
ANNUAL

TACOMA WATER

2012

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

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DEPARTMENT OF PUBLIC UTILITIES

TACOMA WATER

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FINANCIAL DATA

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REPORT OF INDEPENDENT AUDITORS

The Chair and Members of the Public Utility Board
City of Tacoma, Washington Department of Public Utilities, Water Division
Tacoma Washington

Report on Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Water Division (the Division), which comprise the Statements of Net Position as of December 31, 2012 and 2011, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

We believe that the audit evidence 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 40 through 67 are not a required part of the basic financial statements, but are supplemental information presented for the purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Miss Adams LLP

Portland, Oregon
April 3, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Water's (the Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2012 and 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's 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 accounting principles generally accepted in the United States of America applied on a consistent basis and includes 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, 2012 and 2011, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of the Utility's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital and related financing, non-capital financing and investing activities.

The notes to the 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 Utility's presentation of financial position, results of operations and changes in cash flows.

Financial Highlights

- The assets of Tacoma Water exceeded its liabilities by \$452.9 million in 2012, \$429.2 million in 2011 and by \$417.7 million in 2010. Of these amounts, \$42.5 million in 2012, \$22.0 million in 2011, and \$13.7 million in 2010 were available to meet Tacoma Water's ongoing obligations to citizens and creditors.
- Tacoma Water's total net positions increased by \$23.7 million in 2012, \$11.5 million in 2011 and \$5.1 million in 2010.
- Tacoma Water's operating revenues were \$80.7 million, an increase of \$15.3 million, compared to \$65.4 million in 2011 due to an average water rate increase of 5.2% and other operating revenues and contract resource obligations. Operating revenues increased \$2.4 million in 2011 compared to 2010 operating revenues of \$63.0 million.
- In 2012, Tacoma Water's net utility plant of \$722.9 million represented an increase of \$61.7 million over the 2011 \$661.2 million balance. Major projects contributing to the increase include the Green River Water Filtration Facility and Main Replacement Projects. Utility plant increased \$24.6 million over the 2010 \$636.6 million balance.
- Tacoma Water's current assets increased by \$25.0 million during 2012 and increased \$1.2 million during 2011. The increases in 2012 are primarily in operating fund cash and accounts receivable. Current assets decreased by \$5.6 million during 2010.

- Tacoma Water's Long-Term Debt decreased by \$10.6 million during 2012, decreased \$3.5 million during 2011 and increased \$129.1 million during 2010. The increase in 2010 are due to the bond issuances for the Green River Water Filtration Facility.
- The Utility transferred \$5.0 million of revenues into the Rate Stabilization account.

Overview of the Financial Statements

The Utility reported operating income of \$29.3, \$15.1 and \$10.9 million for 2012, 2011 and 2010 respectively. In 2012, operating revenues increased by \$15.3 million while operating expenses increased \$1.0 million.

Net income was \$23.7, \$11.5 and \$5.1 million in 2012, 2011 and 2010 respectively. Non-operating revenues net of expenses decreased \$0.2 million. Capital contributions for 2012 decreased \$1.4 million compared to a decrease of \$0.5 million in 2011. The decrease in 2012 reflects a \$5.0 million transfer to the rate stabilization fund.

The following table highlights Tacoma Water's operating results for the years 2012 - 2010.

Operating Results (In thousands)

	2012	2011	2010	12/11 Increase (Decrease)	11/10 Increase (Decrease)
Operating Revenues	\$ 80,681	\$ 65,404	\$ 62,987	\$ 15,277	\$ 2,417
Operating Expenses	51,350	50,318	52,072	1,032	(1,754)
Operating Income	29,331	15,086	10,915	14,245	4,171
Net Non-Operating Income (Expense)	(12,087)	(11,889)	(12,771)	(198)	882
Capital Contributions	7,834	9,251	9,714	(1,417)	(463)
Federal BAB Subsidies and Grants	3,841	4,006	2,355	(165)	1,651
Transfers Out	(5,227)	(4,961)	(5,111)	(266)	150
Change in Net Position	\$ 23,692	\$ 11,493	\$ 5,102	\$ 12,199	\$ 6,391

Net Position

Net position may serve over time as a useful indicator of the Utility's financial position. Assets exceeded liabilities by \$452.9, \$429.2 and \$417.7 million for 2012, 2011 and 2010 respectively. Net position increased \$23.7 million in 2012 mainly due to increased operating revenues of \$15.3 million partially offset by increased operating and non-operating expense of \$0.7 million. In addition, contributions decreased \$1.4 million and transfers increased \$0.3 million.

Net investment in capital assets represents the Utility's equity investment in capital assets. In 2012, this amounted to \$384.7 million, an increase of \$2.3 million compared to 2011. Investment in capital assets in 2011 was \$382.4 million representing an increase of \$1.1 million compared to 2010.

Restricted net position for 2012 was \$25.6 million, an increase of \$0.9 million from 2011. Restricted net position for 2011 was \$24.7 million, reflecting an increase of \$2.0 million from 2010.

In 2012, unrestricted net position increased \$20.5 million to \$42.5 million. Unrestricted net position for 2011 was \$22.0 million, representing an increase of \$8.4 million from 2010 balance of \$13.7 million.

The analysis below highlights changes in Tacoma Water's net position for the years 2012, 2011 and 2010.

Tacoma Water's Net Position
(In thousands)

Description	2012	2011	2010	12/11 Increase (Decrease)	11/10 Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 723,400	\$ 661,701	\$ 637,140	\$ 61,699	\$ 24,561
Current and Other Assets	227,809	255,451	276,789	(27,642)	(21,338)
Total Assets	\$ 951,209	\$ 917,152	\$ 913,929	\$ 34,057	\$ 3,223
Net Position:					
Net Investment in Capital					
Assets	\$ 384,739	\$ 382,444	\$ 381,316	\$ 2,295	\$ 1,128
Restricted	25,635	24,727	22,728	908	1,999
Unrestricted	42,506	22,017	13,651	20,489	8,366
Total Net Position	452,880	429,188	417,695	23,692	11,493
Long-Term Debt	409,181	419,801	423,577	(10,620)	(3,776)
Current and Other LT Liabilities	89,148	68,163	72,657	20,985	(4,494)
Total Liabilities	498,329	487,964	496,234	10,365	(8,270)
Total Net Position and Liabilities	\$ 951,209	\$ 917,152	\$ 913,929	\$ 34,057	\$ 3,223

Revenues

Total operating revenues in 2012 were \$80.7 million an increase of \$15.3 million (23.4%) compared to 2011. Total operating revenues increased \$2.4 million (3.8%) in 2011 compared to 2010. In 2012 an average rate increase of 5.2% effective January 1, 2012 and higher usage resulted in increased water sales of \$3.3 million (5.8%). In addition, other operating revenue increased \$5.6 million largely due to a \$5.0 million minimum daily purchase agreement restructuring and finally, contract obligations for the Regional Water Supply System (RWSS) partners increased \$6.4 million.

The following table highlights water sales by type of customer for 2012, 2011 and 2010.

Water Sales
(In thousands)

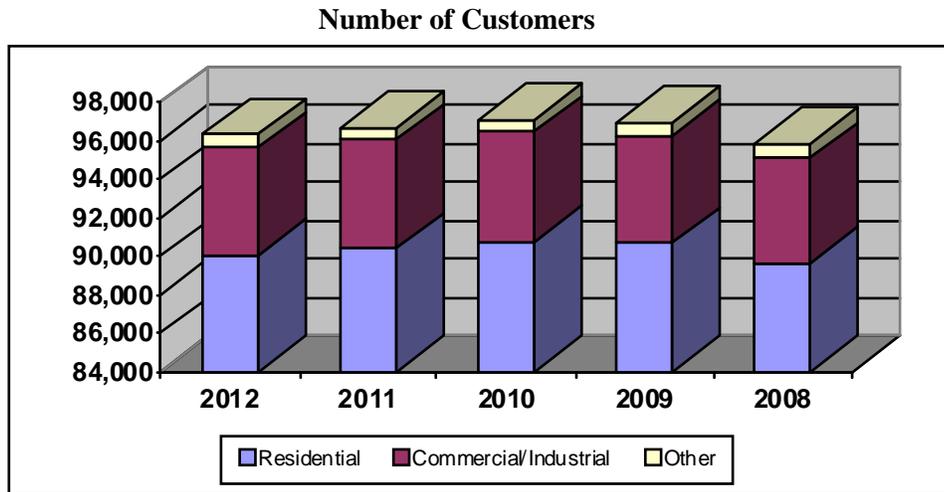
Type of Customer	2012	2011	2010	12/11 Increase (Decrease)	11/10 Increase (Decrease)
Residential and Domestic	\$ 38,686	\$ 36,682	\$ 35,454	\$ 2,004	\$ 1,228
Commercial and Industrial	10,621	10,101	10,050	520	51
Special Rate – Simpson Tacoma	5,032	4,774	3,799	258	975
Municipal	383	400	364	(17)	36
Other Public Buildings and Grounds	1,910	1,816	1,702	94	114
Sale to Other Utilities	2,090	1,625	1,530	465	95
Unbilled Revenue	417	479	(648)	(62)	1,127
Total	\$ 59,139	\$ 55,877	\$ 52,251	\$ 3,262	\$ 3,626

In 2012, approximately 65.4% of water sales were to residential and domestic customers compared to 65.6% in 2011 and 67.9% in 2010. In 2012, commercial and industrial sales were 18.0% compared to 18.1% in 2011 and 19.2% in 2010. Special rate sales to Simpson Tacoma Kraft were 8.5% of total sales in 2012 and 2011 compared to 7.3% in 2010.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2012, 93.5% of all customers were residential, 5.8% were commercial and industrial, with 0.7% in the other customer classes.

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

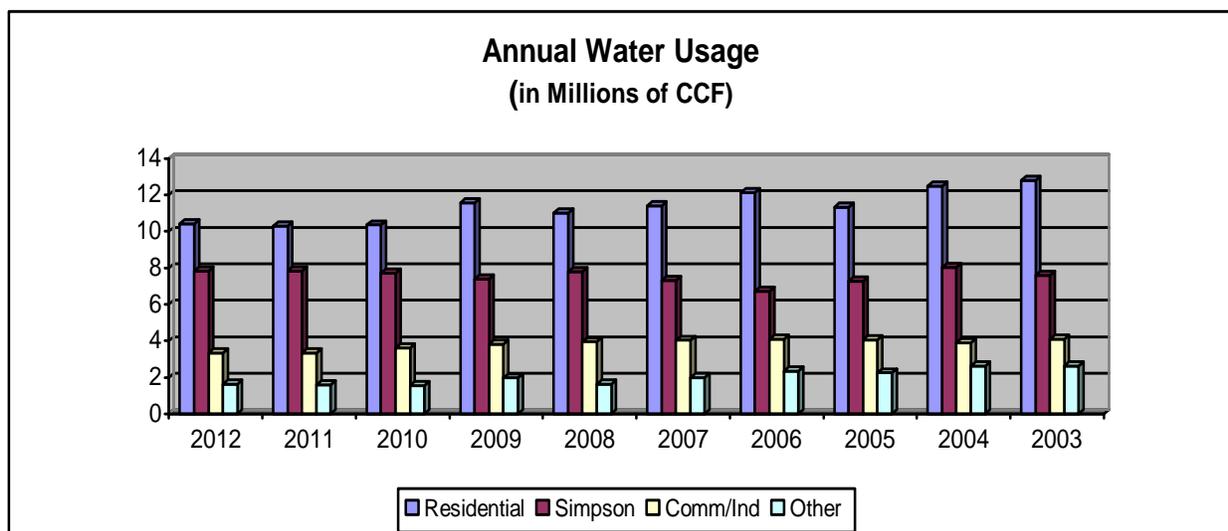


Water Users

The Utility generates the majority of its revenues from its residential and domestic customer base. Residential customers used 10.4 million CCF (100 cubic feet) (44.9%) of the 23.2 million CCF consumed by the Utility's customers in 2012; Simpson Tacoma Kraft Company used approximately 7.8 million CCF (33.8%); commercial and industrial customers used 3.3 million CCF (14.4%); the remaining 1.6 million CCF (6.9%) consumed by other customers.

Looking at the 10-year water usage trend, 2003 was the highest year with 27.11 million CCF, and 2011 was the lowest year with 23.0 million CCF. The trend indicates a general decline in usage since 2003 which reflects the result of plumbing code changes, conservation activities and reduced wholesale consumption.

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



Expenses

In 2012, operating expenses increased \$1.0 million (2.1%), compared to a decrease of \$1.8 million in 2011.

Source of Supply expense decreased by \$0.4 million (8.0%) because the Utility implemented a new work schedule that allowed downsizing of the workforce during 2012, in addition to regulatory work ending in 2011. Transmission and Storage expense decreased by \$0.3 million (13.2%) largely due to a onetime adjustment for electricity expense in 2012.

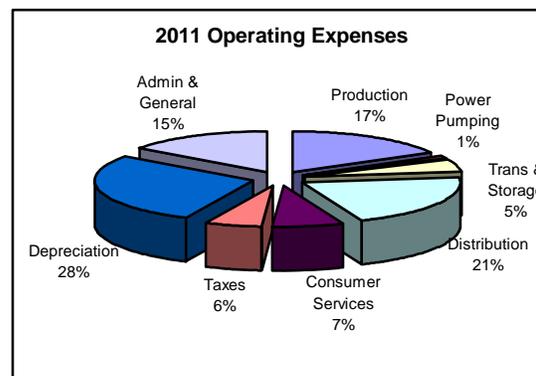
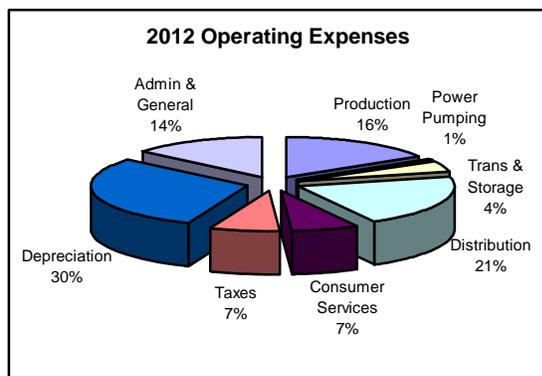
Depreciation expenses increased by \$0.9 million (6.1%) in 2012 mainly due to increase in depreciable asset by \$46.4 million during 2011. Tax expenses increased by \$0.4 million (12.2%) in 2012 largely due to increased water revenues. Customer Accounting and Consumer Services expense increased \$0.2 million (6.6%) in 2012 largely due to computer upgrades and SAP software related expenses.

The following table highlights Tacoma Water's operating expenses for 2012 – 2010.

Operating Expenses (In thousands)

Category	2012	2011	2010	12/10 Increase (Decrease)	11/10 Increase (Decrease)
Source of Supply	\$ 5,044	\$ 5,485	\$ 5,310	\$ (441)	\$ 175
Water Treatment	3,335	3,119	3,400	216	(281)
Total Production Expense	8,379	8,604	8,710	(225)	(106)
Power Pumping Expense	280	306	282	(26)	24
Transmission and Storage Expense	2,273	2,619	2,525	(346)	94
Distribution Expense	10,633	10,367	12,232	266	(1,865)
Customer Accounting and Service	3,833	3,594	3,460	239	134
Taxes	3,485	3,107	3,143	378	(36)
Depreciation	15,263	14,390	14,475	873	(85)
Administrative and General	7,204	7,331	7,244	(127)	87
Total Operating Expenses	\$ 51,350	\$ 50,318	\$ 52,071	\$ 1,032	\$ (1,753)

The following is a graphical presentation of Tacoma Water's operating expenses.



Capital Assets—Utility Plant

Tacoma Water invests in a broad range of utility assets and at the end of 2012 had \$722.9 million in net utility plant, an increase of \$61.7 million from 2011. The largest increase was in construction work in progress of \$43.1 million largely from the Green River Water Filtration construction project. In 2011, Tacoma Water had \$661.2 million in net utility plant, an increase of \$24.6 million compared to 2010. In 2012, 12.7 miles of water main were added or replaced compared to 11.4 miles in 2011; and 6.9 miles in 2010. The effect of the economic turnaround continues to be slow for private development activity. Construction was completed on 12

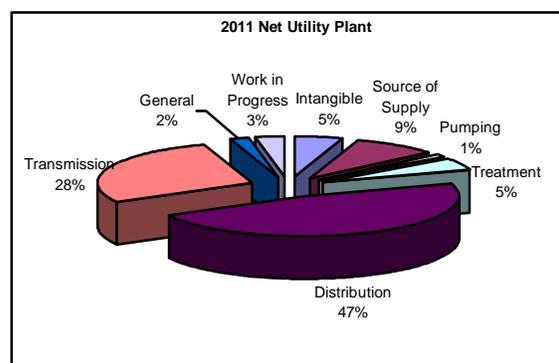
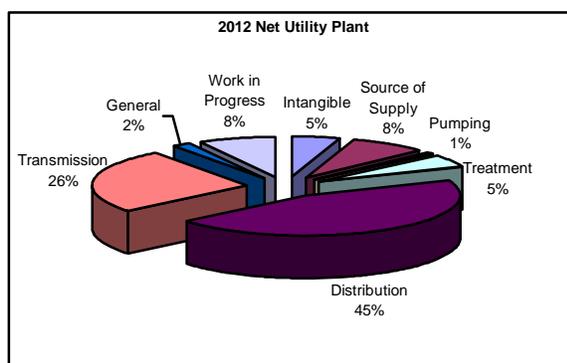
private contracts in 2012, resulting in 2.44 miles; 8 private contracts in 2011, added 2.0 miles; and 8 private contracts in 2010, added 0.9 miles.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for the years ended December 31, 2012, 2011 and 2010.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

Net Utility Plant	2012	2011	2010	12/10 Increase (Decrease)	11/10 Increase (Decrease)
Intangible Plant	\$ 35,086	\$ 34,865	\$ 34,818	\$ 221	\$ 47
Source of Supply Plant	60,843	60,174	61,534	669	(1,360)
Pumping Plant	6,037	6,180	6,385	(143)	(205)
Water Treatment Plant	33,244	34,744	36,328	(1,500)	(1,584)
Transmission Plant	187,349	186,002	157,878	1,347	28,124
Distribution Plant	326,563	312,427	298,735	14,136	13,692
General Plant	14,189	10,334	9,584	3,855	750
Construction Work In Progress	59,541	16,427	31,331	43,114	(14,904)
Total	<u>\$ 722,852</u>	<u>\$ 661,153</u>	<u>\$ 636,593</u>	<u>\$ 61,699</u>	<u>\$ 24,560</u>

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investment in 2012 and 2011.



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

Debt Administration

As of year-end 2012, the Utility had outstanding revenue bond obligations of \$369.5 million (net of unamortized bond premiums); a decrease of \$7.3 million (1.9%) from 2011. In 2011, Tacoma Water had outstanding revenue bond obligations of \$376.8 million (net of unamortized bond premiums); a decrease of \$6.8 million (1.8%) from 2010.

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

The Utility is required by bond covenants to maintain debt service coverage ratio of 1.25 for principle and interest. Debt service coverage ratios were 2.02, 1.58, 1.64 in 2012, 2011 and 2010 respectively.

At the end of 2012, the Utility had an outstanding State loan balance of \$42.0 million compared to \$43.6 million in 2011 and \$40.0 million in 2010. During 2012, the Utility received an additional \$0.5 million against the 2008 Public Works Trust Fund Loan and \$0.4 million against the 2008 Drinking Water State Revolving Fund Loan. The Utility entered into three more

Drinking Water State Revolving Loan agreements for McMillin Reservoir and the Water Treatment Facility in 2012 totaling \$24.2 million for which no funds have been drawn.

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

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the information in this annual report. We prepared the financial statements according to accounting principles generally accepted in the United States of America and they fairly portray Tacoma Water's financial position and operating results.

Moss Adams LLP has audited the financial statements. We have made available to them all pertinent information necessary to complete the audit. Management considers and takes appropriate action on audit recommendations.

Management has established and maintains a system of internal controls, which includes organizational, administrative and accounting processes. These controls provide reasonable assurance that records and reports are complete and reliable, that assets are used appropriately and that business transactions are carried out as authorized.



William A. Gaines
Director of Utilities/CEO



Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF NET POSITION

	DECEMBER 31,	
ASSETS	2012	2011
UTILITY PLANT		
In Service, at Original Cost	\$820,187,184	\$793,903,858
Less - Accumulated Depreciation	(156,876,447)	(149,177,559)
Total	663,310,737	644,726,299
Construction Work In Progress	59,541,533	16,426,998
Net Utility Plant	722,852,270	661,153,297
NON-UTILITY PROPERTY	547,480	547,480
RESTRICTED ASSETS		
Construction Funds	58,833,459	125,330,650
Debt Service Funds	3,318,052	3,091,834
Bond Reserve Funds	19,507,744	19,512,184
System Development Charge Fund	53,626,384	47,111,039
Other Cash and Equity in Pooled Investments	25,564,985	17,495,079
Notes & Contracts Receivable - SDC & Other	464,971	1,530,840
Total Special Funds	161,315,595	214,071,626
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	37,666,496	18,958,145
Accounts Receivable	10,503,161	5,693,200
(Net of Allowance for Doubtful Accounts of \$453,928 in 2012 and \$516,177 in 2011)		
BABs Interest Subsidies Receivable	320,064	320,064
Accrued Unbilled Revenues	4,026,679	3,609,693
Materials and Supplies	2,341,174	2,503,854
Interfund Receivable	947,380	68,381
Prepayments.....	602,606	250,184
Total Current Assets	56,407,560	31,403,521
OTHER ASSETS		
Unamortized Issuance Costs	3,021,623	3,255,278
Regulatory Asset-Public Fire Protection Fees ...	4,274,592	3,514,579
Regulatory Asset-Hyada Surcharges	1,025,593	1,149,511
Unamortized Losses on Refunding Bonds	1,764,332	2,056,555
Total Other Assets	10,086,140	9,975,923
TOTAL ASSETS	\$951,209,045	\$917,151,847

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

	DECEMBER 31,	
NET POSITION AND LIABILITIES	2012	2011
NET POSITION		
Net Investment in Capital Assets	\$384,739,201	\$382,443,716
Restricted for:		
Regional Water Supply System Construction Fund .	-	360,122
Water Assurance and System Development Charge ..	24,265,546	23,113,760
Debt Service Funds	1,368,679	1,253,432
Unrestricted	42,506,333	22,017,058
Total Net Position	452,879,759	429,188,088
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
Revenue Bonds	362,310,380	370,169,234
Public Works Trust Fund Loans	23,495,090	25,136,305
Drinking Water State Revolving Fund Loan	15,659,868	15,958,759
Muckleshoot Agreements	7,715,713	8,536,459
Total Long-Term Debt	409,181,051	419,800,757
CURRENT LIABILITIES		
Current Maturities of Long-Term Liabilities	10,842,324	9,250,850
Accrued Taxes	1,595,790	1,174,893
Accrued Expenses and Contracts Payable	17,996,478	3,801,668
Salaries, Wages and Fringe Benefits Payable	1,063,601	1,019,509
Interest Payable	1,949,375	1,838,402
Customers' Deposits	265,961	269,732
Interfund Payables	1,371,061	819,643
Total Current Liabilities	35,084,590	18,174,697
LONG-TERM LIABILITIES		
Retained on Contract Payments	22,000	27,000
Customer Advances for Construction	4,356,297	4,563,137
Deferred Revenue	8,968,764	9,967,221
Rate Stabilization	35,575,447	30,575,447
Long-Term Accrued Compensated Absences	2,122,259	2,201,281
Other Long-Term Liabilities	3,018,878	2,654,219
Total Long-Term Liabilities	54,063,645	49,988,305
 TOTAL LIABILITIES	 498,329,286	 487,963,759
 TOTAL NET POSITION AND LIABILITIES	 \$951,209,045	 \$917,151,847

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2012	2011
OPERATING REVENUES		
Sale of Water	\$59,138,998	\$55,877,567
Other Operating Revenues	11,381,473	5,748,678
Contract Resource Obligation Revenues	10,160,260	3,777,789
Total Operating Revenues	80,680,731	65,404,034
OPERATING EXPENSES		
Operations	13,186,350	13,292,512
Production	8,379,807	8,603,834
Administrative and General	11,036,295	10,925,265
Depreciation	15,262,686	14,389,681
Other Taxes	3,485,243	3,106,516
Total Operating Expenses	51,350,381	50,317,808
Net Operating Income	29,330,350	15,086,226
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	2,320,753	3,141,374
Other	288,182	(12,371)
Interest on Long-Term Debt	(19,706,065)	(19,997,829)
Amortization of Debt Expense, Premium and Loss on Refunding	127,976	1,605
Interest Charged to Construction	4,881,993	4,977,850
Total Non-Operating Expenses	(12,087,161)	(11,889,371)
Net Income Before Capital Contributions and Transfers	17,243,189	3,196,855
Capital Contributions		
Cash	4,571,007	8,134,128
Donated Fixed Assets	3,263,338	1,116,549
Federal BAB Subsidies	3,840,767	3,840,771
Grants	-	165,438
Transfers		
City of Tacoma Gross Earnings Tax	(5,081,191)	(4,931,504)
Transfer to/from Other Funds	(145,439)	(29,232)
CHANGE IN NET POSITION	23,691,671	11,493,005
TOTAL NET POSITION - BEGINNING OF YEAR	429,188,088	417,695,083
TOTAL NET POSITION - END OF YEAR	\$452,879,759	\$429,188,088

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$74,829,339	\$64,773,377
Cash Paid to Suppliers	1,127,154	(12,715,293)
Cash Paid to Employees	(20,102,470)	(19,863,291)
Taxes Paid	(3,064,346)	(3,059,275)
Net Cash From Operating Activities	52,789,677	29,135,518
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(145,439)	(29,232)
Transfer Out for Gross Earnings Tax	(5,081,191)	(4,931,504)
Net Cash From Non-Capital Financing Activities	(5,226,630)	(4,960,736)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(68,816,329)	(32,855,808)
Proceeds from P WTF Loan	900,000	5,984,023
Debt Issuance Costs	-	(64,808)
Principal Payments on Long-Term Debt	(9,274,378)	(8,915,056)
Interest Paid	(19,595,092)	(22,055,215)
BABs Federal Interest Subsidies	3,840,767	4,459,254
Grants Received	-	165,438
System Development Charges, CIAC and Other	9,791,238	7,022,698
Net Cash From Capital and Related Financing Activities	(83,153,794)	(46,259,474)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	2,320,753	3,141,374
Other Net Non-Op Revenues and Expenses	288,183	(12,371)
Net Cash From Investing Activities	2,608,936	3,129,003
Net Change in Cash and Equity in Pooled Investments	(32,981,811)	(18,955,689)
Cash & Equity in Pooled Investments at January 1 ...	231,498,931	250,454,620
Cash & Equity in Pooled Investments at December 31 .	\$198,517,120	\$231,498,931

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

	YEAR ENDED DECEMBER 31,	
	2012	2011
Reconciliation of Net Operating Income to		
Net Cash From Operating Activities:		
Net Operating Income	\$29,330,350	\$15,086,226
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	15,262,686	14,389,681
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	(5,226,947)	2,523,414
Interfund Receivables	(878,999)	271,927
Regulatory Asset-Public Fire Protection Fees	(760,013)	(3,514,579)
Regulatory Asset-Hyada Surcharges.....	123,918	98,708
Materials and Supplies	162,680	105,337
Prepayments	(352,422)	769,853
Deferred Rental Revenues	11,650	261,800
Accrued Taxes	420,897	47,241
Salaries, Wages and Fringe Benefits Payable	52,872	(38,353)
Accrued Compensated Absences	(87,802)	63,459
Customers' Deposits	(3,771)	10,679
Accrued Expenses and Contracts Payable	14,183,160	(407,465)
Interfund Payables	551,418	(532,410)
Total Adjustments	<u>23,459,327</u>	<u>14,049,292</u>
Net Cash From Operating Activities	<u><u>\$52,789,677</u></u>	<u><u>\$29,135,518</u></u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$160,850,624	\$212,540,786
Cash and Equity in Pooled Investments in Operating Funds	<u>37,666,496</u>	<u>18,958,145</u>
Cash and Equity in Pooled Investments at December 31	<u><u>\$198,517,120</u></u>	<u><u>\$231,498,931</u></u>

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 OPERATIONS

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

Tacoma Water owns and operates the City's Water System which includes a surface water supply source (the Watershed); several extensive well fields; a water transmission system consisting of several pipelines, water treatment and quality facilities; various reservoirs, standpipes and pump stations; and an extensive distribution system. Tacoma Water supplies water to approximately 96,000 customers and had approximately 256 employees as of December 31, 2012. Tacoma Water's service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties. Tacoma Water is organized functionally as Water Distribution Engineering and Operations, Water Quality, Water Supply, Water Resource Planning, and Water Rates and Financial Planning.

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

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

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

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

WATER RESOURCE PLANNING - To plan for resources to meet future needs including conservation; to prepare system, strategic, and business plans for Tacoma Water; to support wholesale customers; to provide planning support for growth; to provide hydraulic modeling, GIS, maps and records, computer, SAP, and other technology support for Tacoma Water; and to manage Tacoma Water's asset management program.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

WATER RATES AND FINANCIAL PLANNING - To develop and maintain necessary tools and reports to assess the utility's financial health, identify issues, opportunities and recommend actions to maintain solid financial rating for the water utility and the Regional Water Supply System.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with 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.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position effective for financial statements for periods beginning after December 15, 2011. The Division implemented this new pronouncement in the current year. The effect of the implementation of this statement to the Division is limited to renaming of "Net Assets" to "Net Position".

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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 WA State LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2012 and 2011 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC of the State of Washington. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP operated like a 2A7 fund and is collateralized by short-term legal investments.

ACCOUNTS RECEIVABLE AND ACCRUED UNBILLED REVENUES - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally accounts receivable are considered past due after 30 days.

INTERFUND TRANSACTIONS - Unsettled transactions between City funds at year end are recorded as due to or due from other funds.

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

RESTRICTED ASSETS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds, extraordinary operations, notes and contracts receivable, and customer deposits.

BOND PREMIUM, ISSUANCE COSTS AND LOSS ON REFUNDING - Bond premium, discount and issuance costs are amortized over the life of the bonds using the weighted average of the

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

bonds outstanding. Losses on refunding are amortized on a straight-line basis over the applicable bond period.

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

UTILITY PLANT AND DEPRECIATION - Utility plant is stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

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

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.

CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYTEM DEVELOPMENT CHARGES - GASB Statement No. 33, which addresses accounting for contributed capital, requires that contributed capital be recognized as revenue. Capital contributions include new service connections and system development charges. System development charges are collected on all new services prior to installation to ensure required new source, transmission and storage facilities needed to meet new demands are funded. The charge was developed using a cost-of-service approach and includes a share of historical plant investment and projected future outlays that will increase system capacity. Because the funds collected for this charge can only be used for system expansion projects, the balance is reflected as restricted in the Division's net assets. System development charges on uncompleted projects are recorded in deferred credits.

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

COMPENSATED ABSENCES - The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned. Based on historical information, 10% of compensated absences are considered short term.

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. The accrued liability is computed at 10%, which is considered the amount vested. Sick leave pay is recorded as an expense in the year earned.

OPERATING REVENUE - Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Utility revenues are derived primarily from the sale and transmission of water. Utility revenue from water sales is recognized when the water is delivered to and received by the customer.

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

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

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

NET POSITION - The statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted or unrestricted.

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

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position components are those that are not "net investment in capital assets" or "restricted" so that it can be used for daily operation of the Water Utility.

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SHARED SERVICES - The Division receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies and additionally, must pay a gross earnings tax to the City.

USE OF ESTIMATES - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefit (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

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

RECLASSIFICATIONS - Changes have been made to prior year account classifications as needed to conform to the current year presentation format. Such changes did not affect net position for this year.

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

	Balance December 31, 2011	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2012
Intangible Plant	\$ 34,902,822	\$ 389,111	\$ (205,753)	\$ -	\$ 35,086,180
Source of Supply Plant	76,455,691	2,483,372	(62,886)	-	78,876,177
Pumping Plant	9,142,701	85,249	(5,921)	-	9,222,029
Water Treatment Plant	45,097,165	59,680	(754,901)	-	44,401,944
Transmission Facilities	222,241,072	4,790,118	(90,337)	-	226,940,853
Distribution Facilities	377,190,175	19,174,736	(3,505,899)	-	392,859,012
General Plant	28,874,232	4,859,197	(787,001)	(145,439)	32,800,989
Total Water Plant In Service	793,903,858	31,841,463	(5,412,698)	(145,439)	820,187,184
Less Accumulated Depreciation	149,177,559	15,262,686	(5,244,445)	(2,319,353)	156,876,447
	644,726,299	16,578,777	(168,253)	2,173,914	663,310,737
Construction Work In Progress	16,426,998	74,810,559	-	(31,696,024)	59,541,533
Net Utility Plant	\$ 661,153,297	\$ 91,389,336	\$ (168,253)	\$ (29,522,110)	\$ 722,852,270

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2010	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2011
Intangible Plant	\$ 34,854,971	\$ 220,310	\$ (172,459)	\$ -	\$ 34,902,822
Source of Supply Plant	76,057,618	434,423	(36,350)	-	76,455,691
Pumping Plant	9,121,209	25,492	(4,000)	-	9,142,701
Water Treatment Plant	45,124,694	(27,529)	-	-	45,097,165
Transmission Facilities	192,646,927	30,886,349	(1,292,204)	-	222,241,072
Distribution Facilities	362,138,047	17,936,010	(2,883,882)	-	377,190,175
General Plant	27,565,793	1,479,114	(139,131)	(31,544)	28,874,232
Total Water Plant In Service	747,509,259	50,954,169	(4,528,026)	(31,544)	793,903,858
Less Accumulated Depreciation	142,247,827	14,389,681	(4,355,566)	(3,104,383)	149,177,559
	605,261,432	36,564,488	(172,460)	3,072,839	644,726,299
Construction Work In Progress	31,331,339	36,018,284	-	(50,922,625)	16,426,998
Net Utility Plant	\$ 636,592,771	\$ 72,582,772	\$ (172,460)	\$ (47,849,786)	\$ 661,153,297

Utility Plant includes non-depreciable assets of \$56,843,169 for 2012 and \$54,953,363 for 2011.

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

Cash and Equity in Pooled Investments	2012	2011
Construction Funds	\$ 58,833,459	\$ 125,330,650
Debt Service Funds	3,318,052	3,091,834
Bond Reserve Funds	19,507,744	19,512,184
System Development Charge Fund	53,626,384	47,111,039
Other Cash and Equity in Pooled Investments	25,564,985	17,495,079
Total	\$ 160,850,624	\$ 212,540,786

NOTE 5 LONG-TERM LIABILITIES – The Division's Long-term Liabilities are primarily for the purpose of capital improvements with the exception of the Muckleshoot liability. Long-term debt activities for 2012 and 2011 were as follows:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Revenue Bonds	\$ 371,500,000	\$ -	\$ (6,620,000)	\$ 364,880,000	\$ 7,205,000
Plus: Unamortized Premium	5,289,234	-	(653,854)	4,635,380	-
Net Revenue Bonds	376,789,234	-	(7,273,854)	369,515,380	7,205,000
Public Works Trust Fund Loans	27,246,270	500,000	(2,109,965)	25,636,305	2,141,215
Drinking Water State Revolving Fund Loan	16,311,391	400,000	(376,161)	16,335,230	675,362
Total Long-Term Debt	420,346,895	900,000	(9,759,980)	411,486,915	10,021,577
Muckleshoot Liability	8,704,712	-	(168,252)	8,536,460	820,747
Total Long-Term Liabilities	\$ 429,051,607	\$ 900,000	\$ (9,928,232)	\$ 420,023,375	\$ 10,842,324

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Revenue Bonds	\$377,780,000	\$ -	\$ (6,280,000)	\$371,500,000	\$6,620,000
Plus: Unamortized Premium	5,798,980	-	(509,746)	5,289,234	-
Net Revenue Bonds	383,578,980	-	(6,789,746)	376,789,234	6,620,000
Public Works Trust Fund Loans	29,356,235	-	(2,109,965)	27,246,270	2,109,965
Drinking Water State Revolving Fund Loan	10,680,000	5,984,023	(352,632)	16,311,391	352,632
Total Long-Term Debt	423,615,215	5,984,023	(9,252,343)	420,346,895	9,082,597
Muckleshoot Liability	8,877,171	-	(172,459)	8,704,712	168,253
Total Long-Term Liabilities	<u>\$432,492,386</u>	<u>\$ 5,984,023</u>	<u>\$ (9,424,802)</u>	<u>\$429,051,607</u>	<u>\$9,250,850</u>

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

SENIOR LIEN BONDS

	<u>2012</u>	<u>2011</u>
2002 Regional Water Supply System Revenue Bonds, with interest rates ranging from 4.13% to 5.50%, due in yearly installments ranging from \$875,000 to \$7,400,000 through 2032. Original Issue: \$82,700,000	\$75,925,000	\$76,750,000
2003 Water System Revenue and Refunding Bonds, with interest rates ranging from 4.125% to 5.25%, due in yearly installments ranging from \$1,725,000 to \$3,505,000 through 2023. Original Issue: \$51,380,000	25,285,000	28,630,000
2005 Water System Revenue and Refunding Bonds, with interest rates ranging from 4.125% to 5.0%, due in yearly installments ranging from \$1,695,000 to \$4,760,000 through 2025. Original Issue: \$46,550,000	35,485,000	37,420,000
2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate at 35% of interest, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000	76,775,000	76,775,000
2010A Water System Revenue Refunding Bonds, with interest rates ranging from 2.0% to 5.0%, due in yearly installments starting in 2013 ranging from \$530,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000	28,585,000	29,100,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

2010B Water System Revenue Bonds, with interest rates ranging from 4.581% to 5.621%, with Build America Bond (BAB) rebate at 35% of interest, due in yearly installments starting in 2024 ranging from \$2,115,000 to \$15,390,000 through 2040. Original Issue: \$74,985,000	74,985,000	74,985,000
2010A Regional Water Supply System Revenue Bonds, with interest rates ranging from 2.0% to 4.0%, due in yearly installments starting in 2013 ranging from \$260,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000	3,595,000	3,595,000
2010B Regional Water Supply System Revenue Bonds, with interest rates ranging from 5.371% to 5.621%, with Build America Bond (BAB) rebate at 35% of interest, due in yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 6) Original Issue: \$44,245,000	<u>44,245,000</u>	<u>44,245,000</u>
Subtotal Sr. Lien Debt	364,880,000	371,500,000
Unamortized premium	4,635,380	5,289,234
Less Current Portion of Revenue Bond Debt	<u>(7,205,000)</u>	<u>(6,620,000)</u>
Long-term Portion of Revenue Bond Debt	<u><u>\$362,310,380</u></u>	<u><u>\$370,169,234</u></u>

Scheduled principal maturities on the bonds, gross interest payments and BAB interest rebates are as follows:

<u>Year</u>	<u>Principal</u>	<u>Total Interest</u>	<u>BAB Interest Rebate</u>
2013	\$7,205,000	\$19,060,732	\$3,840,767
2014	\$7,550,000	\$18,731,838	\$3,840,767
2015	\$7,940,000	\$18,401,975	\$3,840,767
2016	\$8,325,000	\$18,045,325	\$3,840,767
2017	\$8,760,000	\$17,651,863	\$3,840,767
2018-2022	\$54,295,000	\$81,517,121	\$19,203,835
2023-2027	\$56,020,000	\$67,935,251	\$18,904,918
2028-2032	\$65,185,000	\$53,045,837	\$16,697,043
2033-2037	\$88,350,000	\$32,840,156	\$11,494,053
2038-2040	\$61,250,000	\$7,016,245	\$2,455,686

The fair value of Tacoma Water's long-term debt is based on quoted market prices. The fair market value of the Water System Revenue Bonds at December 31, 2012 and 2011 was \$270,585,588 and \$290,255,249 respectively. The fair market value of the Regional Water Supply System Revenue Bonds at December 31, 2012 and 2011 was \$130,661,604 and \$137,410,245 respectively.

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT

	<u>2012</u>	<u>2011</u>
Public Works Trust Fund Loans		
2001 Public Works Trust Fund construction loan for the Second Supply Project (SSP), with interest of .5% per annum, due in yearly installments of \$533,333 through 2021.	\$4,800,000	\$5,333,333
2001 Public Works Trust Fund pre-construction loan for the SSP Howard Hanson Dam Additional Storage Project, with interest of .5% per annum, due in yearly installments of \$52,632 through 2021.	473,684	526,316
2002 Public Works Trust Fund construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$531,250 through 2022.	5,312,500	5,843,750
2002 Public Works Trust Fund pre-construction loan for the Middle and Headworks section of the SSP, with interest of .5% per annum, due in yearly installments of \$54,180 through 2021.	487,616	541,796
2004 Public Works Trust Fund pre-construction loan for the design of the Green River Ozone Facility with interest of .5% per annum, due in yearly installments of \$53,363 through 2024.	640,351	693,713
2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly installments of \$370,588 through 2026.	5,188,235	5,558,824
2008 Public Works Trust Fund construction loan for the McMillin Reservoir Reconstruction, with interest of .5% per annum, due in yearly installments of \$545,870 through 2028.	8,733,918	8,748,538
Drinking Water State Revolving Fund Loans		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,053 through 2021.	1,449,474	1,610,526
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,108 through 2028.	3,441,734	3,256,842
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1% per annum, due in yearly installments of \$299,201 from 2013 through 2032.	5,984,023	5,984,023

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$273,000 from 2015 through 2034.	5,460,000	5,460,000
Subtotal Junior Lien Debt	41,971,535	43,557,661
Less current portion of debt	(2,816,577)	(2,462,597)
Long-Term portion of Junior Lien Debt	\$39,154,958	\$41,095,064

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$2,816,577	\$409,848
2014	\$2,816,577	\$254,934
2015	\$3,089,577	\$585,245
2016	\$3,089,577	\$290,836
2017	\$3,089,578	\$265,790
2018-2022	\$14,646,690	\$953,262
2023-2027	\$8,254,975	\$462,880
2028-2032	\$3,621,984	\$153,211
2033-2034	\$546,000	\$12,285

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

NOTE 7 SIGNIFICANT CUSTOMER - Contracted sales to Simpson Tacoma Kraft Company (Simpson) accounted for 8.5% and 8.5% of Tacoma Water's total water sales in 2012 and 2011, respectively. There were no outstanding accounts receivables from Simpson at year-end 2012 or 2011.

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 FLEET SERVICES FUND - The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment. Transfers of vehicles and equipment from Tacoma Water to the Fleet Services Fund are accounted for as transfers.

Tacoma Water pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Water in 2012 and 2011 were \$2,226,924 and \$2,336,806, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle and to return any excess funds to customers based on their scheduled monthly payments. The solvency of the Replacement Fund also allowed Fleet Services to return a portion of interest earned on Fund investments for the year to their customers. In 2012 and 2011, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2012 and 2011 were \$62,242 and \$76,000, respectively, which was used to offset the corresponding year's fleet expenses.

NOTE 9 SELF-INSURANCE FUND - The Department of Public Utilities maintains a self-insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Water and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Water are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Fund. Tacoma Water's premium payments were \$496,377 in 2012 and \$120,000 in 2011. Assets in the Self-Insurance Fund total \$5.4 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Water's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchases a \$15 million Fiduciary Policy with a \$25,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefits programs and a \$1 million crime Liability policy for employee dishonesty and for fraudulent or dishonest acts by employees for loss of money, securities and property. The insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current insurance policies have deductibles or self insured retentions of \$250,000 for buildings and vehicles and \$1.5 million for general comprehensive liability. The public official's policy has a \$200,000 deductible. The general government comprehensive liability policies provide \$15 million of coverage. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit (\$1 million self insured retention).

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

Plan Description and Contribution Information - The System is a single employer, defined benefit retirement plan covering employees of the City of Tacoma and is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,107 retirees and beneficiaries currently receiving benefits, 426 vested terminated members entitled to future benefits and 2,861 active members of the System, as of December 31, 2012.

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

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

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

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

Contributions - Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage. The contribution rates are provided in the following table:

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

Contributions city-wide totaled \$43.1 million in 2012 (\$22.7 million employer contributions and \$20.4 million employee contributions) and totaled \$42.4 million in 2011 (\$22.5 million employer contributions and \$19.9 million employee contributions). Contributions made by the Division were \$2.0 million and \$1.9 million in 2012 and 2011 respectively.

Funding Status and Progress - Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2012, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Schedule of Funding Progress (\$ in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c) = (b)-(a)	Funded Ratio (d) = (a) / (b)	Covered Payroll (e)	UAAL as of Percentage of Covered Payroll (f) = (c) / (e)
1/1/2009	\$ 1,097.3	\$ 1,002.3	\$ (95.0)	109.5%	\$ 197.4	(48.1%)
1/1/2011	\$ 1,074.8	\$ 1,132.9	\$ 58.1	94.9%	\$ 219.6	26.5%
1/1/2012	\$ 1,068.3	\$ 1,185.5	\$ 117.2	90.1%	\$ 219.4	53.4%

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Remaining Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Assets are valued at market value, with a four year smoothing of all market value gains and losses.

Actuarial Assumptions:

Investment Rate of Return	7.75%
Projected Salary Increases	4.25%
Includes Inflation at	3.25%
Postretirement Benefit Increases	2.125%

Annual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to the Retirement System for 2012 were as follows:

	(\$ in millions)
Annual Required Contribution (ARC)	\$ 22.7
Interest on Net Pension Obligation (NPO)	(1.1)
Adjustment to ARC	1.3
Annual Pension Cost (APC)	22.9
Employer Contributions made	22.7
Change in NPO	0.2
NPO at Beginning of Year	(13.7)
NPO at End of Year	\$ (13.5)

Trend Information
(\$ in millions)

Year Ending December 31,	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
2010	\$ 17.0	125%	\$ (8.1)
2011	\$ 16.9	133%	\$ (13.7)
2012	\$ 22.9	99%	\$ (13.5)

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description - The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. Generally accepted accounting principles require that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

Funding Policy - The City uses pay as you go funding; contributions to a separate trust are not required.

Annual OPEB Cost and Net OPEB Obligation - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (4.00%).

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 would be required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2012 is 25 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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>January 1, 2009</u>	<u>January 1, 2011</u>
Total membership:		
Active employees	3,633	3,675
Terminated vested employees	355	363
Retired employees & Dependents	815	790
Total	<u>4,803</u>	<u>4,828</u>
Annual Benefit Payments	\$ 8,319,788	\$ 9,569,648
Discount rate	4.00%	4.00%
Present Value of Benefits (PVB)	\$ 266,167,781	\$ 319,550,419
Actuarial Accrued Liability (AAL)	\$ 205,168,072	\$ 248,571,791
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 205,168,072</u>	<u>\$ 248,571,791</u>
Normal Cost	\$ 5,615,626	\$ 5,559,350
Annual Required Contribution (ARC)	\$ 16,761,978	\$ 19,734,040

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2012.

Value of Subsidy at 4.00% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits (PVB)	\$ 445,647,729	\$ 126,097,310	\$ 319,550,419
Actuarial Accrued Liability (AAL)	\$ 305,186,964	\$ 56,615,173	\$ 248,571,791
Normal Cost	\$ 10,741,744	\$ 5,182,394	\$ 5,559,350
Annual Benefit Payments	\$ 12,218,978	\$ 2,649,330	\$ 9,569,648

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, 2012.

	<u>City</u>	<u>Water</u>
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,559,351	\$ 393,824
Amortization of UALL	14,174,690	144,425
Annual Required Contribution (ARC)	<u>\$ 19,734,041</u>	<u>\$ 538,249</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 19,734,041	\$ 538,249
Interest on prior year Net OPEB Obligation	1,455,746	66,144
Adjustments to ARC	(1,720,609)	(64,256)
Annual OPEB Cost	19,469,178	540,137
Actual benefits paid	9,393,431	138,439
Increase in Net OPEB Obligation	10,075,747	401,698
Net OPEB Obligation - beginning of year	36,393,621	1,653,611
Net OPEB Obligation - end of year	<u>\$ 46,469,368</u>	<u>\$ 2,055,309</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Funding Status and Funding Progress - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 4.00% interest rate.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Water	City	Water	City	Water
12/31/2010	\$ 16,700,184	\$ 467,968	\$ 9,206,060	\$ 120,660	\$ 26,366,848	\$ 1,225,900
12/31/2011	\$ 19,596,420	\$ 541,536	\$ 9,569,648	\$ 113,825	\$ 36,393,620	\$ 1,653,611
12/31/2012	\$ 19,469,178	\$ 540,137	\$ 9,393,431	\$ 138,439	\$ 46,469,368	\$ 2,055,309

As of January 1, 2011, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 4% interest rate, the actuarial accrued liability for benefits was \$248.6 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of \$248.6 million.

Actuarial Methods and Assumptions - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 25 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2011
Census Date	January 1, 2011
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	25 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate	4.00% for pay-as-you-go funding
Medical Cost Trend.....	2011 8.1%
	2012 7.3%
	2013 6.6%
	2014-2019 6.5%
	2020-2027 6.4%
	Grading down to an ultimate of 5.2% in 2082 and beyond.
Projected Payroll Increases	4.25% per year

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Eligibility:

Disability - Five years of service are required for non-service connected disability.

Retirement - TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits):

- Age 55 with 10 years of service
- 20 years of service

NOTE 12 COMMITMENTS AND CONTINGENCIES

Capital Improvements – The financial requirement for Tacoma Water's 2011-2012 biennial Capital Improvement program is approximately \$64.0 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2012, the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$15.0 million.

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

General Legal Matters - The Utility is involved in various litigation in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Utility's financial position beyond amounts already accrued as of December 31, 2012.

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

BALANCE SHEET	2012	2011	2010	2009
ASSETS				
Utility Plant - Net	\$722,852,270	\$661,153,297	\$636,592,771	\$604,657,775
Special Funds & Non-Util Prop	161,863,075	214,619,106	240,132,895	133,949,294
Current Assets	56,407,560	31,403,521	30,200,303	35,753,843
Other Assets	10,086,140	7,919,368	4,654,608	3,654,494
Total Assets	<u>951,209,045</u>	<u>915,095,292</u>	<u>911,580,577</u>	<u>778,015,406</u>
 NET ASSETS	 452,879,759	 429,188,088	 417,695,083	 412,592,671
LIABILITIES AND EQUITY				
Long-Term Debt	409,181,051	417,744,202	421,228,553	292,165,406
Current Liabilities	35,084,590	18,174,697	20,548,451	15,167,938
Long-Term Liabilities	54,063,645	49,988,305	52,108,490	58,089,391
Total Liabilities	<u>498,329,286</u>	<u>485,907,204</u>	<u>493,885,494</u>	<u>365,422,735</u>
TOTAL NET ASSETS AND LIABILITIES ...	<u>\$951,209,045</u>	<u>\$915,095,292</u>	<u>\$911,580,577</u>	<u>\$778,015,406</u>
 STATEMENT OF INCOME				
OPERATING REVENUES				
Residential and Domestic	\$38,685,705	\$36,682,278	\$35,453,730	\$36,643,366
Commercial and Industrial	10,620,950	10,101,108	10,049,782	9,659,078
Special Rate-Simpson/Other	5,031,760	4,774,237	3,798,922	4,153,327
Municipal	383,385	400,322	364,357	380,267
Other Public Bldgs and Grounds ...	1,909,782	1,815,865	1,702,656	1,861,111
Unbilled	416,986	478,594	(648,438)	187,966
Sales to Other Water Utilities ...	2,090,430	1,625,163	1,530,116	1,776,686
Total Water Sales	<u>59,138,998</u>	<u>55,877,567</u>	<u>52,251,125</u>	<u>54,661,801</u>
Other Operating Revenues	21,541,733	9,526,467	10,735,630	9,331,955
Total Operating Revenues	<u>80,680,731</u>	<u>65,404,034</u>	<u>62,986,755</u>	<u>63,993,756</u>
 OPERATING EXPENSES				
Operation and Maintenance	32,602,452	32,821,611	34,453,742	34,055,463
Taxes	3,485,243	3,106,516	3,142,772	3,093,311
Depreciation	15,262,686	14,389,681	14,474,964	13,845,799
Total Operating Expenses	<u>51,350,381</u>	<u>50,317,808</u>	<u>52,071,478</u>	<u>50,994,573</u>
NET OPERATING INCOME (LOSS)	29,330,350	15,086,226	10,915,277	12,999,183
NON-OPERATING REVENUES (EXPENSES)				
Other Income	288,183	(12,371)	33,795	497,331
Interest Income	2,320,753	3,141,374	2,370,993	1,955,385
Gain from Disposition of Property	-	-	-	26,100
Interest Charges (Net)	<u>(14,696,096)</u>	<u>(15,018,374)</u>	<u>(15,175,660)</u>	<u>(9,076,156)</u>
Net Income (Loss) Before Contributions & Transfers	17,243,190	3,196,855	(1,855,595)	6,401,843
Total Capital Contributions	7,834,345	9,250,677	9,713,596	7,120,993
Grants & Federal BAB Subsidies	3,840,767	4,006,209	2,355,132	244,683
Transfers Out	<u>(5,226,630)</u>	<u>(4,960,736)</u>	<u>(5,110,721)</u>	<u>(5,185,152)</u>
NET INCOME (LOSS)	<u>\$23,691,672</u>	<u>\$11,493,005</u>	<u>\$5,102,412</u>	<u>\$8,582,367</u>

Certain reclassifications made in the current year have not been restated for the prior years.

2008	2007	2006	2005 (As Restated)	2004	2003 (As Restated)
\$590,593,258	\$568,493,015	\$542,837,619	\$515,240,672	\$449,792,203	\$391,992,687
80,858,401	99,062,414	111,884,788	124,884,569	86,235,235	128,107,319
22,151,467	23,150,235	20,256,759	15,880,090	21,804,006	19,223,128
3,319,156	2,123,339	2,622,731	2,938,485	2,954,978	3,380,733
696,922,282	692,829,003	677,601,897	658,943,816	560,786,422	542,703,867
404,010,304	391,763,317	374,885,816	345,583,601	327,326,910	305,678,001
218,869,015	227,315,790	231,066,402	224,760,581	199,174,091	203,913,661
16,288,305	15,169,687	21,418,548	12,820,700	14,542,631	12,150,879
57,754,658	58,580,209	50,231,131	75,778,934	19,742,790	20,961,326
292,911,978	301,065,686	302,716,081	313,360,215	233,459,512	237,025,866
\$696,922,282	\$692,829,003	\$677,601,897	\$658,943,816	\$560,786,422	\$542,703,867
\$34,592,712	\$32,645,594	\$31,216,429	\$27,611,024	\$26,589,163	\$24,497,359
8,978,703	8,298,263	7,751,215	7,174,647	6,619,432	5,809,774
4,371,527	3,917,760	3,222,324	3,511,199	3,293,335	3,044,266
349,722	396,131	363,455	316,562	308,884	218,852
1,680,603	1,644,166	1,596,360	1,409,107	1,523,562	1,353,062
417,145	37,113	1,067,323	-	(903,969)	680,497
1,251,815	1,433,705	1,640,803	1,599,919	1,622,206	1,531,004
51,642,227	48,372,732	46,857,909	41,622,458	39,052,613	37,134,814
5,382,313	4,353,478	1,919,802	1,428,135	792,302	871,547
57,024,540	52,726,210	48,777,711	43,050,593	39,844,915	38,006,361
33,387,663	31,076,515	29,165,168	26,448,761	25,590,407	23,675,319
2,881,877	2,924,930	3,407,187	2,995,424	2,480,667	2,276,909
13,016,544	11,363,970	11,556,821	9,386,363	8,934,860	7,469,798
49,286,084	45,365,415	44,129,176	38,830,548	37,005,934	33,422,026
7,738,456	7,360,795	4,648,535	4,220,045	2,838,981	4,584,335
61,265	306,680	2,293,477	2,841,371	1,190,100	1,108,555
3,730,407	5,255,881	4,603,137	1,695,578	1,484,779	1,586,825
-	4,199,382	-	4,622,927	4,500	2,872,246
(8,406,264)	(8,484,405)	(8,403,448)	(7,185,197)	(6,253,392)	(3,655,291)
3,123,864	8,638,333	3,141,701	6,194,724	(735,032)	6,496,670
14,137,605	12,801,825	30,462,788	24,453,875	25,597,104	28,892,401
-	-	-	-	803,224	344,857
(5,014,482)	(4,562,657)	(4,302,274)	(3,951,776)	(4,016,387)	(3,407,309)
\$12,246,987	\$16,877,501	\$29,302,215	\$26,696,823	\$21,648,909	\$32,326,619

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

TEN-YEAR FINANCIAL REVIEW

BALANCE SHEET	2012	2011	2010
ASSETS			
Utility Plant - Net	\$223,896,711	\$203,938,358	\$207,242,527
Current Assets	41,256,611	55,640,447	59,811,400
Other Assets	1,067,595	1,134,270	1,194,533
Total Assets	266,220,917	260,713,075	268,248,460
 NET ASSETS	 137,267,801	 133,964,359	 138,246,799
LIABILITIES AND EQUITY			
Long-Term Debt	122,882,652	124,045,739	124,890,764
Current Liabilities	5,253,742	1,931,325	5,110,897
Long-Term Liab.	816,722	771,652	-
Total Liabilities	128,953,116	126,748,716	130,001,661
TOTAL NET ASSETS AND LIABILITIES ...	\$266,220,917	\$260,713,075	\$268,248,460
 STATEMENT OF INCOME			
OPERATING REVENUES			
CRO - Debt Service	\$6,272,476	\$6,239,797	\$5,119,047
CRO - O&M	2,478,238	1,778,186	2,732,956
CRO - Capital	5,665,557	274,081	1,301,346
Total Operating Revenues	14,416,271	8,292,064	9,153,349
 OPERATING EXPENSES			
Operation and Maintenance	2,510,085	2,485,977	2,458,379
Depreciation	4,495,971	4,482,820	4,426,113
Total Operating Expenses	7,006,056	6,968,797	6,884,492
NET OPERATING INCOME (LOSS)	7,410,215	1,323,267	2,268,857
NON-OPERATING REVENUES (EXPENSES)			
Other Income	-	-	-
Interest Income	407,622	396,391	861,775
Interest Charges (Net)	(4,968,459)	(6,440,678)	(4,833,300)
Net Income (Loss) Before Contributions & Transfers	2,849,378	(4,721,020)	(1,702,668)
Total Capital Contributions	(414,376)	(508,791)	(4,593,787)
Grants & Federal BAB Subsidies	868,328	868,328	306,327
Transfers	112	79,043	1,435,898
NET INCOME (LOSS)	\$3,303,442	(\$4,282,440)	(\$4,554,230)

Separate unaudited financial reporting for RWSS began with continuing disclosure requirements in 2004.

2009	2008	2007	2006	2005	2004
\$206,708,069	\$231,099,649	\$234,373,114	\$213,434,158	\$203,311,344	\$152,678,547
15,845,604	9,519,659	8,924,226	6,721,684	11,318,970	30,425,291
807,387	856,484	906,294	956,724	1,161,513	1,058,917
<u>223,361,060</u>	<u>241,475,792</u>	<u>244,203,634</u>	<u>221,112,566</u>	<u>215,791,827</u>	<u>184,162,755</u>
142,801,029	151,581,061	149,348,807	136,863,991	133,125,039	97,906,139
77,694,584	88,122,323	92,649,652	80,471,326	81,480,440	82,239,626
2,865,447	1,772,408	2,205,175	3,588,936	1,032,453	4,010,341
-	-	-	188,313	153,895	6,649
<u>80,560,031</u>	<u>89,894,731</u>	<u>94,854,827</u>	<u>84,248,575</u>	<u>82,666,788</u>	<u>86,256,616</u>
<u>\$223,361,060</u>	<u>\$241,475,792</u>	<u>\$244,203,634</u>	<u>\$221,112,566</u>	<u>\$215,791,827</u>	<u>\$184,162,755</u>
\$4,293,912	\$2,016,804	\$1,999,664	\$2,095,323	\$1,774,443	\$2,312,368
2,517,129	6,074,980	4,646,715	4,162,516	2,415,213	-
(339,930)	-	-	-	-	-
<u>6,471,111</u>	<u>8,091,784</u>	<u>6,646,379</u>	<u>6,257,839</u>	<u>4,189,656</u>	<u>2,312,368</u>
2,629,850	2,300,026	2,377,499	2,130,748	314,507	-
4,792,037	4,803,549	3,513,441	3,413,341	768,841	765,663
<u>7,421,887</u>	<u>7,103,575</u>	<u>5,890,940</u>	<u>5,544,089</u>	<u>1,083,348</u>	<u>765,663</u>
(950,776)	988,209	755,439	713,750	3,106,308	1,546,705
-	14,360	43,532	56,160	-	-
184,332	293,709	355,782	282,278	185,041	145,994
<u>(3,918,240)</u>	<u>(3,411,937)</u>	<u>(4,083,294)</u>	<u>(4,354,244)</u>	<u>(3,775,570)</u>	<u>(2,948,229)</u>
(4,684,684)	(2,115,659)	(2,928,541)	(3,302,056)	(484,221)	(1,255,530)
8,085,876	1,287,306	10,186,209	7,041,008	35,703,146	10,525,051
-	-	-	-	-	99,751
<u>(12,181,224)</u>	<u>3,060,607</u>	<u>5,227,148</u>	<u>-</u>	<u>(25)</u>	<u>1,153,815</u>
<u>(\$8,780,032)</u>	<u>\$2,232,254</u>	<u>\$12,484,816</u>	<u>\$3,738,952</u>	<u>\$35,218,900</u>	<u>\$10,523,087</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

BOND DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2012

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2013	7,205,000	19,060,732	26,265,732
2014	7,550,000	18,731,838	26,281,838
2015	7,940,000	18,401,975	26,341,975
2016	8,325,000	18,045,325	26,370,325
2017	8,760,000	17,651,863	26,411,863
2018	9,215,000	17,224,863	26,439,863
2019	10,515,000	16,818,982	27,333,982
2020	10,990,000	16,350,300	27,340,300
2021	11,530,000	15,817,407	27,347,407
2022	12,045,000	15,305,569	27,350,569
2023	12,670,000	14,706,619	27,376,619
2024	10,140,000	14,076,569	24,216,569
2025	10,610,000	13,583,028	24,193,028
2026	11,065,000	13,058,923	24,123,923
2027	11,535,000	12,510,112	24,045,112
2028	12,025,000	11,913,012	23,938,012
2029	12,570,000	11,290,708	23,860,708
2030	13,105,000	10,640,430	23,745,430
2031	13,690,000	9,962,624	23,652,624
2032	13,795,000	9,239,063	23,034,063
2033	16,410,000	8,508,824	24,918,824
2034	17,015,000	7,573,677	24,588,677
2035	17,650,000	6,604,050	24,254,050
2036	18,300,000	5,598,235	23,898,235
2037	18,975,000	4,555,370	23,530,370
2038	19,680,000	3,474,037	23,154,037
2039	20,405,000	2,352,523	22,757,523
2040	21,165,000	1,189,685	22,354,685
	<u>\$364,880,000</u>	<u>\$334,246,343</u>	<u>\$699,126,343</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Income	\$88,715,624	\$76,867,233	\$73,374,289	\$66,821,912	\$61,944,933
Less: Operating Exp .	<u>36,087,695</u>	<u>35,928,127</u>	<u>37,596,514</u>	<u>37,148,774</u>	<u>36,269,540</u>
Income Available for Debt Service	<u>\$52,627,929</u>	<u>\$40,939,106</u>	<u>\$35,777,775</u>	<u>\$29,673,138</u>	<u>\$25,675,393</u>
Bond Redemption	6,668,750	6,308,333	6,092,083	5,896,250	6,046,250
Bond Interest	<u>19,342,423</u>	<u>19,624,326</u>	<u>15,700,645</u>	<u>9,941,993</u>	<u>9,465,014</u>
Debt Service Payable	<u>\$26,011,174</u>	<u>\$25,932,659</u>	<u>\$21,792,728</u>	<u>\$15,838,243</u>	<u>\$15,511,264</u>
Times Debt Service Covered.....	2.02	1.58	1.64	1.87	1.66

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

WATER PLANT IN SERVICE - YEAR 2012

PLANT ACCOUNTS

	Book Cost 1/1/12	Additions 2012
INTANGIBLE PLANT	\$ 34,902,822	\$ 389,111
SOURCE OF SUPPLY	76,455,691	2,483,372
PUMPING PLANT	9,142,701	85,249
WATER TREATMENT PLANT	45,097,165	59,680
TRANSMISSION PLANT	222,241,072	4,790,118
DISTRIBUTION PLANT	377,190,175	19,174,736
GENERAL PLANT	28,874,232	4,859,197
TOTAL WATER PLANT IN SERVICE	793,903,858	31,841,463
CONSTRUCTION WORK IN PROGRESS	16,426,998	74,810,559
TOTAL	<u>\$ 810,330,856</u>	<u>\$ 106,652,022</u>

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/12	Annual Accrual Cr.
INTANGIBLE PLANT	-	\$ 37,500	\$ -
SOURCE OF SUPPLY PLANT	2.957	16,281,893	1,821,895
PUMPING PLANT	2.513	2,962,906	232,101
WATER TREATMENT PLANT	3.620	10,352,658	1,573,225
TRANSMISSION PLANT	1.668	36,239,375	3,640,284
DISTRIBUTION PLANT	1.876	64,762,779	7,071,366
GENERAL PLANT	7.915	18,540,448	923,815
TOTAL PLANT DEPRECIATION		<u>\$ 149,177,559</u>	<u>\$ 15,262,686</u>

1. Total Water Plant in Service includes non-depreciable land and land rights of \$56,843,169.
2. Total Book Cost of Plant Retired \$ (5,412,698)
Add: Cost of Land Sold: -
Intangible Plant: 168,253
Total Retirements \$ (5,244,445)

<u>Retirements 2012</u>	<u>Transfers & Adjustments</u>	<u>Book Cost 12/31/12</u>
\$ (205,753)	\$ -	\$ 35,086,180
(62,886)	-	78,876,177
(5,921)	-	9,222,029
(754,901)	-	44,401,944
(90,337)	-	226,940,853
(3,505,899)	-	392,859,012
(787,001)	(145,439)	32,800,989
(5,412,698)	(145,439)	820,187,184
-	(31,696,024)	59,541,533
<u>\$ (5,412,698)</u>	<u>\$ (31,841,463)</u>	<u>\$ 879,728,717</u>

<u>Book Cost of Plant Retired</u>	<u>Cost of Removal</u>	<u>Salvage, Transfers and Adjustments</u>	<u>Accumulated Depreciation 12/31/12</u>
\$ (37,500)	\$ -	\$ -	\$ -
(62,886)	(7,543)	-	18,033,359
(5,921)	(3,962)	-	3,185,124
(754,901)	(12,981)	-	11,158,001
(90,337)	(197,084)	-	39,592,238
(3,505,899)	(2,032,455)	-	66,295,791
(787,001)	(65,328)	-	18,611,934
<u>\$ (5,244,445)</u>	<u>\$ (2,319,353)</u>	<u>\$ -</u>	<u>\$ 156,876,447</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER BILLED
DECEMBER 31, 2012

	<u>MILLION GALLONS, TOTAL</u>		<u>MILLION GALLONS, AVG DAILY</u>	
	<u>YEAR 2012</u>	<u>YEAR 2011</u>	<u>YEAR 2012</u>	<u>YEAR 2011</u>
WATER BILLED				
Residential and Domestic	7,785.64	7,715.15	21.33	21.14
Commercial and Industrial	2,499.33	2,497.80	6.85	6.84
Special Rate--Simpson ...	5,860.99	5,851.70	16.06	16.03
Municipal	70.63	78.76	0.19	0.22
Other Public Bldgs and Grounds	457.27	490.54	1.25	1.34
Sales to Other Utilities	<u>632.32</u>	<u>625.83</u>	<u>1.73</u>	<u>1.71</u>
	<u><u>17,306.18</u></u>	<u><u>17,259.78</u></u>	<u><u>47.41</u></u>	<u><u>47.28</u></u>

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER SALES - 2012

WATER SALES	AVERAGE MONTHS BILLED	C. CU. FT.	AMOUNT
RESIDENTIAL AND DOMESTIC SERVICE			
Single and Multiple Houses - Inside City	53,772	4,490,938	\$17,100,720
Multiple Unit Dwellings - Inside City	3,188	1,580,328	4,159,149
Sprinkling Services (Inside and Outside)	395	192,902	636,917
Fire Services (Inside and Outside)	146	491	71,444
Single and Multiple Houses - Outside City	30,806	3,188,216	13,439,771
Multiple Unit Dwellings - Outside City	1,783	955,734	3,277,704
Total Residential and Domestic Service	<u>90,090</u>	<u>10,408,609</u>	<u>38,685,705</u>
COMMERCIAL AND INDUSTRIAL SERVICE			
High Use Commercial (Inside and Outside)	8	820,998	1,290,964
Single and Multiple Buildings - Inside City	3,478	1,995,140	5,457,379
Sprinkling Services (Inside and Outside)	262	200,147	671,736
Fire Services (Inside and Outside)	1,075	6,948	2,029,035
Single and Multiple Buildings - Outside City ...	789	318,131	1,171,836
Total Commercial and Industrial Service	<u>5,612</u>	<u>3,341,364</u>	<u>10,620,950</u>
SERVICES WITH SPECIAL RATE			
Simpson Tacoma Kraft Company	1	7,835,544	5,031,760
MUNICIPAL WATER SERVICES			
Fountains, Buildings and Grounds	172	94,392	342,138
Fire Services	34	40	41,247
Total Municipal Water Service	<u>206</u>	<u>94,432</u>	<u>383,385</u>
OTHER PUBLIC BUILDINGS AND GROUNDS			
Single and Multiple Buildings - Inside	160	323,282	852,430
Single and Multiple Buildings - Outside	52	87,062	270,794
Fire Services	77	200,863	570,032
Sprinkling Services	117	125	216,526
Total Other Public Buildings and Grounds	<u>406</u>	<u>611,332</u>	<u>1,909,782</u>
SALES TO OTHER UTILITIES - Total	<u>18</u>	<u>910,332</u>	<u>2,090,430</u>
Unbilled Revenue			416,986
TOTAL WATER SALES	<u>96,333</u>	<u>23,201,613</u>	<u>\$59,138,998</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2012

Tacoma Water System:

2012 average daily delivery exclusive of pulp mill	34.2 MG
Average daily delivery pulp mill	16.0 MG
Total average daily delivery	50.3 MG
2012 maximum daily production August 16, 2012	80.4 MG
2012 minimum daily production . . . February 8 2012	26.4 MG
Total water produced in 2012*.	18,393 MG

Regional Water Supply System (RWSS):

Total average daily delivery	9.3 MG
Average daily consumption per single family residential service	
	171 GPD

Miles of transmission and wells supply mains -
28" to 96" diameter (includes North Fork wells system). 142

Miles of distribution mains - 2" to 24" in diameter.

Fire hydrants. 10,225

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

Tacoma's water supply has an excellent record for unsurpassed quality, meeting all the standards of the U.S. Environmental Protection Agency and the Washington State Department of Health.

Storage facilities are provided at 15 locations. These facilities consist of 10 concrete basins or reservoirs and 12 steel standpipes. The combined storage capacity is equal to approximately 181 million gallons. Of this storage capacity 108 million gallons are located at McMillin Reservoir approximately 14 miles southeast of Tacoma.

* Includes losses and water for self-consumption.
MG equals million gallons.
GPD equals gallons per day.

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2012

FEDERAL

Social Security (FICA)		\$1,444,114
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STATE OF WASHINGTON

Retail Sales	\$298,592	
Utilities and Business Activities Tax	2,991,555	
Total		3,290,147

COUNTY

Real Property	27,866	
Total		27,866

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	5,081,191	
City of Lakewood Administrative Fee	6,620	
City of Puyallup Administrative Fee	13,255	
City of University Place Administrative Fee	451,139	
City of Fircrest Administrative Fee	6,330	
		5,558,535

TOTAL TAXES		\$10,320,662
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Taxes as a % of Total Revenues of \$83,001,484		12.43%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$166,534	
Pensions	1,954,051	
Medical Insurance	3,599,426	
Dental Insurance	402,280	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$6,122,291
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2012 WATER RATES

		READY TO SERVE CHARGE PER MONTH	
		INSIDE TACOMA	OUTSIDE TACOMA
METER SIZE			
5/8	inch	\$16.76	\$20.11
3/4	inch	\$25.15	\$30.17
1	inch	\$41.91	\$50.29
1-1/2	inch	\$83.80	\$100.56
2	inch	\$134.08	\$160.90
3	inch	\$251.40	\$301.68
4	inch	\$419.00	\$502.80
6	inch	\$838.00	\$1,005.60
8	inch	\$1,340.80	\$1,608.96
10	inch	\$1,927.40	\$2,312.88
12	inch	\$2,828.25	\$3,393.90

		CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET	
		INSIDE TACOMA	OUTSIDE TACOMA
<u>Residential Service</u>			
	Each 100 cubic ft. of water consumption during the winter months of October through May	\$1.368	\$1.642
	First 500 cubic ft. of water consumption per month during the summer months of June through September	\$1.368	\$1.642
	Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September	\$1.710	\$2.053
<u>Commercial and Industrial</u>			
	General Service	\$1.497	\$1.797
	Large Volume Service (over 65,000 cubic feet annually)	\$1.381	\$1.658
<u>Parks and Irrigation Service</u>			
	Each 100 cubic feet of water consumption	\$1.990	\$2.388

City of Tacoma water services are 100% metered.

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

Water rates were established by Ordinance No. 27970 and were effective January 1, 2012.

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2012 FIRE PROTECTION RATES

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

METER SIZE	MONTHLY CHARGE	WATER INCLUDED FOR MONTHLY LEAKAGE AND TESTING PURPOSES (100 Cubic Feet)
2 inch	\$21.29	2.99
3 inch	\$31.00	2.99
4 inch	\$51.79	2.99
6 inch	\$116.17	2.99
8 inch	\$206.81	2.99
10 inch	\$323.48	2.99
12 inch	\$517.40	2.99

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

MONTHLY CHARGE

12 times the monthly service charge (minimum).

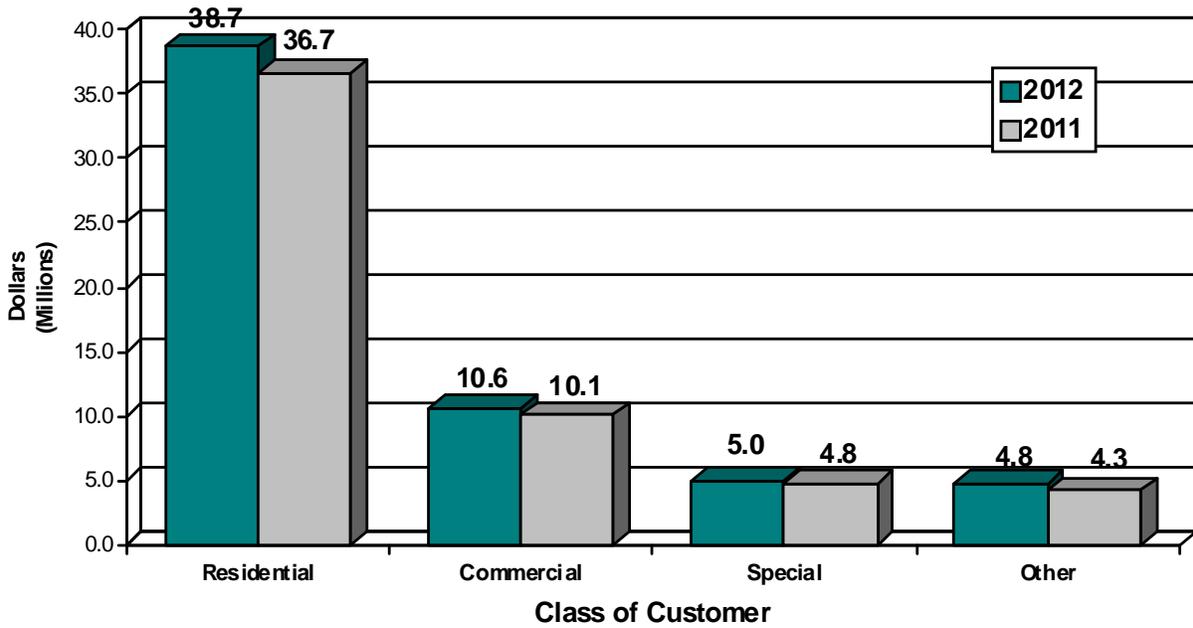
CONSUMPTION

Rates per 100 cubic feet per month \$3.726

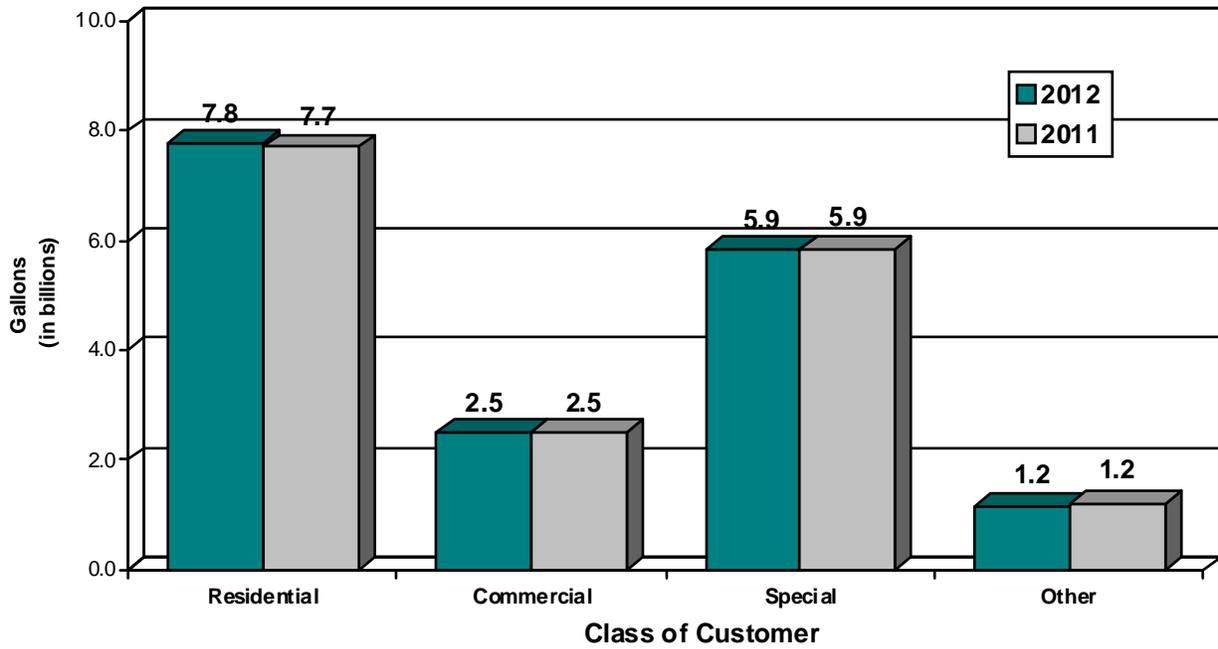
The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

The Fire Protection Rates were established by Ordinance No. 27970 and were effective January 1, 2012.

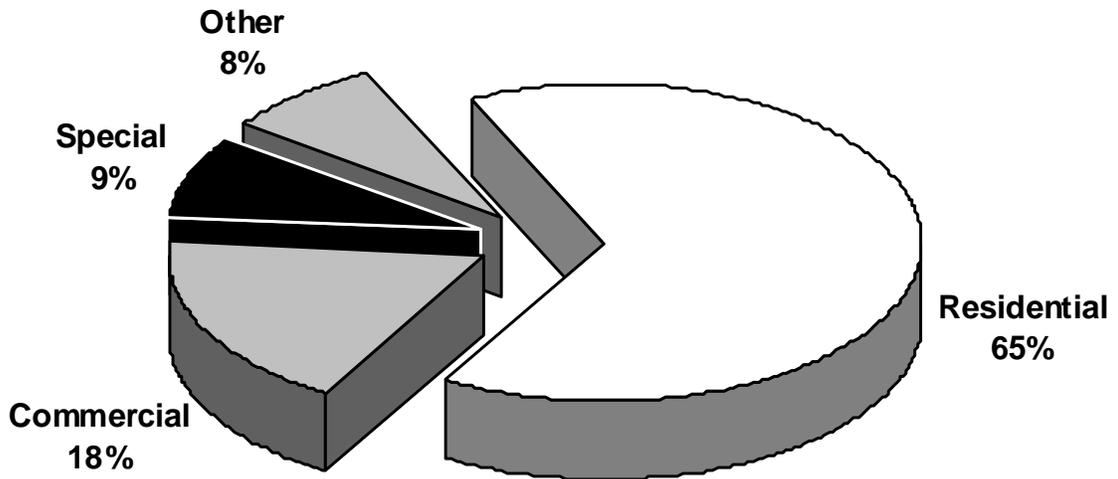
WATER SALES
Year to Date - December 2012 & 2011



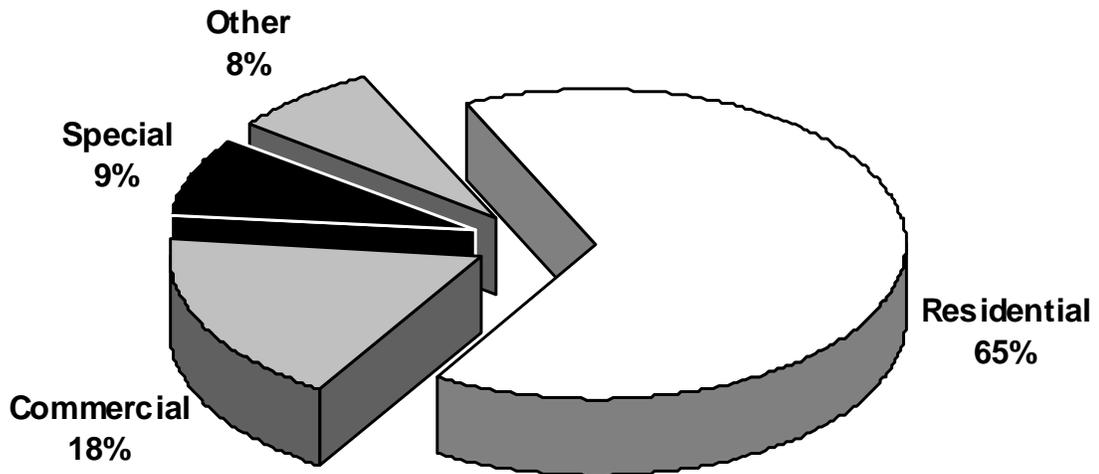
WATER CONSUMPTION
Year to Date - December 2012 & 2011



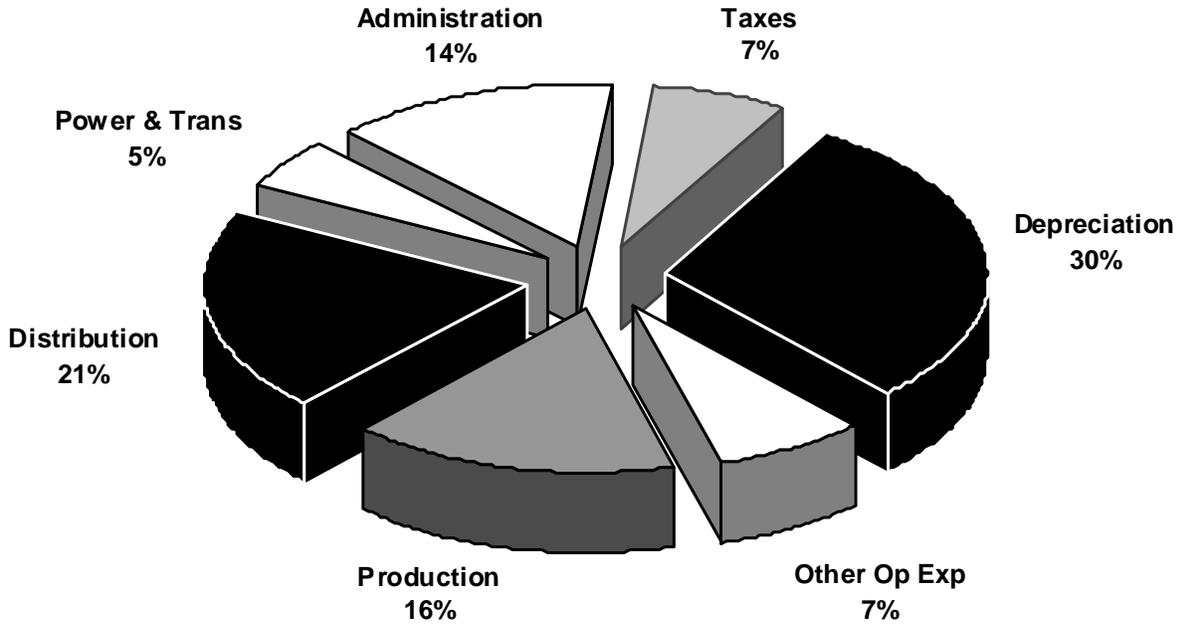
WATER SALES
Year to Date - December 2012
(\$59,138,998)



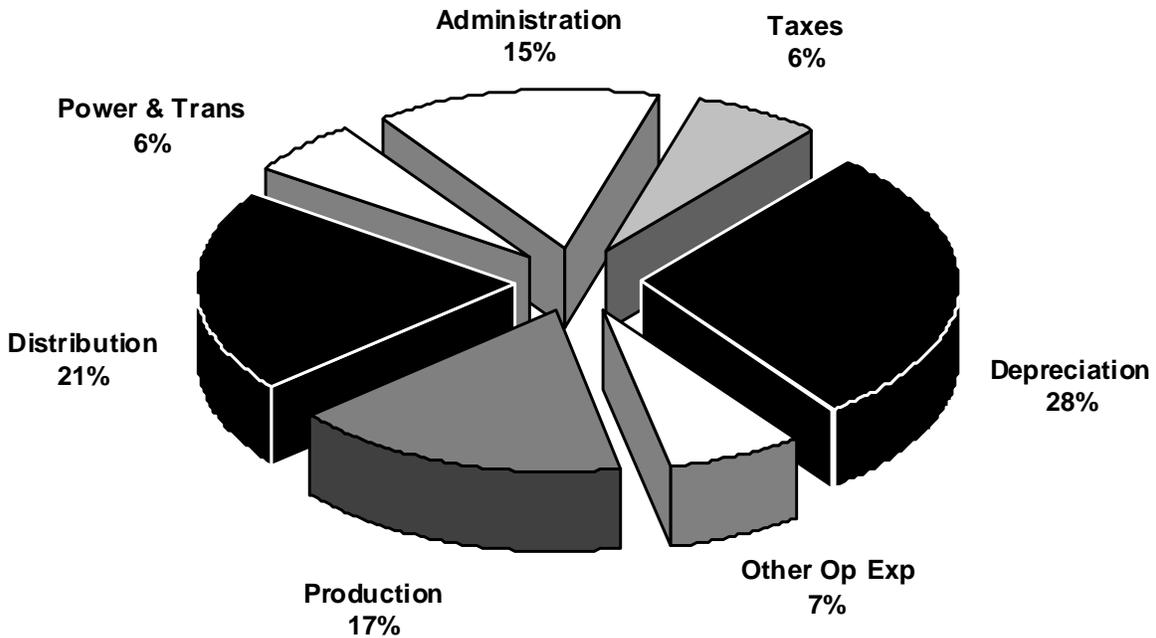
WATER SALES
Year to Date - December 2011
(\$55,877,567)



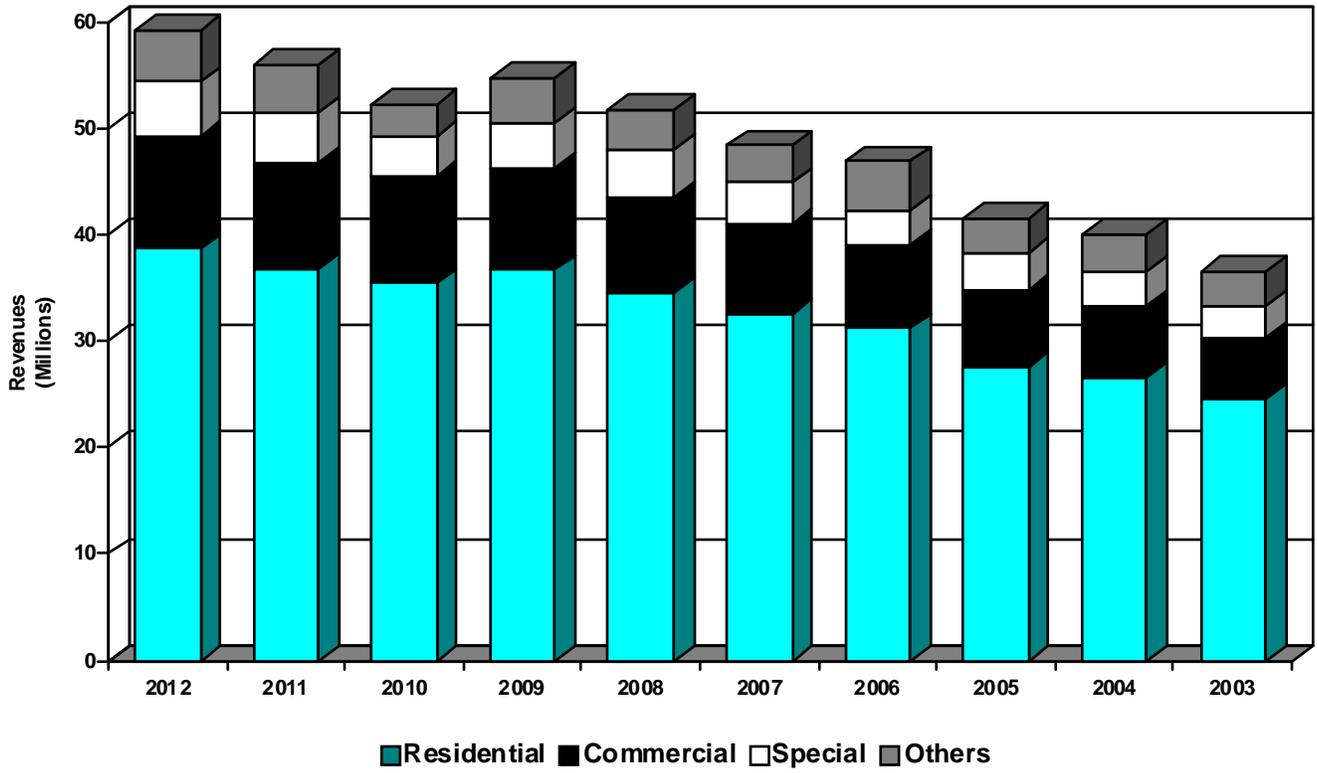
TOTAL OPERATING EXPENSES
Year to Date - December 2012
(\$51,350,381)



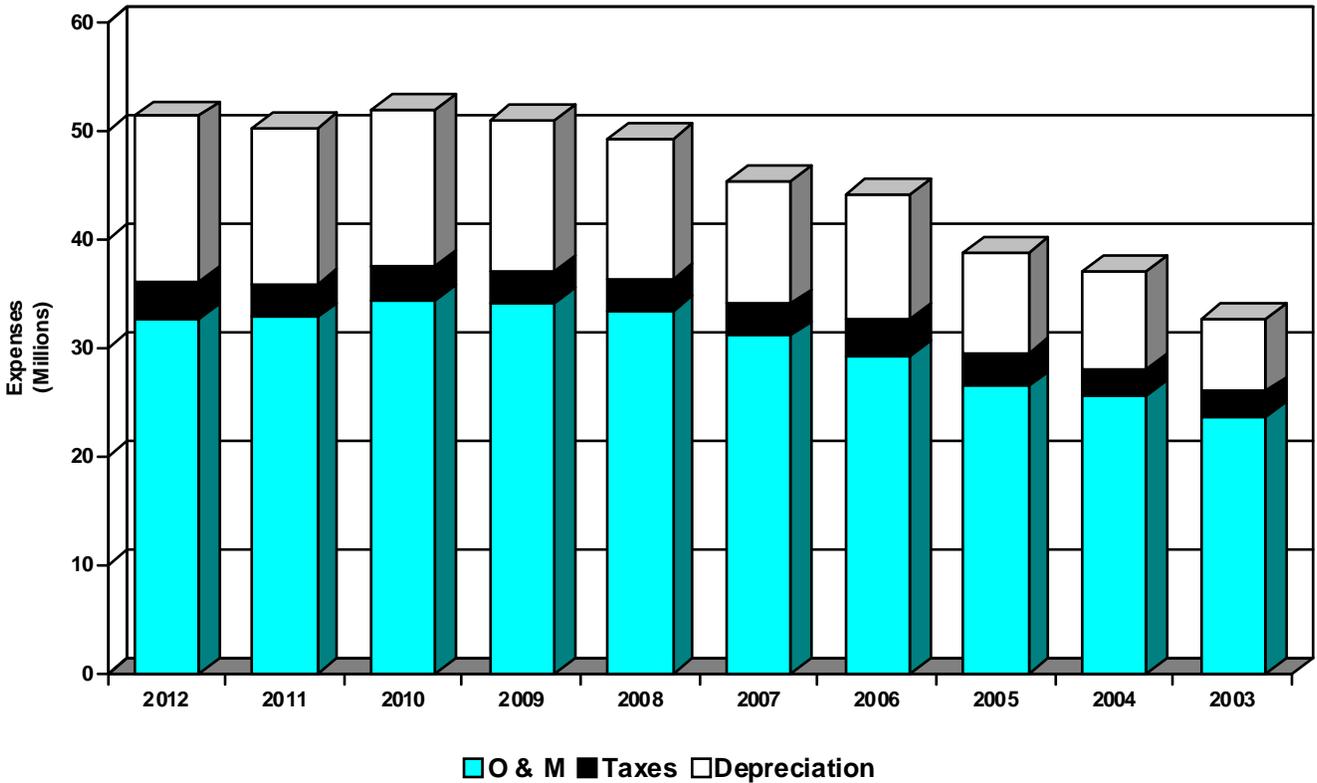
TOTAL OPERATING EXPENSES
Year to Date - December 2011
(\$50,317,808)



TEN-YEAR SUMMARY OF WATER SALES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



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SUPERINTENDENT'S REPORT 2012 TACOMA WATER

Tacoma Water Management Team completed a strategic planning effort in early 2012. The adopted plan sets the direction and strategic focus for our Utility over the next many years. An updated mission and values were adopted along with a series of initiatives. The Tacoma Water Strategic Plan was presented to the Public Utility Board and provided to Tacoma Water staff during the second quarter. The plan provides us with a solid foundation by helping us understand and communicate the challenges we face. Eight initiatives were detailed to help us succeed in our mission of providing clean, reliable water now and in the future. Tacoma Water's management team also approved the approach we will use to track and report on Strategic Plan strategy and performance metric progress. A Balanced Scorecard Strategy Map was developed to provide structure for prioritization and measurement going forward. The Strategic Plan provided the basis for Tacoma Water's 2013/2014 budget request.

Summer weather in 2012 presented an interesting scenario; temperatures were similar to 2011 yet precipitation was, during late peak season, the lowest in years. Even with nice summer weather from mid July through early October, total water consumption in 2012 was similar to recent cool, wet summers. Water sales were lower than budgeted development activity, as indicated by new meter installs and residential System Development Charges, increased modestly due to construction of homes on developed lots.

Expenses were managed throughout all sections of Tacoma Water to respond to the reduced revenues resulting from poor water sales. Approximately 20 positions were held vacant, equipment was surplus and not replaced and inventory turnover was improved and the economic recovery remained sluggish.

Four-year labor contracts for Tacoma Water's unionized staff were negotiated for the period of 2011 through 2014. The wage rates for the first two years will not increase implementation of the City's compensation policy regarding market rate wages will be implemented in the 2013/2014 timeframe.

In June, Tacoma Water entered into a water supply agreement with Auburn to provide 1 MGD of water supply. Auburn began purchasing water in late 2012; these sales are expected to generate in excess of \$1M annually.

Tacoma Water also renegotiated its agreement with the Cascade Water Alliance (Cascade), effective December 31, 2012. The new agreement restructures the payment obligations contained in the 2005 agreement from Cascade to Tacoma Water into a defined payment stream that totals \$119.7 million over the next 30 years. This agreement also contains provisions for the transfer of up to 10 million gallons per day of wholesale water supply capacity to Auburn, Buckley, Bonney Lake, and Sumner, which could result in significant additional water sales revenue for Tacoma reduce future water rates for all Tacoma Water customers.

In 2009, Tacoma Water removed the cost of public fire protection from rates and instead billed the applicable local governments pursuant to Washington State Supreme Court decision Lane v. City of Seattle. The Washington State Supreme Court decided on January 26 of 2012, in City of Tacoma v. Bonney Lake, that Tacoma Water should not have removed the cost of public fire protection from the 2009 – 2012 rates of customers outside City of Tacoma limits in jurisdictions where we have franchise agreements. Consistent with our understanding of the opinion, Tacoma Water did the following: continued to invoice the City of Tacoma for the cost of public fire protection inside City limits; deemed the invoices sent to the applicable outside City of Tacoma local governments for the period 2009 – 2012 uncollectable, eliminated invoice balances, and refunded as appropriate; and established a regulatory deferral per Financial Accounting Standard 71 for accounting years 2009 -2012 for recovery of uncollected costs related to outside City of Tacoma public fire protection services demonstrating intent to recover the lost revenue. Tacoma Water has proposed a “Franchise Fire Protection Rate” to recover these historical costs, as well as the ongoing costs of providing public fire protection, from those customers outside the city of Tacoma that receive the service. Tacoma Water is also actively participating in statewide efforts to accomplish additional clarity through a legislative fix.

WATER QUALITY

In 2012 the Water Quality section contributed to Tacoma Water’s continued commitment to protect public health, and to support Tacoma and the region with a high quality, reliable water supply. Highlights are briefly discussed in the following sections.

Green River Filtration Treatment

Design was completed and the Green River filtration plant moved into construction in 2012. The construction of this complex plant requires expert planning and project execution. The Tacoma Water construction management team, together with the selected General Contractor / Construction Manager, Hoffman Construction Company, are successfully delivering the project on schedule, and within budget. The project is targeted for substantial completion in December 2014, and the total project budget has reduced from \$211 million at the beginning of the year to \$195 million at year end, with over 85% of the project work under contract.

In 2012, Tacoma Water and its Regional Water Supply System (RWSS) Partners decided to incorporate Tacoma Water’s North Fork Well Field facilities into the design of the Green River Filtration Facility (GRFF) as a result of a business case evaluation (BCE) that was conducted by Tacoma Water staff and MWH Global, the design engineer for the GRFF. This is a significant decision from a treatment plant design perspective, in that it will significantly reduce expenses associated with the construction and operation of the solids handling components of the GRFF. Tacoma Water is actively engaged with Tacoma Power and Puget Sound Energy in developing a strategy to optimize energy use for these facilities once the GRFF is online.

Groundwater Treatment

Construction of groundwater treatment facilities at the Hood Street Reservoir and at the South Tacoma Pump Station began in 2012, and is well underway. This project will enhance Tacoma Water's ability to serve groundwater from the South Tacoma aquifer that meets requirements for treatment to reduce lead and copper exposure, and to provide fluoridation at the Hood Street Reservoir, in accordance with the expectations of Tacoma voters and the City's ordinance.

Meeting Expectations

Customer confidence is hard-won, and easily lost. Professionalism and timeliness of response when customers have a concern is critical. In 2012 we continued measuring our success – ensuring that our customers who call with a concern about their water quality get a very rapid response. We exceeded our established goal of responding to at least 98 percent of all Water Quality calls on the same day. We continued our strong record of active system surveillance through water quality testing, and uninterrupted regulatory compliance.

Protecting and Preserving our Natural Environment

Our Watershed Management and Environmental Programs advanced the protection of critical assets in 2012 through the continued implementation of bridge and culvert evaluation and replacement projects on watershed lands, implementing additional surveillance and tracking, and improved maintenance procedures. There was continued progress meeting Tacoma Water's aggressive environmental obligations embodied in our Habitat Conservation Plan. Managing the lands and water resources with which we are entrusted is a cornerstone value at Tacoma Water, and one we share with our resource management partners.

Protection of our Green River water supply was improved in 2012 with the acquisition of 344 acres of forest land in the Sawmill Creek sub-basin. The land, which includes the largest piece of old growth timber remaining in private ownership in the Green River watershed, was purchased by an NGO (Forterra Northwest) using a Cooperative Endangered Species Conservation Fund grant administered by Washington Department of Natural Resources. The land was subsequently given to Tacoma Water in December 2012 to be managed under a conservation easement for the protection of ESA-listed species and water quality. These lands together with an adjacent parcel previously acquired from the Forterra (then Cascade Land Conservancy) and with the U.S. Forest Service's Kelly Butte Special Management Area represent a large block of contiguous habitat that provides ecological connectivity with similarly protected parcels in the I-90 Corridor and high quality ecosystem functions, such as water supply and quality to benefit Tacoma Water customers.

WATER SUPPLY

The Water Supply section made progress in 2012 on its mission of operating, maintaining and improving the infrastructure that forms Tacoma's water supply system to assure reliable supply to our customers.

Infrastructure Design and Construction

The construction of the McMillin Reservoir Replacement Project was completed. This major project represented the last of our open reservoir basins having been converted to enclosed tanks. The two new 33 million gallon covered concrete tanks, are the largest tanks of their kind in the world, and replace the three open basins that previously held up to 210 million gallons of storage. The old reservoirs had been in service for 50 to 100 years and were at the end of their useful lives. This is a significant improvement to Tacoma's supply system both from a maintenance perspective and water quality perspective. The conversion of these previously open basins to enclosed tanks has eliminated a safety hazard in that we no longer need to rechlorinate and have removed the gas chlorine from the site.

The replacement of a portion of Pipeline 1 across the Orting Valley wetlands was completed in 2012. This was phase 1 of the replacement project of the last original section of the Green River Pipeline and is located in an area vulnerable to flooding and volcanic eruption. The work to replace these remaining above ground sections of pipeline with buried sections will assure better reliability and safety of this critical line.

An extensive upgrade and modernization to the entire Supervisory Control and Data Acquisition (SCADA) system and the communication network (including 2 new microwave sites) was completed in 2012. This system-wide upgrade was the first since the system was installed in the late 1980's and will improve both the reliability and effectiveness of the operations of the water system.

Preliminary work needed to rehabilitate a section of Pipeline 2 at Woodland Avenue was completed in 2012. Several distribution mains were installed and customers originally connected to the pipeline were transferred to the new distribution mains. As a result, an extended shutdown of Pipeline 2, which is needed to accomplish the relining work, can occur without inconveniencing customers. Relineing of the transmission main will occur in the 1st quarter of 2013.

Operations & Maintenance

Supply staff continued to actively participate in the development of the Division's Asset Management program.

A consolidation of reporting headquarters was accomplished in 2012. The consolidation will provide efficiencies to our operation by pooling resources at a single location, and will decrease expenses by shutting down a reporting headquarters and consolidating crews at an existing site.

A shift schedule similar to a schedule used at our Headworks facility was implemented in our Water Control Center. This allowed a downsizing of the workforce required to staff the Water Control Center from the historical 6 employees to a total of 4. This change will provide significant financial benefits to Tacoma Water, as well as provide significant benefits to the employees working the shifts.

In addition to operating and maintaining Tacoma Water's transmission and supply system, the section also coordinates operation and maintenance of the transmission system supplying the Regional Water Supply System partnership, and coordinates all activities with the US Army Corp of Engineers relating to Howard Hanson Dam. Success in these activities requires close interaction with a wide variety of stakeholders including regulators, resource agencies, tribes, project partners, interest groups and the general public.

FINANCIAL MANAGEMENT & RATES

In 2012, Tacoma Water undertook an extensive financial modeling effort in support of the 2012 strategic planning process and 2013-2014 budget development. Additionally, we rebuilt our cost of service rate model. The rate model work required involvement across all Tacoma Water Sections along with support from a rate consultant. The preliminary findings of this analytical effort have been communicated to the Public Utility Board, with additional outreach to various customer groups and review by the City Council in early 2013.

The proposed rate adjustment is scheduled for City Council consideration in late February, and implementation April 1, 2013. Tacoma Water customers will see an overall average increase of 6.0%. Another 6.0% overall increase is scheduled for January 1, 2014. The rate increase varies by customer class, based on the cost of serving each customer class.

In 2012, Tacoma Water received clarification from the City of Tacoma Tax and License Department regarding applicability of gross earnings tax on Public Fire Protection revenues. Based on the Tacoma Municipal Code, the Utility is allowed a deduction from the gross earning tax for revenue received for inside and outside City Public Fire Protection Fees, fire hydrant rentals, damage reimbursements and interest earned in the RWSS Operating Fund on behalf of the RWSS Partners. However, the Department found that 'fire service, hydrant rental' as written in the Code does not include Private Fire Protection revenue and is not an allowed deduction. Tacoma Water received a refund of \$486,956 for inside Public Fire Protection Revenues, \$348,331 for outside City Public Fire Protection Revenues, \$1,436 for Fire Hydrant Rental Revenue, \$11,604 for Damage reimbursements and \$17,797 for RWSS Interest earned by the Partners. The Utility subsequently refunded the City \$486,956 for Gross Earnings Tax collected on inside City Public Fire Protection Fees. In addition, Tacoma Water was required to pay \$181,143 for unpaid tax on Private Fire Protection revenue. Including interest, Tacoma Water received a net refund of \$241,117 at the end of 2012.

DISTRIBUTION OPERATIONS

As the economic slowdown continued in 2012 Distribution Operations continued efforts to reduce costs. Working in collaboration with Distribution Engineering, galvanized water services and mains were targeted for replacement. Customer complaints due to low pressure, inadequate flow, service disruption due to main breaks, and discolored water were the basis for targeting galvanized mains. Some of the main replacement projects were assigned to Tacoma Water crews, rather than being contracted out.

Controlling expenses continued by exploring various options for accomplishing work, and evaluating vacancies as they become available. An extensive staffing review was conducted as part of the planning process for the 13/14 biennial budget with the goal of restructuring for our future needs. As a result, Distribution Operations reduced staffing by 2 construction crews and a supervisor position, a total reduction of nine FTE's by the end of 2012.

Planner/Scheduler

Distribution Operations initiated a planner/scheduler pilot program in June of 2012. The planner/scheduler pilot involves supervisors providing their work plan by 4:00 p.m. The following morning, staff availability is reaffirmed and resources allocated to the highest priority jobs. An immediate benefit was realized in the daily morning scheduling effort as a result of teamwork, collaboration and focusing on section wide work priorities.

Leadership Program

Six employees were selected to be part of a new Tacoma Water Leadership. The program included completing the Water Division Manager role profile assessment, management feedback session, and job shadowing. Additionally training was offered to all 25 staff who applied for the Leadership Program including the six who were selected. The training sessions covered accounting, budget, and rate setting.

Fleet Improvements

To be more efficient and environmentally aware, Tacoma Water's fleet was evaluated for improvement opportunities. Automatic Vehicle Location (AVL) system technology was installed in all Tacoma Water vehicles by the end of the first quarter 2012. Weekly reports on idle times and speeding events were tracked and followed up on. Monthly averages were compiled in 2012 with the potential of establishing specific goals for 2013.

Each piece of equipment in Distribution Operations was reviewed to determine what to surplus as a result of the crew downsizing. Using replacement and surplus funds to buy down future replacement costs, a savings of \$675,000 in fleet costs will be realized in 2013/2014 and another \$800,000 will be saved in the next two biennia.

Performance Management

Several performance metrics tracked by Distribution Operations were met or exceeded reflecting significant operational efficiencies:

Reduce Labor hours on fixed fee new service installs by 20% average as compared to 2010 average labor hours. Fixed fee service install include full service installs for 3/4 x 5/8 and 1x1. The average labor hours for 2010 fixed fee jobs was 38 hrs.. The average for 2012 was 27.14 hrs.

Complete EDPR's for each represented employee within 30 days of job classification anniversary date 95% of the time. Also, each EDPR will include 3 measurable personal goals, with one goal focused on efficient operations. For 2012 99% of EDPR's for 101 employees were turned in within 30 days and with 3 measurable personal goals.

Bill all time and materials orders within 60 days after final invoice or activity 90% of the time. As of third quarter the average time for billing is 29.76 days with 90% completed within 60 days.

Respond to all Distribution Operations high priority notifications on site within less than 2 hours average. The average as of third quarter is 90 minutes.

Systematic flushing

As we are an unfiltered, river water supply, it is critical that we regularly flush our water mains. In 2012 our Unidirectional flush crews completed 2,071,233 lineal feet or 392.3 miles of distribution mains, almost 100 miles more main than was flushed in 2011, making it the sixth consecutive year of increased main flushing productivity.

Fire Hydrant Maintenance

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

Meters

Changes in the availability of Compound, Turbine and Fire service meters, and new Federal Regulations relating to acceptable levels of lead in potable water products has lead Tacoma Water to investigate new meter technologies. A team of stakeholders identified metering options to respond to these changes and our business needs. The team used Asset Management principles considering life cycle costs in the evaluation process and started bench and field tests of several meters. A business case evaluation was been completed and meters will continue to be tested before a final decision is made.

ASSET AND INFORMATION MANAGEMENT (FORMERLY RESOURCE PLANNING)

Asset Management

Tacoma Water continued to make Asset Management progress in 2012. Some noteworthy accomplishments from the 2012 work plan include: initiating failure modes assessment for both the Treatment & Monitoring and Pump Station strategic asset management plans (SAMPs); holding a 2-day Asset Management workshop attended by 23 Tacoma Water employees; launching an Asset Management Forum to bring SAMP leads together; participating in development of the Balanced Scorecard strategy map; and enhancing our economic model by creating a multiple asset decision tool which allows multiple assets to be brought together to analyze the benefit of a project.

Information Management

Much work related to information management was conducted in 2012 to ready the organization for the future. The importance of Information Management was recognized by making it an initiative in our Strategic Plan. In addition, staff worked collaboratively across Tacoma Public Utilities and with Tacoma Power in particular to develop and support a new governance model for IT projects including the creation of a Project Management Office. Specific to Tacoma Water, an IT Roadmap was adopted as part on the Information Management initiative in our Strategic Plan with a supported budget

request for 13/14. We are well positioned to improve our GIS system in the coming years with a study completed in December 2012 along with completing the mapping of pipelines 1 and 5 and publishing them in our MapGuide System.

Federal Way Franchise

The Public Utility Board authorized acceptance of a new Tacoma Water franchise with the City of Federal Way. It is a 10 year franchise with the option of a 10 year extension to operate within its jurisdiction. Tacoma Water and the City of Federal Way began franchise negotiation in 2009 in anticipation of franchise expiration in June of that year. Following months of negotiation and given the uncertainty at that time regarding public fire protection we agreed to a one-year extension of the franchise to allow for resolution of public fire protection questions. The one-year extension was ultimately not enough and agreement was reached to continue to use the 1999 franchise until after resolution of the public fire protection matter in court. Negotiation of the proposed franchise picked up from where we left of in 2009 and contains a section providing public fire protection resolution for Tacoma Water in Federal Way. The terms of the franchise are generally favorable and will result in improved coordination and ability to serve our customers within City of Federal Way limits.

DISTRIBUTION ENGINEERING

Infrastructure

Distribution Engineering worked on many large water main replacement projects in 2012, throughout Tacoma and the greater service area. The Replacement Program constructed 10.3 miles of distribution main in 2012. Development of our strategic asset management plan for distribution mains has helped us with prioritization of replacements and identification of necessary funding levels to reliably sustain the distribution system and the work accomplished in 2012.

New Service/Development Support

Staffing at the Water Permit Counter was reduced in recognition of continuing slow development activity. Private development in 2012 shifted from primarily commercial over the past two years to over 90 percent residential. Residential meter installs on existing service stubs increased to 443, which is more than double 2011. Water main construction was completed on 12 private contracts in 2012, resulting in 2.44 miles of new main. Tacoma Water supported the area's economic development strategy and strengthened its partnership with Tacoma/Pierce County Economic Development Board with a successful effort to attract Carlisle Construction Materials to our service area. The Point Ruston development continued in 2012, with completion of all on-site water mains, as well as a signed Operations and Maintenance agreement.

Water Efficiency

The Water Conservation team was reassigned to Distribution Engineering midyear to consolidate customer program activities. Tacoma's Water Conservation Program had another busy year with great accomplishments and new endeavors. "Energy and Water Saving Kits" were direct mailed to 6,000 customers through a partnership with Tacoma Power. Included in the kits were items such as showerheads, faucet aerators, and water conservation literature. The "Know Your H2O" campaign continues to be a draw with customers and visible in the community with general advertising, vehicle wraps, an informational guidebook for customers, and 15-second TV spots. Tacoma Water chaired a committee through the Partnership for Water Conservation that produced a report "Cooperative Conservation: A Report of the Implementation of Washington's Water Use Efficiency Rule." The report demonstrates progress towards greater water efficiency among water suppliers in Washington since the adoption of the Water Use Efficiency Rule in 2007. A Home Water Use Review pilot project was offered to customers and provided a free residential water audit. Tacoma Water is a participant on the national Residential End Uses of Water study being led by the Water Research Foundation. The study will examine and quantify the "end uses" of water including all the places where water is used in a single-family home such as toilets, showers, clothes washers, faucets, lawn watering, etc.

Linda McCrea
Water Superintendent



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