
ANNUAL

TACOMA WATER

2013

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA WATER

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FINANCIAL DATA

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REPORT OF INDEPENDENT AUDITORS

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

Report on 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, 2013 and 2012, 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the Division adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 43 through 61 and the superintendent's report presented on 63 through 75 are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.



Tacoma, Washington
April 7, 2014

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, 2013 and 2012. 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 generally accepted accounting principles (GAAP) in the United States of America, applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2013 and 2012, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position presents information on all of the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital and related financing, non-capital financing and investing activities.

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

With the implementation of GASB Statements No. 63 and 65, the Division's 2012 and 2011 financial statements have been restated to conform with the new reporting and accounting requirements. In part, GASB 63 established accounting and financial reporting standards that reclassify and recognize certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In part, GASB 65 required debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred.

Financial Highlights

- The assets of Tacoma Water exceeded its liabilities by \$480.3 million in 2013, \$449.9 million in 2012 and by \$425.9 million in 2011. Of these amounts, \$37.9 million in 2013, \$42.5 million in 2012, and \$22.0 million in 2011 were available to meet Tacoma Water's ongoing obligations to citizens and creditors.
- Tacoma Water's total net positions increased by \$30.4 million in 2013, \$23.9 million in 2012 and \$11.6 million in 2011.
- Operating revenues were \$96.1 million in 2013, an increase of \$15.4 million compared to 2012. Operating revenues were \$80.7 million in 2012, an increase of \$15.3 million compared to \$65.4 million in 2011. These increases are due to average rate increases of 6.0% and 5.2% that went into effect April 1, 2013 and January 1, 2012 respectively, as well as increases in other operating revenues and contract resource obligations.

- In 2013, Tacoma Water's net utility plant of \$813.1 million represented an increase of \$90.2 million over the 2012 \$722.9 million balance. In 2012, net utility plant was \$61.7 million more than 2011's \$661.2 million balance. Major projects contributing to the increases include the Green River Water Filtration Facility and Main Replacements Projects.

Overview of the Financial Statements

The Utility reported net operating income of \$40.2, \$29.3 and \$15.1 million for 2013, 2012 and 2011 respectively. In 2013, operating revenues increased by \$15.4 million and operating expenses increased \$4.5 million. For 2012, operating revenues increased \$15.3 million and operating expenses increased \$1.0 million compared to 2011.

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

Operating Results (In thousands)

Category	2013	2012 (As Restated)	2011 (As Restated)	13/12 Increase (Decrease)	12/11 Increase (Decrease)
Operating Revenues	\$ 96,119	\$ 80,681	\$ 65,404	\$ 15,438	\$ 15,277
Operating Expenses	55,897	51,350	50,318	4,547	1,032
Net Operating Income	40,222	29,331	15,086	10,891	14,245
Net Non-Operating Income (Expense)	(14,580)	(11,854)	(11,738)	(2,726)	(116)
Capital Contributions	7,176	7,834	9,251	(658)	(1,417)
Federal BAB Subsidies & Grants	3,535	3,841	4,006	(306)	(165)
Transfers Out	(5,922)	(5,227)	(4,961)	(695)	(266)
Change in Net Position	\$ 30,431	\$ 23,925	\$ 11,644	\$ 6,506	\$ 12,281

Gallons Billed (In millions)

Type of Customer	2013	2012	2011	13/12 Increase (Decrease)	12/11 Increase (Decrease)
Residential	7,764.9	7,785.6	7,715.2	(20.7)	70.4
Commercial & Industrial	8,379.5	8,360.3	8,349.5	19.2	10.8
Municipal, Other Public Grounds & Other Utilities	1,722.9	1,208.9	1,195.1	514.0	13.8
Total	17,867.3	17,354.8	17,259.8	512.5	95.0

Net Position

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

Statements of Net Position

(In thousands)

Description	2013	2012 (As Restated)	2011 (As Restated)	13/12 Increase (Decrease)	12/11 Increase (Decrease)
Net Utility & Non-Utility Plant	\$ 813,543	\$ 723,400	\$ 661,701	\$ 90,143	\$ 61,699
Current & Other Assets	225,068	223,023	250,139	2,045	(27,116)
Total Assets	1,038,611	946,423	911,840	92,188	34,583
Deferred Outflows	1,814	1,764	2,057	50	(293)
Total Assets & Deferred Outflows	\$ 1,040,425	\$ 948,187	\$ 913,897	\$ 92,238	\$ 34,290
Net Position:					
Net Investment in Capital Assets	\$ 409,638	\$ 381,718	\$ 379,189	\$ 27,920	\$ 2,529
Restricted	32,703	25,634	24,727	7,069	907
Unrestricted	37,948	42,506	22,017	(4,558)	20,489
Total Net Position	480,289	449,858	425,933	30,431	23,925
Long-Term Debt	455,877	401,465	411,265	54,412	(9,800)
Current & Other LT Liabilities	68,684	61,289	46,124	7,395	15,165
Total Liabilities	524,561	462,754	457,389	61,807	5,365
Deferred Inflows	35,575	35,575	30,575	-	5,000
Total Net Position, Liabilities & Deferred Inflows	\$ 1,040,425	\$ 948,187	\$ 913,897	\$ 92,238	\$ 34,290

Revenues

Tacoma Water's operating revenues were \$96.1 million in 2013, an increase of \$15.4 million (\$19.1%) compared to 2012. This is largely due to an increase in contract resource obligations of \$12.6 million, an average rate increase of 6.0% effective April 1 and increased volume because of a warmer and drier summer than usual. Operating revenues were \$80.7 million in 2012, an increase of \$15.3 million (\$23.4%) compared to \$65.4 million in 2011. In 2012 an average rate increase of 5.2% effective in January 1, 2012 and higher usage resulted in increased water sales revenue 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 2013, 2012 and 2011.

Water Sales
(In thousands)

Type of Customer	2013	2012	2011	13/12 Increase (Decrease)	12/11 Increase (Decrease)
Residential & Domestic	\$ 40,869	\$ 38,686	\$ 36,682	\$ 2,183	\$ 2,004
Commercial & Industrial	11,403	10,621	10,101	782	520
Special Rate - Simpson Tacoma	5,242	5,032	4,774	210	258
Municipal	446	383	400	63	(17)
Other Public Buildings & Grounds	2,164	1,910	1,816	254	94
Sale to Other Utilities	3,520	2,090	1,625	1,430	465
Unbilled Revenue	468	417	479	51	(62)
Total	\$ 64,112	\$ 59,139	\$ 55,877	\$ 4,973	\$ 3,262

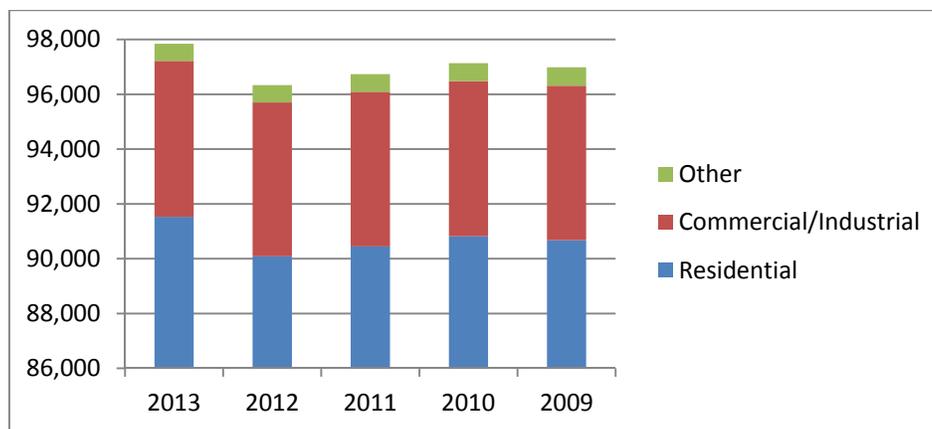
Approximately 63.7%, 65.4% and 65.6% of water sales were to residential and domestic customers in 2013, 2012 and 2011 respectively. Commercial and industrial sales were 17.8%, 18.0% and 18.1% of total sales for each year. Special rate sales to Simpson Tacoma Kraft were 8.2% of sales in 2013 and 8.5% for both 2012 and 2011.

Customers

Over the last five years, the overall number of customers has remained relatively stable. In 2013, 93.6% of all customers were residential, 5.8% were commercial and industrial, with 0.6% in the other customers classes.

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

Number of Customers



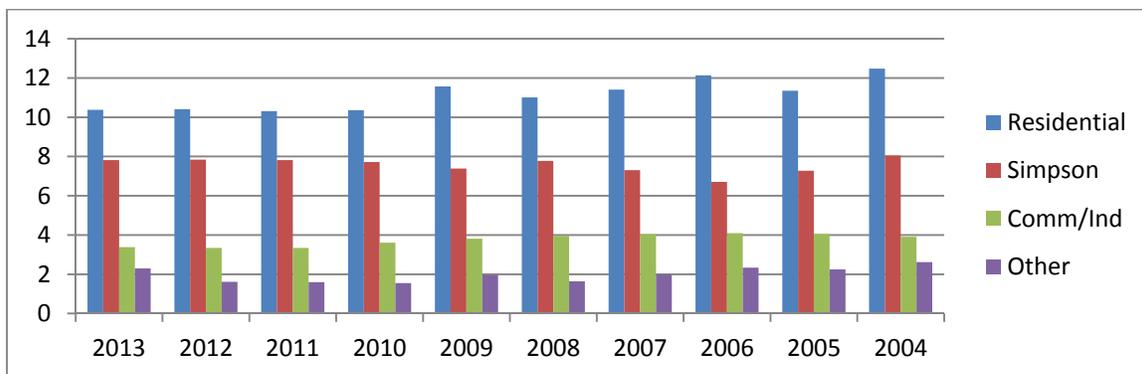
Water Users

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) (43.5%) of the 23.9 million CCF consumed by the Utility's customers in 2013; Simpson Tacoma Kraft Company used approximately 7.8 million CCF (32.7%); commercial and industrial customers used 3.4 million CCF (14.2%); the remaining 2.3 million CCF (9.6%) consumed by other customers.

Looking at the 10-year water usage trend, 2004 was the highest year with 27.06 million CCF, and 2011 was the lowest year with 23.07 million CCF. The trend indicates a general decline in usage since 2004 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.

Annual Water Usage
(In millions of CCF)



Expenses

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

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

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

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 \$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 \$0.3 million (13.2%) largely due to a onetime adjustment for electricity expense in 2012.

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

The following table highlights Tacoma Water's operating expenses for 2013 – 2011.

Operating Expenses
(In thousands)

Category	2013	2012	2011	13/12 Increase (Decrease)	12/11 Increase (Decrease)
Production Expense					
Source of Supply	\$ 5,483	\$ 5,044	\$ 5,485	\$ 439	\$ (441)
Water Treatment	3,674	3,335	3,119	339	216
Total Production Expense	9,157	8,379	8,604	778	(225)
Power Pumping Expense	426	280	306	146	(26)
Transmission & Storage Expense	2,793	2,273	2,619	520	(346)
Distribution Expense	11,476	10,633	10,367	843	266
Customer Accounting & Service	3,930	3,833	3,594	97	239
Taxes	3,919	3,485	3,107	434	378
Depreciation	16,072	15,263	14,390	809	873
Administrative & General	8,124	7,204	7,331	920	(127)
Total Operating Expense	<u>\$ 55,897</u>	<u>\$ 51,350</u>	<u>\$ 50,318</u>	<u>\$ 4,547</u>	<u>\$ 1,032</u>

Capital Assets

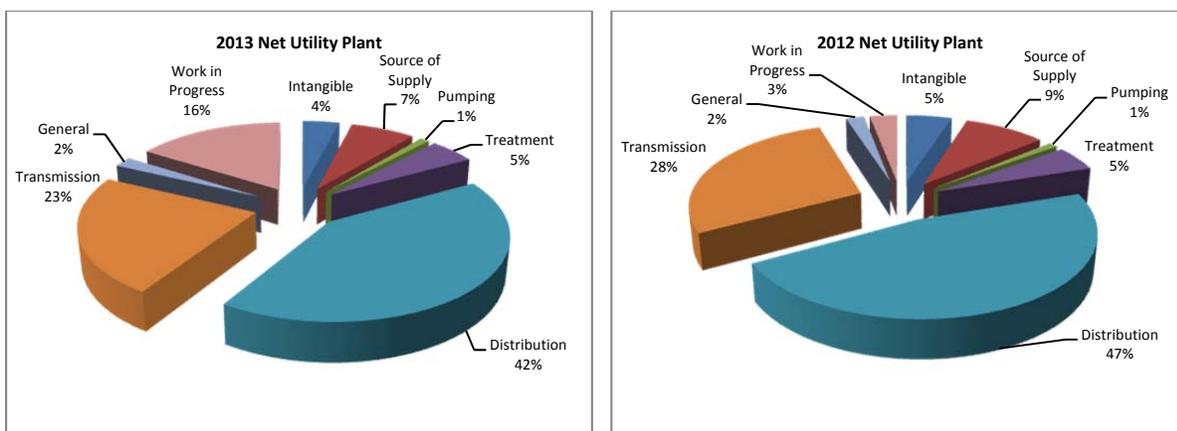
Tacoma Water invests in a broad range of utility assets and at the end of 2013 had \$813.1 million in net utility plant, an increase of \$90.2 million from 2012. The largest increase was in construction work in progress of \$73.1 million. In 2012, Tacoma Water had \$722.9 million in net utility plant, an increase of \$61.7 million compared to 2011. Both increases are primarily due to the construction of Green River Water Filtration project. In 2013, 12.8 miles of water main were added or replaced compared to 12.7 miles in 2012, and 11.4 miles in 2011. Construction was completed on 14 private contracts in 2013, resulting in 4.86 miles; 12 private contracts in 2012, added 2.44 miles; and 8 private contracts in 2011, added 2.0 miles.

The following table summarizes Tacoma Water's capital assets, net of accumulated depreciation, for 2013 – 2011.

Capital Assets, Net of Accumulated Depreciation
(In thousands)

	2013	2012	2011	13/12 Increase (Decrease)	12/11 Increase (Decrease)
Net Utility Plant					
Intangible Plant	\$ 35,484	\$ 35,086	\$ 34,865	\$ 398	\$ 221
Source of Supply Plant	59,653	60,843	60,174	(1,190)	669
Pumping Plant	5,862	6,037	6,180	(175)	(143)
Water Treatment Plant	37,963	33,244	34,744	4,719	(1,500)
Transmission Plant	186,959	187,349	186,002	(390)	1,347
Distribution Plant	340,470	326,563	312,427	13,907	14,136
General Plant	13,987	14,189	10,334	(202)	3,855
Construction Work In Progress	132,673	59,541	16,427	73,132	43,114
Total	\$ 813,051	\$ 722,852	\$ 661,153	\$ 90,199	\$ 61,699

The following graphs provide a visual presentation of the allocation of Tacoma Water's capital investments in 2013 and 2012.



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

Debt Administration

At December 31, 2013 Tacoma Water had outstanding revenue bond obligations of \$415.6 million (net of unamortized bond premiums), an increase of \$46.1 million compared to 2012. Tacoma Water issued \$64.8 million in Regional Water Supply System Revenue Refunding Bonds in April 2013 and \$78.3 million of Water System Revenue and Refunding Bonds in May 2013. 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.

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 1.25 for principle and interest. Debt service coverage ratios were 2.18, 2.02, and 1.58 in 2013, 2012 and 2011 respectively.

At the end of 2013, the Utility had an outstanding State loan balance of \$51.0 million compared to \$42.0 million in 2012 and \$43.6 million in 2011. During 2013, the Utility received an additional \$1.4 million against the 2009 Drinking Water State Revolving Fund Loan, an additional \$0.6 million against the 2010 Drinking Water State Revolving Fund Loan and \$10.2 million against the 2012 Public Works Trust Fund Loan for McMillin Reservoir and the Water Treatment Facility. The Utility entered into one Drinking Water State Revolving Loan agreement for the Green River Filtration Facility in 2013 in the amount of \$12.1 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 GAAP 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

ASSETS	DECEMBER 31,	
	2013	2012 (As Restated)
UTILITY PLANT		
In Service, at Original Cost	\$848,502,779	\$820,187,184
Less - Accumulated Depreciation	(168,125,255)	(156,876,447)
Total	680,377,524	663,310,737
Construction Work In Progress	132,672,994	59,541,533
Net Utility Plant	813,050,518	722,852,270
NON-UTILITY PROPERTY	492,963	547,480
RESTRICTED ASSETS		
Construction Funds	46,470,902	58,833,459
Debt Service Funds	3,509,020	3,318,052
Bond Reserve Funds	22,095,502	19,507,744
System Development Charge Fund	53,719,777	53,626,384
Other Cash & Equity in Pooled Investments	31,023,815	25,564,985
Notes & Contracts Receivable - SDC & Other	-	464,971
Total Special Funds	156,819,016	161,315,595
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	39,622,355	37,666,496
Accounts Receivable	7,423,746	10,503,161
(Net of Allowance for Doubtful Accounts of \$581,207 in 2013 and \$453,928 in 2012)		
BABs Interest Subsidies Receivable	320,064	320,064
Accrued Unbilled Revenues	4,494,710	4,026,679
Materials and Supplies	2,336,648	2,341,174
Interfund Receivable	8,815,962	947,380
Prepayments.....	555,190	602,606
Total Current Assets	63,568,675	56,407,560
OTHER ASSETS		
Regulatory Asset-Public Fire Protection Fees ...	3,756,025	4,274,592
Regulatory Asset-Hyada Surcharges	923,574	1,025,593
Total Other Assets	4,679,599	5,300,185
TOTAL ASSETS	1,038,610,771	946,423,090
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Losses on Refunding Bonds	1,813,858	1,764,332
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$1,040,424,629	\$948,187,422

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2013	2012 (As Restated)
NET POSITION		
Net Investment in Capital Assets	\$409,638,036	\$381,717,578
Restricted for:		
Water Capital and System Development Charge	30,986,617	24,265,546
Debt Service Funds	1,716,391	1,368,679
Unrestricted	37,947,929	42,506,333
Total Net Position	480,288,973	449,858,136
LONG-TERM DEBT		
Revenue Bonds	408,638,188	362,310,380
Public Works Trust Fund Loans	30,798,319	23,495,090
Drinking Water State Revolving Fund Loan	16,440,468	15,659,868
Total Long-Term Debt	455,876,975	401,465,338
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	10,693,020	10,021,577
Current Maturities of Long-Term Liabilities	200,182	820,747
Accrued Taxes	1,629,919	1,595,790
Accrued Expenses and Contracts Payable	16,911,220	17,996,478
Salaries, Wages and Fringe Benefits Payable	1,212,661	1,063,601
Interest Payable	1,792,629	1,949,375
Customers' Deposits	281,844	287,961
Interfund Payables	9,757,330	1,371,061
Total Current Liabilities	42,478,805	35,106,590
LONG-TERM LIABILITIES		
Muckleshoot Agreements	7,515,530	7,715,713
Customer Advances for Construction	3,970,932	4,356,297
Unearned Revenue	8,889,446	8,968,764
Long-Term Accrued Compensated Absences	2,245,968	2,122,259
Other Long-Term Liabilities	3,582,553	3,018,878
Total Long-Term Liabilities	26,204,429	26,181,911
TOTAL LIABILITIES	524,560,209	462,753,839
DEFERRED INFLOWS OF RESOURCES		
Rate Stabilization	35,575,447	35,575,447
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,040,424,629</u>	<u>\$948,187,422</u>

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2013	2012 (As Restated)
OPERATING REVENUES		
Sale of Water	\$64,111,896	\$59,138,998
Other Operating Revenues	9,242,674	11,381,473
Contract Resource Obligation Revenues	22,764,850	10,160,260
Total Operating Revenues	96,119,420	80,680,731
OPERATING EXPENSES		
Operations	14,694,345	13,186,350
Production	9,156,746	8,379,807
Administrative and General	12,055,265	11,036,295
Depreciation	16,072,243	15,262,686
Other Taxes	3,918,944	3,485,243
Total Operating Expenses	55,897,543	51,350,381
Net Operating Income	40,221,877	29,330,350
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	807,466	2,320,753
Other	(1,246,053)	288,182
Interest on Long-Term Debt	(20,195,198)	(19,706,065)
Amortization of Premium and Loss on Refunding ..	1,668,313	361,631
Interest Charged to Construction	4,385,849	4,881,993
Total Non-Operating Expenses	(14,579,623)	(11,853,506)
Net Income Before Capital Contributions and Transfers	25,642,254	17,476,844
Capital Contributions		
Cash	4,913,924	4,571,007
Donated Fixed Assets	2,261,651	3,263,338
Federal BAB Subsidies	3,535,426	3,840,767
Transfers		
City of Tacoma Gross Earnings Tax	(5,838,335)	(5,081,191)
Transfer to/from Other Funds	(84,083)	(145,439)
CHANGE IN NET POSITION	30,430,837	23,925,326
TOTAL NET POSITION - BEGINNING OF YEAR	449,858,136	429,188,088
EFFECT OF RESTATEMENT		(3,255,278)
TOTAL NET POSITION - BEGINNING OF YEAR (RESTATED).		425,932,810
TOTAL NET POSITION - END OF YEAR	\$480,288,973	\$449,858,136

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,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$99,110,740	\$74,824,339
Cash Paid to Suppliers	(14,795,915)	1,127,154
Cash Paid to Employees	(21,118,769)	(20,102,470)
Taxes Paid	(3,884,815)	(3,064,346)
Net Cash From		
Operating Activities	59,311,241	52,784,677
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(84,083)	(145,439)
Transfer Out for Gross Earnings Tax	(5,838,335)	(5,081,191)
Net Cash From Non-Capital		
Financing Activities	(5,922,418)	(5,226,630)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, net.....	(99,568,474)	(68,816,329)
Proceeds from PWTF Loan	10,000,000	900,000
Proceeds from State Drinking Water Loan	2,197,735	-
Proceeds from Sale of Bonds	143,100,000	-
Debt Issuance Costs	(1,574,009)	-
Premium on Sale of Bonds	12,889,179	-
Principal Payments on Long-Term Debt and Bonds ...	(9,942,463)	(8,453,632)
Principal Payments on Muckleshoot LT Liability ...	(820,747)	(820,746)
Payments on Refunding of Bonds	(101,210,000)	-
Interest Paid	(20,351,944)	(19,595,092)
BABs Federal Interest Subsidies	3,535,426	3,840,767
System Development Charges, CIAC and Other	5,477,886	9,796,238
Net Cash From Capital and		
Related Financing Activities	(56,267,411)	(83,148,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	807,466	2,320,753
Other Net Non-Op Revenues and Expenses	(4,627)	288,183
Net Cash From Investing Activities	802,839	2,608,936
Net Change in Cash and Equity in		
Pooled Investments	(2,075,749)	(32,981,811)
Cash & Equity in Pooled Investments at January 1 ...	198,517,120	231,498,931
Cash & Equity in Pooled Investments at December 31 .	<u>\$196,441,371</u>	<u>\$198,517,120</u>

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

	YEAR ENDED DECEMBER 31,	
	2013	2012
Reconciliation of Net Operating Income to		
Net Cash From Operating Activities:		
Net Operating Income	\$40,221,877	\$29,330,350
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	16,072,243	15,262,686
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Unbilled Revenue	2,611,384	(5,226,947)
Interfund Receivables	(7,868,582)	(878,999)
Regulatory Asset-Public Fire Protection Fees	518,567	(760,013)
Regulatory Asset-Hyada Surcharges.....	102,019	123,918
Materials and Supplies	4,526	162,680
Prepayments	47,416	(352,422)
Unearned Rental Revenues	(240,648)	11,650
Accrued Taxes	34,129	420,897
Salaries, Wages and Fringe Benefits Payable	149,060	52,872
Accrued Compensated Absences	123,709	(87,802)
Customers' Deposits	(6,117)	(3,771)
Accrued Expenses and Contracts Payable	(844,611)	14,183,160
Interfund Payables	8,386,269	551,418
Total Adjustments	<u>19,089,364</u>	<u>23,459,327</u>
Net Cash From Operating Activities	<u>\$59,311,241</u>	<u>\$52,789,677</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$156,819,016	\$160,850,624
Cash and Equity in Pooled Investments in Operating Funds	<u>39,622,355</u>	<u>37,666,496</u>
Cash and Equity in Pooled Investments at December 31	<u>\$196,441,371</u>	<u>\$198,517,120</u>

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

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

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 240 employees as of December 31, 2013. Tacoma Water's service area includes the City of Tacoma and urbanized areas of Pierce and South King Counties. Water service outside the City limits is provided under franchises granted by both Pierce and King Counties and multiple other cities. Tacoma Water is organized functionally as Water Distribution Engineering, Water Distribution Operations, Water Quality, Water Supply, Asset and Information Management, and Water Rates and Financial Planning.

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

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. 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 prior year. The effect of the implementation of this statement to the Division is limited to renaming of “Net Assets” to “Net Position”.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities effective for financial statements periods beginning after December 15, 2012. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources and further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The Division adopted this new pronouncement in the current year and has restated amounts of effected items within the financial statements as of December 31, 2012. The specific accounts impacted by the restatement are detailed in Note 13.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2013 and 2012 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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, system development charges funds, notes and contracts receivable, and customer deposits.

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

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

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

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

SHARED SERVICES - The Division receives certain services from other departments and agencies of the City, including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies 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 the prior year account classifications as needed to conform to the current year presentation format. Included in these reclassifications are items resulting from the implementation of GASB 65, such as unamortized loss on refunding bonds and rate stabilization.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 UTILITY PLANT - A summary of the balances and changes in utility plant for 2013 and 2012 follows:

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

	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	<u>\$ 661,153,297</u>	<u>\$ 91,389,336</u>	<u>\$ (168,253)</u>	<u>\$ (29,522,110)</u>	<u>\$ 722,852,270</u>

Total Water Plant in Service includes non-depreciable assets of \$57,924,217 for 2013 and \$56,843,169 for 2012.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

Cash and Equity in Pooled Investments	<u>2013</u>	<u>2012</u>
Construction Funds	\$ 46,470,902	\$ 58,833,459
Debt Service Funds	3,509,020	3,318,052
Bond Reserve Funds	22,095,502	19,507,744
System Development Charge Fund	53,719,777	53,626,384
Other Cash and Equity in Pooled Investments	<u>31,023,815</u>	<u>25,564,985</u>
Total	<u>\$ 156,819,016</u>	<u>\$ 160,850,624</u>

NOTE 5 LONG-TERM DEBT – The Division's Long-term Liabilities are primarily for the purpose of capital improvements. Long-term debt activities for 2013 and 2012 were as follows:

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

	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 371,500,000	\$ -	\$ (6,620,000)	\$ 364,880,000	\$ 7,205,000
Plus: Unamortized Premium	<u>5,289,234</u>	<u>-</u>	<u>(653,854)</u>	<u>4,635,380</u>	<u>-</u>
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	<u>16,311,391</u>	<u>400,000</u>	<u>(376,161)</u>	<u>16,335,230</u>	<u>675,362</u>
Total Long-Term Debt	<u>\$ 420,346,895</u>	<u>\$ 900,000</u>	<u>\$(9,759,980)</u>	<u>\$ 411,486,915</u>	<u>\$ 10,021,577</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

SENIOR LIEN BONDS

	2013	2012
<p>2002 Regional Water Supply System Revenue Bonds, with interest rates ranging from 4.13% to 5.50%, due in yearly installments ranging from \$925,000 to \$7,400,000 through 2032. Original Issue: \$82,700,000</p>	\$ -	\$ 75,925,000
<p>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</p>	-	25,285,000
<p>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</p>	33,450,000	35,485,000
<p>2009 Water System Revenue Bonds, with interest rate at 5.751%, with Build America Bond (BAB) rebate ranging 31.95% to 35.0% interest, due in yearly installments starting in 2033 ranging from \$9,800,000 to \$12,210,000 through 2039. Original Issue: \$76,775,000</p>	76,775,000	76,775,000
<p>2010A Water System Revenue Refunding Bonds, with interest rates ranging from 2.0% to 5.0%, due in yearly installments ranging from \$550,000 to \$4,655,000 through 2023. Original Issue: \$29,100,000</p>	28,055,000	28,585,000
<p>2010B Water System Revenue Bonds, with interest rates ranging from 4.581% to 5.621%, with Build America Bond (BAB) rebate ranging from 31.95% to 35% of interest, due in yearly installments starting in 2024 ranging from \$2,115,000 to \$15,390,000 through 2040. Original Issue: \$74,985,000</p>	74,985,000	74,985,000
<p>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 \$265,000 to \$355,000 through 2024. (See Note 6) Original Issue: \$3,595,000</p>	3,335,000	3,595,000

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

SENIOR LIEN BOND CONTINUED

	<u>2013</u>	<u>2012</u>
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 yearly installments starting in 2025 ranging from \$370,000 to \$5,775,000 through 2040. (See Note 6) Original Issue: \$44,245,000	44,245,000	44,245,000
2013 Water System Revenue and Refunding Bonds, with interest rates ranging from 2.0% to 4.0%, due in installments of \$980,000 in 2014 and yearly installments starting in 2041 ranging from \$23,820,000 to \$25,765,000 through 2043. Original Issue: \$78,305,000	75,335,000	-
2013 Regional Water Supply System Revenue Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments ranging from \$670,000 to \$6,425,000 through 2032. Original Issue: \$64,795,000	<u>63,835,000</u>	<u>-</u>
Subtotal Sr. Lien Debt	400,015,000	364,880,000
Unamortized Premium	15,573,188	4,635,380
Less Current Portion of Revenue Bond Debt	<u>(6,950,000)</u>	<u>(7,205,000)</u>
Long-term Portion of Revenue Bond Debt	<u>\$ 408,638,188</u>	<u>\$ 362,310,380</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 6,950,000	\$ 19,916,575
2015	6,305,000	19,622,925
2016	6,025,000	19,326,875
2017	6,355,000	19,042,225
2018	6,685,000	18,741,475
2019-2023	42,545,000	88,677,452
2024-2028	51,790,000	77,580,144
2029-2033	65,815,000	63,457,699
2034-2038	91,620,000	42,676,369
2039-2043	115,925,000	15,516,808
	<u>\$ 400,015,000</u>	<u>\$ 384,558,547</u>

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

JUNIOR LIEN DEBT

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

	2013	2012
	\$ 4,266,667	\$ 4,800,000

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 \$52,631 through 2021.

	421,053	473,684
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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.

	4,781,250	5,312,500
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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 \$54,179 through 2021.

	433,437	487,616
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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.

	586,988	640,351
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2006 Public Works Trust Fund construction loan for the Green River Ozone Treatment Plant, with interest of .5% per annum, due in yearly installments of \$370,588 through 2026.

	4,817,647	5,188,235
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TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT CONTINUED

	2013	2012
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.	8,188,048	8,733,918
2012 Public Works Trust Fund construction loan for the Green River Filtration Facility, with interest of .5% per annum, due in yearly installments of \$555,555 through 2031.	10,000,000	-
Drinking Water State Revolving Fund Loans		
2002 construction loan for the Portland Avenue Reservoir, with interest of 2.5% per annum, due in yearly installments of \$161,053 through 2021.	1,288,421	1,449,474
2008 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$215,109 through 2028.	3,226,626	3,441,734
2009 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.0% per annum, due in yearly installments of \$367,088 through 2032.	6,974,670	5,984,023
2010 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$303,000 through 2032.	5,757,000	5,460,000
2011 construction loan for the McMillin Reservoir Reconstruction, with interest of 1.5% per annum, due in yearly installments of \$3,000 from 2016 through 2035.	60,000	-
2011 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$3,000 from 2016 through 2035.	60,000	-
2012 construction loan for the Green River Water Treatment Plant Filtration Facility, with interest of 1.5% per annum, due in yearly installments of \$6,000 from 2017 through 2036.	120,000	-
Subtotal Junior Lien Debt	50,981,807	41,971,535
Less Current Portion of Debt	(3,743,020)	(2,816,577)
Long-term Portion of Junior Lien Debt	\$ 47,238,787	\$ 39,154,958

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

Year	Principal	Interest
2014	\$ 3,743,020	\$ 384,187
2015	3,743,020	380,824
2016	3,749,020	383,639
2017	3,755,019	361,943
2018	3,755,019	323,708
2019-2023	16,641,455	1,162,108
2024-2028	11,158,236	569,956
2029-2033	4,407,018	148,222
2034-2036	30,000	6,144
	\$50,981,807	\$3,720,731

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 8.2% and 8.5% of Tacoma Water's total water sales in 2013 and 2012, respectively. There were no outstanding accounts receivables from Simpson at year-end 2013 or 2012.

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 2013 and 2012 were \$2,367,199 and \$2,226,924, 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 2013 and 2012, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Water's replacement fund. The amounts refunded in 2013 and 2012 were \$38,356 and \$62,242, respectively, which was used to offset the corresponding year's fleet expenses.

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

Tacoma Water is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Water and administrative expenses of the Fund. Tacoma Water's premium payments were \$180,000 in 2013 and \$496,377 in 2012. Assets in the Self-Insurance Fund total \$5.7 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 \$100,000 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 excess coverage with \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit (\$1 million self-insured retention).

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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

Plan Description and Contribution Information - The System is a cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and the Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,119 retirees and beneficiaries currently receiving benefits, 434 vested terminated members entitled to future benefits and 2,881 active members of the Tacoma Employees' Retirement System, as of December 31, 2013.

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.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

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, 2013, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Funding Progress (\$ in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c)=(b)-(a)	Funded Ration (d)=(a)/(b)	Covered Payroll (e)	UAAL as of Percentage of Covered Payroll (f)=(c)/(e)
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%
1/1/2013	\$ 1,187.1	\$ 1,306.6	\$ 119.5	90.9%	\$ 210.6	56.7%

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

2011	\$20,850,233
2012	\$20,919,787
2013	\$21,188,984

Actuarial Methods and Significant Actuarial Assumptions

Valuation Date	January 1, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Asset are valued at market value, with a four year smoothing of all market value gains and losses.

Actuarial Sumptions:

Investment Rate of Return	7.50%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Schedule of Employer Contributions (\$ in millions):

Year Ending December 31,	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions	Actual Employer Contribution Rate ⁽²⁾	Annual Required Contribution (ARC) ⁽²⁾	Percentage of ARC Contributed
2011	219.4	22.5	10.26%	7.79%	132%
2012	210.6	22.7	10.80%	10.80%	100%
2013	213.8	23.1	10.80%	11.06%	98%

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

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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

Annual OPEB Cost and Net OPEB Obligation - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

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

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

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2013 is 24 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2013 as the City has not set aside funds for OPEB.

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Excise Tax for High Cost or “Cadillac” Health Plans in 2018 and Beyond – An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds for qualified retirees aged 55-64 are \$11,580 for single coverage and \$30,950 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of the PPACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

Summary of Changes – As of January 1, 2013 valuation, the total AAL was \$251,839,846, 3% lower than expected primarily due to lower than expected medical costs partially offset by the new excise tax for “Cadillac” health plans, demographic experience and assumptions, and economic assumptions.

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

	<u>January 1, 2011</u>	<u>January 1, 2013</u>
Total Membership:		
Active Employees	3,675	3,335
Terminated vested employees	363	394
Retired employess & dependents	790	846
Total	<u>4,828</u>	<u>4,575</u>
Annual Benefit Payments	\$ 9,569,648	\$ 9,887,335
Discount Rate	4.00%	3.75%
Present Value of Benefits (PVB)	\$ 319,550,419	\$ 326,742,538
Actuarial Accrued Liability (AAL)	\$ 248,571,791	\$ 251,839,846
Assets	-	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 248,571,791</u>	<u>\$ 251,839,846</u>
Normal Cost	\$ 5,559,351	\$ 5,484,587
Annual Required Contribution (ARC)	\$ 19,734,041	\$ 20,058,760

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2013.

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

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2013.

	<u>City</u>	<u>Water</u>
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 412,290
Amortization of UAAL	14,574,173	175,541
Annual Required Contribution (ARC)	<u>\$ 20,058,760</u>	<u>\$ 587,831</u>
Determination of NET OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 587,831
Interest on prior year Net OPEB Obligation	1,742,601	77,074
Adjustments to ARC	<u>(2,272,594)</u>	<u>(83,288)</u>
Annual OPEB Cost	19,528,767	581,617
Actual benefits paid	9,887,334	139,219
Increase in Net OPEB Obligation	9,641,433	442,398
Net OPEB Obligation - beginning of year	46,469,368	2,055,309
Net OPEB Obligation - end of year	<u>\$ 56,110,801</u>	<u>\$ 2,497,707</u>

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

Funding Status and Funding Progress - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 4.00% interest rate for 2011 and 2012 and 3.75% for 2013.

Year Ended	<u>Annual OPEB Cost</u>		<u>Benefits Paid</u>		<u>Net OPEB Obligation</u>	
	City	Division	City	Division	City	Division
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
12/31/2013	\$ 19,528,767	\$ 581,617	\$ 9,887,334	\$ 139,219	\$ 56,110,801	\$ 2,497,707

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

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

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the UAAL. In determining the Annual Required Contribution, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and the remaining is now 24 years.

Actuarial	Methods	and	Significant	Actuarial	Assumptions:
Valuation Date			January 1, 2013		
Census Date			January 1, 2013		
Actuarial Cost Method:			Entry Age		
Amortization Date:			Combination of level percentage and level dollar amount, see note above.		
Remaining Amortization Period:			24 years, closed		
Demographic Assumptions:			Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.		
Actuarial Assumptions:					
Discount Rate			3.75% for pay-as-you-go funding		
Medical Cost Trend			2013	8.90%	
			2014	6.50%	
			2015	5.80%	
			2020	6.00%	
			2030	5.90%	
			2040	5.60%	
			The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.		

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

Economic Assumptions - Discount
Rate (Liabilities) 3.75%

Demographic Assumptions:

Eligibility:

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

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

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

NOTE 12 COMMITMENTS AND CONTINGENCIES

Capital Improvements – The financial requirement for Tacoma Water’s 2013-2014 biennial Capital Improvement program is approximately \$150.0 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2013 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$80.1 million.

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

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

TACOMA WATER NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 13 ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT - In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expense or revenues. The Division expensed bond issuance costs previously deferred and amortized. The following table shows restated amounts of effected balances within the financial statements:

	2012		
	As Previously	2012	Effect of
	Reported	As Restated	Restatement
Statements of Net Position			
Unamortized Debt Expense	\$ 3,021,623	-	\$ (3,021,623)
Net Investment in Capital Assets	384,739,201	381,717,578	(3,021,623)
Statements of Revenues, Expenses & Changes in Net Position			
Amortization of Debt Premium, Discount Expense & Loss on Refunding	127,976	361,631	233,655
Net Position Beginning of Year	429,188,088	425,932,810	(3,255,278)

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	2013	2012 (As Restated)	2011 (As Restated)	2010
ASSETS				
Utility Plant - Net	\$813,050,518	\$722,852,270	\$661,153,297	\$636,592,771
Special Funds & Non-Util Prop	157,311,979	161,863,075	214,619,106	240,132,895
Current Assets	63,568,675	56,407,560	31,403,521	30,200,303
Other Assets	4,679,599	5,300,185	4,664,090	4,654,608
Total Assets	<u>1,038,610,771</u>	<u>946,423,090</u>	<u>911,840,014</u>	<u>911,580,577</u>
Deferred Outflows	1,813,858	1,764,332	2,056,555	-
TOTAL ASSETS AND DEFERRED OUTFLOWS..	<u>1,040,424,629</u>	<u>948,187,422</u>	<u>913,896,569</u>	<u>911,580,577</u>
 NET POSITION	 480,288,973	 449,858,136	 425,932,810	 417,695,083
LIABILITIES AND EQUITY				
Long-Term Debt	455,876,975	401,465,338	419,800,757	421,228,553
Current Liabilities	42,478,805	35,106,590	18,201,697	20,548,451
Long-Term Liabilities	26,204,429	26,181,911	19,385,858	52,108,490
Total Liabilities	<u>524,560,209</u>	<u>462,753,839</u>	<u>457,388,312</u>	<u>493,885,494</u>
Deferred Inflows	35,575,447	35,575,447	30,575,447	-
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	<u>\$1,040,424,629</u>	<u>\$948,187,422</u>	<u>\$913,896,569</u>	<u>\$911,580,577</u>
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential and Domestic	\$40,869,381	\$38,685,705	\$36,682,278	\$35,453,730
Commercial and Industrial	11,403,117	10,620,950	10,101,108	10,049,782
Special Rate-Simpson/Other	5,242,359	5,031,760	4,774,237	3,798,922
Municipal	445,844	383,385	400,322	364,357
Other Public Bldgs and Grounds ...	2,163,757	1,909,782	1,815,865	1,702,656
Unbilled	3,519,408	416,986	478,594	(648,438)
Sales to Other Water Utilities ...	468,030	2,090,430	1,625,163	1,530,116
Total Water Sales	<u>64,111,896</u>	<u>59,138,998</u>	<u>55,877,567</u>	<u>52,251,125</u>
Other Operating Revenues	32,007,524	21,541,733	9,526,467	10,735,630
Total Operating Revenues	<u>96,119,420</u>	<u>80,680,731</u>	<u>65,404,034</u>	<u>62,986,755</u>
 OPERATING EXPENSES				
Operation and Maintenance	35,906,356	32,602,452	32,821,611	34,453,742
Taxes	3,918,944	3,485,243	3,106,516	3,142,772
Depreciation	16,072,243	15,262,686	14,389,681	14,474,964
Total Operating Expenses	<u>55,897,543</u>	<u>51,350,381</u>	<u>50,317,808</u>	<u>52,071,478</u>
NET OPERATING INCOME (LOSS)	40,221,877	29,330,350	15,086,226	10,915,277
NON-OPERATING REVENUES (EXPENSES)				
Other Income	(1,246,053)	288,182	(12,371)	33,795
Interest Income	807,466	2,320,753	3,141,374	2,370,993
Gain from Disposition of Property	-	-	-	-
Interest Charges (Net)	(14,141,036)	(14,462,441)	(14,867,263)	(15,175,660)
Net Income (Loss) Before Contributions & Transfers	25,642,254	17,476,844	3,347,966	(1,855,595)
Total Capital Contributions	7,175,575	7,834,345	9,250,677	9,713,596
Grants & Federal BAB Subsidies	3,535,426	3,840,767	4,006,209	2,355,132
Transfers Out	(5,922,418)	(5,226,630)	(4,960,736)	(5,110,721)
 CHANGE IN NET POSITION	 <u>\$30,430,837</u>	 <u>\$23,925,326</u>	 <u>\$11,644,116</u>	 <u>\$5,102,412</u>

In accordance with Governmental Accounting Standards Board Statement No. 65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2009	2008	2007	2006	2005 (As Restated)	2004
\$604,657,775	\$590,593,258	\$568,493,015	\$542,837,619	\$515,240,672	\$449,792,203
133,949,294	80,858,401	99,062,414	111,884,788	124,884,569	86,235,235
35,753,843	22,151,467	23,150,235	20,256,759	15,880,090	21,804,006
3,654,494	3,319,156	2,123,339	2,622,731	2,938,485	2,954,978
<u>778,015,406</u>	<u>696,922,282</u>	<u>692,829,003</u>	<u>677,601,897</u>	<u>658,943,816</u>	<u>560,786,422</u>
-	-	-	-	-	-
778,015,406	696,922,282	692,829,003	677,601,897	658,943,816	560,786,422
412,592,671	404,010,304	391,763,317	374,885,816	345,583,601	327,326,910
292,165,406	218,869,015	227,315,790	231,066,402	224,760,581	199,174,091
15,167,938	16,288,305	15,169,687	21,418,548	12,820,700	14,542,631
58,089,391	57,754,658	58,580,209	50,231,131	75,778,934	19,742,790
<u>365,422,735</u>	<u>292,911,978</u>	<u>301,065,686</u>	<u>302,716,081</u>	<u>313,360,215</u>	<u>233,459,512</u>
-	-	-	-	-	-
\$778,015,406	\$696,922,282	\$692,829,003	\$677,601,897	\$658,943,816	\$560,786,422
\$36,643,366	\$34,592,712	\$32,645,594	\$31,216,429	\$27,611,024	\$26,589,163
9,659,078	8,978,703	8,298,263	7,751,215	7,174,647	6,619,432
4,153,327	4,371,527	3,917,760	3,222,324	3,511,199	3,293,335
380,267	349,722	396,131	363,455	316,562	308,884
1,861,111	1,680,603	1,644,166	1,596,360	1,409,107	1,523,562
187,966	417,145	37,113	1,067,323	-	(903,969)
1,776,686	1,251,815	1,433,705	1,640,803	1,599,919	1,622,206
<u>54,661,801</u>	<u>51,642,227</u>	<u>48,372,732</u>	<u>46,857,909</u>	<u>41,622,458</u>	<u>39,052,613</u>
9,331,955	5,382,313	4,353,478	1,919,802	1,428,135	792,302
<u>63,993,756</u>	<u>57,024,540</u>	<u>52,726,210</u>	<u>48,777,711</u>	<u>43,050,593</u>	<u>39,844,915</u>
34,055,463	33,387,663	31,076,515	29,165,168	26,448,761	25,590,407
3,093,311	2,881,877	2,924,930	3,407,187	2,995,424	2,480,667
<u>13,845,799</u>	<u>13,016,544</u>	<u>11,363,970</u>	<u>11,556,821</u>	<u>9,386,363</u>	<u>8,934,860</u>
50,994,573	49,286,084	45,365,415	44,129,176	38,830,548	37,005,934
12,999,183	7,738,456	7,360,795	4,648,535	4,220,045	2,838,981
497,331	61,265	306,680	2,293,477	2,841,371	1,190,100
1,955,385	3,730,407	5,255,881	4,603,137	1,695,578	1,484,779
26,100	-	4,199,382	-	4,622,927	4,500
<u>(9,076,156)</u>	<u>(8,406,264)</u>	<u>(8,484,405)</u>	<u>(8,403,448)</u>	<u>(7,185,197)</u>	<u>(6,253,392)</u>
6,401,843	3,123,864	8,638,333	3,141,701	6,194,724	(735,032)
7,120,993	14,137,605	12,801,825	30,462,788	24,453,875	25,597,104
244,683	-	-	-	-	803,224
<u>(5,185,152)</u>	<u>(5,014,482)</u>	<u>(4,562,657)</u>	<u>(4,302,274)</u>	<u>(3,951,776)</u>	<u>(4,016,387)</u>
<u>\$8,582,367</u>	<u>\$12,246,987</u>	<u>\$16,877,501</u>	<u>\$29,302,215</u>	<u>\$26,696,823</u>	<u>\$21,648,909</u>

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

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS				
Utility Plant - Net	\$264,883,717	\$223,896,711	\$203,938,358	\$207,242,527
Current Assets	20,473,681	41,256,611	55,640,447	59,811,400
Other Assets	304,624	-	-	1,194,533
Total Assets	<u>285,662,022</u>	<u>265,153,322</u>	<u>259,578,805</u>	<u>268,248,460</u>
NET POSITION	154,285,209	136,200,206	132,830,089	138,246,799
LIABILITIES AND EQUITY				
Long-Term Debt	120,006,348	122,882,652	124,045,739	124,890,764
Current Liabilities	10,436,851	5,253,742	1,931,325	5,110,897
Long-Term Liab.	933,614	816,722	771,652	-
Total Liabilities	<u>131,376,813</u>	<u>128,953,116</u>	<u>126,748,716</u>	<u>130,001,661</u>
TOTAL NET POSITION AND LIABILITIES .	\$285,662,022	\$265,153,322	\$259,578,805	\$268,248,460
 STATEMENT OF INCOME				
OPERATING REVENUES				
CRO - Debt Service	\$6,208,432	\$6,272,476	\$6,239,797	\$5,119,047
CRO - O&M	2,740,645	2,478,238	1,778,186	2,732,956
CRO - Capital	18,535,695	5,665,557	274,081	1,301,346
Total Operating Revenues	<u>27,484,772</u>	<u>14,416,271</u>	<u>8,292,064</u>	<u>9,153,349</u>
OPERATING EXPENSES				
Operation and Maintenance	2,895,385	2,510,085	2,485,977	2,458,379
Depreciation	4,505,158	4,495,971	4,482,820	4,426,113
Total Operating Expenses	<u>7,400,543</u>	<u>7,006,056</u>	<u>6,968,797</u>	<u>6,884,492</u>
NET OPERATING INCOME (LOSS)	20,084,229	7,410,215	1,323,267	2,268,857
NON-OPERATING REVENUES (EXPENSES)				
Other Income	(373,899)	-	-	-
Interest Income	51,743	407,622	396,391	861,775
Interest Charges (Net)	(2,665,310)	(4,901,784)	(7,574,948)	(4,833,300)
Net Income (Loss) Before Contributions & Transfers	17,096,763	2,916,053	(5,855,290)	(1,702,668)
Total Capital Contributions	148,865	(414,376)	(508,791)	(4,593,787)
Grants & Federal BAB Subsidies	799,296	868,328	868,328	306,327
Transfers	40,079	112	79,043	1,435,898
CHANGE IN NET POSITION	<u>\$18,085,003</u>	<u>\$3,370,117</u>	<u>(\$5,416,710)</u>	<u>(\$4,554,230)</u>

In accordance with Governmental Accounting Standards Board Statement No. 65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

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, 2013

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2014	6,950,000	19,916,575	26,866,575
2015	6,305,000	19,622,925	25,927,925
2016	6,025,000	19,326,875	25,351,875
2017	6,355,000	19,042,225	25,397,225
2018	6,685,000	18,741,475	25,426,475
2019	7,855,000	18,467,207	26,322,207
2020	8,195,000	18,136,900	26,331,900
2021	8,595,000	17,749,407	26,344,407
2022	8,960,000	17,384,319	26,344,319
2023	8,940,000	16,939,619	25,879,619
2024	9,490,000	16,496,069	25,986,069
2025	9,930,000	16,035,028	25,965,028
2026	10,350,000	15,544,923	25,894,923
2027	10,785,000	15,031,862	25,816,862
2028	11,235,000	14,472,262	25,707,262
2029	11,745,000	13,889,458	25,634,458
2030	12,235,000	13,280,430	25,515,430
2031	12,715,000	12,707,674	25,422,674
2032	12,710,000	12,097,113	24,807,113
2033	16,410,000	11,483,024	27,893,024
2034	17,015,000	10,547,877	27,562,877
2035	17,650,000	9,578,250	27,228,250
2036	18,300,000	8,572,435	26,872,435
2037	18,975,000	7,529,570	26,504,570
2038	19,680,000	6,448,237	26,128,237
2039	20,405,000	5,326,723	25,731,723
2040	21,165,000	4,163,885	25,328,885
2041	23,820,000	2,974,200	26,794,200
2042	24,770,000	2,021,400	26,791,400
2043	25,765,000	1,030,600	26,795,600
	<u>\$400,015,000</u>	<u>\$384,558,547</u>	<u>\$784,573,547</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Income	\$100,839,801	\$88,715,624	\$76,867,233	\$73,374,289	\$66,821,912
Less: Operating Exp .	<u>39,825,300</u>	<u>36,087,695</u>	<u>35,928,127</u>	<u>37,596,514</u>	<u>37,148,774</u>
Income Available for Debt Service	<u>\$61,014,501</u>	<u>\$52,627,929</u>	<u>\$40,939,106</u>	<u>\$35,777,775</u>	<u>\$29,673,138</u>
Bond Redemption	8,485,830	6,668,750	6,308,333	6,092,083	5,896,250
Bond Interest	<u>19,562,422</u>	<u>19,342,423</u>	<u>19,624,326</u>	<u>15,700,645</u>	<u>9,941,993</u>
Debt Service Payable	<u>\$28,048,252</u>	<u>\$26,011,173</u>	<u>\$25,932,659</u>	<u>\$21,792,728</u>	<u>\$15,838,243</u>
Times Debt Service Covered.....	2.18	2.02	1.58	1.64	1.87

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

WATER PLANT IN SERVICE - YEAR 2013

PLANT ACCOUNTS

	Book Cost	Additions
	1/1/13	2013
INTANGIBLE PLANT	\$ 35,086,180	\$ 1,218,791
SOURCE OF SUPPLY	78,876,177	649,602
PUMPING PLANT	9,222,029	59,780
WATER TREATMENT PLANT	44,401,944	6,267,140
TRANSMISSION PLANT	226,940,853	3,311,162
DISTRIBUTION PLANT	392,859,012	19,819,008
GENERAL PLANT	32,800,989	1,136,867
TOTAL WATER PLANT IN SERVICE	820,187,184	32,462,350
CONSTRUCTION WORK IN PROGRESS	59,541,533	105,509,728
TOTAL	<u>\$ 879,728,717</u>	<u>\$ 137,972,078</u>

DEPRECIATION ACCOUNTS

	Depreciation	Accumulated	Annual
	Rate	Depreciation	Accrual
	%	1/1/13	Cr.
INTANGIBLE PLANT	-	\$ -	\$ -
SOURCE OF SUPPLY PLANT	2.957	18,033,359	1,840,123
PUMPING PLANT	2.513	3,185,124	235,098
WATER TREATMENT PLANT	3.620	11,158,001	1,547,832
TRANSMISSION PLANT	1.668	39,592,238	3,723,627
DISTRIBUTION PLANT	1.876	66,295,791	7,406,377
GENERAL PLANT	7.915	18,611,934	1,319,186
TOTAL PLANT DEPRECIATION		<u>\$ 156,876,447</u>	<u>\$ 16,072,243</u>

1. Total Water Plant in Service includes non-depreciable land and land rights of \$57,924,217.
2. Total Book Cost of Plant Retired \$ (4,062,672)
Add: Cost of Land Sold: -
Intangible Plant: 820,747
Total Retirements \$ (3,241,925)

Retirements 2013	Transfers & Adjustments	Book Cost 12/31/13
\$ (820,747)	\$ -	\$ 35,484,224
(317,435)	-	79,208,344
(3,513)	-	9,278,296
(5,999)	-	50,663,085
-	-	230,252,015
(2,850,223)	-	409,827,797
(64,755)	(84,083)	33,789,018
(4,062,672)	(84,083)	848,502,779
-	(32,378,267)	132,672,994
<u>\$ (4,062,672)</u>	<u>\$ (32,462,350)</u>	<u>\$ 981,175,773</u>

Book Cost of Plant Retired	Cost of Removal	Salvage, Transfers and Adjustments	Accumulated Depreciation 12/31/13
\$ -	\$ -	\$ -	\$ -
(317,435)	(629)	-	19,555,418
(3,513)	-	-	3,416,709
(5,999)	-	-	12,699,834
-	(22,992)	-	43,292,873
(2,850,223)	(1,493,968)	-	69,357,977
(64,755)	(63,921)	-	19,802,444
<u>\$ (3,241,925)</u>	<u>\$ (1,581,510)</u>	<u>\$ -</u>	<u>\$ 168,125,255</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

SUMMARY OF WATER BILLED
DECEMBER 31, 2013 AND DECEMBER 31, 2012

	<u>MILLION GALLONS, TOTAL</u>		<u>MILLION GALLONS, AVERAGE DAILY</u>	
	YEAR	YEAR	YEAR	YEAR
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
WATER BILLED				
Residential and				
Domestic	7,764.91	7,785.64	18.42	18.01
Commercial and				
Industrial	2,529.00	2,499.33	5.87	5.59
Special Rate - Simpson	5,850.47	5,860.99	16.35	15.41
Municipal	83.76	70.63	0.15	0.14
Other Public Bldgs and Grounds	444.04	457.27	0.62	0.65
Sales to Other Utilities	<u>1,195.13</u>	<u>680.93</u>	<u>3.48</u>	<u>2.20</u>
	<u><u>17,867.31</u></u>	<u><u>17,354.79</u></u>	<u><u>44.89</u></u>	<u><u>42.00</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 - 2013

WATER SALES	AVERAGE MONTHS BILLED	C. CU. FT.	AMOUNT
RESIDENTIAL AND DOMESTIC SERVICE			
Single and Multiple Houses - Inside City	54,273	4,434,576	\$16,501,478
Multiple Unit Dwellings - Inside City	3,217	1,593,938	4,412,665
Sprinkling Services (Inside and Outside)	415	187,309	690,474
Fire Services (Inside and Outside)	178	484	109,364
Single and Multiple Houses - Outside City	31,643	3,212,029	15,620,546
Multiple Unit Dwellings - Outside City	1,804	952,592	3,534,853
Total Residential and Domestic Service	<u>91,530</u>	<u>10,380,928</u>	<u>40,869,380</u>
COMMERCIAL AND INDUSTRIAL SERVICE			
High Use Commercial (Inside and Outside)	7	934,825	1,506,170
Single and Multiple Buildings - Inside City	3,514	1,927,455	5,674,161
Sprinkling Services (Inside and Outside)	282	194,574	723,497
Fire Services (Inside and Outside)	1,095	9,939	2,244,394
Single and Multiple Buildings - Outside City ...	789	314,249	1,254,895
Total Commercial and Industrial Service	<u>5,687</u>	<u>3,381,042</u>	<u>11,403,117</u>
SERVICES WITH SPECIAL RATE			
Simpson Tacoma Kraft Company	1	7,821,504	5,242,359
MUNICIPAL WATER SERVICES			
Fountains, Buildings and Grounds	178	111,808	381,416
Fire Services	34	155	64,428
Total Municipal Water Service	<u>212</u>	<u>111,963</u>	<u>445,844</u>
OTHER PUBLIC BUILDINGS AND GROUNDS			
Single and Multiple Buildings - Inside	159	279,840	913,948
Single and Multiple Buildings - Outside	52	86,941	286,947
Fire Services	81	226,321	673,582
Sprinkling Services	115	566	289,280
Total Other Public Buildings and Grounds	<u>407</u>	<u>593,668</u>	<u>2,163,757</u>
SALES TO OTHER UTILITIES - Total	<u>19</u>	<u>1,597,759</u>	<u>3,519,409</u>
Unbilled Revenue			468,030
TOTAL WATER SALES	<u>97,856</u>	<u>23,886,864</u>	<u>\$64,111,896</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

STATISTICS
AS OF DECEMBER 31, 2013

Tacoma Water System:	
2013 average daily delivery exclusive of pulp mill	35.2 MG
Average daily delivery pulp mill	16.0 MG
Total average daily delivery	51.2 MG
2013 maximum daily production July 24, 2013	77.6 MG
2013 minimum daily production November 9 2013	29.6 MG
Total water produced in 2013*.	18,691 MG
Regional Water Supply System (RWSS):	
Total average daily delivery	9.9 MG
Average daily consumption per single family	
residential service	167 GPD
Miles of transmission and wells supply mains -	
28" to 96" diameter (includes North Fork wells system).	150
Miles of distribution mains - 2" to 24" in diameter.	1,216
Fire hydrants.	10,296

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

Tacoma's water supply 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 tanks and 12 steel standpipes. The combined storage capacity is equal to approximately 140.7 million gallons. Of this storage capacity 67.6 million gallons are located at 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 2013

FEDERAL

Social Security (FICA)		\$1,460,055
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STATE OF WASHINGTON

Retail Sales	\$6,138,980	
Utilities and Business Activities Tax	3,392,613	
Total		9,531,593

COUNTY

Fire Districts		
Real Property	35,364	
Total		35,364

MUNICIPALITIES

City of Tacoma Gross Earnings Tax	5,838,335	
City of Bonney Lake Administrative Fee	0	
City of Lakewood Administrative Fee	6,414	
City of Puyallup Administrative Fee	14,888	
City of University Place Administrative Fee	485,277	
King County Administrative Fee	0	
City of Fircrest Administrative Fee	5,671	
		6,350,585

TOTAL TAXES		\$17,377,597
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Taxes as a % of Operating Revenues of \$96,119,420		18.08%
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EMPLOYEE WELFARE CONTRIBUTIONS

Industrial Insurance and Medical Aid	\$467,307	
Pensions	1,974,933	
Medical Insurance	3,476,851	
Dental Insurance	353,127	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		\$6,272,218
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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA WATER

2013 WATER RATES

		READY TO SERVE CHARGE PER MONTH	
		INSIDE TACOMA	OUTSIDE TACOMA
METER SIZE			
	5/8 inch	\$17.78	\$21.34
	3/4 inch	\$26.67	\$32.00
	1 inch	\$44.45	\$53.34
	1-1/2 inch	\$88.90	\$106.68
	2 inch	\$142.24	\$170.69
	3 inch	\$266.70	\$320.04
	4 inch	\$444.50	\$533.40
	6 inch	\$889.00	\$1,066.80
	8 inch	\$1,422.40	\$1,706.88
	10 inch	\$2,044.70	\$2,453.64
	12 inch	\$3,000.38	\$3,600.45

		CHARGE FOR WATER USED PER MONTH PER 100 CUBIC FEET	
		INSIDE TACOMA	OUTSIDE TACOMA
<u>Residential Service</u>			
	Each 100 cubic ft. of water consumption during the winter months of October through May	\$1.538	\$1.740
	First 500 cubic ft. of water consumption per month during the summer months of June through September	\$1.450	\$1.740
	Each 100 cubic ft. of water consumption over 500 cubic ft. during the summer months of June through September	\$1.813	\$2.176
<u>Commercial and Industrial</u>			
	General Service	\$1.600	\$1.920
	Large Volume Service (over 65,000 cubic feet annually)	\$1.425	\$1.710
<u>Parks and Irrigation Service</u>			
	Each 100 cubic feet of water consumption	\$2.200	\$2.640

City of Tacoma water services are 100% metered.

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

Water rates were established by Ordinance No. 28133 and were effective April 1, 2013.

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

2013 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	\$22.95	2.99
3 inch	\$33.42	2.99
4 inch	\$55.83	2.99
6 inch	\$125.23	2.99
8 inch	\$222.94	2.99
10 inch	\$348.70	2.99
12 inch	\$557.74	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).

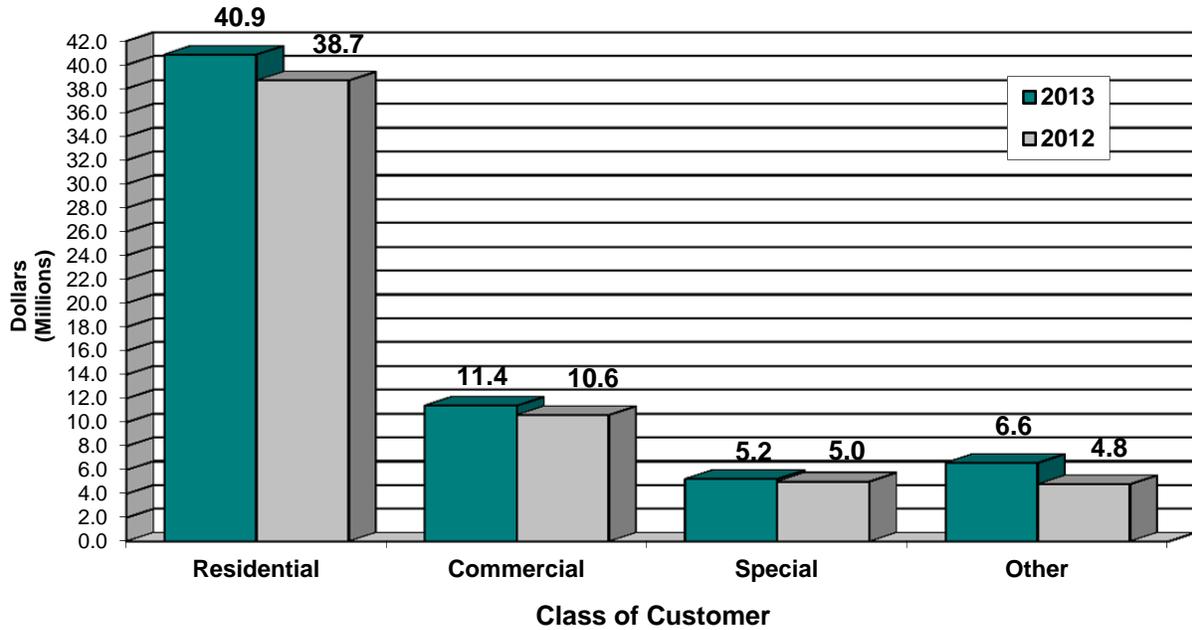
CONSUMPTION

Rates per 100 cubic feet per month \$3.840

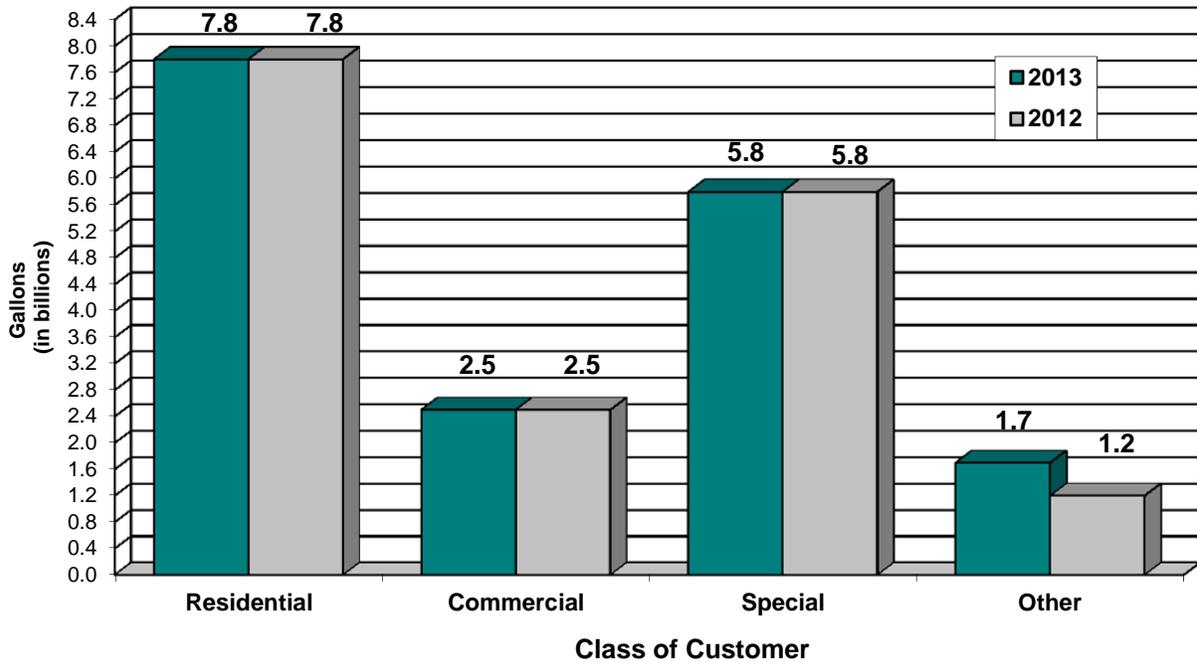
The above rates for fire service shall apply where City water is used for all purposes on such premises exclusive of that amount allowed for testing and leakage.

The Fire Protection Rates were established by Ordinance No. 28133 and were effective April 1, 2013.

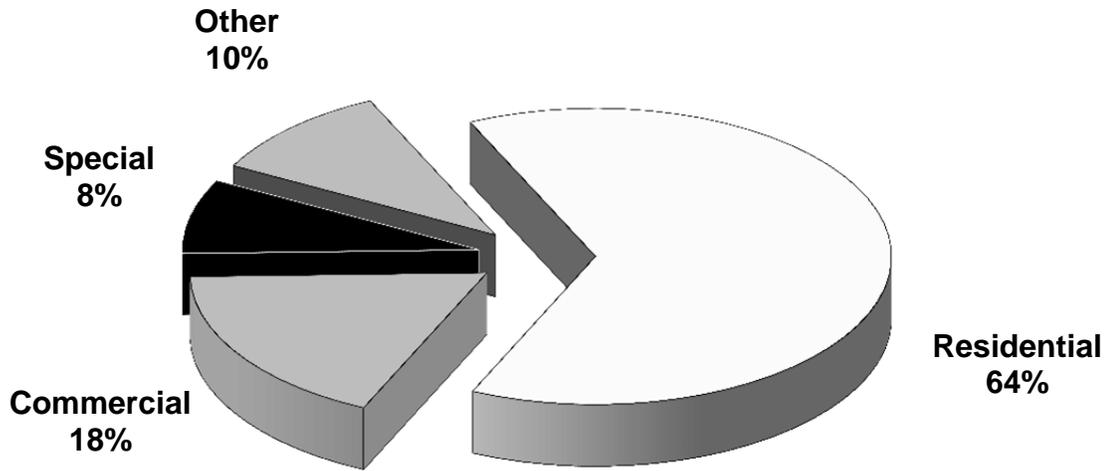
WATER SALES
Year to Date - December 2013 & 2012



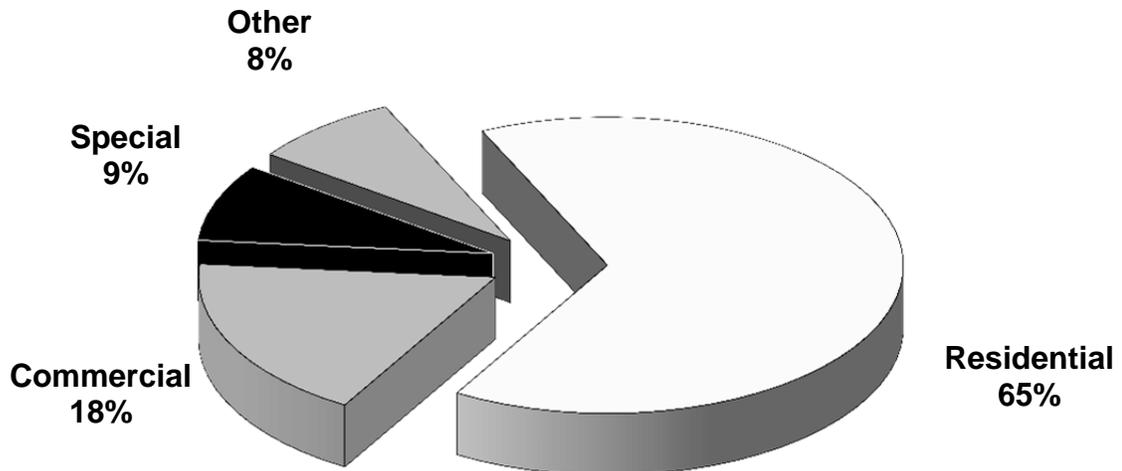
WATER CONSUMPTION
Year to Date - December 2013 & 2012



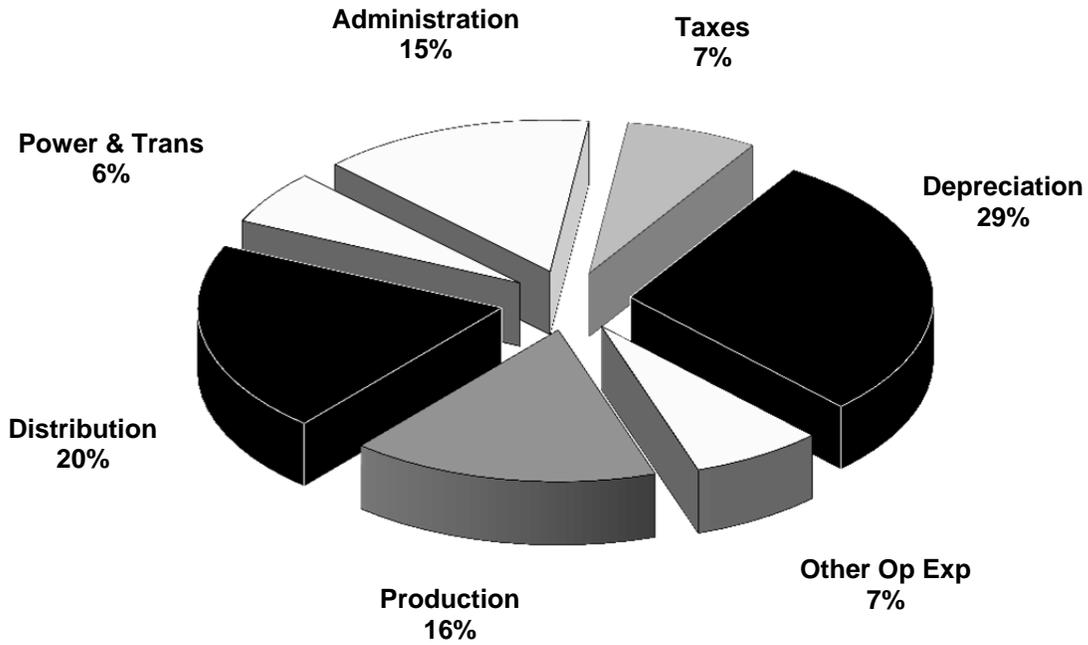
WATER SALES
Year to Date - December 2013
(\$64,111,896)



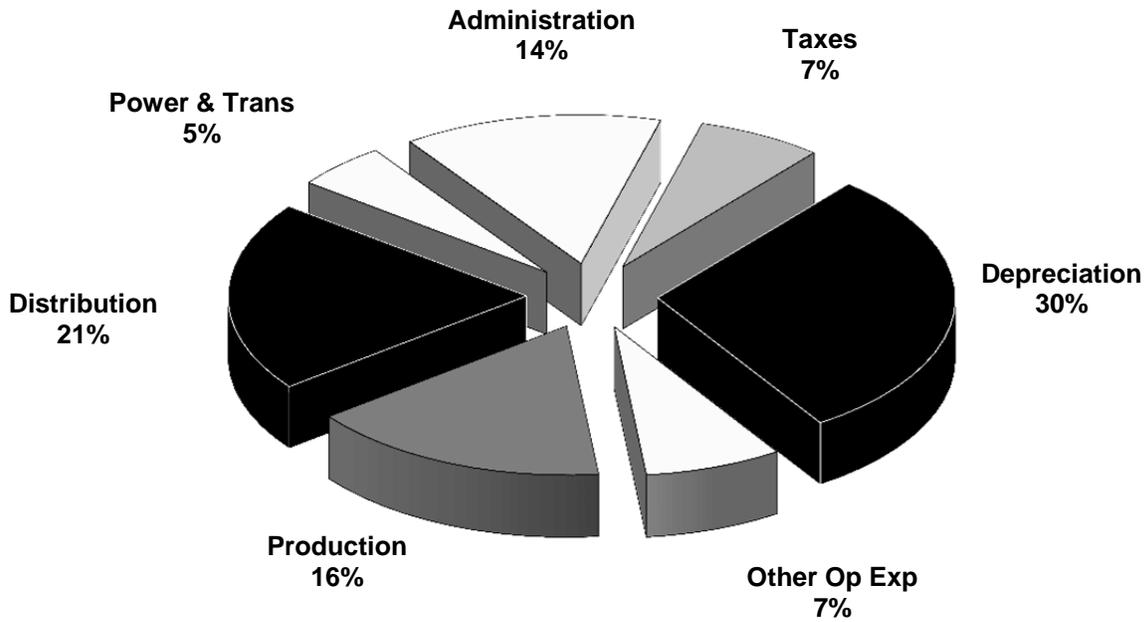
WATER SALES
Year to Date - December 2012
(\$59,138,998)



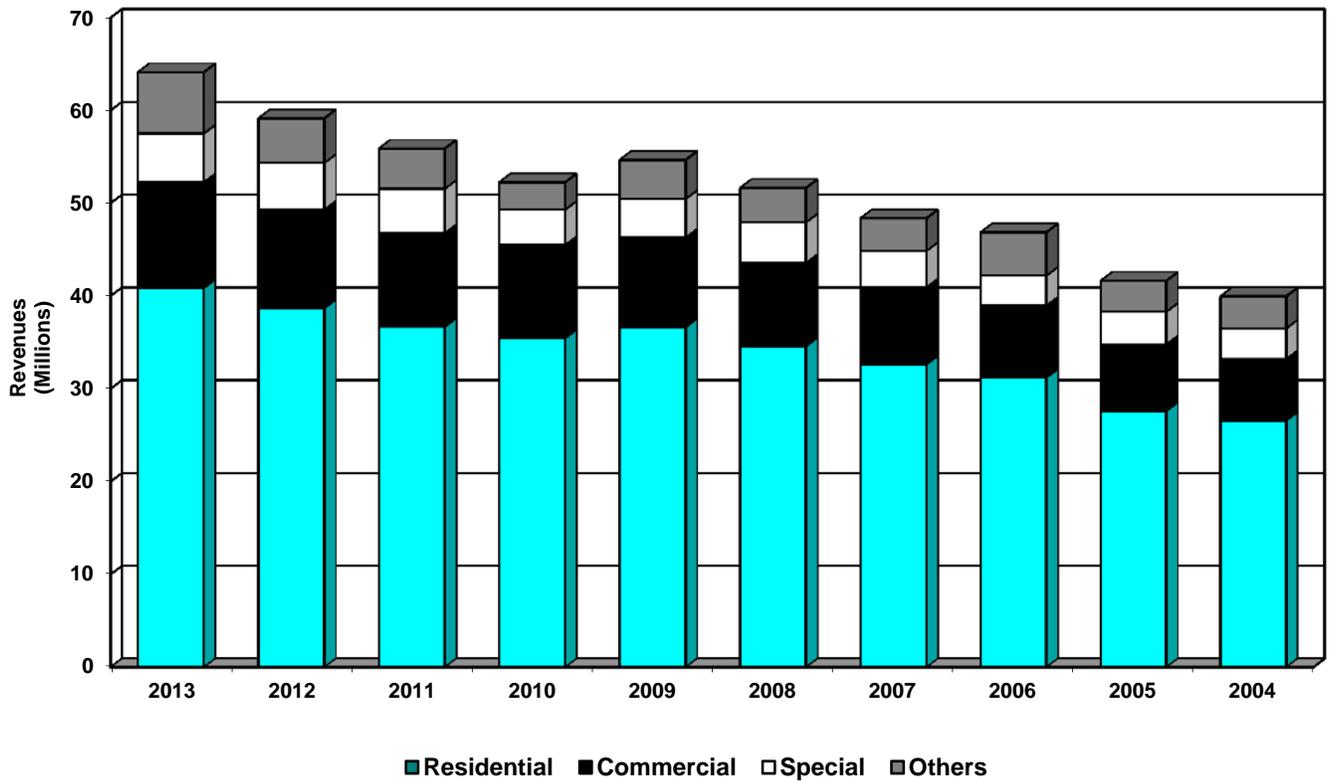
TOTAL OPERATING EXPENSES
Year to Date - December 2013
(\$55,897,543)



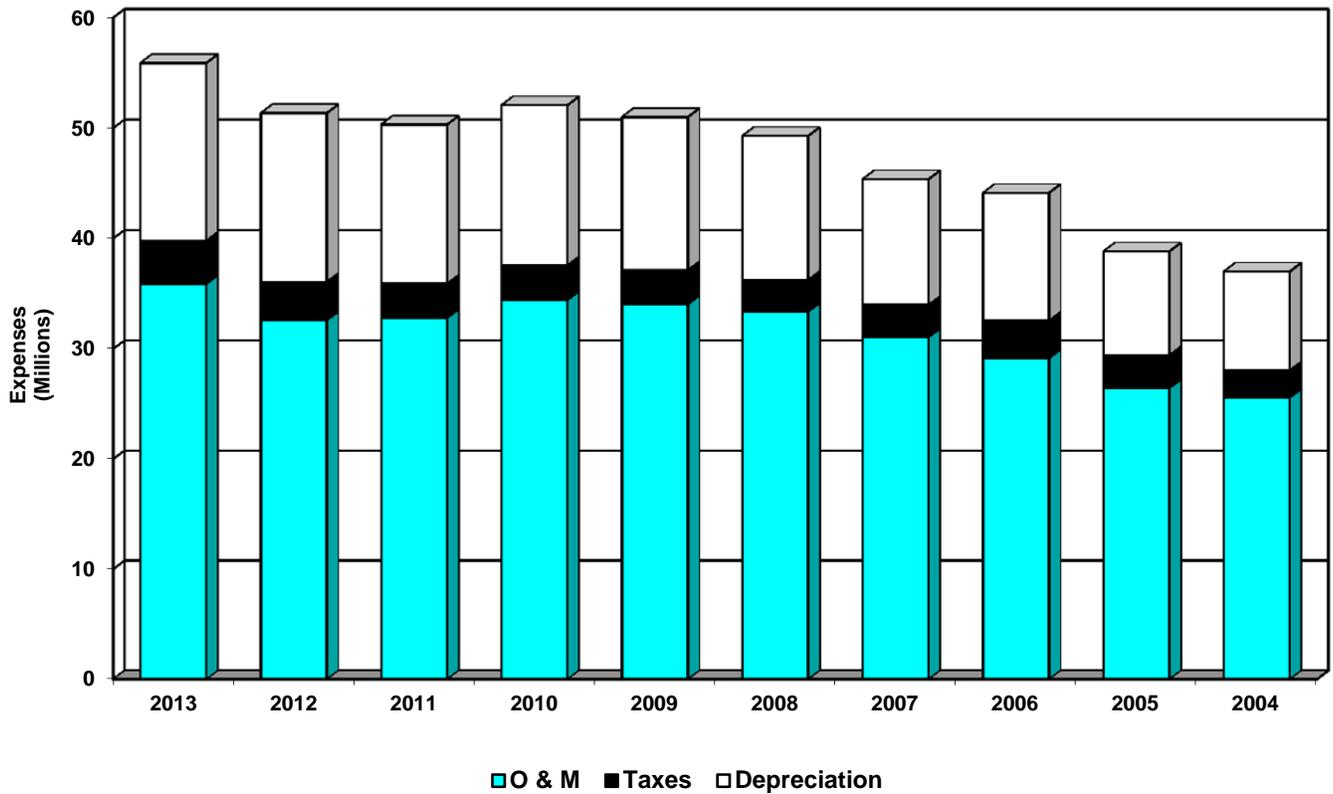
TOTAL OPERATING EXPENSES
Year to Date - December 2012
(\$51,350,381)



TEN-YEAR SUMMARY OF WATER SALES



TEN-YEAR SUMMARY OF OPERATING EXPENSES



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2013 SUPERINTENDENT'S REPORT TACOMA WATER

Tacoma Water celebrated the 100th anniversary of the Green River supply, our primary water source, in 2013. July, 1913 the valves in the J Street Standpipe were opened, allowing water from the Green River to flow into Tacoma, creating a clean, reliable, permanent water source – one that was desperately needed. With typhoid running through the city, and an infrastructure built of wood, it's hard to imagine what resource the city could have needed more at that moment in time. The Green River has been a high quality, low cost supply source for generations. The Green River supply system is one of the most valued assets of our community and we are blessed by the foresight of Tacoma's early leaders who made the decision to select the Green River for their drinking water, even though it was the most expensive option at the time. Today we serve 50 percent more customers from the system than it was anticipated to be capable of serving and we project the existing supply should be able to meet the growth and development needs of our service area for at least the next 50 to 60 years.

In addition to honoring our past, in 2013 we were busy building for our future. Progress was made on the initiatives identified as significant in our strategic plan. The construction of the filtration plant to enhance water quality and ensure regulatory compliance was 60 percent complete by year end. Advanced asset management planning and financial analysis developed in 2013 will provide a basis for improved effective decision making in 2014 and the years ahead. Financial results for Tacoma Water are healthy and strong as a result of updated policy direction, improved forecasting and comprehensive financial management.

Tacoma Water accomplishments of 2013 as detailed below are considerable thanks to the dedication and efforts of the very capable Tacoma Water staff. From innovation adopted and applied to marketing of surplus water, rehabilitation of infrastructure and technology implementation, to our Top Ops and Tapping teams competing successfully at the Pacific Northwest Section/American Water Works Association conference and at the national competition in Denver, to the numerous customer compliments received throughout the year for the responsive, caring, quality service delivered and appreciated by our customers, Tacoma Water staff have performed their work with pride and a commitment to our mission of providing clean, reliable water now and in the future.

ASSET & INFORMATION MANAGEMENT

Strategy Management (Balanced Scorecard)

Tacoma Water's commitment to executing our Strategic Plan was formalized through the adoption of our 2013 strategy map and a structured process for prioritizing projects, measuring progress, and reporting results. The approach we used, called Balanced Scorecard, focused our strategic work in the areas of highest value to Tacoma Water. Many of the accomplishments in this Superintendent's report were prioritized, resourced and tracked through the Balanced Scorecard. In addition, an employee survey was conducted in 2013 across TPU to establish a baseline for employee engagement, the most foundational and important aspect of our strategy. This survey provided insight useful to the management team and will be incorporated into action plans in 2014

targeting improving the employee - supervisor relationship and ensuring that all employees know what is expected of them and have the tools and resources needed to perform their jobs successfully.

Water System Plan Extension Approval

Extension of Tacoma Water's 2006 Comprehensive Water Plan (Water System Plan) was approved by the Department of Health on December 30, 2013. This extension allows Tacoma Water to continue to operate under the 2006 Water System Plan, which still meets the needs of our system and customers, until January 23, 2018. At that time, the Green River Filtration Facility will be in operation and any required system changes can be thoroughly addressed in the new plan. An extension in 2013, in lieu of an expensive and resource intensive update, is a new, responsible approach following the Department of Health's Appropriate Level of Planning guidance.

Asset Management

There were three major areas of focus for Water's Asset Management program in 2013: Strategic Maintenance Management, Strategic Asset Management Plans (SAMPs), and Business Case support for capital projects.

Strategic Maintenance Management – The program, in the initial stages of development, includes Water's overall approach to maintenance planning based on a reliability centered maintenance (RCM) philosophy. The RCM approach considers risk, failure modes and failure effects in the development of maintenance plans. A failure notification process was implemented that will improve documentation of equipment failures and the use of that information to refine maintenance plans over time.

Strategic Asset Management Plans (SAMPs) – There are now SAMPs developed for 11 of the 17 major asset classes in Tacoma's water system. The asset classes that were addressed in 2013 include: distribution mains, meters, hydrants, pump stations, treatment & monitoring, fleet, transmission mains, and wells. The individual SAMPs are in various stages of development, and to a varying degree include asset registry development, high-level risk assessment, risk-based replacement, maintenance planning, and failure analysis and condition assessment. The SAMPs, when completed, will drive decision making related to how that asset is managed throughout its' lifecycle.

Business Cases – The Asset Management group joined with the Rates and Financial Planning group to implement a new capital planning process using business cases for justification of projects for the 2015/16 capital budget. There were a total of 15 business cases developed by project managers which provided consistent documentation and analysis for the proposed capital spending in the upcoming biennium.

Information Management

Significant progress was made in the area of technology and information management in 2013. Specifically, the focus on project management, governance and GIS will position our organization well for the future.

Utility Technology Governance - Staff worked collaboratively across Tacoma Public Utilities and with Tacoma Power in particular to develop and support a new governance model for technology projects including establishment of a Project Management Office, transition to a centralized Utilities Technology Support Service, hiring a Chief Technology Officer, and supporting a new process for technology business cases at TPU.

GIS - Planning and development of the new ESRI based GIS system for Tacoma Water was substantially advanced in 2013. Focused work with the citywide GIS Advisory Team (GAT) has resulted in constructive conversations about hardware, software, data sharing and support. Approval for a GIS (ESRI) proof of concept was received in 2013 with the following milestones achieved: contractual agreements with ESRI for system components and professional services, technical requirements development, testing system configuration and data migration, and 160 hours of technical training for staff on the new platform.

WATER RATES & FINANCIAL PLANNING

Rates

Approval from the Tacoma Public Utility Board and City Council was received early in 2013 for a 6 percent overall rate increase beginning 1st of April. The impact to a typical residential bill was about \$2 per month. Approval was also received for an additional 6 percent increase to go into effect January 1, 2014. Support for these necessary rate increases was the result of strategic planning work completed in 2012, considerable ongoing cost control throughout the utility and a financial management strategy that took advantage of the historic low interest rate climate available in the bond market. The “base case” scenario from our strategic plan had projected rate increases of 9 percent per year for the 2013-2014 biennium. Work by staff on both the revenue and expense sides of the equation reduced the rate profile to the 6 percent level adopted and implemented.

When we compare ourselves alongside other water utilities in the region, Tacoma Water is very competitive. A residential customer in Seattle will pay nearly twice what Tacoma residents will pay. Even in Everett, another regional utility with very affordable rates, they have had to incorporate the loss of one of their largest customers into their rate projections, and are only beginning to adjust to that reality, which will translate into significant rate increases in coming years.

We are proud of our low rates, and the role that plays in supporting the regional economy.

Public Fire Protection Court Cases

Tacoma Water has had to adjust to a series of state Supreme Court decisions related to public fire protection in recent years. In 2008, the Lane v. City of Seattle decision held that providing hydrant service is a general government function and must be paid for out of the general fund, just like street lights in a prior Supreme Court ruling.

Tacoma Water reacted to this decision by removing public fire protection costs from its rates, which resulted in a reduced rate increase in 2009 and 2010 of 4 percent and 3 percent respectively.

In order to recover these costs, Tacoma Water billed all general governmental jurisdictions in which hydrants are located for this service. Some of these jurisdictions refused to pay, so Tacoma Water asked the courts to provide resolution. Eventually, the Supreme Court ruled that franchise agreements effective in these areas prevailed over the Lane decision, that Tacoma Water needed to refund these jurisdictions for all charges, and that the costs would need to be absorbed in its water rates.

As a result, we developed a “franchise hydrant service fee” that will be paid by customers outside the City of Tacoma and will total approximately \$5 per month. Part of this \$5 is a temporary recovery of historical costs that have not yet been recovered (\$1.90-2.09 depending on franchise fee in effect), and the other part is for ongoing public fire protection service (\$2.70-\$2.97 depending on franchise fee in effect).

Financial Policy

With our rate recommendations, we also recommended changes to our Rate and Financial Policy. This guiding document includes fund management and financial planning direction for staff during the rate process and throughout the biennium.

Three revisions to our policy were recommended: formalizing a debt service coverage ratio in the policy document, increasing the limit we place on fixed rate recovery, and creating a capital reserve fund. While we have had a practice of monitoring debt service closely all along, we did not have a formal policy to document that practice. The policy was modified to include a minimum debt service coverage ratio of 1.5 times net revenues for senior lien debt. An increase to the upper limit on our ability to recover rate revenues from the fixed component of the rate – what we call a “ready-to-serve” charge - was incorporated into the policy. Declining water sales had resulted in us being very close to the previous limit and necessitated an increase to the limit to maintain our current revenue stability. Finally, we created a capital reserve fund through the combination of two existing restricted capital funds. The new fund has the ability to receive revenues that have a capital purpose and improve the efficiency of fund management.

Ultimately, these changes will help us maintain our AA rating and keep borrowing costs (and rates) low.

Bond Sale

Tacoma Water conducted two revenue bond sales in the spring of 2013. The funds from these sales were to be used for capital construction along with refunding of outstanding bonds. Rating agencies renewed our very positive AA rating and as a result the interest rate received on these sales was very good, 3.1 percent and 3.8 percent. New money issuance amounted to \$38 million for renewal and replacement projects along with the final funding for the filtration plant. Refinancing of \$67 million of outstanding debt resulted in debt service savings to Tacoma Water rate payers of over \$1,000,000 annually.

Capital Program Planning

In the fall of 2013, we began development of our 2015-2016 capital budget. This budget proposal reflects a great deal of thought and hard work by our employees to determine how to most effectively utilize ratepayer resources, but with some new tools to accomplish it - Strategic Asset Management Plans (SAMPs) and Business Case Evaluations (BCE's). While professional judgment will always be our greatest asset, these new tools present an opportunity to look at our system in a way that will inform that judgment, consistent with the expectations of ratepayers. In our SAMPs, we have a set of recommendations for optimally deploying capital resources on infrastructure replacement, and we intend to utilize those recommendations as a starting point for developing many aspects of our capital budget. We also will continue to use BCE's to assess one-time or unique projects and decisions. These will be applied in all cases where there is an alternative approach to solving an identified problem.

Wholesale Market Rate Pricing and Service Offerings

Tacoma Water's Strategic Plan identified the sale of surplus water as an opportunity to generate revenue to offset some of the need for future rate increases on our retail customers. Considerable excess capacity and supply is available in our system that could, for very little additional cost, be sold for time limited periods to generate additional net revenue. A series of meetings were held with existing and potential wholesale water customers to determine their level of interest in purchasing more water from us if we were to offer it at a more competitive price than our existing cost-of-service based wholesale price. Since market pricing of wholesale water is not common, our staff looked outside our industry to develop new models and options for setting market rate pricing for our surplus water. A number of alternatives were developed in partnership with our wholesale customers who provided financial and supply information about their system in order for us to inform our analysis and test the proposed approach. The approach selected would offer pricing to each potential new customer based on their avoided cost. The proposal was received positively by both wholesale customers and the Public Utility Board. In addition to developing new pricing approaches that we hope to roll out in 2014, we anticipate offering a menu of services that we could provide by contract to our customers.

WATER QUALITY

Groundwater Treatment

Tacoma Water completed construction of the new Hood Street and South Tacoma Pump Station Corrosion Control Facilities, and the Hood Street Fluoridation Facility. This \$4.2 million project significantly improves our level of treatment for groundwater supplies, protecting public health against exposure to lead and copper from household plumbing, and ensuring a consistent level of fluoridation treatment, as required by City ordinance. It is one of the largest groundwater treatment facilities in Washington, and was delivered within budget. Tacoma Water received a \$202,000 grant from the Washington Dental Service for the fluoridation equipment costs at the Hood Street site.

Green River Treatment

The Green River Filtration Facility construction continued through the year. With a competitive bidding climate, and high quality project management from the Contractor, Design Team, and the Tacoma Water team, overall project costs continue to come down. At year close, the total project cost, estimated to range from \$182M - \$233M at project approval, is now at \$185M. This multifaceted project will fundamentally change the way water from the Green River is treated and delivered when it comes on line in early 2015. In addition to construction, planning for changes to staffing and maintenance management were forefront in the work accomplished in 2013.

Customer Service

Water Quality personnel respond to customers who call about the quality of the water they are receiving, and we know that these calls often come with heightened concern. Timely response is extremely important. We have an established goal that at least 98 percent of all customers receive a call back the same business day. Staff exceeded that goal, returning 693 of the 700 calls received in the time required (99 percent).

Members of our Water Quality staff have been part of a multi-sectional effort to improve our operating relationships with new and long-standing Wholesale customers, and to develop new processes and approaches to ensure that these accounts are well served. In 2013, this team developed a clear operating procedure for managing new Wholesale requests, and multiple staff members were involved in building and supporting relationships with Wholesale customers.

Natural Resource Management

Our environmental obligations are fundamental to our ability to continue to serve water in a complex natural resource environment. Our Environmental Programs group completed our Ten Year Report of the Habitat Conservation Plan, and completed a very large field effort to assess and map 27.5 miles of habitat along the Green River and tributaries to the Green River. This information will be valuable to our understanding of the natural systems, and how our mitigation and improvement projects work in those systems.

WATER SUPPLY

Transmission Pipelines

Transmission pipelines are some of the most critical components of any water system. In 2013, the work by Tacoma Water staff to address a critical section of transmission main that has had a history of leaks was successfully completed in a manner that the entire industry will benefit from. The rehabilitation of a portion Pipeline 2, a 58" diameter steel pipeline, entailed relining it with a sprayed-in-place polyurea pipeline. The sprayed-in-place pipeline fixed the leaks and is essentially a new pipe within a pipe at a cost considerably lower than replacing the old pipe with a new steel line. This was the first large diameter potable water sprayed-in-place pipeline project in the United States. We anticipate continuing to use this effective method of renewing our aging transmission system over the coming years.

Proactive attention was paid to Tacoma Water's newest pipeline, Pipeline 5, in 2013 also. A shutdown to replace a failed coupling (joint connector) occurred. With the pipeline shut down, we also took the opportunity to inspect other upstream sections of the pipeline for the first time since it was put into service 8 years ago. Although most of the pipe was in good shape as would be expected, an issue with the coating peeling off in areas of overspray at joints was confirmed and will be addressed with the manufacturer. Additionally, valve modifications were made at the flow control facility to resolve torque-related failure issues.

Other efforts accomplished in 2013 will enhance the reliability of the transmission system such as: the addition of two new deep wells for ground-bed cathodic protection from pipeline corrosion, North End Transmission Pipeline leak repair at a critical location beneath the pump station, clearing several miles of Pipeline 1 right-of-way for leak inspection and subsequent leak repair, and engineering technicians adopting use of Civil 3D on pipeline projects to create dynamic profiles and increase drawing efficiencies.

Storage

The two new McMillin 33 million gallon storage tanks were each drained for inspection for the first time since they were put into service nearly two years ago. No major issues were found during the inspection. The exterior of the North End Standpipe was lead-abated and painted. Several storage reservoirs were removed from service for inspection and their tri-annual cleaning.

Wells

In advance of putting the new Groundwater treatment facilities in service, a test of the treatment capabilities was performed. In that test, we pumped 42 million gallons per day (MGD) of groundwater through the Wells Pipeline. This is the largest flow ever attempted in the Wells Line. Both the treatment and transmission lines performed well, along with production from the wells at that flow. Finally, replacement of the pump and motor at Well 7B was also accomplished in 2013.

Communications and SCADA

Major systems control and communication improvements were accomplished in 2013. We completed construction of the Tacoma Water microwave communication loop. This looped system will improve the quality and capacity of the communication network. Additionally, the telephone system at the Headworks was upgraded to a digital system. The upgrade of the Supervisory Control and Data Acquisition (SCADA) system for Tacoma Water was one of the most significant accomplishments in a very busy year. It was a large, complex job made more difficult by geography and weather. This upgrade will support the doubling of telemetry equipment coming online over the next year with the filtration plant.

In order to prepare for engaging in a comprehensive All Hazards Vulnerability Assessment in 2014, we completed a Cyber Vulnerability Assessment in 2013. As we become more dependent on technology we become more vulnerable to its failing or security breaches. Along with the assessment, we also participated in Cyber Storm IV which was a National Incident Response cyber threat table-top exercise coordinated by the Department of Homeland Security in which we represented the unique issues a water utility may encounter. As part of the exercise we practiced coordination with the FBI and the WaterISAC as well as investigated our internal response strategy. After action improvements have been identified and will be added to the update of the Emergency Response Plan in 2014.

DISTRIBUTION ENGINEERING

Economic Development and New Services

After a number of years of slow economic development activity in both the commercial and residential sectors, 2013 was a positive year for growth and development. As new homes were built on the inventory of already developed lots, work on new plats started back up. Although we had good activity in this area, it is still not where it was before the economic downturn in 2008. Economic development downtown Tacoma included expansions of the Multicare facility and the Tacoma Art Museum. Planning for the 2015 US Open at Chambers Bay Golf Course in University Place was initiated. Distribution Engineering staff together with Tacoma's Community and Economic Development Department, Tacoma Pierce County Economic Development Board and the Port of Tacoma have been actively engaged in support of the region's economic development agenda.

The premier accomplishment of 2013 was the attraction of Niagara Bottling Company, the largest family-owned bottled water manufacturer in the United States, to Pierce County. They chose to locate their new state-of-the-art bottling facility in the Frederickson area and when they start up in the spring of 2014, they will become one of Tacoma Water's largest customers. In the effort to incent them to locate in our service area, a term limited, reduced price contract with a take or pay obligation was offered. The success of attracting this new company to the area is a win for both Tacoma Water's rate payers and the region in general with the creation of good jobs and considerable capital investment.

In 2013, Tacoma Water expanded its service area for the first time in a number of years to serve a neighborhood in the Bonney Lake area that had previously been served by a private water company called Fennel Heights. Tacoma Water service area surrounded them on all sides and when their water source could not meet the drinking water standards they approached us to request that we acquire them. With the help of a State grant to pay for construction of new mains and services, approval by the Public Utility Board and City Council was received to provide retail service to these customers.

Main Replacement Program

Progress continued in the area of distribution main replacements targeting mains with a history of breaks and substandard performance. A little less than 8 miles of distribution main were replaced in 2013. A considerable effort was invested in building an economic model for the distribution main strategic asset management plan. As refinements are made to that model over the next few years, mains targeted for rehabilitation or replacement will be an output of the model. The 2013 main projects were distributed throughout our service area, both within and outside the City of Tacoma.

To expedite and improve information collection for new main projects, a template was developed and implemented for the survey crews. Use of this template has made it easier for the engineering technicians to transfer data to their drawings and to ensure the information collected in the field is comprehensive and consistent.

Customer Service

In an effort to continuously improve our level of service to our customers; many Water Distribution Engineering staff attended comprehensive customer service training offered through the American Water Works Association. Additionally, analysis of the consolidation of customer service functions for all Tacoma Public Utilities divisions led to a recommendation that development and permitting services be located in a central location on the main floor of the Utilities Building. Further design work to advance that move will be performed in 2014. Additionally, looking for opportunities to expedite permitting, on-line options have been developed by Distribution Engineering staff and have been rolled out in coordination with new software installed by the City for their development services. Finally, improvements to Tacoma Public Utilities' website include customer request forms for Tacoma Water services.

In support of one of our largest customers, Metro Parks, Distribution Engineering staff partnered with Metro Parks staff to evaluate the Point Defiance Park water system and determine how improvements could be made to reduce leakage and better manage water use. As a result, a number of new water meters were installed throughout Point Defiance Park by Tacoma Water to help Metro Parks better understand their water use. Additionally, Distribution Engineering staff worked with park staff to develop plans for the installation of a new main in 2014, to provide improved fire flow to Fort Nisqually. Once installed the main will become a part of the Tacoma Water system contrary to the balance of the water system at Point Defiance which is owned and operated by Metro Parks.

Water Conservation and Efficiency Programs

Over the past couple of years, Tacoma Water has participated in an international effort to study end uses of water by residential customers. The study included 23 participating utilities from the United States and Canada. Although the final report has not been issued yet, preliminary findings for Tacoma Water include: 352 customers returned surveys about their water use, 99 homes were data logged at the meter to capture water use per type, 50 percent of Tacoma Water's customers have older clothes washers and toilets that could be replaced with more efficient models, and Tacoma residents tend to use outdoor irrigation much less than the other participating utilities. When the report is finalized the information will be used to better inform our demand forecast, financial model and programs focused on wise use of water.

CII refund for APA

Tacoma Water continues to offer conservation incentives for commercial, industrial and institutional customers through the CII Rebate Program. Over the past year, Distribution Engineering staff worked with APA - The Engineered Wood Association to provide a conservation incentive for the installation of water efficient equipment. As a result of the incentive program, APA was able to install two air cooled condensers that will reduce water consumption by an estimated amount of 1,032 CCF/year.

Energy Efficiency Project for the Distribution Operations Building

Tacoma Water staff completed participation in the Energy Cohort program offered through Washington State University. During the program staff learned how to analyze energy consumption, look for opportunities to increase energy efficiency, and take advantage of rebates and incentives offered by power providers. As a result of participating in the program, staff worked with Tacoma Power to initiate a pilot project which installed energy efficient lighting fixtures in portions of the Distribution Operations Building.

Staff Participation in the Development and Teaching for ecoPRO

Distribution Engineering staff has assisted the Washington Association of Landscape Professionals to develop test questions for the Certified Landscape Professional certification test. The intention of the certification program is to increase the number of landscape professionals available to our customers that have demonstrated knowledge of water efficient practices in the installation and maintenance of landscaping.

DISTRIBUTION OPERATIONS

Construction

New service installations picked up in 2013 reflecting a stronger, growing local economy. The average number of new meter installs per month was twice the level it has averaged over the past 5 years. Additionally, over 3 miles of water main were installed in new housing developments along with almost 600 service stubs.

Workshops were conducted with the Water Service Supervisors to identify improvements to the planning and scheduling of construction work. An improved process implemented in 2013, starts with the Water Service Supervisors meeting in the morning and organizing crew structures to most efficiently fulfill the day's commitments.

By use of an electronic shared calendar, unscheduled and scheduled absences are considered, in addition to training. A supervisor two week job/project forecast in the same calendar helps facilitate monitoring staffing levels with scheduled work. Real time afternoon updates from Lead Workers to Supervisor's provide the ability to modify and submit their group's planned work and any additional personnel or equipment needs for the next day by 4:00. At 7:30 the next morning, last minute crew staffing and resource/equipment adjustments are made to the planned work due to any unplanned absences that may occur or emergencies that become a priority. The Mobile Dispatch screen is monitored for workload to determine if one or two man crew vacancies need to be backfilled. Once the planned work is reviewed and finalized, the magnetic staffing board is updated and displayed in the hallway. The Service Supervisors check and select any 50 yard miscellaneous spoil sites that could be worked on, and distribute to appropriate Lead Worker for their Equipment Operators.

Operations

In 2013 we had 54 main breaks, with an average response time of 29 minutes 24/7. Over half of the breaks occurred during cold, dry weather in November, December. Even with the increased main failures and significant number of frozen meters/pipes, our response to each issue was quick and we received good feedback from customers.

In January of 2013, our crews did an outstanding job responding to the SR16 bridge collapse on South Tacoma Way which happened on a Friday afternoon. Repair was difficult due to the amount of damage, and required removal of the collapsed section of the bridge. Initially, there were several feet of water to contend with and a leaking natural gas main. Tacoma Water staff worked together to minimize impacts to affected customers which included restaurants and businesses in close proximity to the collapse. We successfully repaired and put the main back in service by Monday morning in order to not adversely affect local businesses such as Roman Meal and American Linen.

Maintenance

Systematic flushing

As our primary source is unfiltered river water, it is critical that we regularly flush our water mains. In 2013, our unidirectional flush crews cleaned 300.49 miles of distribution mains, about a fourth of the system.

Fire Hydrant Maintenance

All fire hydrants receive comprehensive maintenance every other year. Efficient routing, improved record keeping, replacement of old scissor style hydrants and a mature hydrant maintenance program has resulted in a high degree of hydrant reliability and low incidence of issues. In 2013, 4011 hydrants were inspected and maintained.

Meters

In 2013, due to new federal regulations and changes in available meter models, considerable analysis and research of new meter technologies was accomplished. The Master Meter "OCTAVE" ultrasonic meter is the meter that we have determined will provide us with the best life cycle cost and will be used

in applications where we previously installed Turbine, Compound and FireLine meters. Monitoring of Sensus Omni Meters that we have bench tested and installed in the field will continue. Additional OMNI meters will be purchased as an alternate to the OCTAVE meters, if we identify issues with it that cannot be resolved. An Automated Meter Reading (AMR) pilot was started to test technologies as a replacement for our existing landline phone read system with the intent to expand to a new commercial customer application. The Innov8 water meter register was selected for field testing. The register has integral radio transmitters that send readings to the “Cloud” via cell phone technology which allows staff to access meter reads.

Leadership Program

The pilot Leadership Program within Distribution Operations focused on providing training and a mentoring effort in 2013. The mentoring effort involved seven Managers/Assistant Managers who have volunteered to mentor the core group of individuals currently enrolled in the Leadership Pilot Program. The goal and reality of the mentoring is two-way knowledge sharing. Quarterly meetings have been held with the mentors. The reports to date have been very positive by the participants.

Additionally, eight classes on topics relevant to leaders in our organization were held.

The courses were taught by subject matter experts and covered the following topics:

- Basic Budget Training
- Financial Basics
- Rates
- Hiring Process
- Balanced Scorecard
- Water Quality 101
- How the System Works, Part 1&2

Fleet Improvements

To be more efficient and environmentally aware, Automatic Vehicle Location (AVL) system technology was installed in all Tacoma Water vehicles by the end of the first quarter 2012. In 2013, meetings were conducted with employees to discuss the employee survey results, in particular concerns about use of AVL and employee performance. Open discussion and feedback on the topic of AVL resulted in improved understanding of the purpose and value of the tool and how it will be used to optimize work assignment and support. AVL access has been expanded to include Lead Workers, the Water Control Center, and Tacoma Water’s Safety Coordinator. The expanded access to AVL will enhance transparency of AVL information and provide direct access to those most able to productively use the information to assign resources and better direct crews.

A Fleet Strategic Asset Management Plan (SAMP) analysis matrix was created and utilized to inform decision making related to surplus and replacement of our fleet. Through the prioritized decision making process 9 vehicles were identified to be surplus or ready for replacement. A replacement for our Vector truck was selected as a result of a Business Case Evaluation (BCE) performed by staff. The rigorous evaluation of the various options produced an outcome different from the original intended replacement, but one more widely supported by staff.

Marketing of Surplus Material

We advertised to the public Tacoma Water's free dirt program, material from construction that we would otherwise have to pay to dump at a landfill. We ended up with an overwhelming response. We are still getting requests for fill dirt and they are currently put on a waiting list and taken care of when there is availability. This program reduces our cost of disposal and allows reuse of a product that is waste for us but might be a value to one of our customers.

Regulatory Compliance

Tacoma Water complies with various rules and regulations. A rule change starting January 2014 mandates all brass fittings for potable water use, be lead free. The lead free fittings cost more than current stock on hand. Our warehouse currently stocks various types and quantities of fittings. We met our objective of using up non-compliant fittings prior to switching over to the lead free fittings. Additionally, our materials for meters and services are compliant under the new regulations. Late in the year with only a couple of months to respond, the EPA updated their guidance on what the lead free standard applied to and included fire hydrants. As a result of considerable negotiation and feedback from the water industry, including very proactive engagement by Tacoma Water staff, Congress took action to exclude fire hydrants from the new law in December.

The Outfitting of our new ESA trailer to more efficiently comply with city and state regulations when responding to main breaks was completed and put into use. The efficiency of having the necessary items to comply in emergency response situations has proven to be beneficial.

Linda McCrea
Water Superintendent



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