as capital contributions.

**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.

## **Wastewater and Surface Water Management Notes to Financial Statements**

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. Sick leave pay is recorded as a liability and expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

**RATE STABILIZATION FUND** - The Division has established a rate stabilization account to better match revenues and expenses which may reduce volatility 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.

**OPERATING REVENUES** - Revenues are derived from providing wastewater and surface water services. Wastewater services include the collection and treatment of wastewater to produce clean water and biosolids that are then used to produce TAGRO, planting soil amendments. Wastewater rates are based on volume of flow and strength. Total suspended solids (TSS) and biological oxygen demand (BOD) are strength determinants. Customers are billed on bi-monthly or monthly billing cycles.

Surface water services include flooding and erosion control, pollution prevention and control, environmental cleanup and restoration, and street drainage. Surface water rates are based on the area of the parcels and level of development with reductions for direct discharge and approved detention systems.

The rate structure is designed to meet the Division's needs and obligations on a cost-of-service basis while adhering to legal requirements. These legal requirements include computing rates on a reasonable basis, charging rates uniformly within classes, and using the revenues for utility and regulatory purposes. In addition, there may be laws imposed by the State, City Charter or to meet grant or bonds requirements.

The City has a parity bonds ordinance that it will establish, maintain and collect rates or charges in connection with the ownership and operation of the utility that will be fair and nondiscriminatory and adequate to provide gross revenues sufficient for 1) the payment of the principal and interest on all parity bonds and all amounts that the City is obligated to set aside in the bonds fund, 2) the proper operation and maintenance of the utility, 3) the payment of any and all amounts that the City may now or hereafter become obligated to pay from gross revenues.

**NON-OPERATING REVENUES AND EXPENSES** – The Division reports transactions not directly related to primary services as non-operating revenues and expenses. Significant items include investment and rental income and interest expense.

**TAXES** - The City charges the Division a gross earnings tax at the rate of 8.0%, which was reported as a transfer. In addition, the Division pays a 3.852% public utility tax to the State on wastewater collection revenues and the 1.5% business and occupation tax to the State on wastewater transmission and treatment and surface water service revenues. The Division is exempt from payment of federal income tax.

**NET POSITION** - The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

## **Wastewater and Surface Water Management Notes to Financial Statements**

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are reported as 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 consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

**ARBITRAGE REBATE REQUIREMENT** - The Division is subject to the Internal Revenue Code (IRC) 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 Division would record such a rebate as a liability. The Division had no liability in the current or prior year.

**ENVIRONMENTAL REMEDIATION COSTS** - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

**SHARED SERVICES** - The Division is charged for services received from other departments and agencies of the City, including those normally considered to be general and administrative.

**USE OF ESTIMATES** - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, environmental liabilities, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities, net pension liability 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, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

**RECLASSIFICATIONS** - Changes have been made to prior year account classifications as needed to conform to the current year presentation format.

## Wastewater and Surface Water Management Notes to Financial Statements

### NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3 - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations of City's investments in TIP are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

Data regarding the City's investments in the TIP, valued and categorized according to the above outlined levels, is below:

Debt Securities:	As of			
	12/31/2017	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 218,142,864	\$ -	\$ 218,142,864	\$ -
U.S. Agency Securities	517,345,818	-	517,345,818	-
Supranational Securities	19,966,040	-	19,966,040	-
Municipal Bonds	40,760,727	-	40,760,727	-
<b>Total</b>	<b>\$ 796,215,449</b>	<b>\$ -</b>	<b>\$ 796,215,449</b>	<b>\$ -</b>

**Wastewater and Surface Water Management  
Notes to Financial Statements**

Debt Securities:	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628	\$ -	\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

The Division's share of the City's investments shown in the table above is 12.3% and 14.83% as of December 31, 2017 and 2016.

## Wastewater and Surface Water Management Notes to Financial Statements

### NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2017 and 2016 follows:

	2016	Additions	Retirements	Transfers & Adjustments	2017
Capital assets, not being depreciated:					
Land and easements	\$ 23,575,775	\$ 81,197	\$ -	\$ -	\$ 23,656,972
Construction work in progress	5,959,480	22,972,646	(372,196)	(20,526,459)	8,033,471
Total capital assets, not being depreciated	29,535,255	23,053,843	(372,196)	(20,526,459)	31,690,443
Capital assets, being depreciated:					
Buildings	198,993,226	-	-	(7,216,574)	191,776,652
Machinery and equipment	197,382,112	-	(733,610)	13,177,784	209,826,286
Transmission lines and other improvements	394,550,841	-	(619,712)	14,710,201	408,641,330
Computer software	8,225,336	-	-	715,158	8,940,494
Total capital assets, being depreciated	799,151,515	-	(1,353,322)	21,386,569	819,184,762
Less: accumulated depreciation	(252,711,033)	(17,204,928)	1,238,030	-	(268,677,931)
Total capital assets, being depreciated, net	546,440,482	(17,204,928)	(115,292)	21,386,569	550,506,831
 Total capital assets, net	 \$ 575,975,737	 \$ 5,848,915	 \$ (487,488)	 \$ 860,110	 \$ 582,197,274

	2015	Additions	Retirements	Transfers & Adjustments	2016
Capital assets, not being depreciated:					
Land and easements	\$ 19,628,654	\$ 243,225	\$ (1,844)	\$ 3,705,740	\$ 23,575,775
Construction work in progress	24,483,285	24,653,340	(102,029)	(43,075,116)	5,959,480
Total capital assets, not being depreciated	44,111,939	24,896,565	(103,873)	(39,369,376)	29,535,255
Capital assets, being depreciated:					
Buildings	161,995,732	-	-	36,997,494	198,993,226
Buildings - capital lease	31,813,726	-	-	(31,813,726)	-
Machinery and equipment	163,386,905	-	-	33,995,207	197,382,112
Transmission lines and other improvements	383,301,068	890,158	(71,502)	10,431,117	394,550,841
Computer software	7,989,074	-	-	236,262	8,225,336
Total capital assets, being depreciated	748,486,505	890,158	(71,502)	49,846,354	799,151,515
Less: accumulated depreciation	(236,073,097)	(15,575,113)	37,508	(1,100,331)	(252,711,033)
Total capital assets, being depreciated, net	512,413,408	(14,684,955)	(33,994)	48,746,023	546,440,482
 Total capital assets, net	 \$ 556,525,347	 \$ 10,211,610	 \$ (137,867)	 \$ 9,376,647	 \$ 575,975,737

**Wastewater and Surface Water Management  
Notes to Financial Statements**

**NOTE 5 LONG-TERM DEBT**

Long-term debt activity for the years ended December 31, 2017 and 2016 follows:

	2016	Additions	Reductions	2017	Due within One Year
Revenue bonds	\$ 185,570,000	\$ -	\$ (4,830,000)	\$ 180,740,000	\$ 5,025,000
Plus: Unamortized premium	14,925,359	-	(1,094,881)	13,830,478	-
State Revolving Fund loans	48,240,536	-	(3,797,999)	44,442,537	3,867,742
Long-term debt	<u>\$ 248,735,895</u>	<u>\$ -</u>	<u>\$ (9,722,880)</u>	<u>\$ 239,013,015</u>	<u>\$ 8,892,742</u>
Capital lease	-	-	-	-	-
Total long-term debt	<u>\$ 248,735,895</u>	<u>\$ -</u>	<u>\$ (9,722,880)</u>	<u>\$ 239,013,015</u>	<u>\$ 8,892,742</u>

	2015	Additions	Reductions	2016	Due within One Year
Revenue bonds	\$ 159,175,000	\$ 43,720,000	\$ (17,325,000)	\$ 185,570,000	\$ 4,830,000
Plus: Unamortized premium	11,741,061	4,216,197	(1,031,899)	14,925,359	-
State Revolving Fund loans	51,970,148	-	(3,729,612)	48,240,536	3,798,001
Long-term debt	<u>\$ 222,886,209</u>	<u>\$ 47,936,197</u>	<u>\$ (22,086,511)</u>	<u>\$ 248,735,895</u>	<u>\$ 8,628,001</u>
Capital lease	28,326,514	-	(28,326,514)	-	-
Total long-term debt	<u>\$ 251,212,723</u>	<u>\$ 47,936,197</u>	<u>\$ (50,413,025)</u>	<u>\$ 248,735,895</u>	<u>\$ 8,628,001</u>

## Wastewater and Surface Water Management Notes to Financial Statements

The Division's long-term debt at December 31, 2017 and 2016 consists of the following payable from revenues of the Division.

<b>Parity bond, senior lien:</b>	2017	2016
2006 Revenue and Refunding Bonds, portions of the outstanding bonds with a par value of \$12,935,000 were refunded with proceeds from the 2016B Revenue Refunding Bonds. Following the 2016 payment, the remaining outstanding balance is \$5,000 due in 2036. The remaining bond has an interest rate of 5.125% and preserves a reserve surety policy in the amount of \$3,033,407.	\$ 5,000	\$ 5,000
2011 Revenue and Refunding Bonds, with interest rates ranging from 4.00% to 5.00%, due in yearly installments of \$2,765,000 to \$4,205,000 between 2022 and 2031. Original par value \$34,315,000 with a call date of December 1, 2021. Purpose was to refund the 2001 Series A bonds and pay the costs of issuance.	34,315,000	34,315,000
2015 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$1,245,000 to \$9,485,000 between 2016 and 2045. Original par value \$109,300,000 with a call date of June 1, 2025. Purpose was to (a) finance a portion of the costs of the Division's capital improvement program, (b) to refund a portion of the outstanding 2006 Revenue and Refunding Bonds, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the bonds.	106,365,000	108,055,000
2016A Revenue Refunding Bonds, with interest rates ranging from 1.75% to 5%, due in yearly installments of \$525,000 to \$2,010,000 between 2016 and 2038. Original par value \$31,855,000 with a call date of June 1, 2026. Purpose was to advance refund of the TES Properties, 2009 Lease Revenue Bonds and contemporaneously terminate the capital lease agreement with TES Properties. Proceeds were also used to fund the bond reserve and pay issuance costs.	30,355,000	31,330,000
2016B Revenue Refunding Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$2,165,000 to \$2,605,000 between 2017 and 2021. Purpose was to refund a portion of the 2006 Revenue and Refunding Bonds and issuance costs.	9,700,000	11,865,000
Total parity bonds, senior lien	180,740,000	185,570,000

## Wastewater and Surface Water Management Notes to Financial Statements

### Junior lien debt:

State Revolving Fund loans DOE L040006A & DOE L040006B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$2,297,662 to \$4,532,452 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant Upgrade project.	44,098,030	47,874,520
State Revolving Fund loan 2011 DOE L1000007, with an interest rate of 2.9% in semi-annual installments of \$21,511 to \$31,346 through 2030; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$473,806 to reimburse a portion of costs related to surface water line retrofit projects.	344,507	366,016
Total junior lien debt	44,442,537	48,240,536
Total outstanding debt	225,182,537	233,810,536
Less:		
Current portion	(8,892,742)	(8,628,001)
Plus: Unamortized premium	13,830,478	14,925,359
Total long-term debt	\$ 230,120,273	\$ 240,107,894

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2018	\$ 8,892,742	\$ 8,477,717	\$ 17,370,459
2019	9,188,863	8,165,446	17,354,309
2020	9,511,393	7,848,866	17,360,259
2021	9,850,363	7,510,846	17,361,209
2022	10,145,803	7,204,518	17,350,321
2023-2027	55,739,332	30,997,462	86,736,794
2028-2032	44,639,041	21,655,376	66,294,417
2033-2037	47,685,000	11,211,988	58,896,988
2038-2042	18,185,000	4,341,400	22,526,400
2043-2047	11,345,000	919,400	12,264,400
	\$ 225,182,537	\$ 108,333,019	\$ 333,515,556

**ADVANCED REFUNDING** – During 2016 the Division issued \$11,865,000 in revenue refunding bonds with interest rates ranging from 4.0% to 5.0%. A portion of the proceeds were used to advance refund \$12,935,000 of outstanding 2006 Sewer Revenue and Refunding bonds which had interest rates ranging from 4.55% to 5.0%. A portion of net proceeds in the amount of \$13,252,559 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of 2006 Sewer Revenue and Refunding bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

## **Wastewater and Surface Water Management Notes to Financial Statements**

The reacquisition price exceeded the net carrying amount of the old debt by \$97,443. This amount is presented as a deferred inflow of resources and amortized over the remaining life of the refunding debt. The Division advance refunded a portion of the 2006 Sewer Revenue and Refunding bonds to reduce its total debt service payments over 20 years by \$1,407,438 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,259,526.

Defeased and outstanding bonds constitute a contingent liability of the Division only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements and therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of December 31, 2017, no bonds were defeased and outstanding.

The Division's revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2017 or 2016.

### **NOTE 6 INSURANCE**

The major risks to the Division are flooding, recontamination, 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.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled \$404,842 compared to \$378,274 for 2016. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City maintains an excess general liability policy with limits of \$20 million any one occurrence, subject to a self-insured retention of \$3 million and a \$20 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with retention of \$1 million each occurrence plus an additional \$250,000 of total loss each 12 month policy period. The City carries property coverage with a maximum single occurrence limit of \$500,000,000 with a sublimit of \$150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies is \$249,987 in 2017 and \$242,700 in 2015.

### **NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM**

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

Tacoma Employee's Retirement System  
3628 South 35<sup>th</sup> 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).

## Wastewater and Surface Water Management Notes to Financial Statements

**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 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, 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 Revised Code of Washington 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 System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

**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 who established membership in the System when these agencies were still City of Tacoma departments.

The breakdown of membership as of December 31, 2017 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits		2,303
Terminated vested and other terminated participants		675
Active members:		
City of Tacoma	2,687	
South Sound 911	2	
Pierce Transit	8	
Tacoma-Pierce County Health Department	267	
Total active members		2,964
Total membership		5,942

**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.

## **Wastewater and Surface Water Management Notes to Financial Statements**

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 41.54 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.

In fiscal year 2017, 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%. On November 28, 2017 the Tacoma City Council approved the TERS Board's recommendation to increase the contribution rate by 1% (split 0.54% for employers and 0.46% for employees) effective the first pay period in February 2018, 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.

## Wastewater and Surface Water Management Notes to Financial Statements

**SIGNIFICANT ASSUMPTIONS** - The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2016
Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	<p>Funding is based on statutory contributions rate.</p> <p>This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution.</p> <p>The amortization method for the ADC is as follows*:</p> <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>· 3.75% amortization growth rate</li> </ul>
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service; details in funding valuation report
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, eligibility; details in funding valuation report.
Turnover	Varies by service, gender; details in funding valuation report.
Mortality	<p>RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.</p>
Active Members:	RP-2014 Employee Mortality, sex-distinct.
Male Inactive Members and Male Beneficiaries:	RP-2014 50% Blue Collar/50% White Collar Mortality for Healthy Males, RP-2014 Disabled Mortality for males.
Female Inactive Members and Female beneficiaries:	RP-2014 Blue Collar Mortality for Healthy Females, RP-2014 Disabled Mortality for females.

*\* The actual contribution is used if that rate is greater than the rate necessary to amortize the UAAL in 30 years.*

*Note that a period of 30 years is used for years beginning January 1, 2017 and earlier and a period of 25 years is used for years beginning January 1, 2018 and later.*

**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. The following changes in assumptions occurred since the January 1, 2016 Actuarial Valuation:

1. The amortization growth rate decreased from 4% to 3.75%
2. The inflation rate decreased from 3% to 2.75%
3. The investment rate of return decreased from 7.25% to 7%

## Wastewater and Surface Water Management Notes to Financial Statements

**TARGET ALLOCATION** - 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 December 31, 2016. The target asset allocation is based on Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	1.63%
US Inflation-Indexed Bonds	5.0%	1.21%
High Yield Bonds	9.0%	5.00%
Emerging Market Debt	5.0%	3.74%
Global Equity	41.5%	5.50%
Public Real estate	2.0%	5.80%
Private Real Estate	2.5%	3.56%
Private Equity	10.0%	9.04%
Master Limited Partnerships	4.0%	4.12%
Timber	2.0%	3.79%
Infrastructure	2.0%	5.03%
Agriculture	2.0%	4.33%
Assumed inflation - Mean		2.75%
Assumed inflation - Standard Deviation		1.85%
Portfolio Arithmetic Real Mean Return		4.76%
Portfolio Median Nominal Geometric Return		6.72%
Portfolio Standard Deviation		11.77%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

**SENSITIVITY ANALYSIS** - The following presents the Division's proportionate share of the collective net pension liability of the System, calculated using the discount rate of 7%, as well as what the Division's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$ 33,845,486	\$ 10,569,592	\$ (8,319,685)

Detailed information about the pension plan's fiduciary net position is available in the separately issued TERS CAFR.

## Wastewater and Surface Water Management Notes to Financial Statements

As of December 31, 2017, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	\$ (2,274,965)	\$ -
Changes in assumptions	-	3,510,369
Net differences between projected and actual earnings	-	4,809,942
Contributions made subsequent to the measurement date	N/A	2,745,271
Changes in employer proportion	(2,425)	5,155
Total	\$ (2,277,390)	\$ 11,070,737

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.

Amounts will be recognized in pension expense as follows:

### Year ending December 31

2018	\$ 1,883,293
2019	1,883,293
2020	2,171,959
2021	(81,757)
Thereafter	191,288
	\$ 6,048,076

The Division's proportionate share of the collective net pension liability is 11.38%. Each employer in TERS contributes at the same rate of payroll. The proportionate share is based on actual contributions for the year, which provides a reasonable basis for each employer's projected long-term contribution effort.

### NOTE 8 OTHER POST EMPLOYMENT BENEFITS

**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.

## **Wastewater and Surface Water Management Notes to Financial Statements**

**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 (3.50%).

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.

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded. For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the 2017 year under GAAP. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2017 is 20 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2017 and 2016 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 Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

GAAP requires that the projection of benefits include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. 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.

There is significant uncertainty with respect to the excise tax at this time. President Trump recently signed an executive order which gives instruction to the leaders of the new administration to unwind certain aspects of the ACA, especially those components deemed "burdensome." It remains unclear how this would be implemented, especially due to the interconnected nature of the ACA. The City has continued to value the excise tax as it currently appears in the tax code, but will monitor this situation carefully going forward.

## Wastewater and Surface Water Management Notes to Financial Statements

**SUMMARY OF CHANGES** – As of the January 1, 2017 valuation the total AAL was \$240,449,771, for the City, 12.5% higher than expected primarily due to changes demographic experience, medical cost expectations and medical trend assumptions, and demographic and economic assumptions.

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

	January 1, 2015	January 1, 2017
Total Membership:		
Active Employees	3,404	3,492
Terminated Vested Employees	442	476
Retired Employees and Dependents	744	691
Total	4,590	4,659
Annual City Benefit Payments	\$ 8,963,089	\$ 9,010,942
Discount Rate	3.75%	3.50%
Present Value of Benefits	\$ 262,184,195	\$ 289,047,229
Actuarial Accrued Liability	\$ 208,814,312	\$ 240,449,771
Assets	-	-
Unfunded Actuarial Accrued Liability	\$ 208,814,312	\$ 240,449,771
Normal Cost (End of year)	\$ 3,832,131	\$ 3,261,947
Annual Required Contribution (ARC)	\$ 16,966,964	\$ 19,529,549

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2017.

	(a) Total Value of Benefits	(b) Member Paid Premiums	(a)-(b) City-Paid Benefits
Value of Subsidy at 3.50% Interest Rate			
Present Value of Benefits	\$ 399,300,824	\$ 110,253,595	\$ 289,047,229
Actuarial Accrued Liability	\$ 285,825,708	\$ 45,375,937	\$ 240,449,771
Normal Cost	\$ 7,595,595	\$ 4,443,955	\$ 3,151,640
Annual Benefit Payments	\$ 11,674,734	\$ 2,663,793	\$ 9,010,941

## Wastewater and Surface Water Management Notes to Financial Statements

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, 2017.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year End	\$ 3,261,947	\$ 218,994
Amortization of UAAL	16,267,602	88,859
Annual Required Contribution	<u>\$ 19,529,549</u>	<u>\$ 307,853</u>
Determination of Net OPEB Obligation:		
Annual Required Contribution	\$ 19,529,549	\$ 307,853
Interest on prior year Net OPEB Obligation	2,895,939	97,434
Adjustment to ARC	<u>(4,743,612)</u>	<u>(136,024)</u>
Annual OPEB Cost	17,681,876	269,263
Contributions made*	<u>9,010,941</u>	<u>84,517</u>
Increase in Net OPEB Obligation	8,670,935	184,746
Net OPEB Obligation - Beginning of year	<u>82,741,128</u>	<u>2,783,835</u>
Net OPEB Obligation - End of year	<u>\$ 91,412,063</u>	<u>\$ 2,968,581</u>

**FUNDED 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 3.5% interest rate.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2015	\$ 15,954,387	\$ 412,703	\$ 9,292,539	\$ 148,742	\$ 73,129,502	\$ 2,519,381
12/31/2016	\$ 18,151,028	\$ 365,043	\$ 8,539,402	\$ 100,588	\$ 82,741,128	\$ 2,783,835
12/31/2017	\$ 17,681,876	\$ 269,263	\$ 9,010,941	\$ 84,517	\$ 91,412,063	\$ 2,968,581

**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 this 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 ARC, the UAAL is amortized as a level percentage of expected payroll 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 is now 20 years.



## **Wastewater and Surface Water Management Notes to Financial Statements**

### **NOTE 9 ENVIRONMENTAL LIABILITIES**

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree, effective December 30, 1997. The stated value of the City's settlement was approximately \$7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction was completed on four projects and the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016.

The City provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree were fulfilled. In the Trustees response, they indicated that monitoring of Place of Circling Waters needed to be complete before the Consent Decree could be closed out. Included in the financial statements for the years 2017 and 2016 are liabilities of \$196,673 and \$200,000 respectively. This amount will carry over until the Consent Decree can be closed out. Now that the monitoring was completed, it is currently anticipated the closeout will occur in 2018.

Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources.

OLYMPIC VIEW RESOURCE AREA - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long term monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys. A report of these findings was submitted to EPA in early 2017 along with a Contingency Planning Proposal. The City began implementation of this Contingency Planning Proposal in 2017, and it is anticipated that sediment cap replenishment work will occur at the site in 2018.

FOSS CONSENT DECREE - The City completed the first ten years of post-construction monitoring under the Foss Consent Decree in 2016 and is currently working with the Environmental Protection Agency to finalize the monitoring plan for the next ten years. Under this Long Term Monitoring Plan developed in accordance with the Foss Consent Decree, the City will have an obligation for continued monitoring until at least 2028. The results of this monitoring may result in additional limited cleanup efforts in the future. Included in the financial statements for the years 2017 and 2016 are liabilities of \$400,000.

COAL-GAS SITE AGREED ORDER - In 1993 the City became a party to an agreed order with the State Department of Ecology under MTCA (RCW 70.105D.050(1)) for the clean-up of the coal-gas properties located at the head of the Foss Waterway just south of the cable stay bridge below the SR 705 spur. The City is one of several potentially liable parties (PLPs) that are signatories to this agreed order. The agreed order, and subsequent amendments, provided for interim measures to control the coal-tar from migrating from this site into the Foss Waterway but did not provide for final clean-up or closure of the site. In early-2016 the other PLPs contacted the City of Tacoma regarding monitoring of the wells on the site, which they subsequently did on several occasions with Ecology authorization.

## **Wastewater and Surface Water Management Notes to Financial Statements**

In mid-2016, Ecology contacted the City and other parties to initiate the negotiations of a new Agreed Order which would address final closure of the Coal Gas Site by completion of a Remedial Investigation/Feasibility Study (RI/FS) and development of a draft Cleanup Plan (dCAP) for the site. The City's role and cost obligation should be limited. This new Agreed Order was being finalized by Ecology for PLP signature in 2018.

### **NOTE 10 COMMITMENTS AND CONTINGENCIES**

**LITIGATION AND CLAIMS** - Because of the nature of its activities, the Division is subject to various pending and threatened legal actions which arise in the ordinary course of business. The Division believes, based on the information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the Division, but could be material to results of operations or cash flows for a particular annual period.

*Required Supplementary Information*

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**Wastewater and Surface Water Management  
Required Supplementary Information**

Schedule of the Division's Proportionate Share of the Net Pension Liability  
Last 10 Fiscal Years\*

	Fiscal Year Ended December 31,		
	2017	2016	2015
Division's proportion of the net pension liability (asset)	11.38%	11.66%	11.65%
Division's proportionate share of the net pension liability (asset)	\$ 10,569,592	\$ 10,094,045	\$ (1,119,219)
Division's covered-employee payroll**	\$ 25,955,557	\$ 26,960,556	\$ 25,070,695
Division's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.72%	37.44%	-4.46%
Plan fiduciary net position as a percentage of the total pension liability	93.91%	93.94%	100.71%

Schedule of Division Contributions  
Last 10 Fiscal Years\*

	Fiscal Year Ended December 31,		
	2017	2016	2015
Contractually required contribution	\$ 2,745,272	\$ 2,753,194	2,650,121
Contributions in relation to the contractually required contribution	<u>(2,745,272)</u>	<u>(2,753,194)</u>	<u>(2,650,121)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's covered-employee payroll	\$ 26,516,978	\$ 25,955,557	26,960,556
Contribution as a percentage of covered-employee payroll	10.35%	10.61%	9.83%

\* Fiscal year 2015 was the first year of implementation; therefore, only three years are shown.

\*\*Due to implementation of GASB 82, the Division's covered employee payroll has been restated for fiscal years 2016 and 2015 to conform with GASB 82.

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*Unaudited Supplemental Information*

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## Wastewater and Surface Water Management Unaudited Supplemental Information

City of Tacoma, Washington Revenue and Refunding Bonds, Series 2006  
City of Tacoma, Washington Refunding Bonds, Series 2011  
City of Tacoma, Washington Revenue and Refunding Bonds, Series 2015  
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016A  
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016B

*The following continuing disclosure information for 2016 is provided in accordance with SEC Rule 15c2-12(b)(5)*

### Wastewater and Surface Water Management Audited Financial Statements

Reference Financial Statements Section

### Outstanding Sewer Bonds

Reference Note 5 in Notes to Financial Statements

### Debt Service Coverage

	2016	2017
Parity Bond Debt Service Coverage Ratio	2.98	3.36
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.16	2.46

\* Restated to exclude interest expense paid with 2016 refunding escrow funds.

### Number of Customers by Type of Service

The System's number of customers by type of service is shown in the table below.

Year	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract <sup>(1)</sup>	Total	Residential	Commercial/ Industrial	Total
2016	58,575	3,758	13,395	75,728	59,603	11,100	70,703
2017	58,859	3,764	14,236	76,859	59,751	11,083	70,834

<sup>(1)</sup> Includes customers located in the city of Fife, the town of Ruston, the city of Fircrest and in certain areas of Pierce County served pursuant to interlocal agreements between the City and those jurisdictions.

## Top Ten Customers

The System's ten largest customers for 2017 are shown in the following table.

Customer Name	Amount	Percent of 2017 Operating Revenues <sup>(1)</sup>
Port of Tacoma	\$ 2,343,107	2.13%
Tacoma School District	1,686,114	1.53%
Pierce County Recycling	1,384,498	1.26%
City of Tacoma	1,344,720	1.22%
Puyallup Tribe	957,254	0.87%
Darling International Inc	928,404	0.84%
Pierce County Facilities	648,567	0.59%
Metro Parks	589,037	0.54%
Multicare	475,431	0.43%
Westridges Apartments	466,682	0.42%
Total	<u>\$ 10,823,814</u>	9.83%
 (1) Total system revenue	 \$ 110,041,372	

## Revenues by Service

The Systems revenues for 2016 and 2017 are shown in the following table.

	2016	2017
Wastewater:		
Residential	\$ 45,223,969	\$ 47,391,548
Commercial and public authorities	23,930,833	24,944,393
Other revenues	2,315,123	3,075,703
Surface Water:		
Unmetered services	32,565,853	33,837,829
Other revenues	243,839	791,899
Total operating revenues	<u>\$ 104,279,617</u>	<u>\$ 110,041,372</u>

## Wastewater and Surface Water Rates

### Wastewater Rates

The 2016 and 2017 monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

	2016 <sup>(1)</sup>	2017 <sup>(1)</sup>
<b>Residential</b>		
Monthly fixed charge	\$ 22.79	\$ 24.05
Flow charge <sup>(2)</sup>	4.30	4.54
<b>Commercial</b>		
Monthly fixed charge	\$ 10.84	\$ 11.44
Flow charge <sup>(3)</sup>	5.73-13.10	6.05-13.83

(1) Rates are effective January 1 of each year.

(2) Per 100 cubic feet of water consumed.

(3) The flow charges for commercial customers per 100 cubic feet of water consumption vary depending on the user group. The present rates contain eight different user groups as established pursuant to Tacoma Municipal Code Chapter 12.08.

There is no fee for connection to the wastewater component of the System, except for the “in lieu of” assessment charge to properties that were not previously assessed for the cost of the transmission system under a local improvement district or a prior sanitary sewer improvement.

Surface Water Rates

Surface water rates are comprised of a fixed charge, plus an area charge per 500 square feet, depending on development type and whether the property is on the waterfront. The 2016 and 2017 monthly rates for surface water service, as adopted by the Council, are shown in the following table.

Category of Development	2016 <sup>(1)</sup>		2017 <sup>(1)</sup>	
	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 6.73	\$ 0.1322	\$ 7.17	\$ 0.1371
Undeveloped-area in excess of one acre	6.73	0.0594	7.17	0.0608
Light development	6.73	0.3962	7.17	0.4150
Moderate development	6.73	0.5516	7.17	0.5786
Heavy development	6.73	0.7921	7.17	0.8312
Very Heavy development	6.73	1.0560	7.17	1.1091
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 6.73	\$ 0.2714	\$ 7.17	\$ 0.2793
Undeveloped area in excess of one acre	6.73	0.0594	7.17	0.0608
Light development	6.73	0.8139	7.17	0.8441
Moderate development	6.73	1.1085	7.17	1.1506
Heavy development	6.73	1.6275	7.17	1.6890
Very Heavy development	6.73	2.1700	7.17	2.2526

<sup>(1)</sup> Rates are effective January 1 of each year.

Single family residences are placed in the moderate classification of development. Rates for single family residential parcels in excess of 15,000 square feet are based on the moderate development rate for the first 15,000 square feet and at the undeveloped rate (one acre or less) for the remainder. All other customers are charged based on the customer’s level of development and measured area of the premises.

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Net Position**

	Wastewater December 31,		Surface Water December 31,	
	2017	2016	2017	2016
ASSETS				
Current assets:				
Cash and equity in pooled investments	\$ 59,162,444	\$ 47,623,192	\$ 39,255,659	\$ 30,034,097
Accounts receivable, net	5,117,516	5,320,413	1,903,838	1,947,375
Unbilled revenues	4,614,787	3,972,787	2,356,000	2,300,000
Conservation loan fund receivables	139,339	216,067	-	-
Due from other funds	1,251	84,513	(176)	565
Due from other governments	-	-	822,875	901,326
Inventory	1,242,457	1,028,565	-	-
Prepayments	220,345	215,854	87	10,032
Restricted cash and equity in pooled investments:				
Debt service funds	601,172	571,453	457,214	485,971
Construction funds	28,650	7,862,507	27,737	13,300,148
Total restricted cash and equity in pooled investments	<u>629,822</u>	<u>8,433,960</u>	<u>484,951</u>	<u>13,786,119</u>
Total current assets	<u>71,127,961</u>	<u>66,895,351</u>	<u>44,823,234</u>	<u>48,979,514</u>
Non-current assets:				
Restricted cash and equity in pooled investments:				
Bond reserves	10,081,491	9,868,722	4,253,666	4,673,652
Conservation loan fund receivables	705,836	861,439	-	-
Prepayments	281,737	375,649	-	-
Capital assets:				
Land and easements	11,993,188	11,950,401	11,663,784	11,625,374
Buildings	189,805,746	197,128,681	1,970,906	1,864,545
Machinery and equipment	196,107,223	180,190,282	13,719,063	17,191,830
Transmission lines and other improvements	222,543,527	215,266,008	186,097,803	179,284,833
Computer software	5,140,169	4,802,250	3,800,325	3,423,086
Less: accumulated depreciation	(218,728,389)	(205,467,219)	(49,949,542)	(47,243,814)
Construction work in progress	2,104,560	4,036,678	5,928,911	1,922,802
Total capital assets, net	<u>408,966,024</u>	<u>407,907,081</u>	<u>173,231,250</u>	<u>168,068,656</u>
Total non-current assets	<u>420,035,088</u>	<u>419,012,891</u>	<u>177,484,916</u>	<u>172,742,308</u>
TOTAL ASSETS	<u>491,163,049</u>	<u>485,908,242</u>	<u>222,308,150</u>	<u>221,721,822</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - loss on refunding bonds	998,689	1,053,419	1,905,234	2,013,313
Deferred outflows - pensions	7,553,493	7,926,333	3,517,244	3,730,717
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>8,552,182</u>	<u>8,979,752</u>	<u>5,422,478</u>	<u>5,744,030</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 499,715,231</u>	<u>\$ 494,887,994</u>	<u>\$ 227,730,628</u>	<u>\$ 227,465,852</u>

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Net Position**

	Wastewater December 31,		Surface Water December 31,	
	2017	2016	2017	2016
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,619,953	\$ 2,458,059	\$ 1,644,998	\$ 915,078
Accrued wages payable and compensated absences payable	624,435	615,575	249,745	234,494
Accrued taxes payable	596,567	659,700	265,205	264,565
Due to other funds	282,256	1,108,492	449,828	743,726
Due to other governments	550,486	1,228,368	-	-
Accrued environmental liability	-	-	885,673	300,000
Accrued State Revolving Fund loan interest payable	202,410	219,603	-	-
Current portion of State Revolving Fund loan	3,845,599	3,776,490	22,143	21,511
Current portion of revenue bonds payable	2,769,566	2,567,372	1,836,684	1,860,127
Unearned revenues	227,330	216,327	113,665	108,164
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	251,779	233,398	166,971	169,103
Accrued revenue bond interest payable	349,393	338,055	290,243	316,868
Total current liabilities	<u>11,319,774</u>	<u>13,421,439</u>	<u>5,925,155</u>	<u>4,933,636</u>
Noncurrent liabilities:				
Long-term debt - revenue bonds, net	107,821,849	105,233,892	81,723,629	90,431,467
Long-term accrued compensated absences	2,314,865	2,195,706	664,559	695,773
Long-term accrued environmental liability	-	-	840,000	300,000
Long-term State Revolving Fund loan	40,252,431	44,098,030	322,364	344,506
Net pension liability	7,211,565	6,863,551	3,358,027	3,230,494
Net OPEB obligation	2,477,745	2,294,946	490,836	488,889
Total noncurrent liabilities	<u>160,078,455</u>	<u>160,686,125</u>	<u>87,399,415</u>	<u>95,491,129</u>
<b>TOTAL LIABILITIES</b>	<u>171,398,229</u>	<u>174,107,564</u>	<u>93,324,570</u>	<u>100,424,765</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - gain on refunding bonds	30,532	38,328	42,163	52,928
Deferred inflows - pensions	1,553,849	459,477	723,541	216,264
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>18,584,381</u>	<u>17,497,805</u>	<u>8,765,704</u>	<u>8,269,192</u>
<b>NET POSITION</b>				
Net investment in capital assets	255,273,386	261,108,895	131,135,604	131,256,071
Restricted for:				
Bond reserves	10,081,491	9,868,722	4,253,666	4,673,652
Unrestricted	<u>44,377,744</u>	<u>32,305,008</u>	<u>(9,748,916)</u>	<u>(17,157,828)</u>
<b>TOTAL NET POSITION</b>	<u>309,732,621</u>	<u>303,282,625</u>	<u>125,640,354</u>	<u>118,771,895</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 499,715,231</u>	<u>\$ 494,887,994</u>	<u>\$ 227,730,628</u>	<u>\$ 227,465,852</u>

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Wastewater and Surface Water Management**  
**Statements of Revenues, Expenses, and Changes in Net Position**

	Wastewater		Surface Water	
	December Year-to-Date		December Year-to-Date	
	2017	2016	2017	2016
<b>OPERATING REVENUES</b>				
Wastewater residential	\$ 47,391,548	\$ 45,223,969	\$ -	\$ -
Wastewater commercial and public authorities	24,944,393	23,930,833		
Surface water	-	-	33,837,829	32,565,853
Other revenues	3,075,703	2,315,123	791,899	243,839
Total operating revenues	<u>75,411,644</u>	<u>71,469,925</u>	<u>34,629,728</u>	<u>32,809,692</u>
<b>OPERATING EXPENSES</b>				
Business operations	17,368,212	17,834,724	7,477,701	8,185,330
Operations and maintenance	23,659,280	22,818,982	4,117,826	3,924,226
Science and engineering	8,144,975	7,406,618	10,260,808	8,730,146
Other	372,021	-	174	102,029
Depreciation	13,297,930	11,902,693	3,906,998	3,672,420
Total operating expenses	<u>62,842,418</u>	<u>59,963,017</u>	<u>25,763,507</u>	<u>24,614,151</u>
Net operating income	<u>12,569,226</u>	<u>11,506,908</u>	<u>8,866,221</u>	<u>8,195,541</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment and other earnings	513,649	689,121	420,477	391,219
Interest expenses and other related costs	(4,733,711)	(4,628,099)	(3,571,140)	(3,754,364)
Amortization of bond premium and gain/loss on refunding	472,236	362,800	478,398	407,846
Other nonoperating revenues	1,470,165	1,452,316	160,039	215,370
Gain or (loss) on sale/disposal of capital assets	(35,440)	1,519	16,954	18,729
Total nonoperating revenues (expenses)	<u>(2,313,101)</u>	<u>(2,122,343)</u>	<u>(2,495,272)</u>	<u>(2,721,200)</u>
Net income before contributions and transfers	<u>10,256,125</u>	<u>9,384,565</u>	<u>6,370,949</u>	<u>5,474,341</u>
Capital contributions and grants	1,816,687	2,088,710	2,653,337	3,868,293
Transfer in from other funds	6,697,319	1,258,455	7,405,287	1,018,111
Transfer out to other funds	(6,186,982)	(991,611)	(6,758,444)	(931,172)
Gross earnings tax	(6,133,153)	(5,784,876)	(2,802,670)	(2,634,344)
Total contributions and transfers	<u>(3,806,129)</u>	<u>(3,429,322)</u>	<u>497,510</u>	<u>1,320,888</u>
CHANGE IN NET POSITION	6,449,996	5,955,243	6,868,459	6,795,229
NET POSITION - JANUARY 1	<u>303,282,625</u>	<u>297,327,382</u>	<u>118,771,895</u>	<u>111,976,666</u>
NET POSITION - DECEMBER 31	<u>\$ 309,732,621</u>	<u>\$ 303,282,625</u>	<u>\$ 125,640,354</u>	<u>\$ 118,771,895</u>

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Cash Flows**

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 74,617,924	\$ 70,569,729	\$ 34,544,355	\$ 32,722,873
Payments to suppliers	(24,427,513)	(17,598,159)	(8,714,166)	(7,814,450)
Payments to employees	(23,199,228)	(24,233,887)	(10,147,970)	(10,594,860)
Payments for taxes	(1,269,240)	(1,162,410)	(509,239)	(471,616)
Other operating or non-operating revenues (expenses)	1,480,533	1,449,374	8,544	197,522
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>27,202,476</b>	<b>29,024,647</b>	<b>15,181,524</b>	<b>14,039,469</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfer in from other funds	-	-	350,000	108,527
Transfer out to other funds	(6,132,210)	(5,726,382)	(2,801,928)	(2,586,624)
Operating grants received	-	548	45,114	24,363
Principal paid on noncapital debt	-	-	(567,675)	(578,550)
Interest paid on noncapital debt	-	-	(1,810,819)	(1,813,327)
Contributions and donations	-	2,394	50	17,319
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(6,132,210)</b>	<b>(5,723,440)</b>	<b>(4,785,258)</b>	<b>(4,828,292)</b>
<b>CASH FLOW FROM CAPITAL FINANCING ACTIVITIES</b>				
Transfer in from other funds	6,697,319	1,258,455	7,055,287	909,584
Transfer out to other funds	(6,186,982)	(909,584)	(6,758,444)	(931,173)
Acquisition and construction of capital assets	(14,776,780)	(36,642,049)	(9,052,812)	1,578,863
Principal payments on capital debt	(868,660)	(11,489,744)	(7,191,666)	(8,986,318)
Bonds refunding costs	419,872	-	(419,872)	-
Interest and issuance costs paid on capital debt	(4,742,912)	(4,580,405)	(1,787,306)	(1,835,890)
Proceeds from the issuance of revenue and refunding bonds	-	30,917,289	-	17,018,908
Capital lease obligation disposition	-	(13,543,090)	-	(14,783,424)
Contributions and donations	1,816,687	2,088,710	2,797,485	3,550,474
Cash proceeds from sale of capital assets	-	75	35,700	-
Insurance recoveries	5,424	-	5,294	-
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<b>(17,636,032)</b>	<b>(32,900,343)</b>	<b>(15,316,334)</b>	<b>(3,478,976)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income	513,649	724,776	420,476	413,420
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>513,649</b>	<b>724,776</b>	<b>420,476</b>	<b>413,420</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<b>3,947,883</b>	<b>(8,874,360)</b>	<b>(4,499,592)</b>	<b>6,145,621</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	<b>65,925,874</b>	<b>74,800,234</b>	<b>48,493,868</b>	<b>42,348,247</b>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<b>\$ 69,873,757</b>	<b>\$ 65,925,874</b>	<b>\$ 43,994,276</b>	<b>\$ 48,493,868</b>

**City of Tacoma, Washington  
Environmental Services Department  
Wastewater and Surface Water Management  
Statements of Cash Flows**

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Net operating income	\$ 12,569,226	\$ 11,506,908	\$ 8,866,221	\$ 8,195,541
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	13,297,930	11,902,693	3,906,998	3,672,420
Pension expense	1,815,226	1,173,163	848,283	534,466
Other non-operating revenues (expenses)	1,852,554	1,449,374	8,718	197,522
Cash provided from changes in operating assets and liabilities:				
Accounts receivable, net of allowance	202,897	(988,624)	43,537	(285,761)
Accrued unbilled revenue	(642,000)	97,213	(56,000)	(80,000)
Due from other funds	83,262	37,027	741	278,942
Capital deferred debits	-	1,477,171	-	1,271,054
Due from other governments	-	-	-	1,223,240
Inventory	(213,892)	(15,610)	-	-
Prepayments	89,421	91,076	9,945	3,410
Conservation loan fund receivables	232,331	(45,813)	-	-
Accounts payable	(838,106)	410,715	729,920	(1,068,381)
Accrued wages and compensated absences payable	8,860	91,114	15,251	21,305
Accrued taxes payable	(64,076)	81,474	(99)	820
Due to other funds	(826,236)	407,814	(293,898)	133,610
Due to other governments	(677,882)	699,519	-	-
Accrued environmental liability	-	-	585,673	(348,000)
Unearned revenues	11,003	216,327	5,501	108,164
Long-term accrued environmental liability	-	-	540,000	150,000
Long-term accrued compensated absences	119,159	174,363	(31,214)	25,406
Net OPEB obligation	182,799	258,743	1,947	5,711
Total adjustments	14,633,250	17,517,739	6,315,303	5,843,928
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 27,202,476	\$ 29,024,647	\$ 15,181,524	\$ 14,039,469
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 522,989	\$ 395,645	\$ 727,813	\$ 1,011,771

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