

STATEMENT OF NET POSITION
December 31, 2017
(amounts expressed in thousands)
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	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	TOTAL
ASSETS			
Cash and cash equivalents	\$ 257,634	\$ 434,124	\$ 691,758
Investments at fair value	5,222	-	5,222
Receivables (net of allowance for uncollectibles)	52,313	104,288	156,601
Due from other governmental units	26,145	1,655	27,800
Internal balances	466	(466)	-
Inventories	3,722	12,110	15,832
Prepays	3,483	9,152	12,635
Other current assets	-	-	-
Temporarily restricted assets:			
Cash and cash equivalents	-	204,928	204,928
Notes and contracts receivable	-	923	923
Contracts, notes, non-current leases	-	18,761	18,761
Capital assets (not being depreciated):			
Land	36,380	164,293	200,673
Art	2,414	-	2,414
Construction in progress	30,800	53,807	84,607
Capital assets:			
Property, plant, and equipment	273,287	4,428,165	4,701,452
Infrastructure	1,410,490	-	1,410,490
Accumulated depreciation	(947,044)	(1,824,251)	(2,771,295)
Non-current assets			
Cash for bond reserve	-	19,058	19,058
Capital assets held for resale	-	-	-
Net Pension Assets	52,137	-	52,137
Other non-current assets	-	51,891	51,891
Total assets	<u>1,207,449</u>	<u>3,678,438</u>	<u>4,885,887</u>
Deferred Outflow of Resources			
Unamortized loss on refunding	4,329	7,199	11,528
Deferred outflow for pensions	33,278	67,969	101,247
Total Deferred Outflow of Resources	<u>37,607</u>	<u>75,168</u>	<u>112,775</u>
LIABILITIES			
Accounts payable and			
other current liabilities	26,221	65,325	91,546
Deposits payable	76	8,498	8,574
Due to other governments	201	554	755
Unearned revenue	8,579	7,704	16,283
Payable from restricted assets			
current liabilities	-	707	707
Other liabilities	8,914	31,675	40,589
Special assessment debt with governmental commitment	26,257	-	26,257
Total Pension Liability - Police and Firefighters	44,317	-	44,317
Net Pension Liability	27,989	64,891	92,880
Non-current liabilities:			
Due within one year	47,058	51,851	98,909
Due in more than one year	245,429	1,325,201	1,570,630
Total liabilities	<u>435,041</u>	<u>1,556,406</u>	<u>1,991,447</u>
Deferred Inflow of Resources			
Advance payment of Special Assessments	25,850	-	25,850
Regulatory liability - rate stabilization	-	114,575	114,575
Deferred inflows for Pensions	17,938	13,981	31,919
Deferred gain on refunding	-	540	540
Total Deferred Inflow of Resources	<u>43,788</u>	<u>129,096</u>	<u>172,884</u>
NET POSITION			
Net investment in capital assets	666,530	1,636,652	2,303,182
Restricted for:			
Capital purchases	3,922	33,079	37,001
Debt Service	12,063	35,709	47,772
Utilities assurance & system development	-	52,727	52,727
Culture and recreation	7,423	4,405	11,828
Self-insurance	-	1,150	1,150
Environmental services and programs	-	2,467	2,467
Inspections	-	299	299
Pensions	52,480	-	52,480
Public safety	6,606	-	6,606
Transportation	78,137	-	78,137
Grants	95	-	95
Housing & economic development	7,554	-	7,554
Unrestricted	(68,583)	301,616	233,033
Total net position	<u>\$ 766,227</u>	<u>\$ 2,068,104</u>	<u>\$ 2,834,331</u>

COMPONENT UNITS		
GTRCC		
TCRA	PFD	FWDA
\$ 6,582	\$ 2,079	\$ 1,066
-	-	-
4,509	696	14
-	-	21
-	-	-
-	-	-
11	-	36
7	-	-
1,462	-	7,002
-	-	-
3,787	-	-
6,042	-	22,124
-	-	86
(4,118)	-	(6,107)
-	-	-
1,686	-	-
-	-	-
39,727	-	-
<u>59,695</u>	<u>2,775</u>	<u>24,242</u>
-	-	-
-	-	-
-	-	-
915	-	82
-	-	29
-	2,775	8
-	-	149
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
3,500	-	3,434
<u>4,415</u>	<u>2,775</u>	<u>3,702</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
51,107	-	-
<u>55,280</u>	<u>-</u>	<u>(110)</u>
<u>55,280</u>	<u>-</u>	<u>20,539</u>

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017
(amounts expressed in thousands)

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FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR	OPERATING	CAPITAL GRANT
		SERVICES	GRANTS AND	& CONTRIBUTIONS
			CONTRIBUTIONS	
Primary government:				
Governmental activities:				
General government	\$ 24,436	\$ 23,007	\$ 11,193	\$ -
Public safety	162,416	20,221	5,616	61
Transportation	69,741	1,994	10,717	11,387
Social Services	4,908	-	-	-
Natural & econ environment	25,102	3,145	4,085	-
Culture and recreation	11,187	195	180	101
Interest on long-term debt	8,837	-	-	-
Total governmental activities	<u>306,627</u>	<u>48,562</u>	<u>31,791</u>	<u>11,549</u>
Business-type activities:				
Permit Services	9,236	11,499	-	-
Mountain Rail	3,180	1,489	-	-
Parking Garage	5,626	7,889	-	-
Convention Center	9,752	6,460	-	-
Cheney Stadium	1,836	689	-	-
Tacoma Dome	9,918	9,121	-	-
Performing Arts	1,737	-	-	657
Solid Waste	52,938	67,964	111	-
Waste Water	95,960	111,787	-	4,470
Union Station	1,464	1,459	-	-
Tacoma Rail	30,399	31,757	-	36
Water	97,540	95,085	-	12,721
Power	420,368	446,343	97	12,644
Total business-type activities	<u>739,954</u>	<u>791,542</u>	<u>208</u>	<u>30,528</u>
Total primary government	<u>1,046,581</u>	<u>840,104</u>	<u>31,999</u>	<u>42,077</u>
Component units:				
TCRA	1,178	189	1,807	-
GRTCC PDF	3,826	-	-	-
FWDA	1,526	377	41	-
Total component units	<u>\$ 6,530</u>	<u>\$ 566</u>	<u>\$ 1,848</u>	<u>\$ -</u>

General revenues:

- Property taxes
- Excise taxes
- Sales taxes
- Business taxes
- Unrestricted investment earnings
- Gain on sale of capital assets
- Transfers
- Total general revenues and transfers
- Change in net position
- Net position beginning
- Prior period adjustment
- Change in accounting principle
- Net position beginning (restated)
- Net position ending

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CHANGES IN NET POSITION			COMPONENT UNITS		
PRIMARY GOVERNMENT					
GOVERNMENTAL	BUSINESS-TYPE				
ACTIVITIES	ACTIVITIES	TOTAL	TCRA	GTRCC PFD	FWDA
\$ 9,764	\$ -	\$ 9,764	\$ -	\$ -	\$ -
(136,518)	-	(136,518)	-	-	-
(45,643)	-	(45,643)	-	-	-
(4,908)	-	(4,908)	-	-	-
(17,872)	-	(17,872)	-	-	-
(10,711)	-	(10,711)	-	-	-
(8,837)	-	(8,837)	-	-	-
(214,725)	-	(214,725)	-	-	-
	2,263	2,263	-	-	-
-	(1,691)	(1,691)	-	-	-
-	2,263	2,263	-	-	-
-	(3,292)	(3,292)	-	-	-
-	(1,147)	(1,147)	-	-	-
-	(797)	(797)	-	-	-
-	(1,080)	(1,080)	-	-	-
-	15,137	15,137	-	-	-
-	20,297	20,297	-	-	-
-	(5)	(5)	-	-	-
-	1,394	1,394	-	-	-
-	10,266	10,266	-	-	-
-	38,716	38,716	-	-	-
-	82,324	82,324	-	-	-
(214,725)	82,324	(132,401)	-	-	-
-	-	-	818	-	-
-	-	-	-	(3,826)	-
-	-	-	-	-	(1,108)
\$ -	\$ -	\$ -	\$ 818	\$ (3,826)	\$ (1,108)
\$ 74,479	\$ -	\$ 74,479	\$ -	\$ -	\$ -
12,881	-	12,881	-	-	-
71,634	1,702	73,336	-	3,815	-
51,043	-	51,043	-	-	-
2,134	5,591	7,725	12	11	11
293	4,650	4,943	(55)	-	-
51,452	(51,452)	-	-	-	-
263,916	(39,509)	224,407	(43)	3,826	11
49,191	42,815	92,006	775	-	(1,097)
751,813	2,025,289	2,777,102	54,958	-	22,863
1,169	-	1,169	(453)	-	(1,227)
(35,946)	-	(35,946)	-	-	-
717,036	2,025,289	2,742,325	54,505	-	21,636
\$ 766,227	\$ 2,068,104	\$ 2,834,331	\$ 55,280	\$ -	\$ 20,539

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2017

(amounts expressed in thousands)

	General Fund #0010	Trans Capital & Engineering #(3)1060	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 60,627	\$ 3,412	\$ 124,278	\$ 188,317
Investments at fair value	-	-	5,222	5,222
Accounts receivables (net)	17,253	1,230	33,663	52,146
Due from other funds	3,960	288	5,888	10,136
Due from other governments	16,429	2,704	6,996	26,129
Inventories	1,160	-	1,649	2,809
Prepayments	7	-	-	7
Advances to other funds	-	-	965	965
TOTAL ASSETS	99,436	7,634	178,661	285,731
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 99,436	\$ 7,634	\$ 178,661	\$ 285,731
LIABILITIES				
Accounts payable	\$ 3,919	\$ 3,025	\$ 3,971	\$ 10,915
Due to other funds	1,330	754	8,102	10,186
Due to other governments	180	-	21	201
Accrued wages	2,061	-	619	2,680
Accrued taxes	41	-	7	48
Customer deposits	-	-	76	76
Other current liabilities	722	-	-	722
Advances from other funds	-	-	533	533
TOTAL LIABILITIES	8,253	3,779	13,329	25,361
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	10,969	62	27,127	38,158
TOTAL DEFERRED INFLOWS OF RESOURCES	10,969	62	27,127	38,158
FUND BALANCES (DEFICITS)				
Nonspendable	3,630	-	1,685	5,315
Restricted	352	1,098	114,693	116,143
Committed	52	-	8,211	8,263
Committed - Council Contingencies	647	-	-	647
Assigned	7,974	2,695	13,482	24,151
Unassigned	67,559	-	134	67,693
TOTAL FUND BALANCES (DEFICITS)	80,214	3,793	138,205	222,212
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 99,436	\$ 7,634	\$ 178,661	\$ 285,731

RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEETS
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS

December 31, 2017

(amounts expressed in thousands)

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	222,212
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds balance sheet.		766,289
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Internal service funds are used by management to charge the cost of various support services such as information systems, graphic services, communication, fleet and others activities to individual funds. The assets and liabilities of the Internal service funds are included in the government activities in the statement of net position.		103,750
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Net Pension Assets and Deferred Outflow for Pensions are not reported in the governmental funds balance sheet.		85,415
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Certain taxes will be collected after year-end and will not be available to pay for current year expenditures and are reported as unavailable revenue.		(3,793)
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Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.		(318,744)
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Deferred Inflow of Resources for Pensions are not reported in the governmental funds balance sheet.		(16,596)
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Total pension liability is reported as a liability in the governmental activities and is not considered to represent a financial liability, therefore, it is not reported in the governmental funds balance sheet.		(44,317)
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Net Pension Liability is reported as a liability in the governmental activities and is not considered to represent a financial liability, therefore, it is not reported in the governmental funds balance sheet.		(27,989)
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NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	766,227
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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

(amounts expressed in thousands)

	General Fund #0010	Trans Capital & Engineering #(3)1060	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 161,578	\$ -	\$ 48,392	\$ 209,970
Licenses and permits	7,197	-	4,010	11,207
Intergovernmental revenue	11,347	14,137	15,140	40,624
Charges for goods and services	13,081	706	6,836	20,623
Fines and penalties	1,344	6	5,581	6,931
Interest and other earnings	1,052	22	603	1,677
Miscellaneous revenues	825	147	3,910	4,882
TOTAL REVENUES	<u>196,424</u>	<u>15,018</u>	<u>84,472</u>	<u>295,914</u>
EXPENDITURES				
Current:				
General government	34,195	-	3,764	37,959
Public safety	139,249	-	22,155	161,404
Transportation	368	8,391	31,423	40,182
Economic environment	17,262	-	6,870	24,132
Mental and physical health	-	-	4,712	4,712
Culture and recreation	12,861	-	598	13,459
Debt service:				
Principal payments	-	-	13,805	13,805
Interest and other related costs	-	-	8,837	8,837
Capital outlay	1,280	11,964	9,265	22,509
TOTAL EXPENDITURES	<u>205,215</u>	<u>20,355</u>	<u>101,429</u>	<u>326,999</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(8,791)</u>	<u>(5,337)</u>	<u>(16,957)</u>	<u>(31,085)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt	-	-	27,512	27,512
Proceeds from sale of capital assets	-	-	4,852	4,852
Insurance recoveries	59	-	1	60
Transfer in	46,227	4,276	84,490	134,993
Transfer out	(37,647)	(1,977)	(47,679)	(87,303)
TOTAL OTHER FINANCE SOURCES (USES)	<u>8,639</u>	<u>2,299</u>	<u>69,176</u>	<u>80,114</u>
NET CHANGE IN FUND BALANCE	(152)	(3,038)	52,219	49,029
FUND BALANCE - January 1	80,348	6,519	85,131	171,998
Prior period adjustment	18	312	855	1,185
FUND BALANCE - January 1, Restated	<u>80,366</u>	<u>6,831</u>	<u>85,986</u>	<u>173,183</u>
FUND BALANCE (DEFICIT) - December 31	<u>\$ 80,214</u>	<u>\$ 3,793</u>	<u>\$ 138,205</u>	<u>\$ 222,212</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

(amounts expressed in thousands)

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 49,029
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures in the year purchased. The entity wide statement of activities reports capital outlay as depreciation expense over the life of the asset. This is the amount by which capital outlays exceeded depreciation in the current period.	(16,629)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Pension Asset	2,656
Property Tax	128
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Net OPEB obligation	(7,203)
Total Pension Liability - Police and Firefighters	877
Compensated absences	5,786
Claims and judgements	(6,601)
Pension Expense	29,519
The net revenue of certain activities of internal service funds is reported with governmental activities:	5,003
Profit Loss reallocation that decrease expenditure	
Debt proceeds provide current financial resources to governmental funds but issuing debt increases non-current liabilities in the statement of net position.	(27,512)
Repayment of non-current debt is an expenditure in the governmental funds but on the statement of net position it reduces the liability:	
Bond issuance cost/discount amortization	333
Principal repayment	13,805
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>49,191</u>

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

December 31, 2017

(amounts expressed in thousands)

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	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300-01	Tacoma Water #4600	Tacoma Power #4700
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 34,179	\$ 98,418	\$ 59,076	\$ 195,176
Accounts receivable (net)	6,789	13,992	10,770	65,695
Due from other funds	67	1	69	1,820
Due from other governments	-	823	299	-
Inventory	-	1,243	2,403	6,987
Prepayments	-	220	1,240	6,808
Current restricted assets:				
Cash and cash equivalents:				
Debt services, deposits and replacements	391	1,058	4,366	21,208
Construction accounts	4,441	57	32,591	7
Other special purposes	75	-	117,005	7,545
Notes and contracts receivable (current)	-	139	-	-
Total restricted assets	4,907	1,254	153,962	28,760
Total current assets	45,942	115,951	227,819	305,246
Noncurrent assets:				
Cash for bond reserves	4,723	14,335	-	-
Notes and contracts receivable	-	706	-	2,625
Other noncurrent assets	-	282	1,810	49,689
Capital assets:				
Land	2,856	23,657	24,687	77,089
Property, plant, and equipment	187,511	819,185	1,074,242	1,978,938
Less: accumulated depreciation	(108,553)	(268,678)	(236,819)	(1,050,225)
Construction work in progress	137	8,033	11,902	32,157
Total capital assets net of accumulated depreciation	81,951	582,197	874,012	1,037,959
Total noncurrent assets	86,674	597,520	875,822	1,090,273
TOTAL ASSETS	132,616	713,471	1,103,641	1,395,519
DEFERRED OUTFLOW OF RESOURCES				
Unamortized loss on refunding	-	2,904	1,363	-
Deferred outflows related to pensions	5,407	11,071	8,671	38,427
TOTAL DEFERRED OUTFLOW OF RESOURCES	5,407	13,975	10,034	38,427
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES	\$ 138,023	\$ 727,446	\$ 1,113,675	\$ 1,433,946

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2017
 (amounts expressed in thousands)
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	BUSINESS-TYPE ACTIVITIES			
	ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300-01	Tacoma Water #4600	Tacoma Power #4700
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,054	\$ 3,265	\$ 1,369	\$ 33,095
Due to other funds	252	732	1,097	68
Due to other governments	-	550	-	-
Advances from other funds	-	-	-	-
Interest payable	-	202	1,860	9,755
Deposits payable	23	-	357	2,791
Accrued wages	488	874	726	3,036
Accrued benefits	-	-	-	-
Accrued taxes	707	862	1,556	8,272
Environmental liability - current	876	886	-	-
Notes, contracts & leases - current	1,888	3,868	2,878	250
Revenue bonds - current	-	4,606	10,681	11,575
Unearned revenue	208	341	-	-
Other	-	-	-	-
Current payables from restricted assets:				
Debt principal payable	172	419	-	-
Debt interest payable	222	640	-	-
Deposits and other payables	74	-	-	-
Total current liabilities	5,964	17,245	20,524	68,842
Noncurrent liabilities:				
Revenue bonds payable (net)	63,453	189,545	377,995	417,800
Unearned revenues	-	-	7,610	-
Compensated absences	1,106	2,979	2,069	9,398
Environmental liability - noncurrent	15,478	840	-	-
Notes, contracts & leases payable - noncurrent	-	40,575	85,624	-
Net OPEB obligation	2,237	2,969	3,542	11,282
Net pension liability	5,162	10,570	8,279	36,687
Other - noncurrent liabilities	-	-	13,957	3,862
Total noncurrent liabilities	87,436	247,478	499,076	479,029
TOTAL LIABILITIES	93,400	264,723	519,600	547,871
DEFERRED INFLOW OF RESOURCES				
Deferred liability - rate stabilization	6,000	25,000	35,575	48,000
Deferred inflows related to pensions	1,112	2,277	1,784	7,905
Deferred gain on refunding	467	73	-	-
TOTAL DEFERRED INFLOW OF RESOURCES	7,579	27,350	37,359	55,905
TOTAL LIABILITIES & DEFERRED INFLOW OR RESOURCES	100,979	292,073	556,959	603,776
NET POSITION				
Net investment in capital assets	27,775	386,409	445,995	613,307
Restricted:				
Restricted for capital purchases	-	-	-	-
Restricted for debt	4,721	14,335	2,506	11,453
Restricted for waste assurance and systems development	-	-	50,149	-
Restricted for culture and recreation	-	-	-	-
Restricted for self-insurance	-	-	-	-
Restricted for environmental services and programs	-	-	-	-
Restricted for inspections	-	-	-	-
Restricted for reserves	-	-	-	2,578
Unrestricted	4,548	34,629	58,066	202,832
TOTAL NET POSITION	\$ 37,044	\$ 435,373	\$ 556,716	\$ 830,170

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2017
 (amounts expressed in thousands)
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	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 21,594	\$ 408,443	\$ 94,998
Accounts receivable (net)	7,958	105,204	266
Due from other funds	514	2,471	950
Due from other governments	300	1,422	16
Inventory	1,167	11,800	1,223
Prepayments	884	9,152	3,476
Current restricted assets:			
Cash and cash equivalents:			
Debt services, deposits and replacements	2,694	29,717	-
Construction accounts	-	37,096	-
Other special purposes	13,490	138,115	-
Notes and contracts receivable (current)	-	139	-
Total restricted assets	16,184	205,067	-
Total current assets	48,601	743,559	100,929
Noncurrent assets:			
Cash for bond reserves	-	19,058	-
Notes and contracts receivable	15,430	18,761	-
Other noncurrent assets	110	51,891	-
Capital assets:			
Land	36,004	164,293	357
Property, plant, and equipment	305,794	4,365,670	175,617
Less: accumulated depreciation	(122,734)	(1,787,009)	(114,144)
Construction work in progress	850	53,079	4,188
Total capital assets net of accumulated depreciation	219,914	2,796,033	66,018
Total noncurrent assets	235,454	2,885,743	66,018
TOTAL ASSETS	284,055	3,629,302	166,947
DEFERRED OUTFLOW OF RESOURCES			
Unamortized loss on refunding	2,932	7,199	-
Deferred outflows related to pensions	3,477	67,053	7,437
TOTAL DEFERRED OUTFLOW OF RESOURCES	6,409	74,252	7,437
TOTAL ASSETS & DEFERRED OUTFLOW OF RESOURCES	\$ 290,464	\$ 3,703,554	\$ 174,384

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2017
 (amounts expressed in thousands)
 Page 4 of 4

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,071	\$ 40,854	\$ 9,136
Due to other funds	337	2,486	883
Due to other governments	4	554	-
Advances from other funds	432	432	-
Interest payable	634	12,451	-
Deposits payable	5,327	8,498	-
Accrued wages	611	5,735	1,109
Accrued benefits	12	12	6
Accrued taxes	354	11,751	14
Environmental liability - current	-	1,762	-
Notes, contracts & leases - current	-	8,884	-
Revenue bonds - current	8,565	35,427	-
Unearned revenue	1,245	1,794	64
Other	1,876	1,876	34,949
Current payables from restricted assets:			
Debt principal payable	-	591	-
Debt interest payable	-	862	-
Deposits and other payables	-	74	-
Total current liabilities	21,468	134,043	46,161
Noncurrent liabilities:			
Revenue bonds payable (net)	85,177	1,133,970	-
Unearned revenues	-	7,610	-
Compensated absences	1,826	17,378	3,494
Environmental liability - noncurrent	-	16,318	-
Notes, contracts & leases payable - noncurrent	6,043	132,242	-
Net OPEB obligation	1,626	21,656	-
Net pension liability	3,320	64,018	7,099
Other - noncurrent liabilities	6,705	24,524	13,607
Total noncurrent liabilities	104,697	1,417,716	24,200
TOTAL LIABILITIES	126,165	1,551,759	70,361
DEFERRED INFLOW OF RESOURCES			
Deferred liability - rate stabilization	-	114,575	-
Deferred inflows related to pensions	715	13,793	1,529
Deferred gain on refunding	-	540	-
TOTAL DEFERRED INFLOW OF RESOURCES	715	128,908	1,529
TOTAL LIABILITIES & DEFERRED INFLOW OR RESOURCES	126,880	1,680,667	71,890
NET POSITION			
Net investment in capital assets	137,604	1,611,090	66,018
Restricted:			
Restricted for capital purchases	6,803	6,803	26,276
Restricted for debt	2,694	35,709	-
Restricted for waste assurance and systems development	-	50,149	-
Restricted for culture and recreation	4,405	4,405	-
Restricted for self-insurance	-	-	1,150
Restricted for environmental services and programs	2,467	2,467	-
Restricted for inspections	299	299	-
Restricted for reserves	-	2,578	-
Unrestricted	9,312	309,387	9,050
TOTAL NET POSITION	\$ 163,584	\$ 2,022,887	\$ 102,494

The notes to the financial statements are an integral part of this statement

Basic Financial Statements, 3-13

RECONCILIATION OF TOTAL ENTERPRISE NET POSITON
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

December 31, 2017

(amounts expressed in thousands)

NET POSITION - TOTAL ENTERPRISE FUNDS	\$	2,022,887
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Amounts reported for business activities in the statement of net position assets are different because:

Internal service fund are used by management to charge the cost of support services to individual enterprise funds. In this case the support service is fleet management. The assets and liabilities of the fleet fund are included in the business activities in the government-wide statement of net position.	45,217
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NET POSITION OF BUSINESS ACTIVITIES	\$	<u><u>2,068,104</u></u>
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended December 31, 2017

(amounts expressed in thousands)

Page 1 of 2

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300-01	Tacoma Water #4600	Tacoma Power #4700
OPERATING REVENUES				
Charges for goods and services	\$ 67,400	\$ 106,174	\$ 84,584	\$ 428,151
Interfund insurance premiums	-	-	-	-
Miscellaneous revenues	494	3,867	10,060	18,192
TOTAL OPERATING REVENUES	<u>67,894</u>	<u>110,041</u>	<u>94,644</u>	<u>446,343</u>
OPERATING EXPENSES				
Salary and wages	14,112	23,972	18,800	82,123
Personnel benefits	7,997	12,396	9,174	36,979
Supplies	779	4,383	2,428	140,600
Services	21,595	28,936	18,650	65,521
Taxes	986	1,714	4,776	20,756
Depreciation expense	5,474	17,205	24,038	57,231
TOTAL OPERATING EXPENSES	<u>50,943</u>	<u>88,606</u>	<u>77,866</u>	<u>403,210</u>
OPERATING INCOME (LOSS)	16,951	21,435	16,778	43,133
NON-OPERATING REVENUES (EXPENSES)				
Taxes	-	-	-	-
Interest and other earnings	533	1,312	2,469	2,880
Interest and other related costs	(1,995)	(7,354)	(18,321)	(14,077)
Unrealized net gain/loss in FMV of investments	(136)	(378)	(706)	(628)
Operating contributions - interfund	-	-	-	-
Operating contributions - federal/state/local	-	-	-	-
Other non operating revenues (expenses)	70	1,746	440	(1,412)
Gain(loss) on disposition of property	(723)	(18)	846	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(2,251)</u>	<u>(4,692)</u>	<u>(15,272)</u>	<u>(13,237)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>14,700</u>	<u>16,743</u>	<u>1,506</u>	<u>29,896</u>
Capital contributions - federal/state/local	-	4,176	3,582	3,688
Capital contributions - private	-	294	9,139	8,955
Transfer in	-	1,218	51	-
Transfer out	(5,372)	(8,997)	(7,144)	(34,142)
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>(5,372)</u>	<u>(3,309)</u>	<u>5,628</u>	<u>(21,499)</u>
CHANGE IN NET POSITION	<u>9,328</u>	<u>13,434</u>	<u>7,134</u>	<u>8,397</u>
NET POSITION				
NET POSITION - January 1	27,716	421,939	549,582	821,773
Prior period adjustments	-	-	-	-
NET POSITION - January 1, Restated	27,716	421,939	549,582	821,773
NET POSITION - December 31	<u>\$ 37,044</u>	<u>\$ 435,373</u>	<u>\$ 556,716</u>	<u>\$ 830,170</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended December 31, 2017

(amounts expressed in thousands)

Page 2 of 2

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES			
Charges for goods and services	\$ 63,738	\$ 750,047	\$ 80,921
Interfund insurance premiums	-	-	91,195
Miscellaneous revenues	-	32,613	11
TOTAL OPERATING REVENUES	<u>63,738</u>	<u>782,660</u>	<u>172,127</u>
OPERATING EXPENSES			
Salary and wages	20,051	159,058	34,939
Personnel benefits	9,986	76,532	12,250
Supplies	2,538	150,728	3,543
Services	25,780	160,482	114,577
Taxes	789	29,021	-
Depreciation expense	8,571	112,519	9,813
TOTAL OPERATING EXPENSES	<u>67,715</u>	<u>688,340</u>	<u>175,122</u>
OPERATING INCOME (LOSS)	(3,977)	94,320	(2,995)
NON-OPERATING REVENUES (EXPENSES)			
Taxes	1,702	1,702	10
Interest and other earnings	350	7,544	861
Interest and other related costs	(4,562)	(46,309)	-
Unrealized net gain/loss in FMV of investments	(130)	(1,978)	(358)
Operating contributions - federal/state/local	-	-	-
Other non operating revenues (expenses)	6,625	7,469	65
Gain(loss) on disposition of property	4,057	4,162	781
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>8,042</u>	<u>(27,410)</u>	<u>1,359</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>4,065</u>	<u>66,910</u>	<u>(1,636)</u>
Capital contributions - federal/state/local	657	12,103	-
Capital contributions - private	36	18,424	-
Transfer in	8,358	9,627	5,025
Transfer out	(5,424)	(61,079)	(1,263)
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>3,627</u>	<u>(20,925)</u>	<u>3,762</u>
CHANGE IN NET POSITION	<u>7,692</u>	<u>45,985</u>	<u>2,126</u>
NET POSITION			
NET POSITION - January 1	155,892	1,976,902	100,384
Prior period adjustments	-	-	(16)
NET POSITION - January 1, Restated	<u>155,892</u>	<u>1,976,902</u>	<u>100,368</u>
NET POSITION - December 31	<u>\$ 163,584</u>	<u>\$ 2,022,887</u>	<u>\$ 102,494</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN NET POSITION OF ENTERPRISE FUNDS
TO THE STATEMENT OF ACTIVITIES -
BUSINESS ACTIVITIES

For the Year Ended December 31, 2017
(amounts expressed in thousands)

NET CHANGES IN NET POSITION - TOTAL ENTERPRISE FUNDS	\$ 45,985
Amounts reported for business activities in the statement of activities are different because:	
The net revenue of certain activities of internal service funds is reported with business activities:	
Profit Loss reallocation that decrease expenditure	(3,170)
CHANGES IN NET POSITION OF BUSINESS ACTIVITIES	\$ <u>42,815</u>

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2017
 (amounts expressed in thousands)
 Page 1 of 4

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300/4301	Tacoma Water #4600	Tacoma Power #4700
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 67,089	\$ 109,162	\$ 95,232	\$ 439,258
Receipts from interfund services provided	-	-	-	-
Payments to suppliers	(27,652)	(33,142)	(21,983)	(203,113)
Payments to employees	(20,595)	(33,347)	(26,214)	(113,802)
Payments for taxes	(988)	(1,778)	(4,712)	(19,994)
Payments for interfund services used	-	-	-	-
Other operating or non-operating revenues (expenses)	66	1,489	-	(83)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	17,920	42,384	42,323	102,266
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	350	-	-
Transfers (to) other funds	(5,385)	(8,934)	(7,093)	(34,242)
Advances (to) other funds	-	-	-	-
Grants received	-	45	-	-
Debt service related to environmental	(332)	(2,379)	-	-
Contributions and Donations	-	-	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(5,717)	(10,918)	(7,093)	(34,242)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	868	-	-
Transfers (to) funds	-	(61)	-	-
Acquisition and construction of capital assets	(7,779)	(23,830)	(14,042)	(60,000)
Proceeds from issuance of long-term debt	-	-	1,575	-
Proceeds from capital debt	-	-	-	70,575
Proceeds from the sale of capital assets	16	36	-	-
Proceeds from leased property	-	-	-	-
Lease and leaseback	-	-	-	-
Principal paid on capital debt	(4,645)	(8,060)	(13,339)	(117,030)
Interest and issuance costs paid on capital debt	(2,571)	(6,530)	(20,054)	(19,667)
Premium from capital debt	-	-	-	9,881
Capital lease obligation	-	-	-	-
Other long-term liabilities	-	-	-	1,110
Contributions and donations	3	4,625	9,093	12,494
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(14,976)	(32,952)	(36,767)	(102,637)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends received	538	1,320	1,763	2,251
Investment long-term	(142)	(386)	1,216	(1,284)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	396	934	2,979	967
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(2,377)	(552)	1,442	(33,646)
CASH & CASH EQUIVALENTS, JANUARY 1	46,186	114,420	211,596	257,582
CASH, RESTRICTED CASH & CASH EQUIVALENTS, DECEMBER 31	\$ 43,809	\$ 113,868	\$ 213,038	\$ 223,936

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2017
 (amounts expressed in thousands)
 Page 2 of 4

	BUSINESS-TYPE ACTIVITIES			
	ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300/4301	Tacoma Water #4600	Tacoma Power #4700
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED)				
BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 16,951	\$ 21,435	\$ 16,778	\$ 43,133
Adjustments to reconcile operating income				
(loss) to net cash provided (used)				
by operating activities:				
Depreciation expense	5,474	17,205	24,038	57,231
(increase) decrease in accounts receivable	(322)	(220)	(476)	(7,169)
(Increase) decrease in intergovernmental receivables	-	-	-	-
(Increase) decrease in due from other funds	(9)	84	39	406
(Increase) decrease in inventories	-	(214)	(62)	58
(Increase) decrease in prepaid items	-	99	(122)	-
(Increase) decrease in other current assets	113	-	-	-
Increase (decrease) in deposits payable	(9)	-	7	19
Increase (decrease) in accounts payable	(988)	(172)	64	1,270
Increase (decrease) in accrued wages payable	101	24	45	124
Increase (decrease) in compensated absences	88	88	(539)	(284)
Increase (decrease) in intergovernmental payables	-	(678)	-	-
Increase (decrease) in due to other funds	(566)	(1,120)	(582)	(2,073)
Increase (decrease) in unearned revenues	10	17	-	-
Increase (decrease) in other current liabilities	(550)	-	-	-
Increase (decrease) in notes, contracts, and leases payable	-	-	-	-
Increase (decrease) in other long-term liabilities	(2,440)	3,974	-	9,551
Prior period adjustments	-	-	-	-
Miscellaneous non-operating revenues (expenditures)	67	1,862	3,133	-
Total adjustments	969	20,949	25,545	59,133
NET CASH PROVIDED (USED) BY				
OPERATING ACTIVITIES	\$ 17,920	\$ 42,384	\$ 42,323	\$ 102,266
NONCASH INVESTING, CAPITAL, AND				
FINANCING ACTIVITIES				
Contributions of capital assets	-	1,251	3,628	149

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2017
 (amounts expressed in thousands)
 Page 3 of 4

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 63,703	\$ 774,444	\$ 24,260
Receipts from interfund services provided	(498)	(498)	62,145
Contributions received - employee/employer	-	-	89,109
Payments to suppliers	(26,840)	(312,730)	(105,498)
Payments to employees	(29,311)	(223,269)	(44,997)
Payments to insurance carriers	-	-	-
Payments for taxes	(909)	(28,381)	(1,584)
Payments for interfund services used	(4,934)	(4,934)	(4,359)
Other operating or non-operating revenues (expenses)	4,737	6,209	88
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,948	210,841	19,164
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	3,188	3,538	4,975
Transfers (to) other funds	(2,907)	(58,561)	(738)
Advances (to) other funds	(431)	(431)	-
Grants received	2,270	2,315	-
Debt service related to environmental	(174)	(2,885)	-
Contributions and Donations	(1)	(1)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	1,945	(56,025)	4,237
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	5,168	6,036	150
Transfers (to) funds	(2,525)	(2,586)	(625)
Acquisition and construction of capital assets	(2,585)	(108,236)	(12,438)
Proceeds from issuance of long-term debt	-	1,575	-
Proceeds from capital debt	4,051	74,626	-
Proceeds from the sale of capital assets	5,931	5,983	-
Proceeds from leased property	-	-	-
Lease and leaseback	-	-	-
Principal paid on capital debt	(7,560)	(150,634)	-
Interest and issuance costs paid on capital debt	(4,551)	(53,373)	-
Premium from capital debt	-	9,881	-
Capital lease obligation	-	-	-
Other long-term liabilities	-	1,110	-
Contributions and donations	2,017	28,232	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(54)	(187,386)	(12,913)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends received	355	6,227	875
Investment long-term	(133)	(729)	(369)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	222	5,498	506
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	8,061	(27,072)	10,994
CASH & CASH EQUIVALENTS, JANUARY 1	29,717	659,501	84,004
CASH, RESTRICTED CASH & CASH EQUIVALENTS, DECEMBER 31	\$ 37,778	\$ 632,429	\$ 94,998

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2017
 (amounts expressed in thousands)
 Page 4 of 4

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (3,977)	\$ 94,320	\$ (2,995)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	8,571	112,519	9,813
(increase) decrease in accounts receivable	(34)	(8,221)	123
(Increase) decrease in intergovernmental receivables	(300)	(300)	(8)
(Increase) decrease in due from other funds	(498)	22	4,920
(Increase) decrease in inventories	(142)	(360)	(192)
(Increase) decrease in prepaid items	1,192	1,169	(2,560)
(Increase) decrease in other current assets	(57)	56	287
Increase (decrease) in deposits payable	(2,091)	(2,074)	(52)
Increase (decrease) in accounts payable	(1,523)	(1,349)	6,851
Increase (decrease) in accrued wages payable	82	376	320
Increase (decrease) in compensated absences	645	(2)	(262)
Increase (decrease) in deferred credits	-	-	-
Increase (decrease) in intergovernmental payables	2	(676)	(8)
Increase (decrease) in due to other funds	(322)	(4,663)	317
Increase (decrease) in unearned revenues	(246)	(219)	65
Increase (decrease) in other current liabilities	(140)	(690)	(168)
Increase (decrease) in notes, contracts, and leases payable	-	-	-
Increase (decrease) in other long-term liabilities	50	11,135	2,543
Prior period adjustments	-	-	95
Miscellaneous non-operating revenues (expenditures)	4,736	9,798	75
Total adjustments	9,925	116,521	22,159
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 5,948	\$ 210,841	\$ 19,164
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	-	5,028	-

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

December 31, 2017

(amounts expressed in thousands)

	TOTAL PENSION AND EMPLOYEE TRUST FUNDS #6050-6100, 6450
ASSETS	
Cash and cash equivalents	\$ 7,909
Investments at fair value	32,707
Equities	945,893
Fixed income	576,353
Real estate	70,971
Venture capital and partnerships	134,143
Securities lending collateral	41,990
Due from other funds	1
Due from other governments	868
Interest and dividends	2,490
Investment sales	1,965
Capital assets - net of accumulated depreciation	10
TOTAL ASSETS	<u>1,815,300</u>
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>-</u>
LIABILITIES	
Current liabilities:	
Accounts payable	5,617
Accrued wages and benefits payable	1,438
Due to the governmental units	3
Investments purchase payable	84,883
Other current liabilities	5
Total current liabilities	<u>91,946</u>
Non-current liabilities:	
Accrued employee leave benefits	96
Total non-current liabilities	<u>96</u>
TOTAL LIABILITIES	<u>92,042</u>
TOTAL DEFERRED INFLOW OF RESOURCES	<u>-</u>
NET POSITION	
Net position restricted for pensions and other purposes	<u>\$ 1,723,258</u>

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended December 31, 2017
(amounts expressed in thousands)

	TOTAL PENSION AND EMPLOYEE TRUST FUNDS #6050-6100, 6450
ADDITIONS	
Employer contributions	\$ 26,091
Member contributions	23,009
Other contributions	160
Total contributions	<u>49,260</u>
Investment income:	
Net appreciation (depreciation) in fair value of investments	180,406
Interest & dividends	32,058
Total investment income	<u>212,464</u>
Less investment expenses:	
Investment management fees	(6,276)
Securities lending - agent fees	(81)
Securities lending - broker rebates	(490)
Total investment expense	<u>(6,847)</u>
Net investment income	<u>205,617</u>
TOTAL ADDITIONS	<u>254,877</u>
DEDUCTIONS	
Wages and benefits	934
Benefit payments	75,047
Refunds of contributions	2,421
Administrative expense	926
TOTAL DEDUCTIONS	<u>79,328</u>
NET INCREASE (DECREASE)	<u>175,549</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	
Net position - beginning	<u>1,547,709</u>
Net position - ending	<u>\$ 1,723,258</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

NOTES TO FINANCIAL STATEMENTS

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Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tacoma's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Effective for the fiscal year 2017, the City implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions administered through a trust. There is no material impact to the City in implementing this standard.

GASB Statement No. 80 - *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. There is no material impact to the City implementing this standard.

GASB Statement No. 82 - *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The purpose of this statement is to address certain issues that have been raised with respect to GASB statements No. 67, No. 68 and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

A. Reporting Entity

The City of Tacoma is a municipal corporation incorporated January 7, 1884. The City operates under a Council-Manager form of government, and under its charter has all powers granted by the constitution and laws of the State of Washington. The City provides the full range of services contemplated by statute or charter. Areas under City Council include:

1. Governmental functions: City Attorney, Community & Economic Development, Environmental Policy & Sustainability, Environmental Services, Finance, Fire, Governmental Relations, Hearing Examiner, Human Resources, Information Technology, Library, Municipal Court, Media & Communications, Neighborhood & Community Services, Office of Management and Budget, Planning & Development Services, Police, Tacoma Venues and Events, and Public Works; and,
2. Utility functions: Power, Rail, and Water.

The accompanying financial statements present the City and its component units.

Component units are required to be blended if the component unit's governing body is substantively the same as the governing body of the primary government and (1) there is a financial benefit/burden relationship between the primary government and the component unit or (2) management of the primary government has operational responsibility for the component unit. Additionally, per GASB Statement No. 80 a component unit should be included using blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member. A component unit should be presented as blended when the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

NOTES TO THE FINANCIAL STATEMENTS
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Discretely presented component units are separate legal entities for which the City is financially accountable and there is a financial benefit/burden relationship with the City. Exclusion of these entities would cause the City's financial statements to be misleading or incomplete. To be presented as a discretely presented component unit all of the following criteria must be met:

1. The economic resources received or held by the organization are almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization of the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

For related party transactions refer to Note 4 Section H.

Blended Component Units:

Tacoma Transportation Benefit District (TBD) is governed by a Board, comprised of Tacoma City Councilmembers acting ex officio and independently of their elected position, as required by the authorizing state law. Though it is legally separated from the City the TBD is reported as if it was part of the primary government because its sole purpose is to acquire, construct, improve, and provide funding for transportation improvements for the benefit of the City and City management has operational responsibility and services are provided entirely to the City. The authority to form a TBD was granted under Washington State RCW 35.21.225 and RCW 36.73.020. During 2012 City Council created the TBD, by ordinance No. 28099 and RCW 82.80.140 gives the TBD the authority to impose taxes, fees, charges, and tolls. The TBD approved Resolution No. TBD001 imposing a \$20 vehicle registration fee within the district's boundaries, effective for 2013.

Financial statements for the TBD can be found in the Combining Statements located in the Financial Section of this report.

Discretely presented Component Units:

Tacoma Community Redevelopment Authority (TCRA) is a separate public development authority established through City ordinances and the laws of the State of Washington. TCRA was created to administer Housing and Urban Development (HUD) and Economic Development Administration (EDA) funds assisting the City in housing rehabilitation and business economic development projects. The Tacoma Community Redevelopment Authority is governed by a 10-member board appointed by the Tacoma City Council. Although it is legally separated from the City, the Tacoma Community Redevelopment Authority is a component unit of the primary government because its sole purpose is to finance and provide housing rehabilitation and community & economic development loans to residents and businesses in the City of Tacoma. The City has operational responsibility and exercises oversight responsibility for administration and contract approval.

Separate financial statements for TCRA can be obtained from: TCRA, 747 Market Street, Room 132, Tacoma, Washington 98402.

The Greater Tacoma Regional Convention Center Public Facilities District (the District) is a public corporation organized under the Laws of Washington, Chapter 165, 1999 Regular Session, Sections 1 through 23 and pursuant to an interlocal agreement between the Cities of Tacoma, Fife, University Place, Lakewood and Pierce County. Liability of the District is limited to the District's assets with no recourse to the City of Tacoma assets or property. Although it is legally separated from the City, the District is a component unit of the primary government because its sole purpose is to assist finance, and otherwise facilitate the construction and operation of a Convention Center. The City appoints the a voting majority of the board and has exercised oversight responsibility for administration for the debt service on bonds issued by the City for the construction of the Convention Center. The

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

District imposed the 0.033 percent sales and use tax authorized by RCW 82.08 and 82.12. The District pays these revenues to the City of Tacoma primarily for the debt service for bond issued by the City of Tacoma to fund the design, development, construction and operation of Convention Center inclusive of real property, buildings, fixtures, furnishings, appurtenances and improvements.

Separate financial statements for the District can be obtained from: GTRCC PFD, c/o the City of Tacoma Finance Department, 747 Market Street, Room 132, Tacoma, Washington 98402.

The Foss Waterway Development Authority (FWDA or Authority) is a separate legal entity and a component unit of the primary government because its sole purpose is to manage the redevelopment of property within and along the Thea Foss Waterway for the City's benefit. The City provides contributions, as necessary, to support FWDA activities. The Authority was created on October 1, 1996 by Resolution No. 33513. Under the terms of an agreement between the City and the Authority, the Authority serves to improve the environment, and along with the City, is taking steps to enhance the Waterway.

Separate financial statements for the Authority can be obtained from: Foss Waterway Development Authority, c/o the City of Tacoma Finance Department, 747 Market Street, Room 132, Tacoma, Washington 98402.

Joint Ventures:

The City participates in two joint ventures: the South Sound 911 and the Tacoma-Pierce County Health Department.

South Sound 911

On November 8, 2011, voters in Pierce County approved a county-wide one-tenth of one percent local sales and use tax to fund costs associated with regional 911 system and facility improvements. Development of the regional system is being managed by South Sound 911, an interlocal agency created by Pierce County, the City of Tacoma, the City of Lakewood, the City of Fife and West Pierce Fire and Rescue pursuant to RCW 39.34. All services previously provided by the Law Enforcement Support Agency (LESA) are now being provided by South Sound 911. On December 17, 2012, all LESA employees were transitioned to the new agency. All assets and liabilities were transferred to South Sound 911 on the official transition date of January 1, 2013. During the next few years, Public Safety Answering Points (PSAP's) managed by the City of Tacoma, City of Fife and West Pierce Fire and Rescue will transition to South Sound 911.

In 2012, South Sound 911 established its first Policy Board consisting of nine voting members.

Members of the Policy Board include:

- One member of the Pierce County Council;
- The Pierce County Executive;
- The Mayor of Tacoma;
- One member of the Tacoma City Council;
- The Mayor or one member of the Lakewood City Council;
- The Pierce County Sheriff;
- The Mayor or one member of the Fife City Council;
- One Fire Commissioner of West Pierce Fire & Rescue;
- One Mayor or Councilmember of a city or town within Pierce County with a population under (50,000) fifty-thousand residents, provided that such city or town contracts with South Sound 911 or a Member Agency. Such position shall be filled for a two-year term by appointment through a vote of the Policy Board.

South Sound 911 also established an Operations Board under the authority of the Policy Board. The members of the Operations Board are the members of the Law Enforcement Services and Fire Services Committees. Each

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

committee will have (1) one vote. If the Operations Board cannot reach consensus, the deciding vote will be cast by the Policy Board.

Tacoma-Pierce County Health Department

The Health Department is a joint venture of the City and County providing personal and environmental health services throughout the County. The Department provides community leadership in protecting the public's health, preventing health problems, and promoting healthy and safe living. The Health Department was created pursuant to the provisions of Chapter 70.08 of the Revised Code of Washington (RCW) to serve the needs of the constituents of the City of Tacoma, Pierce County, and other cities and towns within the County. The operations of the Health Department are governed by an agreement, dated May 23, 2006, between the City of Tacoma and Pierce County. The Health Department is managed by the Board of Health, which consists of the Pierce County Executive or a duly designated representative, three members of the County Council, Mayor of the City of Tacoma or a duly designated representative, one member of the City Council, one member representing Pierce County Cities and Towns Association, and one member-at-large appointed by the first six representatives. The City of Tacoma and Pierce County are responsible for its debts and are entitled to the surplus.

Financial information for both entities is included in Note 8 Section F. The City of Tacoma however, does not report an equity interest in the Government-wide financial statements.

B. Government-wide and fund financial statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Government-wide financial statements, the Statement of Net Position and the Statement of Activities, report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are payments-in-lieu of taxes, charges between the City's utilities and various other functions of the government, and some indirect cost allocations between the general fund and other funds of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The Statement of Activities demonstrates the degree to which the direct expenses of a given governmental function or business segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a given function or segment. Taxes, transfers between funds, and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

The City uses encumbrance accounting. Purchase orders, contracts and other commitments are recorded as encumbrances. Encumbrances at year-end are no longer specifically reported as reservations of fund balances for governmental type funds. They are included in the restricted, committed, or assigned fund balance as defined by GASB Statement No. 54. Encumbrances outstanding at the end of the biennium are re-appropriated at the beginning of the next biennium. The amount of encumbrances, expressed in thousands, needed to pay commitments related to purchase orders and contracts that remain unperformed at year-end are as follows:

Transportation		
Capital &		
General Fund	Engineering	Non-major Funds
\$ 4,917	\$ 27,448	\$ 6,667

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to generally be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred and when goods and services are received, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Deferred Inflows of Resources includes property taxes that were not available to finance expenditures of the current period and grant revenues received in advance. Detailed information on property taxes is contained in the Statistical Section, Table 8. All other revenue items are considered to be measurable and available only when cash is received by the government.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. In addition, the City has two Internal Service Funds that provides 100% support to business-type activities only. A reconciliation is provided to explain the adjustment needed to transform the fund based financial statements into the business-type column of the government-wide presentation. These reconciliations are included as part of the basic financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's various utilities and internal service funds are charges to customers for sales and services. The City enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental funds:

- The General fund (#0010) is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Transportation Capital and Engineering fund (#3-1060) accounts for maintenance, engineering, and construction of city streets.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

The City reports the following major proprietary funds:

- The Solid Waste fund (#4200) provides solid waste collection and disposal services for residential and commercial customers. Services include recycling, long-haul to an outside landfill, and disposal in the City owned landfill.
- The Wastewater and Surface Water (Sewer) fund (#4300-01) accounts for the planning, design, construction, operation, and maintenance of the wastewater and surface water facilities owned by the City.
- The Tacoma Water fund (#4600) accounts for the activities of the City's water distribution system.
- The Tacoma Power fund (#4700) accounts for the activities of the City's electric production and distribution operations.

Additionally, the City reports the following non-major fund types:

Special Revenue Funds:

- Courts Special Revenue fund (#1020) accounts for costs associated with the Court system.
- Council Contingency fund (#1030) establishes reserves for Council contingencies. This fund is reported within the General fund.
- Transportation Revenue fund (#1050)
- Street fund (#1065) accounts for street engineering and administration services.
- Transportation Benefit District (#1070) accounts for revenues and disbursement to the City of funds collected within the Transportation Benefit District. These funds are transferred to the Public Works Street fund for the maintenance of City streets.
- 2% Gross Earnings Tax Fund (#1080) accounts for the street maintenance funded through gross earnings taxes.
- Streets Initiative Fund (#1085) accounts for resources collected from Propositions 3 & A and expenditures for street repairs identified in the Infrastructure Maintenance Plan.
- Fire Special Revenue fund (#1090) accounts for expenditures related to the specific revenues or grants for fire services.
- Property Management/Street Vacation fund (#1100) accounts for costs associated with Public Works facilities and street rights-of-way.
- Local Improvement District Guarantee fund (#1110) provides for the guarantee of Local Improvement Bond obligations.
- Paths and Trails fund (#1140) was created for the purpose of creating and maintaining paths and trails within the City of Tacoma.
- Building and Land Use Services fund (#1145) was created for the purpose of managing code violations and preserving historical buildings.
- Fire Department EMS fund (#1155) accounts for costs associated with the emergency management.
- Tourism fund (#1180) was created to promote use of the convention center and to promote tourism for the City.
- Neighborhood and Community Services fund (#1185) accounts for neighborhood and community services to protect human rights and provide services to improve neighborhoods and households.
- Community and Economic Development fund (#1195) was created to promote economic development for the City.
- Library fund (#1200) accounts for costs associated with the operation of the Library system.
- Historically Underutilized Business (HUB) fund (#1236) accounts for activities which provide opportunities to qualified small businesses doing business with the City.
- Police Special Revenue fund (#1267) accounts for cost related to specific special revenues or grants for police services.
- Municipal Cable fund (#1431) supports the accounting for TV Tacoma, the City's television station.
- Local Employment Apprenticeship Program (LEAP) fund (#1500) accounts for activities within the human resources department related to LEAP.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

- Traffic Enforcement, Engineering and Education fund (#1650) manages the “red light” traffic camera program.
- Unclaimed Property fund (#1-6330) accounts for assets held by the City (primarily uncashed checks) until owners can be located.

Debt Service Funds:

- Voted Bonds fund (#2010) accounts for the debt service of unlimited general obligation bonds issued by the City of Tacoma.
- Non-voted Bonds fund (#2035) accounts for the debt service of limited general obligation bonds issued by the City of Tacoma.
- PWTF Loans fund (#2038) accounts for the debt service of obtaining public works trust fund loans.
- 2001 LTGO Refunding fund (#2039) accounts for the debt service of the 2001 LTGO refunding bonds.
- 2009 LTGO Bonds Series A-F fund (#2040) accounts for the debt service of the 2009 LTGO bonds.
- 2010 LTGO Bonds fund (#2041) accounts for the debt service of the 2010 LTGO bonds.
- 2013 LTGO Bonds (#2042) accounts for the debt service of the 2013 LTGO Bonds.
- 2017 LTGO Bonds (#2043) accounts for debt service for the 2017 LTGO Bonds.
- Consolidated LID Bond Redemption fund (#2-7999) accounts for the debt service related to LIDs.

Capital Project Funds:

- 1997 Bond Issue fund (#3209) accounts for the capital expenditures associated with the proceeds obtained from the 1997 Bond Issue.
- Capital Revenue (#3210) accounts for capital revenues
- Capital Projects fund (#3211) accounts for the various capital expenditures.
- 2002 Police Facility fund (#3216) accounts for the construction costs associated with the construction of the police facility.
- 2009 LTGO Capital Projects fund (#3218) accounts for the capital expenditures associated with the proceeds obtained from the 2009 LTGO Bond Issue.
- 2010 LTGO Capital Projects fund (#3220) accounts for various capital expenditures funded by the 2010 LTGO bond issue.
- LID Interim Financing fund (#3-7070) is used to provide interim financing during the formation and construction of local improvement district projects.

Enterprise Funds:

- Permit Services fund (#4110) was created to track the revenues generated from permits and expenditures incurred directly related to the permitting process.
- Tacoma Rail Mountain Division fund (#4120) accounts for operation costs of the rail system.
- Parking Operating fund (#4140) accounts for the City’s parking facilities.
- Convention Center fund (#4165) accounts for activities associated with operating the Convention Center.
- Cheney Stadium fund (#4170) accounts for activities associated with operating Cheney Stadium.
- Tacoma Dome fund (#4180) accounts for activities associated with operating the Tacoma Dome.
- Performing Arts fund (#4190) was created to track costs associated with the Performing Arts Center, Rialto Theater, Broadway Theater District and Pantages.
- Union Station fund (#4450) accounts for the thirty year lease with the Federal Government who uses Union Station as a Federal Courthouse.
- Tacoma Rail Belt Line Division fund (#4500) accounts for costs for the operations of the rail system between Tacoma and the Olympia area.
- Low Income Assistance fund (#4805) was created to accept voluntary donations to help low income customers pay utility bills.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Internal Service Funds:

- Finance Department fund (#5007) accounts for the operation of the Finance Division.
- BSIP Project fund (#5027) accounts for the Business Systems Improvement Project.
- Graphic Services fund (#5042) accounts for the general government leased copiers.
- TPU Fleet Services fund (#5050) accounts for costs of maintaining and replacing City vehicles for business-type activities.
- Tacoma Training & Employment Program (ITEP) fund (#5086) accounts for program costs to assist residents of the City ages 18-24 gain the necessary work ethics for sustainable employment.
- Public Works Equipment Rental fund (#5400) accounts for costs of maintaining and replacing City vehicles for General Government activities.
- Asphalt Plant fund (5453) accounts for the manufacturing of asphalt sold to other funds within the City of Tacoma.
- Communications Equipment – Replacement Reserves fund (#5540) accounts for radio communication equipment.
- Third Party Liability Claims fund (#5550) was created to track costs related to our self-insurance program.
- Unemployment Compensation fund (#5560) accounts for the City's self-insurance unemployment compensation costs.
- Worker's Compensation fund (#5570) accounts for the City's self-insurance worker's compensation costs.
- Facilities fund (#5700) accounts for maintenance and operation cost associated with all City of Tacoma buildings.
- General Government Internal Service fund (#5800) provides computer and system support for all City departments.
- Health Benefits Trust fund (#5-64xx) provides accounting for self-insurance to all City's cost for healthcare.
- Self-Insurance Claims fund (#5-4800) provides accounting for self-insurance to business-type activities of the City of Tacoma departments including provisions for losses on property, liability, workers compensation, unemployment compensation.

Fiduciary Funds:

- Deferred Compensation fund (#6050) accounts for activities related to mandatory and optional payroll deductions.
- Tacoma Employee Retirement Systems (TERS) fund (#6100) accounts for the activities of the City's retirement system, which accumulates resources for pension benefit payments to qualified City employees.

D. Assets, liabilities and net position or fund balances

1. Cash and investments

The City's cash and cash equivalents include cash on hand, cash working fund, restricted cash, short term investments with original or remaining maturities of three months or less when purchased, and cash and investments in the City-wide investment pool. Investments, including equity in pooled cash and investments are stated at fair value, except for the Pension trust fund which is reported on a trade date basis, at fair value. No direct investments restricted or otherwise, are considered to be cash equivalents. The City uses a pooled investment portfolio. Each fund receives interest based on a pro-rata share of its cash balance to the total cash invested. Portfolio earnings are distributed monthly based on average daily cash balances of the participating funds.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds," if current, or "advances to/from other funds," if long-term. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Advances between funds, as reported in the governmental fund financial statements, are included in the non-spendable classification in fund balance unless the proceeds from collection are restricted, committed, or assigned.

Property taxes are levied in November and become a property lien as of January 1. The first half is due April 30 and the second half on October 31. If the first half is not paid by April 30, the total annual tax becomes delinquent. Property taxes are collected by Pierce County and remitted to the City monthly. An allowance for uncollectible accounts is deemed unnecessary as delinquent taxes become an enforceable lien on the property. Property taxes collected within 60 days after year-end are considered measurable and available and are recognized as revenues in the fund statements. The total levy is recognized as revenue in the government-wide financial statements, regardless of when collected.

Utility receivables are shown net of an allowance for uncollectables. The uncollectable amount is established based on an analysis of historical experience. Allowances for other receivables are not utilized because the amounts are not material.

Notes and contracts receivable signed between the City and/or the Tacoma Community Redevelopment Authority (TCRA) and various parties represent economic development efforts of either a business nature or with homeowners. A large majority of the Power utility notes and contracts receivable represent energy conservation efforts between the City and homeowners or businesses.

3. Inventories and prepaid items

Inventories for proprietary funds are valued at first-in/first out, moving average cost method, or lower of cost or market, depending on the fund. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items accounted for under the consumption method and are expensed over the period the services are provided rather than when purchased.

4. Restricted assets

Restricted assets in the enterprise funds are monies which are restricted by legal or contractual requirements. These assets are generally intended for either construction of capital assets or for the repayment of debt. See Note 4 Section G for further information.

5. Capital assets

Capital assets; which include land, property, plant, equipment, and work in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated life in excess of one year except for land, easements, rights-of-way, infrastructure and buildings and improvements. Land, easements, and rights-of-way are capitalized regardless of cost. Infrastructure capitalization threshold is \$5,000 or more. Building and infrastructure improvements are capitalized when the cost is greater than \$5,000 and increases its useful life or service capacity. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value or the life of the asset are expensed. The interest on bond proceeds for constructed capital assets in the utility funds is capitalized during the construction phase.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Capital assets are reported net of depreciation. The City uses a combination of group depreciation and straight-line depreciation over the life of the assets.

The estimated useful lives for all City funds are:

Property, plant, and equipment	3-100 years
Water Plant	200 years
Parks	33 years
Library materials	5 years
Intangibles	3-25 years
Infrastructure	5-60 years

6. *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. An employee is entitled to 100% of the value of the vacation leave; 25% of the value of the sick leave at retirement or death, or 10% of the value of the sick leave upon termination for any other reason. Under a revised City policy, employees earn Personal Time off (PTO) without distinction between vacation and sick leave with a maximum accrual of 960 hours. Employees who worked for the City prior to the change, or are covered by a collective bargaining agreement that provides only for vacation and sick leave could choose to stay with the original policy or may opt to convert to the new policy. The amount of leave earned is based on years of service. The Tacoma Public Library has slightly different rules governing sick leave and vacation leave, but these differences are not considered material to the City's financial statements.

7. *Pensions*

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and the Tacoma Employees Retirement System (TERS) sponsored pension plan and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the respective sponsors. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

8. *Long-term obligations*

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method or weighted average of the bonds outstanding. Bonds payable are reported net of the applicable bond premium or discount.

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

9. Fund equity***Fund balance***

The City of Tacoma implemented Governmental Accounting Standards Board (GASB) Statement No. 54 in 2011. For governmental fund financial statements fund balances are reported in five classifications.

1. **Nonspendable:** Includes amounts that are not in a spendable form, such as inventories, prepaid items, long-term interfund receivables, and amounts that are legally or contractually required to be maintained intact or required to be retained in perpetuity, such as the principal of an endowment fund.
2. **Restricted:** Includes amounts that can be spent only for the specific purposes stipulated by external resource providers. Amounts should be reported as restricted when constraints placed on use of resources 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.
3. **Committed:** Fund Balance can only be used for specific purposes as determined by formal action by the City Council. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation. The amount committed in the General Fund is accounted for under Fund 1030 Contingency Fund.
4. **Assigned:** Includes amounts that have been allocated by the General Fund through the encumbrance process, previously classified as unassigned. The authority to assign funds is delegated to City Management through the adoption of the biennium budget by the City Council. Fund balances of special revenue funds, debt service funds, capital project funds, that are not classified as nonspendable, restricted, or committed will be classified as assigned for the purpose of the fund. The authority to create funds is determined by formal action by the City Council, by adoption of an ordinance, or by state statute.
5. **Unassigned:** Includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that should report this category as a positive fund balance. In other governmental funds, if the expenditures incurred for specific purposes exceeds the amounts, restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

It is the policy of the City of Tacoma to spend funds in the following order:

1. Restricted
2. Committed
3. Assigned
4. Unassigned

Use of resources will be spent in the following hierarchy:

1. Bond Proceeds
2. Federal Funds
3. State Funds
4. Local Non-city Funds
5. City Funds

For detailed information on fund balances of governmental funds, please refer to Note 4 Section J.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Net position

Proprietary fund financial statements report reservations of net position amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Restricted net position is subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between *fund balances—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. As explained in Note 1 Section C, this reconciliation is necessary because of the differences in accounting basis, most significantly the differences in accounting for capital assets and debt.

One element of the reconciliation explains:

“Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

The details of these dollar differences are as follows: (amounts expressed in thousands)

Bonds and leases payable	\$ (229,021)
Discount on bond issuance	53
Premium on bond issuance	(897)
Net other post employment benefits obligation	(69,698)
Compensated absences	(19,181)
Sub-total	(318,744)
Net pension obligation	9,662
Total pension liability	(44,317)
Net pension liability	(27,989)
Net adjustment to reduce fund balance for total governmental funds to arrive at net position for governmental activities	<u><u>\$ (381,388)</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of the reconciliation explains:

“Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

The details of these dollar differences are as follows: (amounts expressed in thousands)

Capital Outlay	\$ 22,509
Depreciation Expense	<u>(39,138)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	 \$ <u>(16,629)</u>

Note 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The Tacoma City Council adopts a biennial budget using an appropriation ordinance. While not legally required by law, the City also adopts budgets for debt service funds, capital projects, proprietary funds, and some selected trust funds. In 2017, the 2% Gross Earnings Tax Fund (1080) had overspent their appropriation by \$512,000 as a result of moving the remaining cash to close out the fund.

The description of the budget process and the budget reconciliation schedule are included in the budget notes in the Required Supplementary Information (RSI) and Combining Statements – Non-Major funds sections. Budgetary data for the general fund is included in the RSI and Non-Major governmental funds are included in the Combining Statements – Non-Major funds section. The budgetary statements show the original budget, revised amended budget and actual amounts expended to date for the biennium.

For budgetary tracking purposes, in the General Fund, assessments are budgeted as negative revenues. These negative revenues are considered a budgetary authority increase to both revenues and expenditures for reporting purposes in the original and final adopted budgets. The budgeted amount totaled \$1,453,673 for 2017.

B. Deficits in fund balances or net position

The following governmental and proprietary funds had deficit net position.

The \$4.5 million deficit in the Convention Center fund resulted from cumulative expenses exceeding revenues/transfers. The fund balance has increased by \$1.9 million over the previous year. Operating losses were \$4.2 million for the year as compared to \$3.9 million for the prior year. The fund is reviewed periodically to determine the necessary transfer amounts the General Fund needs to contribute.

The Third Party Liability Claims Fund has a net position deficit of \$24.0 million, a decrease of \$9.6 million over the prior year, due to an increase in claims.

The Worker's Compensation Fund has a net position deficit of \$230 thousand due to insufficient contributions from the departments and an excess of accrued and IBNR claims over total assets. The Worker's Compensation fund has a positive net change in 2017, which increased net position by \$2.0 million.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

The City continues studying these programs to ensure that future claims are fully funded.

Net Deficit
(amounts expressed in thousands)

FUND	AMOUNT
Convention Center (#4165)	\$ (4,518)
Third Party Liability Claims (#5550)	(24,011)
Worker's Compensation (#5570)	(230)
	<u>\$ (28,759)</u>

C. Legal and contractual compliance

The City has complied, to the best of its knowledge, with all material finance related legal and contractual provisions.

Note 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

1. Legal, Contractual and Administrative Provisions

Certificates of deposit (CDs) and Demand Deposits: The City places certificates of deposit and demand deposits only with State of Washington banks and savings and loan institutions approved as qualified public depositories under chapter 39.58 RCW by the Washington State Public Deposit Protection Commission (WSPDPC). Qualified public depositories are limited to banks operating within Washington State, which have executed a Deposit Pledge Agreement with the WSPDPC. Until July 1, 2009, the WSPDPC maintained a multiple financial institution collateral pool wherein the qualified public depositories pledge and transmit to a third party trustee, securities through the execution of the pledge agreement, providing common collateral for their deposits of public funds. The assets of the pool and the power to make additional assessments against the members of the pool insured there would be no loss of public funds because of default of a member. Effective July 1, 2009, the WSPDPC required public depositories to fully collateralize their uninsured public deposits at 100%. The WSPDPC allows for deposits up to the net worth of a qualified institution.

At year-end, the carrying amount of the City's deposits was \$42,215,953.

Other investments: State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, bankers' acceptances, commercial paper, and repurchase agreements. The City is also authorized to enter into reverse repurchase agreements. The pension trust fund is authorized to invest under the "prudent person rule."

The City sustained no investment losses during 2017, there was no significant loss potential, and there were no significant or recurring violations of administrative, legal or contractual provisions.

Investment committee guidelines: The City's Investment Committee, composed of the Mayor, the Finance Director and the City Treasurer, recommended the following portfolio mix guidelines. These guidelines are intended to limit risk and generate a competitive return on investments. The Committee recognizes that daily transactions may misalign this mix.

1. **Bankers Acceptances:** City investment policy allows for purchases of bankers acceptances from the top 50 world banks as published by American Banker. Portfolio mix guidelines suggest a maximum of 20% of the total portfolio with no more than 5% of the total portfolio in any one bank.
2. **U.S. Treasury Bills, Certificates, Notes and Bonds:** Portfolio mix guidelines allow for a maximum of 100% of the total portfolio to be invested in these securities.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

3. U.S. Government Agency Securities: Portfolio mix guidelines suggest a maximum of 90% of the total portfolio with no more than 50% of the total portfolio per agency.
4. Commercial Paper: Portfolio mix guidelines require the highest rating by at least two nationally recognized rating agencies for purchase with no more than 10% of the portfolio invested in commercial paper with an additional limit of no more than 5% in any one issuer.
5. Repurchase Agreements: Portfolio mix guidelines suggest repurchase agreements be limited to maximum of 25% of the total portfolio. The market value of collateral must exceed the dollar amount of the repurchase agreement by 2% over the term of the agreement. The collateral must be an investment instrument which the City is authorized to purchase.
6. Reverse Repurchase Agreements: The City did not participate in any reverse repurchase agreements in 2016.
7. Municipal Bonds: Portfolio mix guidelines allow 30% of the portfolio to be invested in municipal bonds with no more than 5% of the portfolio being invested in bonds of any one municipal bond issuer. The maximum maturity for investments in municipal bonds shall be limited to five years.
8. Certificates of Deposit (CDs): The percentage of CDs may not exceed 25% of the total assets of the portfolio with the percentage limited to 3% for any single bank or savings and loan association. Maturities shall not exceed one year.
9. Local Government Investment Pools: A maximum of 25% of the portfolio may be invested in local government investment pools.

2. Deposits and investments – December 31, 2017

Custodial credit risk – All bank deposits are covered 100% by federal depository insurance and pledged collateral on deposit with WSPDPC.

Foreign currency risk The City has no deposits in subject to foreign currency risk.

All certificates of deposit held by the City are in the City's name and are insured by FDIC up to \$250,000 and by the Washington State Public Deposit Protection Commission (WSPDPC) for amounts over \$250,000. Under Washington State statute, members of the WSPDPC, a multiple financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

At December 31, 2017, the City's total deposits and investments consisted of the following:

Schedule of Deposits and Investments
December 31, 2017
(amounts expressed in thousands)

Reconciliation of Cash and Investments:

Investments (less Component Units)	\$ 2,688,716
Certificates of Deposit	4,051
Treasurer's Cash, net	37,890
Petty Cash Funds	275
Sub-total	<u>2,730,932</u>
Component Units:	
Tacoma Community Redevelopment Authority (TCRA)	1,564
TCRA - External Cash	5,018
Foss Waterway Development Authority (FWDA)	798
FWDA - External Cash	268
Public Facilities District (PFD)	2,079
Sub-total (Component Units)	<u>9,727</u>
Total	<u>\$ 2,740,659</u>

Reconciliation of cash, cash equivalents, deposits and investments to Statement of Net Position:

	Amounts expressed in thousands
From Statement of Net Position	
Cash and cash equivalents	\$ 691,758
Investments at fair value	5,222
Restricted cash and cash equivalents	<u>223,986</u>
Total Primary Government	920,966
Component Units	
TCRA	6,582
GTRCC PFD	2,079
FWDA	<u>1,066</u>
Total Component Units	9,727
Fiduciary Funds	
Cash and cash equivalents	7,909
Investments at fair value	32,707
Pension Trust	<u>1,769,350</u>
Total Fiduciary Funds	1,809,966
Total cash and investments	<u>\$ 2,740,659</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

At year-end, the government's investment balances, expressed in thousands, were as follows:

Investments:	Fair Value at 12/31/17
Financial Institutions	
WA State Local Government Investment Pool	\$ 86,977
Government Agencies (various)	796,215
Equity in Pool Transferred to Component Units	<u>(4,442)</u>
Total Investments with Financial Institutions	878,750
Pension Trust	
Equities	945,893
Fixed Income	576,353
Real Estate	70,971
Venture Capital & Partnerships	134,143
Short Term Bill & Notes	5,597
Cash and Cash Equivalents	35,019
Securities Lending Collateral	<u>41,990</u>
Total Other Investments - Pension Trust	1,809,966
Total	<u><u>\$ 2,688,716</u></u>

3. GASB 40 - General Disclosure and Disclosure Relating to Interest Rate Risk/Segmented Time Distribution Method

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. City of Tacoma Investment Policy allows for authorized investments up to 60 months in 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. The city has deposits of \$86,435,508 with the State Treasurer's Local Government Investment Pool, \$4,050,526 in an interest bearing certificate of deposit with a commercial bank and \$43,940,057 in the city's deposit accounts with commercial banks. The monies from these accounts are available immediately.

Investment Type	Par	Maturing (in months)					
		Less than 12	13-24	25-36	37-48	49-60	
Main Bank Demand Deposits	\$ 43,940,057	\$ 43,940,057	\$ -	\$ -	\$ -	\$ -	
Bank Demand Deposits & State Pool	91,027,472	91,027,472	-	-	-	-	
Fixed Rate Non-Callable Municipal Securities	40,760,728	25,286,879	13,216,790	2,257,059	-	-	
Fixed Rate Non-Callable Agency Securities	450,819,476	174,447,223	170,840,533	56,026,293	34,552,807	14,952,620	
Fixed Rate Callable Agency Securities	66,526,343	42,326,458	14,828,040	9,371,845	-	-	
Totals	\$ 693,074,076	\$ 377,028,089	\$ 198,885,363	\$ 67,655,197	\$ 34,552,807	\$ 14,952,620	
Percent of Total		54.40%	28.70%	9.76%	4.99%	2.16%	

4. GASB 40 - Disclosure Relating to Credit Risk

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. Presented below is the minimum rating required by state statute, which is the same in the City Investment policy and the actual rating as of the end of the year 2017 for each type of investment. AAA is the

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

highest rating for bonds. The Bank Certificates of Deposit and Demand Deposit Accounts are protected by the Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State Public Deposit Protection Commission (PDPC) of the State of Washington. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. It constitutes fully insured or fully collateralized pool. The WA State Treasurers Local Government Investment Pool (LGIP) is authorized by the Revised Code of Washington (RCW) 43.250. The LGIP operates like a 2A7 fund and is collateralized by short term legal investments.

Investment Type	Par	Minimum Legal Requirement	FDIC and PDPC	AAA	AA	A
Bank Demand Deposits & State Pool	\$ 134,967,529	FDIC & PDPC	\$ 134,967,529	\$ -	\$ -	\$ -
Fixed Rate Non-Callable Municipal Securities	40,760,728	A	-	2,385,115	35,419,219	2,956,394
Fixed Rate Non-Callable Agency Securities	450,819,476	AAA	-	440,856,806	9,962,670	-
Fixed Rate Callable Agency Securities	66,526,343	AAA	-	66,526,343	-	-
Total	<u>\$ 693,074,076</u>		<u>\$ 134,967,529</u>	<u>\$ 509,768,264</u>	<u>\$ 45,381,889</u>	<u>\$ 2,956,394</u>

5. GASB 40 - Concentration of Credit Risk

Concentration Risk disclosure is required for all investments in any one issuer that is 5% or more of the total of the City's investments.

The following, which are more than 5%, are Financial, State Government, or Government Sponsored Agencies.

Issuer	Investment Type	Amount Reported	Percentage
Washington State	Municipal Securities	\$ n/a	n/a
Federal Farm Credit Bank	Agency Securities	52,303,448	9.5%
Federal Home Loan Bank	Agency Securities	262,239,191	29.7%
Federal Home Mortgage Corporation	Agency Securities	106,484,721	18.0%
Federal National Mortgage Association	Agency Securities	96,318,458	15.1%
Total		<u>\$ 517,345,818</u>	

6. Disclosure of Custodial Credit Risk

Custodial Credit Risk – Investment

The city policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

7. Investments Measured at Fair Value

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

- Level 2 – Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3– Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

B. Receivables

Receivables as of year-end for the governments and enterprise's individual major and non-major funds, internal service and fiduciary funds, including applicable allowances for uncollectible accounts are as follows:

(amounts expressed in thousands)

Accounts Receivable (amounts expressed in thousands)	General Fund	Trans Capital & Engineering Fund	Non-Major Governmental Funds	Solid Waste Fund	Waste Water Fund
Accounts Receivable (net short-term)	\$ 17,253	\$ 1,230	\$ 33,663	\$ 6,789	\$ 13,992
Due from other Funds	3,960	288	5,888	67	1
Advances to other Funds	-	-	965	-	-
Due from Other Governments	16,429	2,704	6,996	-	823
Interest Receivable (net short-term)	-	-	-	-	-
Notes and Contracts Receivable (net short-term)	-	-	-	-	139
Notes and Contracts Receivable (net long-term)	-	-	-	-	706
TOTAL	<u>\$ 37,642</u>	<u>\$ 4,222</u>	<u>\$ 47,512</u>	<u>\$ 6,856</u>	<u>\$ 15,661</u>

Accounts Receivable (amounts expressed in thousands)	Water Fund	Power Fund	Non-Major Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
Accounts Receivable (net short-term)	\$ 10,770	\$ 65,695	\$ 7,958	\$ 266	\$ -	\$ 157,616
Due from other Funds	69	1,820	514	950	1	13,558
Advances to other Funds	-	-	-	-	-	965
Due from Other Governments	299	-	300	16	868	28,435
Interest Receivable (net short-term)	-	-	-	-	2,490	2,490
Notes and Contracts Receivable (net short-term)	-	-	-	-	1,965	1,965
Notes and Contracts Receivable (net long-term)	-	2,625	15,430	-	-	18,761
TOTAL	<u>\$ 11,138</u>	<u>\$ 70,140</u>	<u>\$ 24,202</u>	<u>\$ 1,232</u>	<u>\$ 5,324</u>	<u>\$ 223,790</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

C. Capital assets

Capital asset activity for the year-ended December 31, 2017 was as follows:

(amounts expressed in thousands)

Governmental activities	Beg Bal	Increases	Decreases	End Bal
Capital assets not being depreciated:				
Land	\$ 35,335	\$ 1,045	\$ -	\$ 36,380
Property, plant, and equipment	2,186	228		2,414
Construction Work in progress	57,538	19,663	(46,401)	30,800
Total Capital assets, not being depreciated	<u>95,059</u>	<u>20,936</u>	<u>(46,401)</u>	<u>69,594</u>
Capital assets, being depreciated				
Property, plant, and equipment	253,514	24,102	(4,329)	273,287
Infrastructure	1,373,328	37,162	-	1,410,490
Total capital assets, being depreciated	<u>1,626,842</u>	<u>61,264</u>	<u>(4,329)</u>	<u>1,683,777</u>
Less Accumulated depreciation:				
Property, plant, and equipment	(139,954)	(13,872)	4,393	(149,433)
Infrastructure	(762,553)	(35,058)	-	(797,611)
Total accumulated depreciation	<u>(902,507)</u>	<u>(48,930)</u>	<u>4,393</u>	<u>(947,044)</u>
Governmental activities, capital assets (net of accumulated depreciation)	<u>\$ 819,394</u>	<u>\$ 33,270</u>	<u>\$ (46,337)</u>	<u>\$ 806,327</u>

Business Type Activities	Beg Bal	Increases	Decreases	End Bal
Capital assets not being depreciated:				
Land	\$ 163,451	\$ 1,577	\$ (735)	\$ 164,293
Construction Work in progress	57,691	140,662	(144,546)	53,807
Total Capital assets, not being depreciated	<u>221,142</u>	<u>142,239</u>	<u>(145,281)</u>	<u>218,100</u>
Capital assets, being depreciated				
Property, plant, and equipment	4,338,447	169,205	(79,487)	4,428,165
Total capital assets, being depreciated	<u>4,338,447</u>	<u>169,205</u>	<u>(79,487)</u>	<u>4,428,165</u>
Less Accumulated depreciation:				
Property, plant, and equipment	(1,735,569)	(116,012)	27,330	(1,824,251)
Total accumulated depreciation	<u>(1,735,569)</u>	<u>(116,012)</u>	<u>27,330</u>	<u>(1,824,251)</u>
Business Type Activities, capital assets (net of accumulated depreciation)	<u>\$ 2,824,020</u>	<u>\$ 195,432</u>	<u>\$ (197,438)</u>	<u>\$ 2,822,014</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General Government	\$ 674
Public Safety	3,609
Transportation	35,825
Economic Environment	111
Culture and Recreation	2,246
Capital Assets held by Internal Services funds which are charged to various functions based on their usage of the assets	6,465
Total depreciation expense - governmental activities	<u>\$ 48,930</u>

Business-type activities:

Permit	\$ 19
Mountain Rail	824
Parking Garage	1,349
Convention Center	1,927
Baseball Park	1,538
Tacoma Dome	538
Performing Arts	732
TPU Fleet *	3,493
Solid Waste	5,474
Waste Water	17,205
Tacoma Rail	1,644
Water	24,038
Power	57,231
Total depreciation expense - business-type activities	<u>\$ 116,012</u>

* Internal Service Fund that solely supports business-type activities.

D. Leases

There are no capital leases to report for fiscal year 2017.

E. Short-term debt

Governmental activities: No short-term debt was issued or outstanding in 2017.

Business-type activities: No short-term debt was issued or outstanding in 2017.

F. Long-term debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities. The original borrowing amount of general obligation bonds outstanding issued in prior years is \$258.6 million.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

The annual debt service requirements to maturity, including principal and interest, for general obligation bonds as of December 31, 2017, are as follows:

	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2018	\$ 9,424	\$ 5,227	\$ 2,791	\$ 2,402
2019	10,128	7,144	2,597	2,267
2020	10,468	6,712	2,677	2,168
2021	10,852	6,223	2,763	2,043
2022	11,219	5,735	2,861	1,932
2023-2027	38,403	33,890	13,810	7,672
2028-2032	36,195	28,495	17,400	4,194
2033-2037	27,724	9,390	9,880	687
2038-2041	1,460	177	-	-
Total	\$ 155,874	\$ 102,993	\$ 54,778	\$ 23,365

General obligation bonds are direct obligations and pledge the full faith and credit of the government and are being repaid with general governmental revenue sources. General obligation bonds currently outstanding are as follows:

General obligation bonds outstanding (amounts expressed in thousands)			
	Interest Rates to Maturity	Outstanding December 31, 2017	
Governmental activities	2.6323 - 7.2020%	\$ 155,874	
Business-type activities	2.7966 - 3.20667%	\$ 54,778	

Special assessment bonds

The City has issued special assessment bonds for various capital construction purposes. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other foreclosure proceeds are received. As of December 31, 2017, the amount of LID Special Assessment delinquency equals \$360,083. The bond interest rates range from 3.25 to 5.75% and are payable over the next twenty-six years.

Annual debt service requirements to maturity, including principal and interest, for special assessment bonds outstanding at year-end are as follows:

	Governmental activities Special Assessment Bonds (amounts expressed in thousands)		Total
	Principal	Interest	
2018	\$ -	\$ 1,577	\$ 1,577
2019	-	1,577	1,577
2020	-	1,577	1,577
2021	-	1,577	1,577
2022	-	1,577	1,577
2023-2027	307	7,825	8,132
2028-2032	-	7,810	7,810
2033-2037	1,830	7,750	9,580
2038-2042	-	7,512	7,512
2043	24,120	1,502	25,622
Total	\$ 26,257	\$ 40,285	\$ 66,542

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Revenue Bonds and Loans

The City also issues bonds where the City pledges income derived from acquired or constructed assets to pay debt service. The original amount of outstanding revenue bonds, Washington State Public Works Trust Fund loans, Washington State Department of Transportation Rail loans, and Drinking Water State Revolving Fund loans issued in prior years was \$1.4 billion. During 2017, new debt issues amounted to \$70.6 million for refunding, construction and capital improvements in the Tacoma Power fund.

Business-type activities Revenue Bonds and Loans (amounts expressed in thousands)			
	Principal	Interest	Total
2018	\$ 41,931	\$ 52,568	\$ 94,499
2019	42,326	51,581	93,907
2020	42,713	49,936	92,649
2021	41,984	48,289	90,273
2022	38,807	46,700	85,507
2018-2022	203,789	212,575	416,364
2023-2027	222,769	168,700	391,469
2028-2032	282,122	98,609	380,731
2033-2041	213,499	39,516	253,015
2042-2047	61,304	4,446	65,750
Total	<u>\$ 1,191,244</u>	<u>\$ 772,920</u>	<u>\$ 1,964,164</u>

Changes in long-term liabilities for the year ended December 31, 2017 are as follows:

Changes in long-term liabilitiesGovernmental activities

Long-term liabilities (amounts expressed in thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Reconcile to Note 12
General obligation bonds	\$ 136,781	\$ 27,511	\$ (8,418)	155,874	\$ 9,424	\$ 155,874
Add: Unamortized premium	1,229	-	(332)	897	-	-
Less: Unamortized discount	(58)	-	5	(53)	-	-
Publicworks trust fund loans	5,645	-	(1,111)	4,534	1,110	4,534
Bond anticipation notes	8,572	-	-	8,572	8,572	8,572
Special assessment debt	29,937	-	(3,680)	26,257	511	26,257
Claims and judgments	27,183	15,310	(8,709)	33,784	26,034	-
Net OPEB obligation	62,495	7,203	-	69,698	-	-
Net pension obligation	9,662	-	(9,662)	-	-	-
Total pension liability-Police and Firefighters'	-	44,317	-	44,317	-	-
Net pension liability	25,948	2,041	-	27,989	-	-
Compensated absences	24,967	5,986	(11,772)	19,181	1,918	-
Total governmental activities - long-term liabilities	<u>\$ 332,361</u>	<u>\$ 102,368</u>	<u>\$ (43,679)</u>	<u>\$ 391,050</u>	<u>\$ 47,569</u>	<u>\$ 195,237</u>

Long-term liabilities are included as part of the above totals for governmental activities. At year-end, \$3.9 million of internal service funds compensated absences were included in the above amounts. Additionally, the governmental activities, claims and judgments, and employee benefits are generally liquidated by the Third Party Claims and Workers' Compensation funds, Information Services fund, and the General fund respectively.

The additions for governmental activities general obligations bonds in the amount of \$27,511 listed above represents the Governmental Funds issuance of long-term debt (\$27,511) reported in the government wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Business-Type activities

Long-term liabilities (amounts expressed in thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Revenue Bonds, Public Works Trust Fund loans, Drinking					
Water State Revolving loans, WA DOT Rail loans	\$ 1,189,198	\$ 71,290	\$ (69,244)	\$ 1,191,244	\$ 44,913
Muckleshoot liability	7,130	-	(186)	6,944	181
General obligation bonds	57,435	-	(2,657)	54,778	2,791
Add: Unamortized premium	62,772	9,881	(8,075)	64,578	-
Less: Unamortized discount	(22)	-	3	(19)	-
Revolving line of credit	80,250	-	(80,000)	250	250
Environmental liability	600	1,418	(292)	1,726	886
Landfill postclosure care cost liability	20,518	4,146	(8,310)	16,354	876
Net OPEB obligation	20,181	2,193	(718)	21,656	-
Compensated absences	20,196	17,546	(18,201)	19,541	1,954
Net pension liability	60,636	130,365	(126,110)	64,891	-
Total business-type activities - long-term liabilities	<u>\$ 1,518,894</u>	<u>\$ 236,840</u>	<u>\$ (313,790)</u>	<u>\$ 1,441,943</u>	<u>\$ 51,851</u>

Note 12 summarizes changes in long-term debt.

Debt issued in 2017Governmental activities

On December 12, 2017 the City issued Limited Tax General Obligation Bonds in the amount of \$25,295,000 with an interest rates of 1.80%-3.61%. The bonds were issued to finance and/or reimburse the City for a portion of the costs of capital improvements and acquisitions of the City and the construction, improvement, rehabilitation and equipping of public infrastructure and public facilities of the City, including without limitation the Tacoma Dome and other facilities, and to pay costs of issuance for the bonds.

The projects include capital improvements to modernize the Tacoma Dome, such as installing telescopic seating, upgrading and adding additional restrooms, modifying loading docks, renovating backstage offices and dressing rooms, improving the exterior and implementing fire alarm and security advancements.

Business-type activities:

On September 1, 2017, the Electric System Revenue Bonds, Series 2017 were issued in the amount of \$70,575,000 to provide funds (a) to finance and refinance certain capital improvements to the Electric System included in the 2015-2016 and 2017-2018 Capital Improvement Program (including through the refinancing of subordinate obligations) and (b) to pay the costs of issuance of the 2017 Bonds. Included in the 2015-2016 and 2017-2018 Capital Improvement Program are projects involving additions, replacements and improvements to the distribution, transmission, smart grid, telecommunications related to power operations, power supply, utility technology and general plant systems, facilities and equipment and for conservation programs.

In October 2017, Tacoma Power used cash to defease \$24,300,000 of the outstanding 2013 Series A Electric System Revenue and Refunding Bonds to levelize and reduce future debt service payments. This defeasance resulted in a loss of \$1,903,106. The Cash Flow impact of the defeasance was a reduction in principal and interest payments in the amount of \$22,025,000 in 2020 and \$5,130,000 in 2021.

In 2017, Tacoma Rail received \$715,000 in draws from previously awarded Washington State loans from the Department of Transportation for capital track projects. The loan balances outstanding is \$6.0 million as of December 31, 2017.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

G. Restricted assets

The balance of the current restricted assets accounts in the enterprise funds are as follows: (amounts expressed in thousands)

Cash for debt service	\$ 29,717
Cash for bond reserve	19,058
Cash for construction	37,096
Cash for other special purposes	138,115
	<u>\$ 223,986</u>

H. Related party transactions

The City of Tacoma's Mayor appoints the Governing Board for the Tacoma Housing Authority, which is not considered a component unit of the City. The City is under no obligation to subsidize, nor does it exercise any other prerequisite for inclusion.

City Officials serve on boards of two organizations, Workforce Central and Pierce Transit. There is no evidence City Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the City. There are no material financial transactions between the City and these organizations and therefore are not included in the reporting entity.

I. Federal compliance requirements for municipal securities issuers

Internal Revenue Code Sections 103 and 148-150 and U. S. Treasury Regulation Sections 1.148-1.150 require that most tax-exempt bonds issued after August 31, 1986 are subject to the arbitrage rebate requirement and the tax-exempt proceeds subject to yield restrictions.

The City monitors the tax-exempt issues for compliance and rebates.

In May 2015, as part of its examination of the market segment review involving build America Bonds, the Internal Revenue Service sent an Information Document Request (IDR) for records related to the City's \$147,070,000 Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds). The City cooperated with the request and received correspondence from the IRS in October 2015, reflecting closure of the examination with no-change to the position of the issuer.

In September 2015, as part of its examination of the market segment review involving new clean renewable energy bonds, the Internal Revenue Service sent an Information Document Request (IDR) for records related to the City's \$24,185,000 Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds). The City cooperated with the request and received correspondence from the IRS in December 2015, reflecting closure of the examination with no-change to the position of the issuer.

In October 2015, as part of its examination of the advance refunding market segment, the Internal Revenue Service sent an Information Document Request (IDR) for records related to the City's \$12,885,000 Limited Tax General Obligation Refunding Bonds, Series 2006B. The City cooperated with the request by providing the IRS with available documentation. The examination was closed in January 2016 with no change to the position that interest paid to the bondholders is excludable from gross income.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

J. Fund balances

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Balances previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, and unassigned. Please refer to Note 1 Section C for fund balance descriptions.

The following shows a composition of the fund balances of the governmental funds:

	Major Funds		Non-major Funds			Total Funds
	General Fund	Transp Capital & Engr	Special Revenue	Debt Service	Capital Project	
Fund balances:						
Nonspendable:						
Long-term receivables/advances	\$ 2,463	\$ -	\$ -	\$ -	\$ -	\$ 2,463
Inventory	1,160	-	1,649	-	-	2,809
Prepays	7	-	-	-	-	7
Trust	-	-	36	-	-	36
Total nonspendable	3,630	-	1,685	-	-	5,315
Restricted:						
Business & Training Assistance	-	-	143	-	-	143
Crime Prevention & Safety	-	-	6,606	-	-	6,606
Debt service	-	-	4,623	7,440	-	12,063
Economic development programs	-	-	7,411	-	-	7,411
Grants	-	-	95	-	-	95
Library, Arts & Preservation	-	-	4,650	-	-	4,650
Neighborhoods	-	-	195	-	-	195
Other capital & purchase	-	-	3,922	-	-	3,922
Parks & Recreation	-	700	-	-	2,073	2,773
Paths & Trails	-	-	365	-	-	365
Pensions	343	-	-	-	-	343
Public services	9	-	8,088	-	-	8,097
Public Works projects	-	-	6,565	-	38,725	45,290
Sidewalk & Street projects	-	398	17,010	-	6,782	24,190
Total restricted	352	1,098	59,673	7,440	47,580	116,143
Committed:						
Council contingency*	699	-	-	-	-	699
Neighborhoods	-	-	154	-	-	154
Crime Prevention & Safety	-	-	-	-	615	615
Public Works projects	-	-	-	-	7,442	7,442
Total committed	699	-	154	-	8,057	8,910
Assigned:						
Business & Training Assistance	-	-	252	-	-	252
Demolitions	-	-	2,617	-	-	2,617
Library	-	-	2,191	-	-	2,191
Municipal TV	-	-	545	-	-	545
Neighborhoods	-	-	3,068	-	-	3,068
Open Space Properties	-	-	507	-	-	507
Police activities	-	-	566	-	-	566
Public services	-	2,695	3,174	-	-	5,869
Other purposes	7,974	-	-	-	562	8,536
Total assigned	7,974	2,695	12,920	-	562	24,151
Unassigned:	67,559	-	82	52	-	67,693
Total fund balances:	\$ 80,214	\$ 3,793	\$ 74,514	\$ 7,492	\$ 56,199	\$ 222,212

* The City Council adopted through Ordinance No. 19315 the establishment of the Council Contingency fund per RCW 35.21.070. This fund rolls into the General Fund for financial reporting purposes. Use of the Contingency Fund requires approval from majority of the City Council through the adoption of an ordinance detailing the facts surrounding its reason for withdrawal.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

K. Restricted net position - governmental activities

In the government-wide financial statements net position is restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Amounts expressed in thousands.

Purpose	
Capital purchases	\$ 3,922
Debt Service	12,063
Culture and recreation	7,423
Public safety	6,606
Transportation	78,137
Grants	95
Housing and economic development	7,554
Pension	52,480
	<u>\$ 168,280</u>

Note 5 – PENSION PLANS OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS

Employees of the City, other than law enforcement officers, firefighters, and railroad employees, are covered by the Tacoma Employees' Retirement System (the System), an actuarially funded system operated by the City. Law enforcement officers and firefighters are covered by the Law Enforcement Officer and Firefighter Retirement System (LEOFF), a cost-sharing multi-employer plan administered by the State of Washington for law enforcement officers and firefighters throughout the State of Washington. Additionally, the City administers two single employer Pension funds as required by State Statute - a Police Relief and Pension fund and a Firemen's Relief and Pension fund.

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$92,880,524)
Pension assets	\$52,137,467
Deferred outflows of resources	\$101,247,597
Deferred inflows of resources	(\$31,918,776)
Pension expense/expenditures	\$17,949,443

At December 31, 2017, The City reported the aggregate deferred outflows of resources and deferred inflows of resources for all pension plans as follows:

Total - All Plans	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	(\$21,355,514)	\$1,581,138
Changes of assumptions	-	\$30,890,763
Net difference between projected and actual earnings	(\$9,578,414)	\$42,267,470
Contributions made subsequent to the measurement date	n/a	\$26,186,448
Changes in employer proportion	(\$984,848)	\$321,778
Total	(\$31,918,776)	\$101,247,597

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

A. Tacoma Employees' Retirement System fund (TERS)

The Tacoma Employees' Retirement System (TERS), a pension trust fund of the City of Tacoma, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information and can be obtained by writing to:

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

Or the TERS CAFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement

1. Administration of the system: The Tacoma Employees' Retirement System is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department as well as certain employees of Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still departments of the City of Tacoma are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code.

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

2. Membership: Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments. The breakdown of membership as of January 1, 2016 is as follows:

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

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

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

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 41.54 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

4. Contributions: The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council. Currently, the required contribution rate for employees is 9.20% of their regular base pay; the employer contributes 10.80%, for a combined total of 20.00%. This is consistent with the Board’s goal of maintaining a contribution rate that is greater than or equal to the normal cost rate of 18.87%. The difference of 1.13% between the contribution rate and the normal cost rate will be used to amortize the unfunded liability of the System. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

5. Significant Assumptions: The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2016
Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	<p>Funding is based on statutory contributions rate.</p> <p>This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows:</p> <ul style="list-style-type: none"> • Level percent • Open periods • 30 year amortization period at 01/01/2015 • 3.75% amortization grown rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service; details in funding valuation report
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, eligibility; details in funding valuation report.
Turnover	Varies by service, gender; details in funding valuation report.
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.
Active Members:	RP-2014 Employee Mortality, sex-distinct.
Male Inactive Members and Male Beneficiaries:	RP-2014 50% Blue Collar/50% White Collar Mortality for Healthy Males, RP-2014 Disabled Mortality for males.
Female Inactive Members and Female Beneficiaries:	RP-2014 Blue Collar Mortality for Healthy Females, RP-2014 Disabled Mortality for females.

**Note that the actual contribution is used if that rate is greater than the rate necessary to amortize the UAAL in 30 years. Note that a period of 30 years is used for years beginning January 1, 2017 and earlier and a period of 25 years is used for years beginning January 1, 2018 and later.*

6. Benefit and Assumption Changes: The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. Between January 1, 2016 and January 1, 2017 assumptions were changed.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Significant Changes in Benefits, Contributions, and Assumptions were as follows:

Valuations as of January 1

- 2017 Nearly all economic and non-economic actuarial assumptions were changed
- 2016 No change
- 2015 No change
- 2014 The discount rate (investment return assumption was lowered)
- 2013 The discount rate (investment return assumption) was lowered, along with price and wage inflation. Most active demographic assumptions were changed. The mortality assumption for contributing members, service retirees, beneficiaries, and disabled members was changed.
- 2012 Contribution rates were increased effective January 1, 2012.
- 2011 Contribution rates were increased effective January 1, 2011.
- 2009 Wage inflation, investment expenses, and all active demographic assumptions were changed. Contribution rates were increased effective February 1, 2009.

7. Target Allocations: The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2016. The target asset allocation is based on TERS Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected
		Arithmetic Real Rate of Return
Investment grade fixed income	15.0%	1.63%
US inflation-indexed bonds	5.0	1.21
High yield bonds	9.0	5.00
Emerging market debt	5.0	3.74
Global equity	41.5	5.50
Public real estate	2.0	5.80
Private real estate	2.5	3.56
Private equity	10.0	9.04
Master limited partnerships	4.0	4.12
Timber	2.0	3.79
Infrastructure	2.0	5.03
Agriculture	2.0	4.33
Assumed inflation - mean		2.75
Assumed inflation - standard deviation		1.85
Portfolio arithmetic real mean return		4.76
Portfolio median nominal geometric return		6.72
Portfolio standard deviation		11.77
Long-term expected rate of return, net of investment expenses		7.00

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

8. Sensitivity Analysis: The following presents the employer's proportionate share of the collective net pension liability as of the December 31, 2016 measurement date calculated using the discount rate of 7.00%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Employers proportionate share of the net pension liability	\$297,417,956	\$92,880,523	(\$73,109,413)

9. The balances of deferred outflows of resources and deferred inflows of resources, presented by source (for example, experience gains and losses, or differences between assumed and actual investment earnings)

For the measurement period ended December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	(\$19,991,309)	-
Changes of assumptions	-	30,847,444
Net difference between projected and actual earnings	-	42,267,470
Contributions made subsequent to the measurement date	n/a	24,124,140
Changes in employer proportion	(21,312)	45,304
Total	(20,012,621)	97,284,358

10. Deferred outflows for contributions subsequent to the measurement date of \$24,124,140 will be recognized as a reduction of the net pension liability in 2018.

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year-ended December 31	
2017	\$16,549,478
2018	\$16,549,476
2019	\$19,086,138
2020	(\$718,439)
2021	\$1,680,944
Thereafter	-

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

11. The employer's percentage of the collective net pension liability, how it was determined, and any change in the percentage since the previous measurement.

The following table is a schedule of the proportionate share by employer. Each employer in TERS contributes at the same rate of payroll. Using the actual contributions for the year provides a reasonable basis for each employer's projected long-term contribution effort.

Employer	2016 Employer Contributions	Rounded Percentage of Total Contributions	Beginning Net Pension Liability *	Ending Net Pension Liability **
City of Tacoma	\$23,616,255	92.48208%	\$86,584,348	\$92,880,523
South Sound 911	34,683	0.13582%	155,932	136,405
Pierce Transit	69,705	0.27297%	206,402	274,143
Health Department	1,815,391	7.10913%	6,530,420	7,139,763
Grand Total	25,536,034	100.00000%	93,477,102	100,430,834

* Based on unrounded contributions from 2015.

** Based on unrounded contributions from 2016.

B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The City of Tacoma's actual contributions to the plan were \$4,095,315 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$2,656,554.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all LEOFF plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. LEOFF 1 uses 7.7 percent. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL/(Asset)

The table below presents the City of Tacoma's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent as well as what the City of Tacoma's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
LEOFF 1	(\$11,989,290)	(\$16,163,187)	(\$19,747,614)
LEOFF 2	\$7,784,780	(\$35,974,279)	(\$71,627,333)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City of Tacoma reported a total LEOFF pension asset of \$52,137,466 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
LEOFF 1	(\$16,163,187)
LEOFF 2	(\$35,974,279)

NOTES TO THE FINANCIAL STATEMENTS
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The amount of the liability/ (asset) reported above for LEOFF Plan 1 and 2 reflects a reduction for State pension support provided to the City of Tacoma. The amount recognized by the City of Tacoma as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City of Tacoma were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	(\$16,163,187)	(\$35,974,279)
State's proportionate share of the net pension liability/(asset) associated with the employer	(\$109,327,398)	(\$23,335,843)
TOTAL	(\$125,490,585)	(\$59,310,122)

At June 30, 2017, the City of Tacoma's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
LEOFF 1	1.08%	1.07%	(.01%)
LEOFF 2	2.48%	2.59%	.11%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the City of Tacoma recognized pension expense as follows:

	Pension Expense
LEOFF 1	(\$2,434,676)
LEOFF 2	\$1,189,638
TOTAL	(\$1,245,038)

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City of Tacoma reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$1,501,936)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
TOTAL	\$0	(\$1,501,936)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$1,581,138	(\$1,364,205)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$8,076,478)
Changes of assumptions	\$43,319	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$276,474	(\$963,536)
Contributions subsequent to the measurement date	\$2,062,308	\$0
TOTAL	\$3,963,239	(\$10,404,219)

Deferred outflows of resources related to pensions resulting from the City of Tacoma's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	LEOFF 1
2018	(\$942,592)
2019	\$254,216
2020	(\$101,514)
2021	(\$712,046)
2022	\$0
Thereafter	\$0

Year ended December 31:	LEOFF 2
2018	(\$3,755,681)
2019	\$794,936
2020	(\$599,678)
2021	(\$3,622,409)
2022	(\$235,796)
Thereafter	(\$1,084,660)

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

C. Police and Firefighter's Relief and Pension Funds

The following table represents the aggregate pension amounts for the single plan subject to the requirements of the GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* for the year 2017:

Aggregate Pension Amounts		
	Firefighters' Pension Fund	Police Pension Fund
Total pension liability	\$28,827,798	\$15,489,578

1. Plan description:

The Police Relief and Pension Fund (PRP) and the Fire Relief and Pension Fund (FRP) are single-employer defined-benefit pension plans. These funds were established and administered by the City in accordance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20. Both pension funds were reclassified from a fiduciary fund to the General Fund in 2016, as prescribed by GASB Statement 73, paragraph 115. The City implemented the rest of GASB Statement 73 that became effective in fiscal year 2017.

The plans provide retirement and medical benefits to all police officers, firefighters and their beneficiaries for individuals employed before March 1, 1970, the effective date of LEOFF. The LEOFF laws were subsequently amended by the Pension Reform Act, which took effect October 1, 1977. Through the LEOFF Act, the state undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970. The plans are closed plans that provide pension and medical benefits, some of which can be in excess of LEOFF benefits. There are 0 active Police Officer and 0 active Firefighters with prior rights covered under these plans as of December 31, 2017. Retirees and beneficiaries of deceased retirees eligible to receive pension benefits currently number 128 for the PRP and 174 for the FRP as of December 31, 2017. There are no terminated employees under either plan who are entitled to benefits but not receiving them.

Each retiree receives the greater of the benefit payable under the Washington Law Enforcement Officers' and Firefighters' Retirement System and the benefits available under the provisions of prior law. Where benefits under the old law exceed those under the new for any police or firefighter, the excess benefits are paid from the FRP and PRP of the city employment them on March 1, 1970.

The Police Pension Board consists of six members authorized by statute: the Mayor as Chair, the City Clerk, the City Treasurer, and three law enforcement officers (active or retired LEOFF 1 or LEOFF 2 officers), who will serve in the elected capacity for three-year terms.

The Fire Pension Board consists of five members authorized by statute: the Mayor as Chair, the Finance Director, the City Treasurer, and two elected firefighters (active or retired LEOFF 1 or LEOFF 2 firefighters). The two elected firefighters serve two year terms and select a third firefighter who serves as an alternate in the event of an absence of one of the regularly elected firefighters.

2. Benefit Provisions

The LEOFF Act requires a varying obligation of the City for benefits paid to police officers and firefighters.

- Pension and medical expenses for police officers and firefighters retired prior to March 1, 1970; continue to be paid in their entirety by the City under the old pension laws.
- Police officers and firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act.

NOTES TO THE FINANCIAL STATEMENTS
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Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the reasonable cost of necessary medical expenses of the retiree for life.

- For police officers and firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the City is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Police officers and firefighters hired on or after October 1, 1977, are covered entirely by the LEOFF system with no City obligation for either retirement allowance or medical expenses.
- The benefits are directly correlated to the salaries of active employees. Cost of Living Adjustments (COLAs) provided at the state level do not impact the total pension benefits provided to the members. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the City's Plan. There were no changes in benefit provisions in the current year.

3. Contributions

The PRP is funded entirely from annual contributions from the City's General Fund that are budgeted and approved by the City Council. Funding of these benefits is required by RCW 41.20. The FRP contributions are required by RCW 41.18 and are funded from two sources: (1) state contributions of 25% on fire insurance premium collections and is considered a non-employer contributing entity and (2) a property tax levy of up to \$.225 per \$1,000 of assessed valuation. Retirement benefit provisions are established in state statute and may only be amended by the State Legislature. Amendments to each of the Plans are authorized by the separate Police and Fire Pension Boards.

Contributions are determined on a pay-as-you-go basis. There have been no required employee contributions to the police and firefighter's relief and pension plans since March 1, 1970.

The General Fund is responsible for the costs of administering the plans and ensuring that the fund has adequate cash to pay its obligations each year. The total General Fund contributions to the FRP and PRP were \$4.9 million and \$4.5 million for 2017.

The state contributes 25% of taxes on fire insurance premiums to the FRP and the amount contributed in 2017 was \$382,000.

NOTES TO THE FINANCIAL STATEMENTS
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4. Actuarial Assumptions

The total pension liability (TPL) was determined by an actuarial valuation as of January 1, 2017, projected forward to the measurement date of December 31, 2017. The liability was calculated based on the discount rate and other actuarial assumptions below.

	Firefighter Relief and Pension	Police Relief and Pension
Discount Rate		
Municipal bond rate	3.50%	3.50%
Actuarial assumptions		
Valuation date	January 1, 2016	January 1, 2016
Measurement date	December 31, 2017	December 31, 2017
Inflation	2.25%	2.25%
Salary increases including inflation	3.25%	3.25%
Mortality	RP-200 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members.	RP-200 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members.
Actual cost method	Entry Age Normal	Entry Age Normal

5. Changes in the Total Pension Liability

	Firefighters' Relief Pension	Police Relief Pension
	Increase (Decrease) Total Pension Liability	Increase (Decrease) Total Pension Liability
Balance as of December 31, 2016	\$ 29,247,618	\$ 15,946,074
Changes for the year:		
Service cost	-	-
Interest	1,057,779	573,069
Effect of plan changes	-	-
Effect of economic/demographic gains or losses	-	-
Effect of assumptions changes or inputs	622,091	311,233
Benefit payments*	(2,099,690)	(1,340,798)
Net changes	(419,820)	(456,496)
Balance as of December 31, 2017	28,827,798	15,489,578

*Benefit payments are estimated based on expected payouts.

NOTES TO THE FINANCIAL STATEMENTS
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6. Sensitivity of the Total Pension Liability

The table below presents the total pension liability calculated using the discount rate of 3.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total pension liability - Fire	\$31,561,914	\$28,827,798	\$26,469,341
Total pension liability - Police	\$16,852,270	\$15,489,578	\$14,307,132

7. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

Pension expense of \$1,297,870 and \$884,302 for was recognized in 2017 for the FRP and PRP. As of December 31, 2017, there are no deferred outflows or deferred inflows of resources related to these pension funds. The effects of changes in assumptions/inputs and economic/demographic gains or losses are recognized over the average remaining service life for all active and inactive members, with immediate recognition when the average remaining service life is less than one. Therefore, the \$622,091 and \$311,233 shown above for the effect of changes in assumptions were expensed in the current year.

D. Other Post-Employment Benefits (OPEB) Than Pensions

1. Plan description:

The City contributes to: the Tacoma Employees' Retirement System Fund (TERS), a cost sharing-multi employer plan and the Law Enforcement Officers' and Firefighters' Retirement System Plans (LEOFF Plan 1) administered by the City; the Law Enforcement Officers' and Firefighters' Retirement System Plan (LEOFF Plan 2), a cost sharing-multi employer plans administered by Washington State, and the Railroad Retirement System which is an independent agency in the executive branch of the U.S. Government which administers the Railroad Retirement Act. The benefits under the Railroad Retirement Act are not payments under a 'pension plan' but rather are grants under a Federal statute. Railroad benefit amounts are divided into a social security level benefit, staff-type benefits based on a railroad services, and in some instances a dual benefit component. Each plan provides medical benefits to eligible retired City employees and beneficiaries.

Benefit provisions for TERS are established in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code. These statutes assign the authority to establish benefit provision for TERS. For LEOFF Plan 2, benefits are established in accordance with RCWs 41.16, 41.18, 41.20 and 41.26. These statutes assign the authority to establish benefit provisions. For LEOFF Plan 1, these benefit provision are state statute by the State of Washington through the Department of Retirement Systems, per RCW 41.26. For the Railroad Retirement System, these are administered by Federal statute under the Railroad Retirement Act (45 U.S.C. 231 et seq.) and authority resides by these Federal statutory provisions. Financial reports for the LEOFF Plans and Railroad Retirement System plans are available at the addresses below. These reports may be obtained by writing at the following addresses:

LEOFF Plan 1
State of Washington
Office of Financial Management
P.O. Box 43113
Olympia, WA 98504-3113

NOTES TO THE FINANCIAL STATEMENTS
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U.S. Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611-2092

2. Funding Policy and Annual OPEB Cost:

The City is financing the plans on a pay-as-you-go basis. The railroad retirement benefits are paid from the Railroad Retirement Account, maintained by the Department of the Treasury of the U.S. and is financed through taxes levied upon railroad employees and employers by the Railroad Retirement Tax Act (26 U.S.C. 3201 et seq.), which is administered by the Internal Revenue Service.

The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate. The valuation interest rate used is 3.75% based upon the expected return for the short-term fixed income securities. This rate is used, as the required contributions net of benefits paid, are not prefunded.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year. The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The Annual Required Contribution (ARC) is the amount the City would be required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Each year the ARC, less current year benefit payments, will accumulate as a liability, Net OPEB Obligation, on the balance sheet.

Annual Required Contribution	TERS	LEOFF Plan 1	LEOFF Plan 2	Rail
Normal Cost at Year-end	\$ 2,009,723	\$ -	\$ 761,661	\$ 490,563
Amortization of UAAL	806,116	14,604,638	595,370	261,478
Annual Required Contribution (ARC)	2,815,839	14,604,638	1,357,031	752,041
Net OPEB Obligation				
Annual Required Contribution (ARC)	2,815,839	14,604,638	1,357,031	752,041
Interest on prior year Net OPEB obligation	1,067,434	1,282,678	510,761	35,066
Less Adjustments to ARC	1,490,210	2,491,390	713,057	48,955
Annual OPEB Cost	2,393,063	13,395,926	1,154,735	738,152
Contributions made	861,224	7,291,397	744,160	114,160
Increase in Net OPEB Obligation	1,531,839	6,104,529	410,575	623,992
Net OPEB Obligation - Beginning of Year	30,498,121	36,647,937	14,593,181	1,001,889
Net OPEB Obligation - End of Year	\$ 32,029,960	\$ 42,752,466	\$ 15,003,756	\$ 1,625,881
Less: Health & Transit (Non-City Participants)	(58,429)			
Net OPEB Obligation - End of Year (City)	\$ 32,088,389	\$ 42,752,466	\$ 15,003,756	\$ 1,625,881

NOTES TO THE FINANCIAL STATEMENTS
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The following table shows the City's GASB 45 liability broken down by the total value of the benefits provided, the member premiums and the City-paid benefits.

Value of Subsidy at 3.50% Interest Rate (Includes Health & Transit)

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

The City's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and each of the two preceding years for each of the plans were as follows:

TERS

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	3,742,248	28.9%	28,001,833
12/31/2016	3,663,452	31.9%	30,498,121
12/31/2017	2,393,063	36.0%	32,029,960

LEOFF Plan 1

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	10,347,583	67.7%	30,355,166
12/31/2016	12,661,771	50.3%	36,647,937
12/31/2017	13,395,926	54.4%	42,752,466

LEOFF Plan 2

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	1,453,442	54.8%	14,076,873
12/31/2016	1,418,466	63.6%	14,593,181
12/31/2017	1,154,735	64.4%	15,003,756

Rail

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	411,114	19.1%	695,629
12/31/2016	407,340	24.8%	1,001,889
12/31/2017	738,152	15.5%	1,625,881

NOTES TO THE FINANCIAL STATEMENTS
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3. Funding Status and Funding Process:

The funded statuses of the plans as of January 1, 2017, were as follows:

	TERS w/Health and Transit	LEOFF 1	LEOFF 2	Rail
Annual City Benefit Payments	\$861,224	\$7,291,397	\$744,160	\$114,160
Discount Rate	3.50%	3.50%	3.50%	3.50%
Present Value of Benefits	43,950,832	207,567,000	23,277,740	14,251,657
Actuarial Accrued Liability Assets	15,939,809	207,567,000	11,772,602	5,170,360
Plan Assets	-	-	-	-
Unfunded Actuarial Liability (UAAL)	15,939,809	207,567,000	11,772,602	5,170,360
Funded Ratio	0.0%	0.0%	0.0%	0.0%
Covered Payroll	237,558,151	133,877	79,762,242	11,010,251
UAAL as a % of covered payroll	7%	155043%	15%	47%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as results are compared to previous expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing overtime (based on how OPEB is funded) relative to the actuarial accrued liability for benefits. RSI immediately follow the notes.

The City uses the same premiums for retirees under age 65 as for active employees. Therefore, the retiree premium rates are being subsidized by the inclusion of active lives in the setting non-Medicare retiree rates. (Premiums calculated only based on retiree health claims experience would likely have resulted in higher non-Medicare retiree premiums.) GASB 45 requires that the value of this subsidy be recognized as a liability in valuations of OPEB costs.

To account for the fact that per member health costs vary depending on age (higher health costs at older ages), number of dependents (higher costs for more dependents) and employment status (higher costs for retirees than for active employees), the consulting actuary (Milliman) calculated equivalent Per Member Per Month (PMPM) costs that vary by age based on the age distribution of covered members (employees/retirees and dependents). These costs are based on relative age/gender cost factors were developed from Milliman's Health Cost Guidelines database. Based on the 2017 premium rates and relative age cost factors assumptions, Milliman developed the following age adjusted monthly PMPM health costs for 2017.

Monthly Medical Claims Costs at Sample Ages (excluding LEOFF 1)

Age	Retiree		Spouse	
	Male	Female	Male	Female
50	1,136.13	1,368.35	994.25	1,142.88
55	1,211.49	1,300.41	1,132.43	1,252.96
60	1,450.60	1,434.68	1,348.42	1,380.36
64	1,798.71	1,632.79	1,641.18	1,528.12

No retiree contributes toward the cost of retiree medical benefits for LEOFF 1. Based on the City's historical retiree medical cost experience from 2013 through 2015, the relative age cost factors assumptions, Milliman developed age adjusted monthly PMPM health costs for 2016 as follows:

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Monthly Medical Claims Costs at Sample Ages LEOFF 1

Age	Police		Fire	
	Male	Female	Male	Female
55	943.97	1,044.64	879.66	973.48
60	1,223.14	1,229.42	1,139.82	1,145.67
64	1,548.97	1,419.08	1,443.40	1,322.41
65	779.06	734.41	725.99	684.38
70	871.68	803.48	812.30	748.75
75	944.37	857.69	880.04	799.27
80	980.77	884.11	913.96	823.88
85	984.05	873.56	917.01	814.06

4. Actuarial Methods and Assumptions:

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

	TERS/LEOFF Plan 2/Rail	LEOFF Plan 1
Valuation Date	January 1, 2017	January 1, 2016
Census Date	January 1, 2017	January 1, 2016
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal
Amortization Method	Level percentage of expected salary	Level dollar amount
Remaining Amortization Period	20 years, dosed	20 years, dosed
Demographic Assumptions	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.	
Actuarial Assumptions:		
Discount Rate	3.50%	3.50%
Health Cost Trend	9.1% in 2017, 6.4% in 2018, 5.8% in 2019, 5.3% in 2020, 5.4% in 2030, 5.5% in 2040, 5.2% in 2050 and grading down to an ultimate of 4.4% in 2073 and beyond.	6% in 2017-2020, 5.9% in 2021-2030, 5.8% in 2031-2040 and grading down to an ultimate of 4.0% in 2071 and beyond.
Projected Payroll Increases	3.75%	3.75%

5. Excise Tax for High Cost or “Cadillac” Health Plans in 2020 and Beyond:

An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

GASB Statement No. 45, as well as GASB 74 and 75, indicate that the projection of benefits should include all benefits to be provided to retirees in accordance with the current “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, we believe the current provisions of ACA should be reflected in the projection of benefits and therefore, we do include the value of the excise tax in this valuation. The City assumes there will be no changes to the current tax law and that there will be no changes in the plan design to help mitigate the impact of the tax.

Note 6 – DEFERRED COMPENSATION

The City offers its employees two deferred compensation plans through a third party created in accordance with Internal Revenue Code Section 457. The plans, available to all City permanent full-time and part-time employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable emergency, but the plan does offer a loan provision. An employee may defer 100% of their salary net of employee pension contributions and any Section 125 deductions. The 2017 contribution limits are \$18,000 for regular deferral, \$36,000 for pre-retirement and \$24,000 for age 50 provision deferrals. The City has agreed through contract negotiation with the Police union and the Fire union to match contributions made by all Police Officers and Fire Officers up to a maximum of \$192 per pay period.

Benefit Plan	Third Party Administrator	Pre-Tax Employer Contributions	Pre-Tax Employee Contributions	After-Tax Employee Contributions	Total by Plan
457 deferred compensation	ICMA	2,113,843	13,444,305	875,677	16,433,825
457 deferred compensation	Nationwide	1,319,848	2,208,620	63,018	3,591,486
Total		<u>\$ 3,433,691</u>	<u>\$ 15,652,925</u>	<u>\$ 938,695</u>	<u>\$ 20,025,311</u>

Note 7 – INTERFUND ACTIVITY

Interfund activity is composed of three types of transactions. Due to and due from other funds represent internal charges for services. Advances to and from other funds are loans between funds for capital or cash flow purposes. Transfers represent a sharing of resources between funds. At the fund level, these transfers increase or decrease individual funds resources, but they do not affect the City’s total resources. These internal activities do not represent inflows or outflows of the City’s resources; rather, they reflect resources being moved within the City. The effects of these transactions are included in the City’s fund statements but are removed from the entity-wide financial statements.

Due to and Due from balances result when transactions are recorded in the accounting system and payments are made between funds after December 31, 2017.

Due To	Due From									Total
	General Fund	Trans Cap & Engineer Fund	Non-major Governmental Funds	Solid Waste Fund	Waste Water Fund	Tacoma Water Fund	Tacoma Power Fund	Internal Service Funds	Non-major Enterprise Funds	
General Fund	\$ -	\$ -	\$ 1,124	\$ -	\$ -	\$ -	\$ 24	\$ 174	\$ 8	\$ 1,330
Trans Cap & Engineer Fund	-	-	754	-	-	-	-	-	-	\$ 754
Non-major Governmental Funds	3,663	288	3,195	3	1	-	5	598	349	\$ 8,102
Solid Waste Fund	3	-	32	-	-	-	170	47	-	\$ 252
Waste Water Fund	6	-	86	42	-	-	544	54	-	\$ 732
Tacoma Water Fund	-	-	14	22	-	69	979	13	-	\$ 1,097
Tacoma Power Fund	-	-	45	-	-	-	-	23	-	\$ 68
Non-major Enterprise Funds	103	-	9	-	-	-	68	-	157	\$ 337
Internal Service Funds	185	-	629	-	-	-	30	39	-	\$ 883
Total	<u>\$ 3,960</u>	<u>\$ 288</u>	<u>\$ 5,888</u>	<u>\$ 67</u>	<u>\$ 1</u>	<u>\$ 69</u>	<u>\$ 1,820</u>	<u>\$ 948</u>	<u>\$ 514</u>	<u>\$ 13,555</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

The composition of interfund advances to and from other funds balances at December 31, 2017 is as follows:

Interfund Advances to/from Other Funds
(amounts expressed in thousands)

Interfund Advances from	Interfund Advances to		Total
	Non-Major Governmental	Non-Major Enterprise	
Non-Major Governmental	\$533	\$432	\$965
Total	\$533	\$432	\$965

The information below provides detail of the advances, or interfund payable transactions:

\$431,530 was authorized from the Capital Projects Fund (#3211) to the Tacoma Dome (#4180) to finance various Tacoma Dome projects.

\$533,326 was authorized from the Capital Projects Fund (#3211) to the Fire Department Fund (#1090) to refit and renovate a fireboat.

The composition of interfund transfers for the year ended December 31, 2017 is as follows:

Interfund Transfers
(amounts expressed in thousands)

	Transfer In							Transfer Out
	General Fund	Trans Capital & Engineering	Non-Major Governmental Funds	Wastewater & Surface Water	Tacoma Water	Non-Major Enterprise Funds	Internal Service Funds	
<u>Transfer Out</u>								
General Fund	\$ -	\$ 101	\$ 29,111	\$ -	\$ -	\$ 4,218	\$ 4,217	\$ 37,647
Trans Capital & Engineering	-	-	1,733	193	51	-	-	1,977
Non-Major Governmental Funds	857	4,175	37,085	675	-	4,140	747	47,679
Solid Waste	4,029	-	1,343	-	-	-	-	5,372
Wastewater & Surface Water	6,702	-	2,234	-	-	-	61	8,997
Tacoma Water	5,371	-	1,773	-	-	-	-	7,144
Tacoma Power	27,356	-	6,786	-	-	-	-	34,142
Non-Major Enterprise Funds	1,912	-	3,162	350	-	-	-	5,424
Internal Service Funds	-	-	1,263	-	-	-	-	1,263
Transfer In Total	\$ 46,227	\$ 4,276	\$ 84,490	\$ 1,218	\$ 51	\$ 8,358	\$ 5,025	\$ 149,645

The information below provides detail of the interfund transfer transactions:

\$100,862 was transferred from the General Fund to the Trans Capital & Engineering Fund for capital projects.

\$29,111,371 was transferred from the General Fund to Non-Major Governmental Funds for grant matches, debt service, capital projects, non-capital projects and regular operations.

\$4,217,666 was transferred from the General Fund to Non-Major Enterprise Funds for contributions to support debt service payments, capital projects and regular operations.

\$4,217,293 was transferred from the General Fund to Internal Service Funds for equipment purchases.

\$1,732,928 was transferred from the Trans Capital & Engineering Fund to Non-Major Governmental Funds for capital projects.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

\$193,305 was transferred from the Trans Capital & Engineering Fund to the Wastewater & Surface Water Fund for property acquisition.

\$51,000 was transferred from the Trans Capital & Engineering Fund to the Tacoma Water Fund for property acquisition.

\$857,250 was transferred from the Non-Major Governmental Funds to the General Fund for emergency medical services.

\$4,175,247 was transferred from the Non-Major Governmental Funds to the Trans Capital & Engineering Fund for capital projects.

\$37,084,841 was transferred from the Non-Major Governmental funds to Non-Major Governmental Funds for various capital projects and debt service payments.

\$675,000 was transferred from the Non-Major Governmental Funds to Wastewater & Surface Water Fund for the Streets Initiative Green project.

\$4,139,577 was transferred from the Non-Major Governmental funds to Non-Major Enterprise funds for capital projects and debt service payments.

\$746,722 was transferred from the Non-Major Governmental Funds to Internal Services Funds for equipment.

\$4,028,658 was transferred from the Solid Waste Fund to the General Fund for Gross Earnings Taxes.

\$1,342,886 was transferred from the Solid Waste Fund to Non-Major Governmental Funds to support Proposition 1.

\$6,701,867 was transferred from the Wastewater & Surface Water Fund to the General Fund for Gross Earnings Tax.

\$2,233,956 was transferred from the Wastewater & Surface Water Fund to the Non-Major Governmental Funds to support Proposition 1.

\$61,125 was transferred from the Wastewater & Surface Water Fund to the Internal Service Funds for equipment.

\$5,371,097 was transferred from the Tacoma Water Fund to the General Fund for Gross Earnings Tax.

\$1,772,764 was transferred from the Tacoma Water Fund to the Non-Major Governmental Funds to support Proposition 1.

\$27,356,261 was transferred from the Tacoma Power Fund to the General Fund for Gross Earnings Tax.

\$6,785,614 was transferred from the Tacoma Power Fund to the Non-Major Governmental Funds to support Proposition 1.

\$1,911,719 was transferred from the Non-Major Enterprise Funds to the General Fund for Gross Earnings Tax.

\$3,162,889 was transferred from the Non-Major Enterprise Funds to Non-Major Governmental Funds to support Proposition 1 and for debt service.

\$350,000 was transferred from the Non-Major Enterprise Funds to the Wastewater & Surface Water Fund for services.

\$1,263,188 was transferred from the Internal Service Funds to Non-Major Governmental Funds for capital projects and to support environmental sustainability.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Note 8 – OTHER INFORMATION**A. Accounting changes**

Effective for the fiscal year 2017, the City implemented GASB Statement No. 82 - *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The purpose of this statement is to address certain issues that have been raised with respect to GASB statements No. 67, No. 68 and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City made the required adjustments as prescribed by GASB Statement No. 82.

In addition, the Police and Firefighter's Relief and Pension Funds, which are not administered through a trust, were reclassified from fiduciary funds into the General Fund in 2016, as prescribed by GASB 73, paragraph 115. Effective for the fiscal year 2017, the City fully implemented the remaining portions of GASB 73 in which the net pension obligation/asset was replaced by the total pension liability resulting in a decrease in net position for governmental activities by \$35.9 million.

B. Risk management

The City is self-insured for tort liability, medical benefits, unemployment and worker's compensation and records its claims and liabilities in the accrual basis of accounting. Liabilities include an estimate for Incurred but Not Reported (IBNR) claims. The estimate for reported claims is based on Risk Management and Legal Departments' projections and is adjusted annually. The IBNR for the self-insured employee benefits is based on an average of 2-months claims from the reporting year. The IBNR for tort liabilities are calculated by a periodic actuarial study. The handling and paying of all tort liability claims for which the City is found legally liable is accounted for in either the Self-Insurance Claim Fund or the TPU Self Insurance Claim Fund. Monies are appropriated from various cost centers based on prior claims history and paid to these funds.

The Self-Insurance Program is maintained in conformity with all laws, rules and regulations pertaining thereto and in accordance with the Revised Code of Washington in RCW 35.21.085(2). The general government of the City carries a supplemental liability policy with a \$20 million limit and a \$3 million self-insured retention, renewable on September 12 of each year. TPU carries separate supplemental liability policies with total limits of \$60,000,000, \$250,000 retention for wrongful acts claims and a \$1,500,000 self-insured retention for all other covered claims, renewable on December 1 of each year. The Belt Line Railroad carries separate Railroad Liability policies with total limits of \$50,000,000 each occurrence and a \$1,000,000 self-insured retention renewable on December 1 of each year. Mountain Rail carries a separate Railroad Liability policy a limit of \$7,000,000 each occurrence and a \$50,000 self-insured retention renewable on December 2 of each year. These policies are provided to supplement the City's current self-insurance risk for settlements in excess of the self-insured retentions.

The City also has a policy to cover extraordinary worker's compensation claims with a statutory liability limit and a \$1 million retention for each occurrence as well as an additional \$250,000 for any one policy year. This policy renews January 1st of each year.

The City carries property coverage with a maximum single occurrence limit of \$500,000,000 with sub-limits, and \$150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. TPU carries separate property coverage with a maximum single occurrence limit of \$150,000,000 with sub-limits, and a \$250,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year.

The TPU Self-Insurance Claim Fund was established in 1979 to cover general liability claims of the Light and Water divisions. The Belt Line Railroad became a participant in 1985. Total assets in this fund are \$7.6 million. Settlement payments were within amounts available for coverage for the last three years—2017, 2016, and 2015.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Changes in estimated claims settlements liability for the past two years were as follows:

	(Amounts expressed in thousands)					
	Self Insurance Fund		Worker Compensation Fund		TPU Self Insurance Fund	
	2017	2016	2017	2016	2017	2016
Balance 01/01	\$ 21,502	\$ 18,063	\$ 5,681	\$ 6,418	\$ 4,827	\$ 4,707
New Claims	1,191	585	2,320	2,330	969	72
Adjustments to Claims	10,380	4,708	1,419	1,523	1,499	290
Claims Payment	(4,373)	(1,854)	(4,336)	(4,590)	(1,417)	(242)
Balance 12/31	<u>\$ 28,700</u>	<u>\$ 21,502</u>	<u>\$ 5,084</u>	<u>\$ 5,681</u>	<u>\$ 5,878</u>	<u>\$ 4,827</u>

C. Prior-Period Adjustments

Prior year adjustments are used for the correction of an error or the implementation of a new authoritative standard.

Subsequent to the issuance of the December 31, 2017 financial statements, prior period adjustments were made.

Governmental Funds:

Fund Name	Description
General Fund #0010	Beginning net position increased by \$18,037 from a misclassification of grant costs, tax expenditures, accruals and revenues.
Transportation Capital and Engin #1060	Beginning net position increased by \$311,503 from a misclassification of expenditures.
Special Funds #1085, 1100, 1140, 1195, 1267, 1431 and 1650	Beginning net position increased by \$67,584 from a misclassification of grant costs, recognizing tax expenditures, accruals, labor reconciliation, and revenues.
2010 LTGO Bond #3220	Beginning net position increased by \$191,036 from a correction to capital outlay.
Debt Service #7070	Beginning net position increased by \$596,449 from a revenue correction.

Internal Service Funds:

Fund Name	Description
Graphic Service # 5042	Beginning net position increased by \$94,362 from a correction of account payable accruals.
Equipment Rental # 5400	Beginning net position decreased by \$111,379 from a correction to depreciation.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Government-wide Statements
(amounts expressed in thousands)

The impact of the prior period adjustments on the fund statements detailed above impacted the Government-Wide statements as followed:

Activity	Amount	Description
Governmental	\$ 1,185	General Fund, Trans Capital and Engineering, Street Initiative, ROW, Paths & Trains, CED, Police SR, and Traffic Enforcement
	(17)	Graphic Services and Equipment Rental
Total	<u>\$ 1,168</u>	

D. Segment Information

The following are the three segment enterprise funds maintained by the City. Segment information was as follows:

(Amounts expressed in thousands)

CONDENSED STATEMENT OF NET POSITION	Parking Garage Fund #4140	Convention Center Fund #4165	Union Station Fund #4450
Assets:			
Current assets	\$ 2,415	\$ 1,494	\$ -
Accounts receivable (net)	-	308	4,051
Prepayments	17	51	-
Restricted assets	6,230	660	1,993
Capital assets (net)	47,598	58,438	-
Other non-current assets	-	110	15,430
Total assets	<u>56,260</u>	<u>61,061</u>	<u>21,474</u>
Deferred outflow of resources	307	3,395	-
Liabilities:			
Current liabilities	1,950	5,174	4,368
Due to other funds	8	3	-
Net pension liabilities	293	442	-
Non-current liabilities	10,217	63,259	16,179
Total liabilities	<u>12,468</u>	<u>68,878</u>	<u>20,547</u>
Deferred inflow of resources	63	95	-
Net position			
Net investment in capital assets	35,872	(6,102)	-
Restricted	6,230	1,196	1,993
Unrestricted	1,934	389	(1,066)
Total Net Position	<u>\$ 44,036</u>	<u>\$ (4,517)</u>	<u>\$ 927</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

CONDENSED STATEMENT OF REVENUES
EXPENSES, AND CHANGES IN NET POSITION

	Parking Garage Fund #4140	Convention Center Fund #4165	Union Station Fund #4450
Operating revenues	\$ 7,815	\$ 2,817	\$ -
Depreciation expense	(1,349)	(1,927)	-
Other operating expenses	(3,905)	(5,103)	(5)
Operating income	2,561	(4,213)	(5)
Nonoperating revenues (expenses)			
Tax	-	13	-
Interest revenue	71	27	1
Interest expense	(420)	(2,729)	(1,459)
Other nonoperating revenues(expenses)	4,781	3,643	1,459
Transfers	(1,205)	5,169	-
Change in net position	5,788	1,910	(4)
Beginning net position	38,248	(6,427)	931
Ending net position	\$ 44,036	\$ (4,517)	\$ 927

CONDENSED STATEMENT OF CASH FLOW

	Parking Garage Fund #4140	Convention Center Fund #4165	Union Station Fund #4450
Net cash provided (used) by:			
Operating activities	\$ 3,834	\$ (2,481)	\$ (72)
Noncapital financing activities	-	2,270	-
Capital and related financing activities	2,298	298	72
Investing activities	23	20	1
Net increase (decrease)	6,155	107	1
Beginning cash and cash equivalents	2,490	1,747	1,992
Ending cash and cash equivalents	\$ 8,645	\$ 1,854	\$ 1,993

- Parking Garage fund (#4140) accounts for the City's parking facilities.
- Convention Center fund (#4165) accounts for activities associated with operating the Convention Center.
- Union Station fund (#4450) accounts for the thirty-year lease with the Federal Government who uses Union Station as a Federal Courthouse.

E. Tax expense – Utility Funds

The taxes expense shown in the statements for Enterprise Funds consists primarily of an 8.0% tax upon gross earnings for Tacoma Water, Tacoma Rail, Surface Water, Waste Water, and Solid Waste and a 7.5% tax upon gross

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

earnings for Tacoma Power which is paid to the General Fund. Non-governmental utilities also pay gross earnings tax at the following rates: Natural Gas, 7.5%; Cable TV, 8.0%; Electricity, 7.5%; Solid Waste Collection, 8% and Telephone, 7.5%.

F. Results of operations of joint ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an on-going financial interest or (b) on-going financial responsibility.

The City participates in two joint ventures: South Sound 911 and the Tacoma-Pierce County Health Department (Health Department). The City of Tacoma however, does not report an equity interest in the Government-wide financial statements.

Summary financial information on the joint ventures is listed below for the year of the last audited financials. These figures reflect the information as prepared and submitted to the City by the various entities.

Joint Venture (amounts expressed in thousands)			
	SOUTH SOUND 911		HEALTH DEPARTMENT
Balance Sheet Date	<u>12/31/2016</u>		<u>12/31/2016</u>
Total Assets	\$ 28,802	\$	12,781
Deferred Outflows	3,188		7,581
Total Liabilities	18,160		10,503
Deferred Inflows	261		503
Total Net Position	13,569		9,356
Non-current Liabilities	15,907		317
Capital Assets (net of accumulated depreciation)	7,533		847
 Total Revenues	 38,397		 34,051
Total Expenditures/Expenses	40,372		32,379
Net Increase/(Decrease) in Net Assets	(1,975)		1,672
 City Contribution	 11,074		 1,165

Additional information about each entity can be obtained from separately published financial statements by each entity by contacting South Sound 911, Budget and Finance Manager, 955 Tacoma Avenue South #102, Tacoma, WA 98402 and the Tacoma/Pierce County Health Department, Christopher Schuler, Business Support Services, 3629 South D Street, Tacoma, WA 98418-6813.

Note 9 – CLAIMS, JUDGEMENTS AND COMMITMENTS

A. Claims

From time to time, claims have been filed against the City involving tort actions for such things as defective sidewalks, automobile accidents, claims of false arrest, etc.; all of which are in a sense routine in nature and common to all local governments. In those instances, when material, where it has been determined that it is probable that a claim will be paid by the City, the expenditure/expense and the related liability are reported in the statements of the appropriate fund in the year when such a determination is made. See Note 8 B for risk management information.

The City has entered into interlocal agreements with the Tacoma-Pierce County Health Department. If, in fact, this entity were to suffer a catastrophic disaster, claim or lawsuit that exceeded the levels of insurance maintained by the Health Department, their self-insurance funds or otherwise resources were to be depleted; the City and other participating jurisdictions may be required to stand behind and make good the excess liability.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Under state law, the City is required to pay for unemployment and industrial insurance and medical aid. The City has chosen to self-insure rather than remit its payments to the state pool. See Note 8 B for risk management information.

B. Construction Commitments

The City has various construction projects as of December 31, 2017. The projects include street and capital project constructions for improvements of existing streets and bridges or new bridges. At year-end the City's major commitments with the contractors are as follows: (amounts expressed in thousands)

Project	Authorized	Spent-to-date	Remaining Commitment
Amtrak Station HID	198	-	198
Citywide LED Streetlight Installation	1,548	170	1,378
Historic Water Ditch Trail IV	2,100	1,843	257
Homeless Encampment Civil Site Work	-	142	(142)
Manitou and Station Lofts	114	-	114
Neighborhood District Trash Can Change Out	35	51	(16)
On-Call Building Demolition	255	145	110
On-Call Nuisance Abatement Services	636	-	636
On-Call Securing Properties	424	-	424
Pedestrian Improvements in Hilltop and South Downtown	1,346	1,309	37
Prairie Line Phase 1A	2,953	3,174	(221)
Puyallup River Bridge F-16 A & B	30,650	6,994	23,656
School Speed Zone Beacons	620	551	69
Signals at Marshall Ave	-	104	(104)
South 38th Street Streetscapes	5,680	3,142	2,538
Streets Initiative Package #2	1,994	1,883	111
Streets Initiative Package #3	2,784	1,719	1,065
Streets Initiative Package #4G	1,280	764	516
Streets Initiative Package #5	4,281	3,552	729
Streets Initiative Package #9	1,063	-	1,063
	<u>\$ 57,961</u>	<u>\$ 25,543</u>	<u>\$ 32,418</u>

These commitments are being funded by a variety of funding sources such as Federal, State and Local Grants, Gas Tax Revenue, City contributions and long-term debt.

The City entered into an agreement with Sound Transit on March 21, 2017, related to the Tacoma Link Expansion project. The total project costs are estimated to be \$175 million, in which the City's contribution will be approximately \$43.3 million. The City's contribution to this project will be reduced by grant contributions of \$33.1 million and in-kind match which is expected to cover the remaining outstanding balance.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

C. Tax Abatements

As of December 31, 2017, the City provides tax abatements for the following programs:

1. Multifamily Housing Property Tax Exemption

The Multifamily Housing Property Tax Exemption Program encourages development of market rate and affordable housing in mixed use areas. This program was established under the Tacoma Municipal Code, Section 6A.110.020.

Criteria: The applicant must be the owner of the property, and the property must be located within the boundaries of a mixed-use center. The Tax Review Committee, made up of City staff from the Community & Economic Development Dept. and the Legal Dept., and a representative from the Pierce County Assessor's Office, approve the request. Once approved, the construction must be completed within 3 years. If the owner sells the property after the tax exemption has been granted, the exemption stays with the property and is transferred to the new owner. The contract includes the agreed upon specifications of the housing improvements. The exemption will begin after the improvements are completed. The City will issue a Final Certificate of Tax Exemption with the Pierce County Assessor's Office and the property owner's assessed value will be adjusted to reflect this exemption. The property tax abatement is determined by a percentage of assessed value. In Pierce County, the tax rate in 2017 is .016075974 of assessed value. The City of Tacoma receives 22.342% of that tax.

2. Special Valuation Property Tax Exemption

This Special Valuation Property Tax Exemption Program encourages the owners of historic properties to invest in the improvement and rehabilitation of historic buildings. This program was established under the Washington State RCW Chapter 84.26, Historic Property.

Criteria: Property owners may obtain a reduced tax assessment by submitting an application at the conclusion of project construction. The applicant must be the owner of the property, and the property must be listed on the Tacoma Register of Historic Places or be a historically contributing property within a local historic overlay zone. In addition, the project must meet the Secretary of Interior's Standards for Rehabilitation of Historic Buildings and must not adversely affect the building's historically significant, character defining elements. Exterior modifications must be approved by the Tacoma Landmarks Preservation Commission. The project investment expenditures must be a minimum of 25% of the assessed value of current improvements on the property over a 24 month consecutive period. The reduced assessment begins the tax year following the approval. This program is jointly processed and administered by the City's Historic Preservation Program and the Pierce County Assessor. The property owner's assessed value will be adjusted to reflect this exemption. The property tax abatement is determined by a percentage of assessed value. In Pierce County, the tax rate in 2017 is .016075974 of assessed value. The City of Tacoma receives 22.342% of that tax.

The City is required to disclose other abatement arrangements entered into by other governments that reduce the City's tax revenues. The State of Washington's tax abatements that affected the City of Tacoma tax revenue are included below:

3. Future churches, parsonages and convents are exempt from property tax based on RCW Chapter 84.36.020(2).
4. Future nonprofit low-income housing exempt from property tax based on RCW Chapter 84.36.560(4).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Information relevant to the disclosure of those programs under contract with the City of Tacoma for the fiscal year ended December 31, 2017 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated in Thousands</u>
Multifamily Property Tax Exemption	\$ 975
Special Valuation Tax Exemption	\$ 319
Future Churches, Parsonages, and Convents	\$ 2
Future Nonprofit Low-Income Housing	\$ 1

D. Solid waste utility—landfill closure and post closure liabilities

The Division operates a 235-acre landfill site, which became part of the South Tacoma Channel Superfund Site in 1983. In 1991, the City entered a Consent Decree settlement with the United States Environmental Protection Agency (EPA) and the Washington State Department of Ecology (DOE), titled United States et al v. City of Tacoma US District Court Case No. C-89C583T, to “clean-up” the release of hazardous substances at the Landfill. The City completed the majority of the remediation work required by the Consent Decree several years ago. The remaining work mostly involves monitoring the remediation work completed by the City in the 1990s to assure that it continues to protect human health and the environment. The Consent Decree settlement was entered pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. §9601 et seq., and the state Model Toxics Control Act (MTCA), Chapter 70.105D RCW.

The City’s remediation work has included: (1) covering the landfill with a double flexible membrane cap that is impermeable to water; (2) capturing methane gas within and at the landfill perimeter to prevent off-site migration; (3) pumping and treating ground water to remove contamination at the point of compliance and beyond property boundaries; and (4) closing the landfill in accordance with the above-referenced Consent Decree. The City has an obligation under the Consent Decree to monitor the remediation work over the next 20 years, or more years to make sure it continues to be effective at protecting human health and the environment.

The costs for ongoing maintenance of the Tacoma Landfill are not expected to require rate increases above those already projected. The City will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. The City’s on-going monitoring efforts indicate the remedial actions undertaken by the City at the Tacoma Landfill are performing as designed.

In 2014, following closure of the portions of the Tacoma Landfill as required by the Consent Decree, the remaining recovery and transfer facilities continued to be permitted by the Tacoma Pierce County Health Department (TPCHD) through the same permitting process. All closed portions of the Landfill will also be covered by a TPCHD closure permit, which may be incorporated into the overall facility permit. The closure permit will mirror the requirements implemented as a result of the Landfill remedial action. The Tacoma-Pierce County Health Department has determined that the Tacoma Landfill is exempt under RCW 70.105D and WAC 173-351-700(4)(c) from TPCHD closure permit requirements. However, the City and the TPCHD are working cooperatively on an agreement pursuant to which the City will voluntarily comply with the TPCHD closure permit requirements.

Long-term plans for the closed capped areas of the Tacoma Landfill include recreational facilities, such as trails and playfields, as well as other governmental facilities, such as greenhouses for grounds maintenance operations. All development on the Tacoma Landfill site must be designed to accommodate differential settlement and allow for continued functioning of the environmental remediation systems.

The City reported \$16,354,014 as landfill post-closure care liability as of December 31, 2017 based on 100% use of the total capacity of the Tacoma Landfill. This compares to \$20,518,000 at December 31, 2016 based on 100% of capacity. Actual care costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The City will be responsible for the costs of additional work if migration of pollutants from the site is

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

not completely controlled by current remedial actions. To meet the previous requirements of State and Federal laws and regulations, contributions were made to a reserve for financing closure costs.

E. Potential environmental contamination or utility claims or suits

Solid Waste (#4200) Landfill Clean Air Act Enforcement Action - On July 14, 2010, a complaint was filed against City of Tacoma's Public Works Department by the United States Department of Justice alleging a violation of the Clean Air Act. A Notice of Settlement (Lodging of Consent Decree) was filed simultaneously with the filing of the Complaint in which the Consent Decree settled all the claims alleged in the Complaint. A motion to enter the proposed Consent Decree between the Plaintiff and Defendant City of Tacoma was filed by plaintiff on August 20, 2010, and the Consent Decree was entered on August 25, 2010.

On May 23, 2017, after satisfactorily completing all of the requirements of the Decree, the City requested that the United States consent to terminate the Consent Decree and provide documentation to demonstrate its compliance with the Decree. On July 27, 2017, the United States filed a Joint Motion to terminate the Consent Decree. An Order Terminating Consent Decree was filed on September 27, 2017, ending the City's obligations under the Consent Decree.

The City is subject to various pending and threatened legal actions, which arise in the ordinary course of business. The City believes, based on information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the City, but could be material to results of operations or cash flows for a particular annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim.

Note 10 – CONTINGENT LIABILITIES

Solid Waste (#4200) Long-term Contract – Land Recovery, Inc. - - In February 2000, the Division entered into a 20-year contract with Land Recovery, Inc. (LRI) to dispose of all "acceptable waste" collected or handled by the Division (as that term is defined in the agreement), at the 304th Street landfill operated by LRI. The Division entered into this agreement to extend the life of the Tacoma Landfill and to secure a long-term disposal arrangement at a favorable disposal cost. The agreement excludes solid waste that LRI is not authorized by law or permit to receive, or which could create or expose LRI or the Division to potential liability, among other things. Recycling and/or composting waste is not covered by the agreement. The agreement further provides that LRI shall charge a base rate per ton for disposal services, and that said rate shall decrease as the tonnage increases during each contract year. The agreement also provides that the base rate charged by LRI shall increase annually based on the Seattle-Tacoma CPI. The rate per ton is periodically increased by LRI to cover certain increased costs, including the increased cost of landfill closure liabilities. These rate adjustments are part of the existing agreement.

Solid Waste (#4200) Long-term Contract – Pierce County Recycling, Composting and Disposal - In October 2004 the Division entered into a ten (10) year agreement with Pierce County Recycling Composting and Disposal (PCRCDD) LLC to accept organic material collected by the City curbside or delivered to the City's landfill for processing into compost. Under the agreement, which has two 5-year renewal options, PCRCDD will charge a base rate per ton for the organic waste it receives from the City. This price may be adjusted beginning on the second anniversary of the agreement, and thereafter annually based on the Seattle-Tacoma-Bremerton CPI. The agreement also includes a revenue sharing component. The Division entered into this agreement to extend the life of the Tacoma landfill and secure a long-term composting arrangement at a favorable cost through 2030.

Wastewater and Surface Water (#4300-01) Commencement Bay Natural Resource Damages - The City resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree, effective December 30, 1997. The stated value of the City's settlement was approximately \$7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction was completed on four projects and the City made a payment to the Port of Tacoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016.

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

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

Wastewater and Surface Water (#4300-01) Olympic View Resource Area - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long term monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys. A report of these findings was submitted to EPA in early 2017 along with a Contingency Planning Proposal. The City began implementation of this Contingency Planning Proposal in 2017, and it is anticipated that sediment cap replenishment work will occur at the site in 2018.

Wastewater and Surface Water (#4300-01) Foss Consent Decree – The City completed the first ten years of post-construction monitoring under the Foss Consent Decree in 2016 and is currently working with the Environmental Protection Agency to finalize the monitoring plan for the next ten years. Under this Long Term Monitoring Plan developed in accordance with the Foss Consent Decree, the City will have an obligation for continued monitoring until at least 2028. The results of this monitoring may result in additional limited cleanup efforts in the future. Included in the financial statements for the years 2017 and 2016 are liabilities of \$400,000.

Wastewater and Surface Water (#4300-01) Coal-Gas Site Agreed Order - In 1993 the City became a party to an agreed order with the State Department of Ecology under MTCA (RCW 70.105D.050(1)) for the clean-up of the coal-gas properties located at the head of the Foss Waterway just south of the cable stay bridge below the SR 705 spur. The City is one of several potentially liable parties (PLPs) that are signatories to this agreed order. The agreed order, and subsequent amendments, provided for interim measures to control the coal-tar from migrating from this site into the Foss Waterway but did not provide for final clean-up or closure of the site. In early-2016 the other PLPs contacted the City of Tacoma regarding monitoring of the wells on the site, which they subsequently did on several occasions with Ecology authorization.

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

Tacoma Rail (#4500) Linda Wonner, Executrix of the Estate of Robert W. Wonner, Sr. V. Tacoma - On February 22, 2018, Linda Wonner filed a lawsuit on behalf of the Estate of Robert Wonner in U.S. District Court, alleging that her husband Robert Wonner was exposed to toxic agents during his 40 years of employment with Tacoma Rail resulting in his death on December 17, 2014. Ms. Wonner seeks damages of \$5 million. The City is currently in the discovery stage.

Tacoma Rail (#4500), Department of Public Works, Mountain Division – Public Works own approximately 142 miles of track, called Mountain Division, which connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2018. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

Tacoma Water (#4600) Capital Improvements – The financial requirement for Tacoma Water’s 2017-2018 biennial Capital Improvement program is approximately \$48.1 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2017 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$3.8 million.

Tacoma Water (#4600) 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.

Tacoma Power (#4700) Capital Improvements – The financial requirement for Tacoma Power’s 2017/2018 biennial Capital Improvement Program is approximately \$190.5 million. As of December 31, 2017, the remaining financial requirement for the 2017/2018 biennial Capital budget was approximately \$140.9 million.

Tacoma Power (#4700) Ted Coates, et al. v. Tacoma On June 22, 2017, plaintiffs filed their suit in Pierce County Superior Court, alleging Tacoma Power has been unlawfully subsidizing the capital expenses and the operational and maintenance (O&M) expenses of its commercial telecommunications business (Click!). The plaintiffs have requested an immediate cessation of all such subsidies and to refund to the Tacoma Power electric utility customers funds spent subsidizing these operations for the past three years (alleged to be in excess of \$21 million). The law firm of K&L Gates has been retained by the City to defend Tacoma Power, Click! and the City. On March 2, 2018 the Court granted plaintiffs’ motion for partial summary judgment ordering that Tacoma Power electric utility revenues and funds may not lawfully be used to pay for Click! Network expenses or capital improvements that are attributable or properly allocable to commercial telecommunications service rather than electric utility service. The City is considering pursuing an interlocutory appeal of the Court’s order on partial summary judgment, which, if granted, would stay the underlying proceedings. Trial is scheduled for June 21, 2018. The insurance carrier is currently defending under a reservation of rights letter.

Grants

Under the terms of federal and state grants, periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Note 11 – SUBSEQUENT EVENTS

There are no subsequent events for 2017.

CITY OF TACOMA, WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR DECEMBER 31, 2017

NOTE 12
CHANGES IN LONG TERM DEBT
(all dollar values expressed in thousands)

NAME OF DEBT ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURITY DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT O/S 01/01/2017	ISSUED 2017	REDEEMED 2017	AMOUNT O/S 12/31/2017	Reconcile to Governmental Fund Statements	Reconciles to Changes in LTD in Notes
GENERAL OBLIGATION BONDS, LOANS, & NOTES											
Unlimited General Obligation Bonds											
Gent Obl Bonds 2010	Refunding 2002 Bonds	11/10/10	2011 - 2022	21,870	2.6323	14,120	-	2,105	12,015	-	12,015
	Subtotal Unlimited General Obligation Bonds (Voted)					14,120	-	2,105	12,015	-	12,015
Limited General Obligation Bonds											
Ltd. Gent Obl Bonds 1997 Ser B	Capital Improvements	08/05/97	2008 - 2018	16,100	5.4554	1,630	-	847	783	-	783
Ltd. Gent Obl Bonds 1997 Ser B Accreted Interest		08/06/97	2008 - 2019	16,100	5.4554	3,088	267	1,743	1,612	267	1,612
Ltd. Gent Obl Bonds 2007 Parking Structure	Retrofit Parking Structure	12/21/07	2008 - 2027	9,610	5.6328	440	-	440	-	-	-
Ltd. Gent Obl Bonds 2009A Cheney	Capital Improvements	12/17/09	2011 - 2035	15,380	5.8600	14,485	-	250	14,235	-	14,235
Ltd. Gent Obl Bonds 2009B Dock & Salishan	Capital Improvements	12/17/09	2035	3,320	3.5400	3,320	-	-	3,320	-	3,320
Ltd. Gent Obl Bonds 2009C Cheney	Capital Improvements	12/17/09	2034	4,975	4.8800	4,975	-	-	4,975	-	4,975
Ltd. Gent Obl Bonds 2009E Multiple Projects	Capital Improvements	12/17/09	2026 - 2035	13,526	5.7500	13,526	-	-	13,526	-	13,526
Ltd. Gent Obl Bonds 2009F Accreted Interest		12/18/09	2026 - 2036	13,526	5.7500	6,465	1,155	-	7,620	1,155	7,620
Ltd. Gent Obl Bonds 2009F Cheney & Elm Remed	Capital Improvements	12/17/09	2023 - 2026	6,681	7.2020	6,681	-	-	6,681	-	6,681
Ltd. Gent Obl Bonds 2009F Accreted Interest		12/18/09	2023 - 2027	6,681	7.2020	4,216	794	-	5,010	-	5,010
Ltd. Gent Obl Bonds 2010B Refunding Bonds	Refund 1997B, 2001, 2004, 2006A LTGO Bonds	11/10/10	2015 - 2022	7,355	2.7966	5,215	-	1,085	4,130	-	4,130
Ltd. Gent Obl Bonds 2010C Refunding Bonds	Refund 2001, 2007, 2009 LTGO Bonds	11/10/10	2015 - 2022	7,355	3.8076	5,685	-	865	4,820	-	4,820
Ltd. Gent Obl Bonds 2010D Bonds	Capital Improvements	11/10/10	2015 - 2033	30,225	5.0399	27,725	-	1,285	26,440	-	26,440
Ltd. Gent Obl Bonds 2010E Bonds	Capital Improvements	11/10/10	2015 - 2040	9,130	5.7155	8,635	-	255	8,380	-	8,380
Ltd. Gent Obl Bonds 2013 Refunding Bonds	Refund 2001 & 2004	03/05/13	2015 - 2034	44,170	3.1768	41,365	-	1,555	39,810	-	-
Ltd. Gent Obl Bonds 2015X Refunding Bonds	Ref 2006A, 2006B, & 2007	12/29/15	2016 - 2036	12,735	3.2066	12,720	-	405	12,315	-	-
Ltd. Gent Obl Bonds 2015B Refunding Bonds	Ref 2006A, 2006B, & 2007	12/29/15	2016 - 2027	20,215	2.8933	19,925	-	240	19,685	-	19,685
Ltd. Gent Obl Bonds 2017 - Tacoma Dome	Capital Improvements	12/12/17	2018 - 2037	25,295	3.2114	-	25,295	-	25,295	-	25,295
	Subtotal Limited General Obligation Bonds (Councilmanic)					180,096	27,511	8,970	198,637	26,717	143,859
Washington State Public Works Trust Fund Loans											
CTED PWTF No. 98-791-065	Capital Improvements	08/17/98	1999 - 2018	9,000	1.0000	1,081	-	540	541	-	541
CTED PWTF No. 04-691-068	Capital Improvements	06/02/04	2004 - 2024	4,500	0.5000	4,564	-	571	3,993	-	3,993
	Subtotal Washington State Public Works Trust Fund Loans (Councilmanic)					5,645	-	1,111	4,534	-	4,534
Total General Obligation Bonds, Loans, & Notes						199,861	27,511	12,186	215,186	26,717	160,408
ENTERPRISE REVENUE BONDS, LOANS, & NOTES											
Greater Tacoma Convention Center Bonds											
Tac CC & Parking Rev/Ref Bonds, Series 2010	Refunding 2004 Bonds	11/10/10	2015 - 2024	5,015	3.7656	4,205	-	440	3,765	-	-
Tac CC & Parking Rev/Ref Bonds, Series 2015	Refunding 2004 Bonds	08/14/15	2015 - 2024	20,453	2.3304	16,639	-	1,943	14,696	-	-
	Subtotal Greater Tacoma Convention Center Bonds					20,844	-	2,383	18,461	-	-
Wastewater Utility Bonds and Loans											
State Revolving Fund (SRF) Loan #44006A	Treatment Plant Upgrade	09/19/03	2008 - 2028	53,491	1.5000	33,629	-	2,700	30,929	-	-
State Revolving Fund (SRF) Loan #44006B	Treatment Plant Upgrade	09/28/03	2009 - 2028	21,687	2.6000	14,246	-	1,077	13,169	-	-
Sewer Rev & Ref Bonds 2006	Improvements/Refunding	06/29/06	2006 - 2036	55,000	4.8852	5	-	-	5	-	-
Sewer Rev & Ref Bonds 2011	Refunding	10/12/11	2022 - 2031	34,315	3.8768	34,315	-	-	34,315	-	-
Sewer Rev & Ref Bonds 2015	Refunding	03/18/15	2016 - 2045	109,300	3.5558	108,055	-	1,690	106,365	-	-
Sewer Rev & Ref Bonds 2016A	Refunding	06/15/16	2016 - 2038	31,855	2.8277	31,330	-	975	30,355	-	-
Sewer Rev & Ref Bonds 2016B	Refunding	06/15/16	2017 - 2020	11,865	1.3269	11,865	-	2,165	9,700	-	-
	Subtotal Wastewater Utility Bonds and Loans					233,445	-	8,607	224,838	-	-

NAME OF DEBT ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURITY DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT O/S 01/01/2017	ISSUED 2017	REDEEMED 2017	AMOUNT O/S 12/31/2017	Reconcile to Governmental Fund Statements	Reconciles to Changes in LID in Notes
Surface Water Utility Loan DOE SFR Loan L-1000007	Sewer Plant Upgrade	02/07/06	2011 - 2030	474	2.9000	366	-	21	345	-	-
						366	-	21	345	-	-
Solid Waste Utility Bonds	Subtotal Surface Water Utility Loan										
Solid Waste Rev/Ref Bonds, 2008	Refunding	09/05/08	2013 - 2017	12,655	3.8577	2,685	-	2,685	-	-	-
Solid Waste Revenue Bonds, 2015	Capital Improvements	03/18/15	2017 - 2025	21,095	2.1575	21,095	-	1,960	19,135	-	-
Solid Waste Rev/Ref Bonds, 2016A	Refunding	06/15/16	2031 - 2036	23,200	3.4260	23,200	-	-	23,200	-	-
Solid Waste Rev/Ref Bonds, 2016B	Refunding	06/15/16	2026 - 2031	15,025	2.9985	15,025	-	-	15,025	-	-
						62,005	-	4,645	57,360	-	-
Electric System Bonds	Subtotal Solid Waste Utility Bonds										
Electric System 2010B Rev Bonds (BABS)	Capital Improvements	07/27/10	2031 - 2035	147,070	3.9071	147,070	-	-	147,070	-	-
Electric System 2013A Rev Bonds (CRHS)	Capital Improvements	07/27/10	2023 - 2025	24,185	1.9235	24,185	-	-	24,185	-	-
Electric System 2013A Rev Ref Bonds	Refund. & Capital Imp	06/13/13	2014 - 2042	181,610	3.3869	181,610	-	37,030	177,160	-	-
Electric System 2013B Rev Ref Bonds	Refunding	06/13/13	2014 - 2030	5,660	3.3427	5,660	-	-	5,660	-	-
Electric System 2017 Revenue Bonds	Capital Improvements	09/01/17	2022-2046	70,575	-	-	70,575	-	70,575	-	-
						371,065	70,575	37,030	404,630	-	-
Water System Bonds and Loans	Subtotal Electric System Bonds										
PW-DWSRF-16-121-031	Construction	10/07/02	2003 - 2021	3,060	2.5000	805	-	161	644	-	-
PW-04-691-PRE-115	Construction	04/11/01	2003 - 2021	1,000	0.5000	263	-	52	211	-	-
PW-04-691-PRE-127	Construction	08/27/01	2003 - 2021	10,000	0.5000	2,677	-	534	2,133	-	-
PW-02-691-036	Construction	02/15/02	2003 - 2021	1,000	0.5000	271	-	84	217	-	-
PW-04-691-PRE-101	Construction	04/15/02	2004 - 2022	10,000	0.5000	3,188	-	532	2,656	-	-
Water Sys Ref & Rev Bonds 2005	Construction & Refinance	03/09/04	2006 - 2024	1,000	0.5000	427	-	53	374	-	-
PW-06-962-043	Construction	10/11/05	2006 - 2025	46,550	4.6390	5	-	371	3,335	-	-
Water Sys Rev Bonds 2009 (Taxable BABS)	Capital Improvements	07/18/06	2008 - 2026	7,000	0.5000	3,706	-	545	6,005	-	-
PC08-951-047	Construction	11/04/09	2033 - 2039	10,000	3.7780	7,6775	-	215	2,366	-	-
DM07-952-015	Construction	11/25/09	2010 - 2028	4,040	1.5000	6,590	-	367	5,506	-	-
Water Sys Ref & Ref Bonds 2010A	Construction	03/31/10	2013 - 2032	6,579	1.0000	5,873	-	570	25,825	-	-
Water Sys Rev Bonds 2010B (BABS)	Refunding	04/09/10	2012 - 2023	29,100	3.2789	26,395	-	280	74,985	-	-
Water RWSS Revenue Bonds 2010A	Construction	08/24/10	2024 - 2040	74,985	5.5636	74,985	-	-	44,245	-	-
Water RWSS Revenue Bonds 2010B (BABS)	Construction	08/24/10	2013 - 2024	3,595	3.2460	2,525	-	-	4,545	-	-
PW-DWSRF 10-952-026	Construction	08/24/10	2025 - 2040	44,245	5.5636	44,245	-	-	1,944	-	-
PW-DWSRF 11-952-035	Construction	06/17/11	2015 - 2034	6,660	1.5000	2,066	-	122	303	-	-
PW-DWSRF 11-952-036	Construction	06/30/11	2016 - 2035	6,060	1.5000	5,757	-	303	5,454	-	-
PC 12-951-017	Construction	07/01/11	2011 - 2031	10,000	0.5000	8,333	-	555	7,778	-	-
PW-DWSRF 12-952-088	Construction	01/22/13	2017 - 2036	12,120	1.5000	11,514	-	606	10,908	-	-
Water Sys Rev Ref Bonds 2013 (RWSS)	Refinance	04/16/13	2013 - 2032	64,795	3.1477	60,910	-	745	60,165	-	-
Water Sys Rev Ref Bonds 2013	Refinance	05/07/13	2013 - 2043	78,305	3.8523	74,355	-	-	74,355	-	-
PW-DWSRF-13-952-133	Construction	10/07/13	2018 - 2037	12,120	1.5000	11,514	-	606	10,908	-	-
PW-DWSRF-10-952-031	Construction	03/26/14	2015 - 2034	5,460	1.5000	5,482	-	304	5,178	-	-
PW-DWSRF-13-952-167	Construction	11/06/14	2015 - 2037	4,620	1.5000	11,514	-	606	10,908	-	-
Water Sys Ref Bonds 2015A	Refinance	05/12/15	2017 - 2025	16,645	1.9926	16,645	-	2,845	13,800	-	-
Water Sys Ref Bonds 2015B	Refinance	05/12/15	2016 - 2017	6,365	1.785	1,785	-	-	-	-	-
DM15-952-033	Construction	06/01/14	2016 - 2034	120	1.5000	12,120	-	638	11,482	-	-
						478,104	-	13,152	464,952	-	-
Takoma Rail Bonds and Loans	Subtotal Water System Bonds and Loans										
Rail Revenue Bond 2006 (BoEA)	Capital Improvements	12/21/06	2007 - 2017	24,000	5.3900	64	-	64	-	-	-
WA State Rail Loan RR00407 2009	Capital Improvements	08/04/09	2010 - 2024	26	0.0000	14	-	2	12	-	-
WA State Rail Loan RR00408 2009	Capital Improvements	08/04/09	2011 - 2025	249	0.0000	150	-	17	133	-	-
WA State Rail Loan RRB-1007	Capital Improvements	12/06/11	2013 - 2022	450	0.0000	270	-	45	225	-	-
WA State Rail Loan RRB-1010	Capital Improvements	03/28/12	2013 - 2022	612	0.0000	367	-	61	306	-	-
WA State Rail Loan RRB-1011	Capital Improvements	03/28/12	2013 - 2022	349	0.0000	209	-	35	174	-	-
WA State Rail Loan RRB-1020	Capital Improvements	09/06/12	2014 - 2023	347	0.0000	243	-	37	208	-	-
WA State Rail Loan RRB-1030	Capital Improvements	09/06/12	2014 - 2023	364	0.0000	255	-	37	218	-	-
WA State Rail Loan RRB-1045	Capital Improvements	08/01/13	2015 - 2024	823	0.0000	495	-	62	433	-	-
WA State Rail Loan RRB-1046	Capital Improvements	08/01/13	2015 - 2024	250	0.0000	200	-	25	175	-	-
WA State Rail Loan RRB-1052	Capital Improvements	10/24/13	2016 - 2025	366	0.0000	330	-	37	293	-	-
WA State Rail Loan RRB-1053	Capital Improvements	10/24/13	2016 - 2025	773	0.0000	696	-	78	618	-	-
WA State Rail Loan RRB-1054	Capital Improvements	10/24/13	2016 - 2025	1,015	0.0000	995	-	111	884	-	-
WA State Rail Loan RRB-1055	Capital Improvements	10/08/13	2016 - 2025	516	0.0000	464	-	-	413	-	-
WA State Rail Loan RRB-1066	Capital Improvements	10/27/15	2016 - 2025	1,037	0.0000	819	-	91	728	-	-

NAME OF DEBT ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURITY DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	Reconcile to				Reconciles to Changes in LID in Notes
						AMOUNT O/S 01/01/2017	ISSUED 2017	REDEEMED 2017	AMOUNT O/S 12/31/2017	Governmental Fund Statements
WA State Rail Loan RRB-1108	Capital Improvements	07/03/17	2017 - 2026	308	0.0000	-	311	30	281	-
WA State Rail Loan RRB-1109	Capital Improvements	09/29/16	2017 - 2026	121	0.0000	121	-	12	109	-
WA State Rail Loan RRB-1110	Capital Improvements	09/08/16	2017 - 2026	406	0.0000	406	-	41	365	-
WA State Rail Loan RRB-1111	Capital Improvements	01/06/17	2017 - 2026	370	0.0000	-	370	37	333	-
WA State Rail Loan RRB-1112	Capital Improvements	12/06/16	2017 - 2026	150	0.0000	116	34	15	135	-
	Subtotal Tacoma Rail Bonds and Loans					6,214	715	886	6,043	-
Lease Revenue Bonds										
Lease Revenue Bonds 1990	Construction	03/15/90	1992-2022	36,250	9.3476	15,295	-	2,240	13,055	-
Lease Revenue Bonds 1992	Construction	12/15/92	1993-2022	4,695	7.4769	1,860	-	280	1,580	-
	Subtotal Lease Revenue Bonds					17,155	-	2,520	14,635	-
Total Revenue Bonds and Loans						1,890,198	71,290	69,244	1,91,244	-
Total General Obligation Bonds, Revenue Bonds, and Loans						1,389,059	98,801	81,430	1,406,430	26,717
SPECIAL ASSESSMENT BONDS										160,408
Local Improvement District Bonds										
District #63 Bonds	Construction	09/29/11	2023	1,557	4.1800	461	-	154	307	307
District #64 Bonds	Construction	04/05/16		2,341	3.2500	2,341	-	511	1,830	1,830
District #65 Bonds	Construction	04/29/13	2043	30,999	5.7500	27,135	-	3,015	24,120	24,120
	Subtotal Local Improvement District Bonds					29,937	-	3,680	26,257	-
Bond Anticipation Notes										
Revolving Line of Credit	LID Construction	07/01/16	At CLID Issue	\$15mm Max	Floating	8,572	-	-	8,572	8,572
	Subtotal Bond Anticipation Notes					8,572	-	-	8,572	-
Total Special Assessment Bonds						38,509	-	3,680	34,829	-
Wells Fargo Revolving Line of Credit										
	Capital Improvements	05/15/15	5/11/2018	\$10mm Max	0.5000	80,250	-	80,000	250	-
	Subtotal Wells Fargo Revolving Line of Credit					80,250	-	80,000	250	-
Total Long Term Debt						1,507,818	98,801	165,110	1,441,509	26,717
										195,237

Notes related to debt increases:

1. Ltd. Genl Obl Bonds 1997 Ser B - Additions represent accreted interest capitalized to bond principal.
2. Ltd. Genl Obl Bonds 2009LE Multiple Projects - Additions represent accreted interest capitalized to bond principal.
3. Ltd. Genl Obl Bonds 2009LE Cheney & Eny Remed - Additions represent accreted interest capitalized to bond principal.
4. PW-DWSRF & DM - Additions for each of these represent an additional draw from available funds.