

---

*ANNUAL*

*TACOMA RAIL*

2008

**FINANCIAL  
REPORT**



# Public Utility Board

**TOM L. HILYARD**  
Chair

**LAURA FOX**  
Vice-Chair

**PETER THEIN**  
Secretary

**DAVID NELSON**  
Member

**ROBERT CASEY**  
Member

**WILLIAM A. GAINES**  
Director of Utilities/CEO

Dale King  
Superintendent

**ROBERT K. BILES**  
Finance Director

**DEPARTMENT OF PUBLIC UTILITIES**  
**CITY OF TACOMA**

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES

# TACOMA RAIL

## TABLE OF CONTENTS

### **FINANCIAL DATA**

MANAGEMENT DISCUSSION AND ANALYSIS .....	3 - 8
COMPARATIVE BALANCE SHEET .....	10 - 11
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS .....	12 - 13
STATEMENTS OF CASH FLOWS .....	14 - 15
NOTES TO FINANCIAL STATEMENTS .....	16 - 18

### **STATISTICAL DATA**

TEN-YEAR FINANCIAL REVIEW .....	20 - 21
TEN-YEAR SWITCHING STATISTICS .....	22 - 23
FIXED ASSETS .....	24 - 25
COMPARISON OF CARS SWITCHES & OPERATING REVENUES ...	26
TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS .....	27
GRAPHS .....	28 - 31
SUPERINTENDENT'S REPORT .....	33

# **FINANCIAL DATA**

*This page has been left blank intentionally.*

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis of Tacoma Rail's financial performance provides an overview of the Rail's financial activities for the years ended December 31, 2008 and 2007. This discussion and analysis should be read in conjunction with Tacoma Rail's financial statements and accompanying notes, which follow this section.

### **Overview of the Financial Statements**

The City of Tacoma Finance Department and the management of Tacoma Rail are responsible for preparing the accompanying financial statements and for their integrity. The statements are prepared in accordance with generally accepted accounting principles applied on a consistent basis and include amounts that are based on management's best estimates and judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2008 and 2007, include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows. The Balance Sheets present information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. The Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, investing and financing activities.

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

Management has established and maintained a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control should not exceed the benefits derived.

### **Financial Statement Analysis**

Tacoma Rail is reporting a net income of \$791,000 in 2008, compared to a net income of \$2,446,000 a year earlier, a decrease of \$1,655,000. The factors in the reduction of net income were a \$943,000 decrease in switching revenues, a \$387,000 decrease in net non-operating revenues, and an increase of \$1,063,000 in operating expenses. However, an increase of \$738,000 in other operating revenues helped offset these decreasing factors.

In 2007, Tacoma Rail realized a net income of \$2,446,000, compared to a net loss of \$864,000 recorded in 2006, an increase of \$3,310,000. The increase in net income was

due to an increase of \$3,601,000 in operating revenues and \$423,000 in grant revenues, which was offset by increases of \$517,000 in operating expenses and \$190,000 in total transfers out. Compared to 2006, Tacoma Rail transferred out an additional \$288,000 in gross earnings tax to the City of Tacoma based on the increased revenues in 2007.

## Selected Financial Information

### OPERATING RESULTS AND FINANCIAL POSITION (000's omitted)

Category	2008	2007	2006
Operating Revenues	\$18,409	\$18,614	\$15,012
Operating Expenses	17,008	15,945	15,428
Operating Income (Loss)	1,401	2,669	(416)
Net Non-Operating Revenues	643	885	893
Capital Contributions	307	460	37
Transfers Out	(1,560)	(1,568)	(1,378)
Change in Net Assets (Net Income)	\$791	\$2,446	(\$864)
Capital Assets (Net)	\$9,422	\$7,931	\$7,555
Current and Other Assets	9,335	9,900	8,290
Total Assets	18,757	17,831	15,845
Long-Term Liabilities	3,209	3,711	3,833
Current and Other Liabilities	2,683	2,046	2,829
Total Liabilities	5,892	5,757	6,662
Invested in Capital Assets, Net of Related Debt	6,042	5,836	5,222
Restricted Net Assets	414	2,200	2,341
Unrestricted Net Assets	6,409	4,038	1,620
Total Net Assets	\$12,865	\$12,074	\$9,183

## Revenues

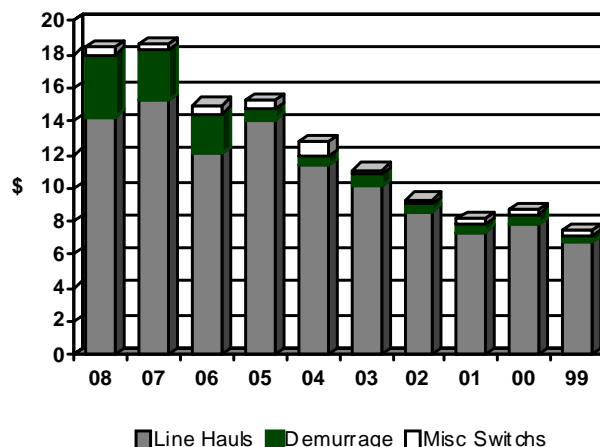
### 2008 Compared to 2007

Tacoma Rail's 2008 overall switching revenues decreased by 6.0%, or \$943,000, from the previous year. Due to the downturn in the national and world economies, intermodal line-hauls and commercial line-hauls revenues declined \$921,000 and \$152,000, respectively. These declines were offset by the increases of \$48,000 in Capital Division line-hauls and \$83,000 in miscellaneous switches. Tacoma Rail is working on new interchange and operating agreements with mainlines to improve the velocity of shipments to and from the Capital Division, as well as working actively with the Port of Olympia to grow Rail's business from their rail facilities.

Locomotive servicing revenue was also down \$672,000 in 2008, due to a slowdown in activities. Tacoma Rail completed its second full year of a pilot program with Union Pacific and formalized it with a two-year contract.

In contrast to the decreases in switching and locomotive revenues, demurrage revenue was higher by \$1,110,000 due to current practices of Rail customers holding more cars over and an increase in the amount of time the cars stay in the rail yard.

**OPERATING REVENUES**  
(in millions)



The other favorable items in operating revenues were mainly attributable to a one-time prior year retro billing revenue of \$108,000 for the use of the Joint Trackage, an increase of \$140,000 in fuel surcharge and a growth of \$59,000 in miscellaneous special revenues.

In December 2008, Tacoma Rail also re-negotiated the South Intermodal Yard rental fee with the Port of Tacoma based on the new appraisal reports and corrected outstanding underpayment and overpayment items. This rate adjustment attributed to a \$284,000 decline in other non-operating revenues.

*2007 Compared to 2006*

In 2007, Tacoma Rail's operating revenues increased to \$18,614,000, from \$15,012,000 in 2006, up 24.0%. Combined revenues from all switching activities increased by \$2,968,000 due to new rates effective January 1, 2007, which more than offset reduced car volume through the Port of Tacoma.

Following table summarizes the impacts on switching revenues by the rate changes and the switching activities.

**SWITCHING REVENUES**  
(000's omitted)

	Change Due to Rate	Change Due to Activity	Increase (Decrease)
Line Hauls - Intermodal	\$ 3,155	\$ (1,880)	\$ 1,275
Line Hauls - Commercial	1,709	279	1,988
Line Hauls - Capital Div	64	(134)	(70)
Miscellaneous	(199)	(26)	(225)
<b>Total</b>	<b>\$ 4,729</b>	<b>\$ (1,761)</b>	<b>\$ 2,968</b>



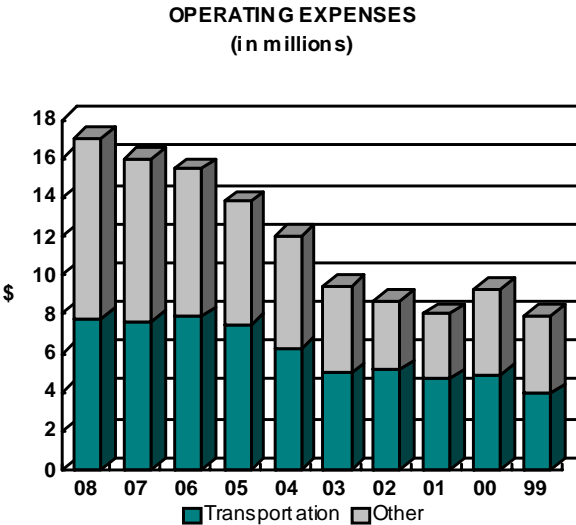
In addition to the increase in switching revenues, 2007 demurrage and other operating revenues were also higher by \$633,000, when compared to 2006. The increase of \$499,000 in demurrage and the increase of \$462,000 from locomotive servicing revenue were partially offset by reduced revenue of \$422,000 in fuel surcharge. Tacoma Rail completed its first calendar year partnership with Union Pacific Railroad in a pilot project of locomotive servicing that started in September 2006.

**Expenses**

**2008 Compared to 2007**

The increase of \$1,063,000 in total operating expenses was attributable to an increase of \$631,000 in self-insurance claim reserve, an increase of \$314,000 in employment benefit and other labor costs, an increase of \$127,000 in fleet maintenance and replacement fees, an increase of \$100,000 in car hire expense and a decrease of \$233,000 in fuel expense. Tacoma Rail incurred higher tort injuries and damage claims, as well as higher fleet replacement reserves in 2008.

Tacoma Rail purchased 219,000 gallons, or 25.4%, less diesel fuel than 2007, due to the reduction in locomotive servicing and switching activities. However, the reduction in fuel consumption was partially offset by higher fuel prices in 2008. The average fuel price climbed \$0.71, or 29.2%, to \$3.15 per gallon from a year ago.

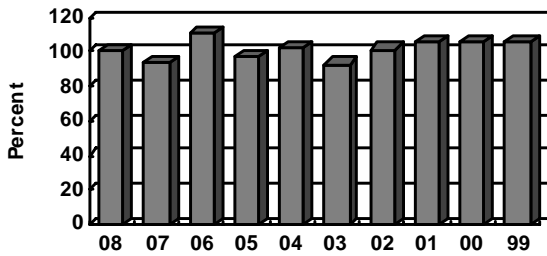


In 2008, Tacoma Rail’s overall salaries and wages were also up slightly by \$103,000, or 1.5%, attributed to the general cost of living adjustment, renewed union labor contracts and associated retroactive payouts.

**2007 Compared to 2006**

During 2007, Tacoma Rail’s operating expenses totaled \$15,945,000, an increase of \$517,000, or 3.3%, compared to 2006. Driving this increase in operating expenses was the combined effects of a rise of \$287,000 in fuel expenses, an increase of \$200,000 in mechanical repair and maintenance costs, and a \$203,000 higher salaries and wages expenses within Maintenance of Equipment. Tacoma Rail incurred a full year of operating costs associated with the locomotive servicing pilot project with Union Pacific Railroad in 2007, compared to only four months in 2006.

**OPERATING RATIOS**



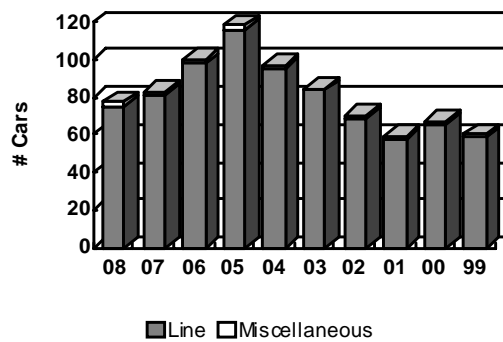
**Operating Ratio**

The operating ratio, a common measure of efficiency, defined as operating expenses as a percentage of operating revenues, provides a good tool for measuring performance. Tacoma Rail's 2008 operating ratio stood as 100.7%. The graph shows how this ratio has fluctuated over the past ten years.

**Switching Activities**

Switching activities in 2008 declined by 7.5%, or 6,222 cars to 77,194, from 83,416 in 2007. The most significant decrease in switching activity can be seen in intermodal line-hauls which were down by 10.7%, or 5,861 cars, due to the reduction in intermodal rail traffic. The average number of cars switched over the last ten years was 82,033.

**SWITCHING ACTIVITIES  
(000's omitted)**



During 2007, Tacoma Rail's total switching activities decreased by 16.6%, or 16,658 cars, from 2006. The reduction in intermodal rail traffic remains the dominant factor in this change as it was in 2006. Intermodal line-hauls were down by 24.7%, or 17,902 cars, in 2007.

**SWITCHING ACTIVITIES**

Type Switching Performed	2008	2007	2006
Line Hauls	74,940	81,366	97,923
Miscellaneous Switches	2,254	2,050	2,151
<b>Total Car Switched</b>	<b>77,194</b>	<b>83,416</b>	<b>100,074</b>

**Fixed Assets**

There were no new additions to the railway plant in service, only construction work in progress in 2008. The \$2,102,000 increase in construction work in progress was mainly for rail and tie replacements, track improvements and reconfigurations, facility upgrades, and other rail infrastructures.

In 2007, Tacoma Rail added a total of \$253,000 in road and equipment property. The new additions included an idle reduction project on four locomotives and a new modular building.

## Long-Term Debt

In 2003, Tacoma Rail entered into an interfund loan agreement with the City of Tacoma, General Government for \$3,310,000 to provide interim financing for capital projects in the 2003-2004 capital plans and to repay the existing 1999 line of credit with Bank of America. In addition, Tacoma Rail issued a \$2,000,000 senior lien revenue bond in 2006 through the Bank of America to finance the 2007-2008 capital plans.

Additional information on Tacoma Rail's long-term debt can be found in the notes to the financial statements. The following table shows the outstanding long-term debt balances for the past three years.

### LONG-TERM DEBT (000's omitted)

	2008	2007	2006
Long-Term Debt Balance, As of Dec. 31	\$3,380	\$3,873	\$4,317

## Debt Service Coverage

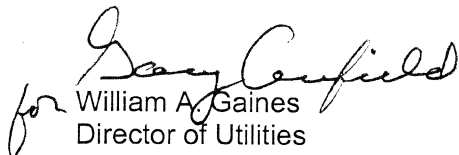
Tacoma Rail is required by its 2006 senior lien revenue bond covenant to maintain a times debt service coverage of 1.25. In 2008, the debt service coverage of 10.04 significantly exceeded this requirement.

## Working Capital Ratio

Tacoma Rail's working capital ratios were 6.2:1.0, 5.5:1.0 and 2.6:1.0 for 2008, 2007 and 2006, respectively. The working capital ratio, a widely used measure of an entity's liquidity, is calculated by comparing current assets to current liabilities. A measure of 2.0:1.0 is often set as a goal for this ratio.

## Summary

Despite the changes in the economy and the rail industry, Tacoma Rail remains flexible. The management will be ready to make any adjustments to continue to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and all other customers throughout Pierce and Thurston Counties.

  
for William A. Gaines  
Director of Utilities

  
Robert K. Biles  
Finance Director

*This page has been left blank intentionally.*

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

COMPARATIVE BALANCE SHEETS - DECEMBER 31, 2008 AND DECEMBER 31, 2007

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>RAILWAY PLANT</b>		
Road and Equipment Property .....	\$19,186,981	\$19,186,981
Less Accumulated Depreciation .....	(12,818,839)	(12,207,691)
Total .....	<u>6,368,142</u>	<u>6,979,290</u>
Construction Work in Progress .....	3,053,896	952,063
Net Railway Plant .....	<u>9,422,038</u>	<u>7,931,353</u>
<b>OTHER SPECIAL FUNDS</b>		
Cash and Equity in Pooled Investments:		
2006 Construction Fund .....	-	1,777,676
Debt Service Funds .....	414,059	421,888
Total Other Special Funds .....	<u>414,059</u>	<u>2,199,564</u>
<b>CURRENT ASSETS</b>		
Current Fund Cash & Equity in Pooled Investments	5,751,383	4,024,515
Accounts Receivable .....	1,006,568	1,826,652
Interdivision Receivable .....	194,826	46,776
Prepayments .....	1,277,939	1,080,270
Materials and Supplies .....	681,972	713,066
Total Current Assets .....	<u>8,912,688</u>	<u>7,691,279</u>
<b>OTHER ASSETS</b>		
Deferred Debits .....	<u>8,138</u>	<u>9,155</u>
<b>TOTAL ASSETS</b> .....	<u><u>\$18,756,923</u></u>	<u><u>\$17,831,351</u></u>

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

<b>NET ASSETS AND LIABILITIES</b>	<u>2008</u>	<u>2007</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$6,041,913	\$5,835,964
Restricted for:		
Capital Projects .....	-	1,777,676
Debt Service .....	414,059	421,888
Unrestricted .....	6,408,578	4,038,409
<b>TOTAL NET ASSETS</b> .....	<u>12,864,550</u>	<u>12,073,937</u>
<b>LONG-TERM LIABILITIES</b>		
Interfund Loan Payable .....	1,655,000	1,986,000
2006 Senior Lien Revenue Bond .....	1,554,279	1,725,125
<b>Total Long-Term Liabilities</b> .....	<u>3,209,279</u>	<u>3,711,125</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable .....	354,430	398,850
Wages Payable .....	197,279	145,342
R. R. Retirement, Unemployment Insurance and State Taxes Payable .....	106,725	173,561
Current Portion of Long Term Debt .....	170,846	161,940
Interest Payable .....	40,913	51,196
Accrued Vacation and Sick Leave .....	515,707	430,921
Interdivision Payable .....	51,288	41,276
<b>Total Current Liabilities</b> .....	<u>1,437,188</u>	<u>1,403,086</u>
<b>DEFERRED CREDITS</b>		
OJI Reserve .....	608,743	589,036
Other Deferred Credits .....	637,163	54,167
<b>Total Deferred Credits</b> .....	<u>1,245,906</u>	<u>643,203</u>
<b>TOTAL LIABILITIES</b> .....	<u>5,892,373</u>	<u>5,757,414</u>
<b>TOTAL NET ASSETS AND LIABILITIES</b> .....	<u>\$18,756,923</u>	<u>\$17,831,351</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
DECEMBER 31, 2008 AND DECEMBER 31, 2007

	DECEMBER 2008	DECEMBER 2007
<b>OPERATING REVENUES</b>		
Switching Revenues .....	\$772,904	\$1,238,434
Demurrage and Other Operating Revenues .....	184,648	162,275
Total Operating Revenues .....	957,552	1,400,709
<b>OPERATING EXPENSES</b>		
<b>MAINTENANCE OF WAY AND STRUCTURES</b>		
Salaries and Wages .....	61,716	50,840
Supplies and Expense .....	52,057	177,839
<b>MAINTENANCE OF EQUIPMENT</b>		
Salaries and Wages .....	68,795	59,302
Supplies and Expense .....	160,492	322,244
<b>TRANSPORTATION</b>		
Salaries and Wages .....	366,523	411,052
Supplies and Expense .....	246,746	199,392
<b>ADMINISTRATION AND GENERAL EXPENSE</b>		
Salaries and Wages .....	94,285	68,555
Supplies and Expense .....	615,395	(65,920)
<b>TAXES - STATE</b> .....	14,010	20,496
<b>DEPRECIATION</b> .....	48,781	51,635
Total Operating Expenses .....	1,728,800	1,295,435
<b>OPERATING INCOME (LOSS)</b> .....	(771,248)	105,274
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest Income .....	19,459	15,162
Other Non-Operating Revenues .....	(196,668)	88,787
Interest Charges .....	(13,638)	(17,065)
Total Non-Operating Revenues .....	(190,847)	86,884
Capital Contributions - Grants .....	82,467	-
Total Capital Contributions .....	82,467	-
<b>TRANSFERS OUT</b>		
*CITY GROSS EARNINGS TAX .....	60,907	119,421
TRANSFERS TO OTHER FUNDS .....	-	-
<b>NET INCOME (LOSS)</b> .....	(\$940,535)	\$72,737
TOTAL NET ASSETS - JANUARY 1 .....		
PRIOR PERIOD ADJUSTMENT .....		
TOTAL NET ASSETS - DECEMBER 31 .....		

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

YEAR TO DATE			
DECEMBER 31, 2008	DECEMBER 31, 2007	2008/2007 VARIANCE	PERCENT CHANGE
\$14,690,148	\$15,632,973	(\$942,825)	-6.0%
3,718,926	2,980,855	738,071	24.8%
<u>18,409,074</u>	<u>18,613,828</u>	<u>(204,754)</u>	-1.1%
596,037	580,431	15,606	2.7%
1,119,604	938,312	181,292	19.3%
747,427	693,094	54,333	7.8%
2,272,602	2,533,567	(260,965)	-10.3%
4,540,404	4,731,060	(190,656)	-4.0%
3,166,924	2,891,161	275,763	9.5%
925,168	701,754	223,414	31.8%
2,758,648	1,870,985	887,663	47.4%
270,106	265,425	4,681	1.8%
611,148	739,485	(128,337)	-17.4%
<u>17,008,068</u>	<u>15,945,274</u>	<u>1,062,794</u>	6.7%
1,401,006	2,668,554	(1,267,548)	-47.5%
264,272	251,757	12,515	5.0%
553,832	838,160	(284,328)	-33.9%
(174,994)	(205,174)	30,180	-14.7%
<u>643,110</u>	<u>884,743</u>	<u>(241,633)</u>	-27.3%
306,665	460,584	(153,919)	-33.4%
<u>306,665</u>	<u>460,584</u>	<u>(153,919)</u>	-33.4%
1,525,080	1,568,134	(43,054)	-2.7%
35,088	-	35,088	-
<u>790,613</u>	<u>2,445,747</u>	<u>(1,655,134)</u>	-67.7%
12,073,937	9,182,823		
-	445,367		
<u>\$12,864,550</u>	<u>\$12,073,937</u>		

\* In accordance with Ordinance No. 19289 dated February 2, 1971,  
City Gross Earnings Tax is a Lien Junior to Debt Service.



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers .....	\$19,081,108	\$19,151,582
Cash Paid to Suppliers .....	(8,849,962)	(9,244,664)
Cash Paid to Employees .....	(6,737,392)	(6,616,047)
Taxes Paid .....	(336,942)	(293,886)
Net Cash Provided by Operating Activities .....	3,156,812	2,996,985
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers to Other Funds .....	(1,560,168)	(1,567,134)
Net Cash Used in Non-Capital Financing Activities .....	(1,560,168)	(1,567,134)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures, Net .....	(2,101,833)	(1,116,112)
Principal Payments on Long-Term Debt .....	(492,940)	(443,935)
Proceeds from Capital Contributions .....	306,665	460,584
Interest Paid Net of AFUDC .....	(185,277)	(179,060)
Proceeds from Leased Property .....	553,832	838,160
Net Cash Used in Capital Financing Activities .....	(1,919,553)	(440,363)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments .....	264,272	251,757
Net Cash Provided by Investing Activities .....	264,272	251,757
Net Increase (Decrease) in Cash and Equity in Pooled Investments .....	(58,637)	1,241,245
Cash & Equity in Pooled Investments at January 1 ..	6,224,079	4,982,834
Cash & Equity in Pooled Investments at December 31	\$6,165,442	\$6,224,079

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

	YEAR ENDED DECEMBER 31,	
	2008	2007
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Operating Income .....	\$1,401,006	\$2,668,554
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization .....	611,148	739,485
Accounts Receivable .....	820,084	427,181
Receivable from Affiliates .....	(148,050)	110,573
Materials and Supplies .....	31,094	(89,925)
Other Current Assets .....	(196,652)	(371,881)
Taxes and Other Payables .....	(111,256)	(597,842)
Salaries, Wages and Fringe Benefits .....	51,937	29,804
Payables to Affiliates .....	10,012	(39,056)
Accrued Compensated Absences .....	84,786	5,437
Deferred Credits .....	602,703	114,655
Total Adjustments .....	<u>1,755,806</u>	<u>328,431</u>
Net Cash Provided by Operating Activities .....	<u><u>\$3,156,812</u></u>	<u><u>\$2,996,985</u></u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Operations of the Belt Line Division.** The Belt Line Division (the Division) is a division of the City of Tacoma, Department of Public Utilities, which also operates the Light and the Water Divisions. The Division operates under the name Tacoma Rail providing rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Mountain Division and Capital Division. The Mountain Division is the City of Tacoma's 131-mile-long railroad line, which Tacoma Rail operates under contract. The Capital Division interchanges rail cars with the BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure.

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

**Basis of Presentation.** Tacoma Rail adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*", which establishes standards for external financial reporting for all state and local governmental entities. The accrual basis of accounting is used by this Division.

**Property and Plant.** The costs of additions and replacements of property and plant are capitalized. Such costs include material, labor and applicable indirect costs such as the costs of engineering, payroll taxes and employee benefits. The original cost of plant retired, together with the net costs of removal, less salvage, are charged to the accumulated provision for depreciation.

**Depreciation.** Provisions for depreciation are computed principally on the straight-line method based on the estimated service lives of depreciable properties.

**Inventory Pricing.** Inventory is valued at lower of cost or market.

**Contributions in Aid of Construction.** Tacoma Rail adopted Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." As a result of the adoption of GASB Statement No. 33, contributions in aid of construction are included as non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets. Tacoma Rail received \$306,665 and \$460,584 in capital contributions for the fiscal year ended December 31, 2008 and 2007, respectively.

**Revenues.** Revenues are based on services rendered through the end of the year. Tacoma Rail adopted a revision to its rate structure effective January 1, 2007. The Division's previous rate structure had been in place since January 1, 2001.

**Cash and Equity in Pooled Investments.** Tacoma Rail's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the City's general investment pool are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Assets. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period.

TACOMA RAIL  
NOTES TO FINANCIAL STATEMENTS  
(continued)

The general investment pool operates like a demand deposit account in that all City departments, including Tacoma Rail, may deposit cash into the pool at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, balances are considered to be cash equivalents for the purposes of the Statements of Cash Flows.

The City of Tacoma Investment Policy permits investments in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances and repurchase and reverse repurchase agreements.

Repurchase agreements are settled delivered versus payment. The market value of collateralized securities must exceed the dollar amount of the repurchase agreement by 2% over the term of the agreement. Currently the City participates only in overnight agreements. The underlying collateral must be an investment instrument which the City is authorized to purchase.

Tacoma Rail's cash in banks held by the City Treasurer at the end of the year are entirely covered by Federal depository insurance or on deposit with financial institutions recognized as qualified public depositories of the State of Washington under RCW Chapter 39.

**NOTE 2 LONG TERM DEBT.** In May 2003, City Council Resolution No. 27099 authorized the issuance of a Junior Lien Revenue Bond 2003 (Tacoma Rail Taxable Line of Credit) in the amount of \$3,310,000, with a maturity date of January 1, 2013. Interest is recorded at the portfolio earnings rate adjusted quarterly by the City Treasurer. The interest rate at December 31, 2008 was 4.27% and was paid quarterly on a 365-day basis. Principal payments, in the amount of \$331,000, are due on January 1 of each year beginning in 2004 with ending maturity on January 1, 2013.

City Council Substitute Ordinance No. 27545, passed in November 2006, also authorized the issuance of a Senior Lien Revenue Bond 2006 in the amount of \$2,000,000 to provide financing for capital projects included in the approved 2007-2008 Biennium budget for the Rail System. This Bond bears interest at the rate of 5.39% per annum (computed on the basis of a 360-day year of twelve 30-day months), with a maturity date of January 1, 2017. Equal installment payments of \$65,104 representing principal of and interest on this Bond are payable quarterly on the first day of each January, April, July and October, commencing April 1, 2007, to and including the Maturity Date of the Bond.

Long term liability activities for the year ended December 31, 2008, were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
2003 Junior Lien Bond	\$ 1,986,000	\$ -	\$ 331,000	\$ 1,655,000	\$ 331,000
2006 Senior Lien Bond	1,887,065	-	161,940	1,725,125	170,846

**NOTE 3 SELF-INSURANCE FUND.** This Fund within the Department of Public Utilities was established in 1979 for the purpose of accounting for all monetary transactions required to carry-out a self-insurance program for both the Light and Water Divisions. In November 1985, Tacoma Rail became a participant in this self-insurance program. Tacoma Rail contributed \$204,000 each year in 2008 and 2007.

TACOMA RAIL  
 NOTES TO FINANCIAL STATEMENTS  
 (continued)

**NOTE 4 PENSION PLAN.** Contributions by Tacoma Rail for 2008 and 2007 amounted to \$1,277,484 and \$1,252,462, respectively. The compensation levels and rate structures will be as follows:

	<u>COMPENSATION LEVEL</u>	
	<u>2009</u>	<u>2008</u>
Tier I	\$106,800	\$102,000
Tier II	\$79,200	\$75,900

	<u>RATE STRUCTURE</u>	
	<u>2009</u>	<u>2008</u>
Tier I	7.65%	7.65%
Tier II	12.10%	12.10%

During 2008, Tacoma Rail was required to pay 19.75% on the first \$75,900 and 7.65% on the next \$26,100 of covered payroll for each employee. For employees whose compensation exceeded the 2008 wage base of \$102,000, the current Medicare tax rate of 1.45% continued to apply on all compensation. In 2009, the Division must pay 19.75% on the first \$79,200 and 7.65% on the next \$27,600 of covered payroll for each employee. For employees whose compensation exceeds the 2009 wage base of \$106,800, the current Medicare tax rate of 1.45% will continue to be applied on all compensation. The employer will match such withholdings.

Employees of Tacoma Rail are members of the Railroad Retirement System, in lieu of membership in Social Security. The Railroad Retirement System is a payroll-based system.

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$35.9 billion as of December 31, 2004. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to ensure that payment is made to the system for withholding levied on payroll paid.

**NOTE 5 FLEET SERVICES FUND.** The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment. Transfers of vehicles and equipment from Tacoma Rail to the Fleet Services Fund are accounted for as transfers.

Tacoma Rail pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Rail in 2008 and 2007 were \$628,490 and \$442,386, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle and to return any excess funds to customers based on their scheduled monthly payments. The solvency of the Replacement Fund also allowed Fleet Services to return a portion of interest earned on fund investments for the year to their customers. A credit was recorded to each vehicles replacement fund in lieu of transferring cash. In 2008 and 2007, Fleet Services returned 75% of the interest earned on the capital replacement reserve to Tacoma Rail. The amounts refunded in 2008 and 2007 were \$14,387 and \$12,501, respectively.

# **STATISTICAL DATA**

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

<b>BALANCE SHEET</b>	2008	2007	2006	2005
<b>ASSETS</b>				
Railway Plant - Net .....	\$9,422,038	\$7,931,353	\$7,554,726	\$7,456,261
Other Property and Special Funds ..	414,059	2,199,564	2,340,445	885,204
Current and Accrued Assets .....	8,912,688	7,691,279	5,939,738	6,156,457
Other Assets and Deferred Charges ..	8,138	9,155	10,151	-
<b>TOTAL ASSETS .....</b>	<b>18,756,923</b>	<b>17,831,351</b>	<b>15,845,060</b>	<b>14,497,922</b>
<b>LIABILITIES</b>				
Long-Term Debt .....	3,209,279	3,711,125	3,833,389	2,317,000
Current and Accrued Liabilities ..	1,437,188	1,403,086	2,300,300	1,775,528
Deferred Credits .....	1,245,906	643,203	528,548	437,044
<b>Total Liabilities .....</b>	<b>5,892,373</b>	<b>5,757,414</b>	<b>6,662,237</b>	<b>4,529,572</b>
<b>NET ASSETS .....</b>	<b>12,864,550</b>	<b>12,073,937</b>	<b>9,182,823</b>	<b>9,968,350</b>
<b>TOTAL LIABILITIES AND NET ASSETS ...</b>	<b>\$18,756,923</b>	<b>\$17,831,351</b>	<b>\$15,845,060</b>	<b>\$14,497,922</b>
<b>STATEMENT OF INCOME</b>				
<b>OPERATING REVENUES</b>				
Switching Revenues .....	\$14,690,148	\$15,632,973	\$12,664,741	\$14,672,745
Other Operating Revenues .....	3,718,926	2,980,855	2,347,726	629,227
<b>Total Operating Revenues .....</b>	<b>18,409,074</b>	<b>18,613,828</b>	<b>15,012,467</b>	<b>15,301,972</b>
<b>OPERATING EXPENSES</b>				
Operation and Maintenance .....	16,126,814	14,940,364	14,457,946	12,762,618
Taxes * .....	270,106	265,425	218,687	243,571
Depreciation .....	611,148	739,485	751,910	706,272
<b>Total Operating Expenses .....</b>	<b>17,008,068</b>	<b>15,945,274</b>	<b>15,428,543</b>	<b>13,712,461</b>
<b>NET OPERATING INCOME (LOSS) .....</b>	<b>1,401,006</b>	<b>2,668,554</b>	<b>(416,076)</b>	<b>1,589,511</b>
<b>NON-OPERATING REVENUES (EXPENSE)</b>				
Net Other Income .....	860,497	1,298,744	889,414	442,549
Interest Earned on Investments ...	264,272	251,757	128,085	150,468
Interest on Unfunded Debt .....	(174,994)	(205,174)	(87,003)	(78,381)
<b>Total Non-Operating Revenues ...</b>	<b>949,775</b>	<b>1,345,327</b>	<b>930,496</b>	<b>514,636</b>
<b>TRANSFERS OUT</b>				
City Gross Earnings Tax .....	1,525,080	1,568,134	1,279,984	1,276,709
Transfers to Other Funds .....	35,088	-	98,501	88,415
<b>NET INCOME (LOSS) .....</b>	<b>\$790,613</b>	<b>\$2,445,747</b>	<b>(\$864,065)</b>	<b>\$739,023</b>

\* In accordance with Ordinance No. 19289 dated February 2, 1971, City Gross Earnings Tax is a Lien Junior to Debt Service.

2004	2003	2002	2001	2000	1999
\$7,070,923	\$6,770,655	\$5,118,111	\$10,582,311	\$10,577,939	\$11,071,709
901,040	1,475,013	5,018	10,733	16,315	73,425
5,707,936	5,411,598	5,503,445	3,742,037	2,724,912	2,427,986
-	-	1,145	2,862	4,864	410,023
<u>13,679,899</u>	<u>13,657,266</u>	<u>10,627,719</u>	<u>14,337,943</u>	<u>13,324,030</u>	<u>13,983,143</u>
2,648,000	2,979,000	1,375,798	6,200,381	5,399,654	4,784,519
1,467,177	1,317,247	1,227,444	1,320,793	1,088,092	1,601,829
335,395	249,892	187,423	211,554	197,812	547,091
<u>4,450,572</u>	<u>4,546,139</u>	<u>2,790,665</u>	<u>7,732,728</u>	<u>6,685,558</u>	<u>6,933,439</u>
<u>9,229,327</u>	<u>9,111,127</u>	<u>7,837,054</u>	<u>6,605,215</u>	<u>6,638,472</u>	<u>7,049,704</u>
\$13,679,899	\$13,657,266	\$10,627,719	\$14,337,943	\$13,324,030	\$13,983,143
\$12,230,886	\$10,330,204	\$8,884,385	\$7,712,397	\$8,156,726	\$7,101,321
531,130	766,209	452,899	471,915	581,601	356,618
<u>12,762,016</u>	<u>11,096,413</u>	<u>9,337,284</u>	<u>8,184,312</u>	<u>8,738,327</u>	<u>7,457,939</u>
11,178,245	8,585,966	7,732,786	6,921,857	7,492,412	6,424,801
191,422	162,946	144,314	127,531	866,637	737,615
656,054	642,849	800,136	925,138	878,413	750,091
<u>12,025,721</u>	<u>9,391,761</u>	<u>8,677,236</u>	<u>7,974,526</u>	<u>9,237,462</u>	<u>7,912,507</u>
736,295	1,704,652	660,048	209,786	(499,135)	(454,568)
486,248	478,099	1,297,320	447,626	358,677	284,066
96,959	133,310	136,837	88,593	37,334	29,017
(81,222)	(69,970)	(70,464)	(58,760)	(291,577)	(155,098)
<u>501,985</u>	<u>541,439</u>	<u>1,363,693</u>	<u>477,459</u>	<u>104,434</u>	<u>157,985</u>
1,067,586	921,444	791,903	696,095	-	-
52,494	50,572	-	-	-	-
<u>\$118,200</u>	<u>\$1,274,075</u>	<u>\$1,231,838</u>	<u>(\$8,850)</u>	<u>(\$394,701)</u>	<u>(\$296,583)</u>



CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>SWITCHING REVENUES</b>				
Line Hauls .....	\$14,277,743	\$15,303,787	\$12,110,422	\$14,087,830
Local and Miscellaneous .....	<u>412,405</u>	<u>329,186</u>	<u>554,319</u>	<u>584,915</u>
TOTAL SWITCHING REVENUES .....	\$14,690,148	\$15,632,973	\$12,664,741	\$14,672,745
<b>NUMBER OF CARS SWITCHED</b>				
Line Hauls .....	74,940	81,366	97,923	116,353
Local and Miscellaneous .....	<u>2,254</u>	<u>2,050</u>	<u>2,151</u>	<u>2,121</u>
TOTAL NUMBER OF CARS SWITCHED .	77,194	83,416	100,074	118,474
<b>SWITCHING STATISTICS (AVERAGE)</b>				
Revenue/Line Haul Car .....	\$190.52	\$188.09	\$123.67	\$121.08
Revenue/Local & Miscellaneous Car	\$182.97	\$160.58	\$257.70	\$275.77

<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
\$11,418,915	\$10,104,255	\$8,632,725	\$7,381,807	\$7,850,425	\$6,796,054
<u>811,971</u>	<u>225,949</u>	<u>251,660</u>	<u>330,590</u>	<u>306,301</u>	<u>305,267</u>
\$12,230,886	\$10,330,204	\$8,884,385	\$7,712,397	\$8,156,726	\$7,101,321
95,454	83,657	68,683	57,697	65,769	58,485
<u>1,963</u>	<u>1,360</u>	<u>1,718</u>	<u>2,155</u>	<u>1,993</u>	<u>2,239</u>
97,417	85,017	70,401	59,852	67,762	60,724
\$119.63	\$120.78	\$125.69	\$127.94	\$119.36	\$116.20
\$413.64	\$166.14	\$146.48	\$153.41	\$153.69	\$136.34

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

FIXED ASSETS - YEAR 2008

ASSET ACCOUNTS

	Book Cost 1/1/08	Additions 2008
ROAD PROPERTY PLANT .....	\$10,333,187	\$ -
LAND .....	160,456	-
EQUIPMENT PROPERTY PLANT .....	8,693,338	-
CONSTRUCTION WORK IN PROGRESS .....	952,063	2,101,833
TOTAL RAILWAY PLANT IN SERVICE .....	<u>\$20,139,044</u>	<u>\$2,101,833</u>

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/08	Annual Accrual Cr.
ROAD PROPERTY PLANT .....	Various	\$8,405,226	\$254,437
EQUIPMENT PROPERTY PLANT .....	Various	3,802,465	356,711
TOTAL PLANT DEPRECIATION .....		<u>\$12,207,691</u>	<u>\$611,148</u>

<u>Retirements 2008</u>	<u>Transfers &amp; Adjustments</u>	<u>Book Cost 12/31/08</u>
\$ -	\$ -	\$10,333,187
-	-	160,456
-	-	8,693,338
-	-	3,053,896
<u>\$ -</u>	<u>\$ -</u>	<u>\$22,240,877</u>

<u>Book Cost of Plant Retired</u>	<u>Cost of Removal</u>	<u>Salvage, Transfers and Adjustments</u>	<u>Accumulated Depreciation 12/31/08</u>
\$ -	\$ -	\$ -	\$8,659,663
-	-	-	4,159,176
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,818,839</u>

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND OPERATING REVENUES  
DECEMBER 31, 2008

	<u>LINE HAUL INTERMODAL</u>	<u>LINE HAUL COMMERCIAL</u>	<u>LINE HAUL CAPITAL DIVISION</u>	<u>MISC SWITCHES</u>	<u>TOTAL CARS</u>	<u>TOTAL SWITCHING REVENUES</u>
<b><u>2008</u></b>						
DECEMBER .....	2,767	958	106	195	4,026	\$772,904
YEAR TO DATE .....	48,711	24,104	2,125	2,254	77,194	\$14,690,148
<b><u>2007</u></b>						
DECEMBER .....	4,020	2,205	130	203	6,558	\$1,238,434
YEAR TO DATE .....	54,572	24,769	2,025	2,050	83,416	\$15,632,973

CITY OF TACOMA, WASHINGTON  
DEPARTMENT OF PUBLIC UTILITIES  
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS  
FOR THE YEAR 2008

**FEDERAL**

Railroad Retirement .....	\$1,277,484	
Railroad Unemployment Insurance .....	32,483	
Total .....		\$1,309,967

**STATE OF WASHINGTON**

Retail Sales & Use Tax .....	394,281	
Utility and Business Occupation Tax .....	270,106	
Total .....		664,387

**CITY OF TACOMA**

Gross Earnings Tax .....		1,525,080
--------------------------	--	-----------

TOTAL TAXES .....		\$3,499,434
-------------------	--	-------------

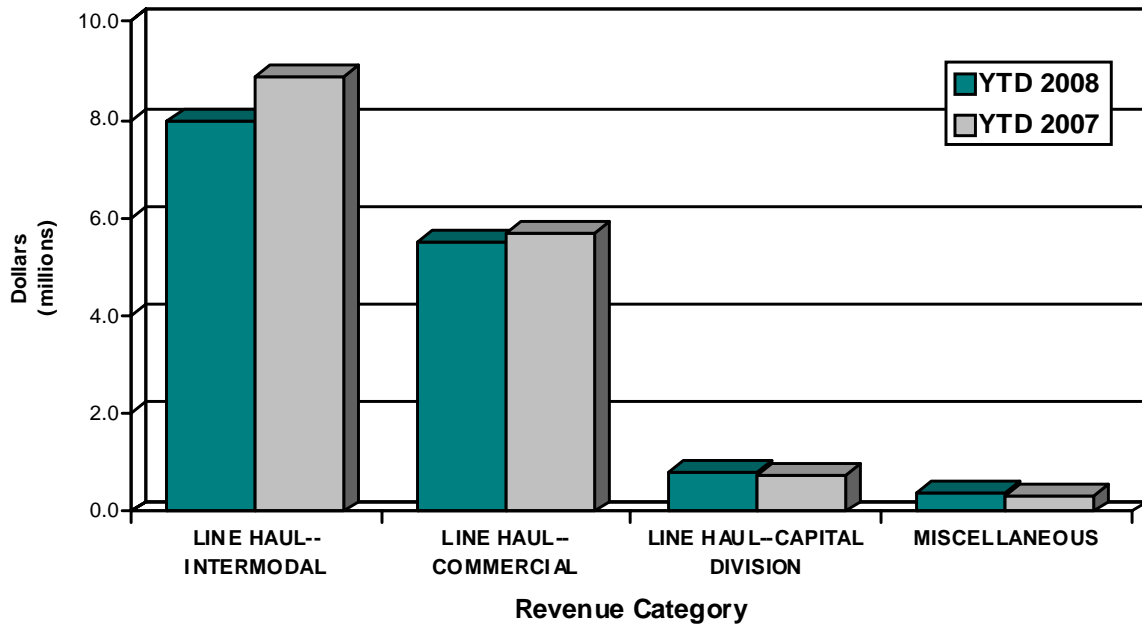
Taxes as a % of Total Revenues of \$19,533,844 .... 17.91%

**EMPLOYEE WELFARE CONTRIBUTIONS**

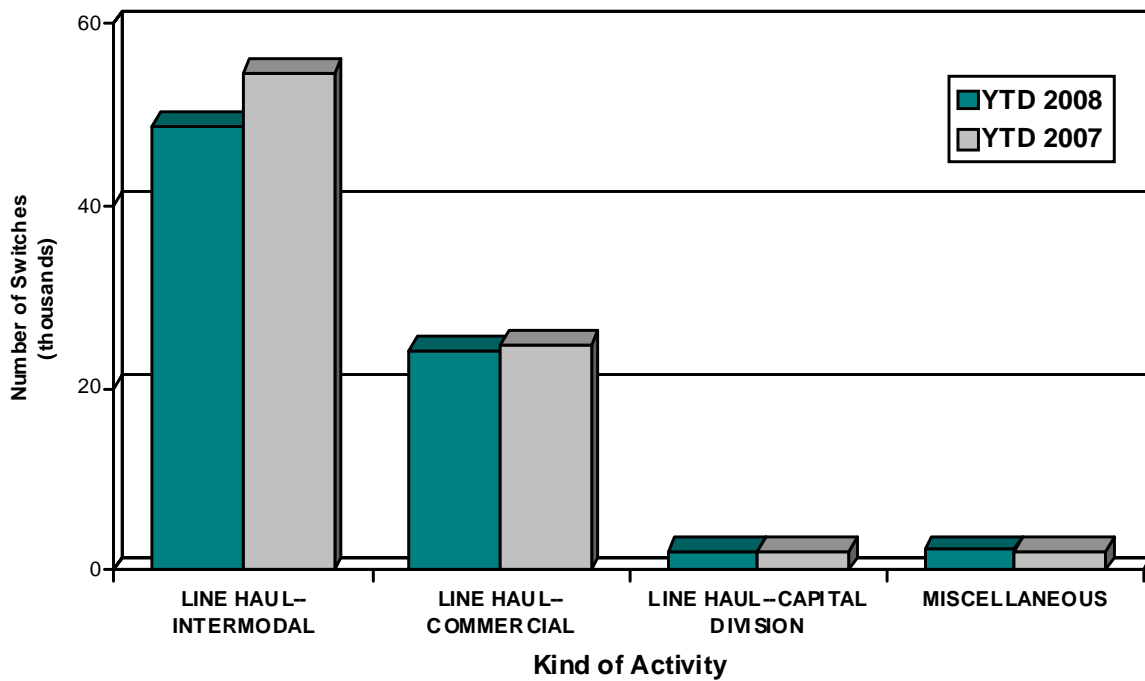
Pierce County Medical Bureau .....	\$1,234,542	
Washington Dental Service .....	130,918	
Other Contributions .....	176,864	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS .....		\$1,542,324
--	--	-------------

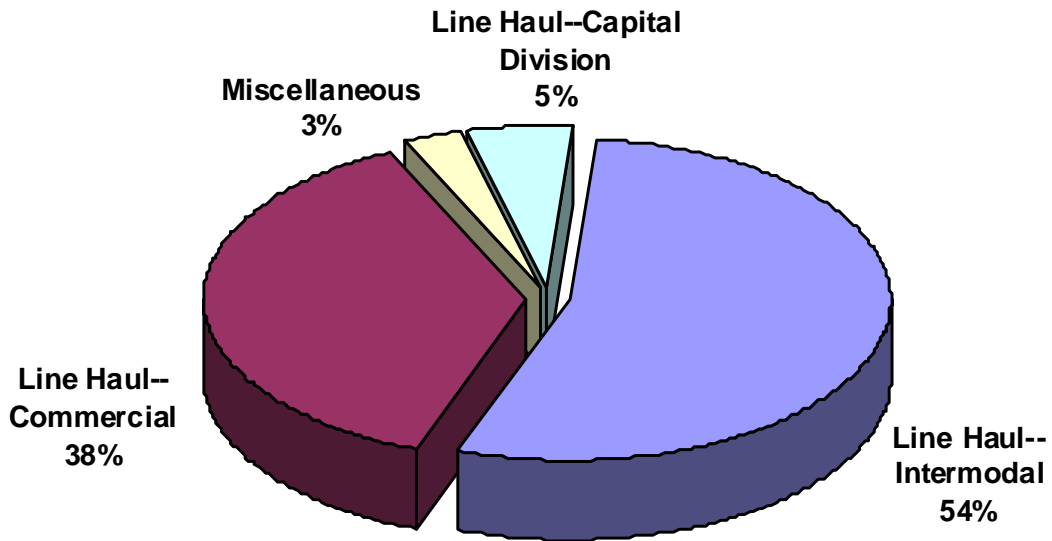
**SWITCHING REVENUES**  
Year to Date - December 2008 & 2007



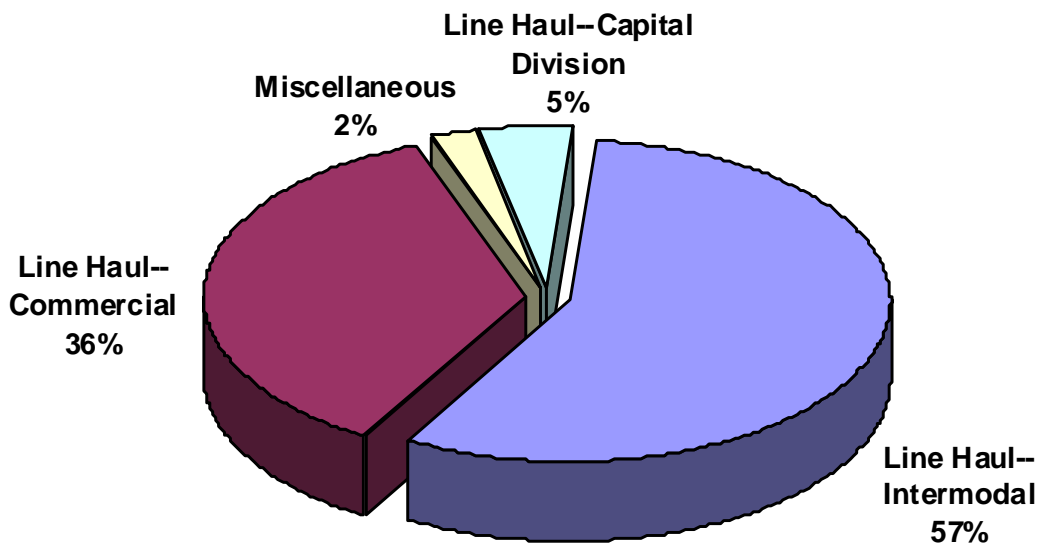
**SWITCHING ACTIVITIES**  
Year to Date - December 2008 & 2007



**SWITCHING REVENUES**  
Year to Date - December 2008 (\$14,690,148)

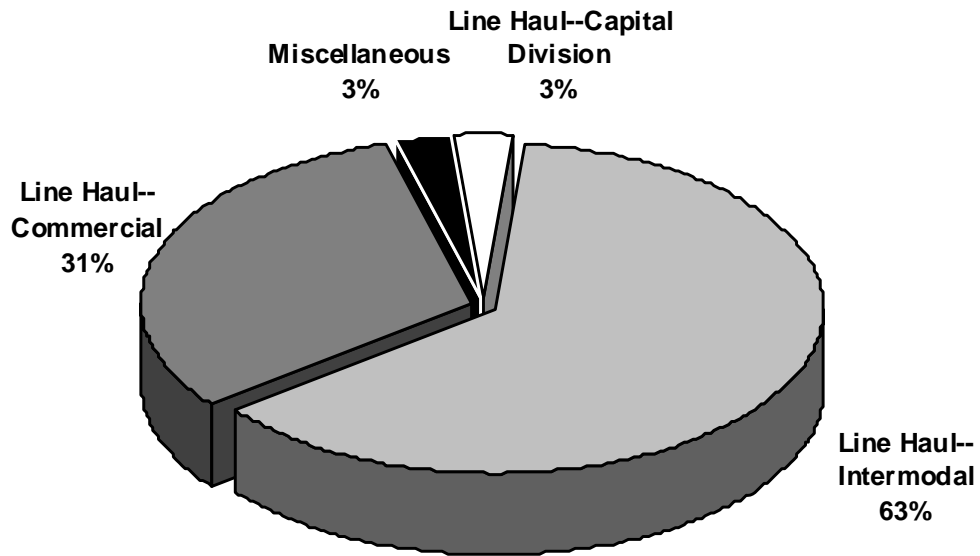


**SWITCHING REVENUES**  
Year to Date - December 2007 (\$15,632,973)

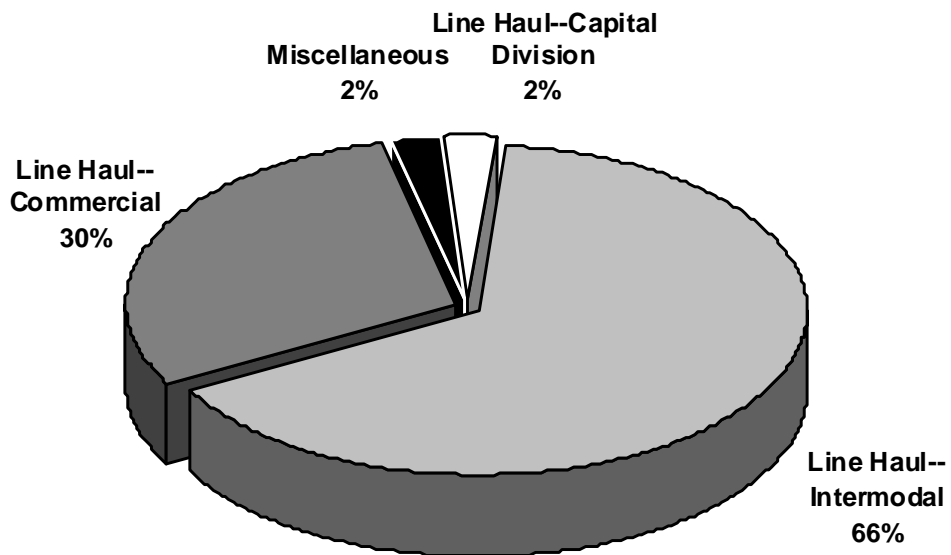




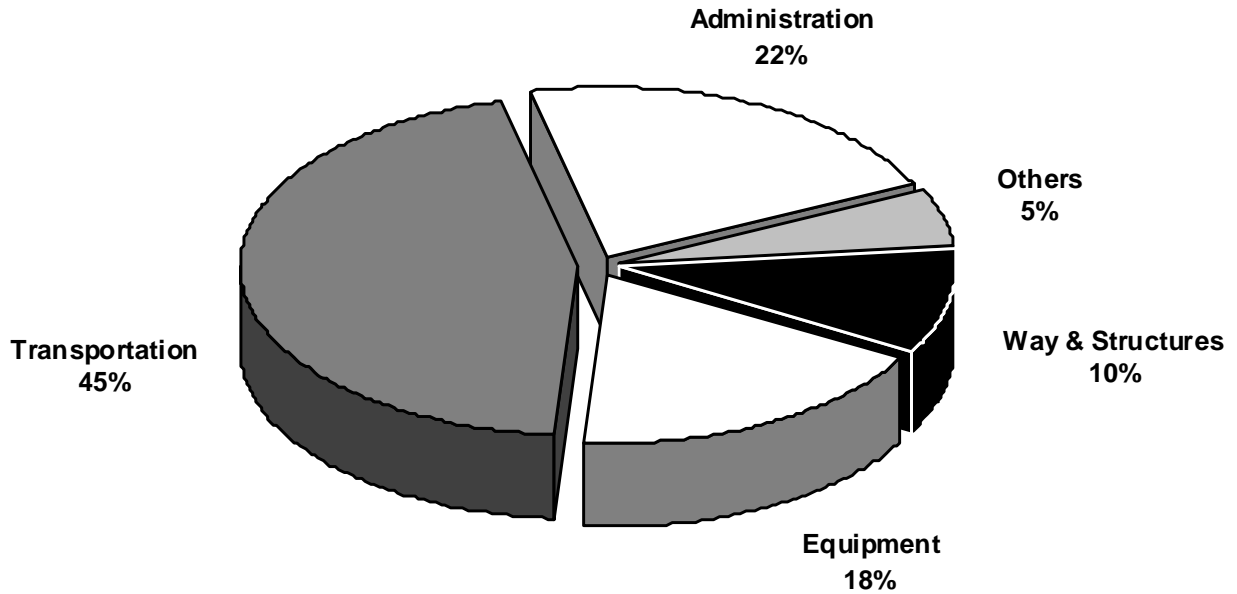
**SWITCHING ACTIVITY**  
**Year to Date - December 2008 (77,194 cars)**



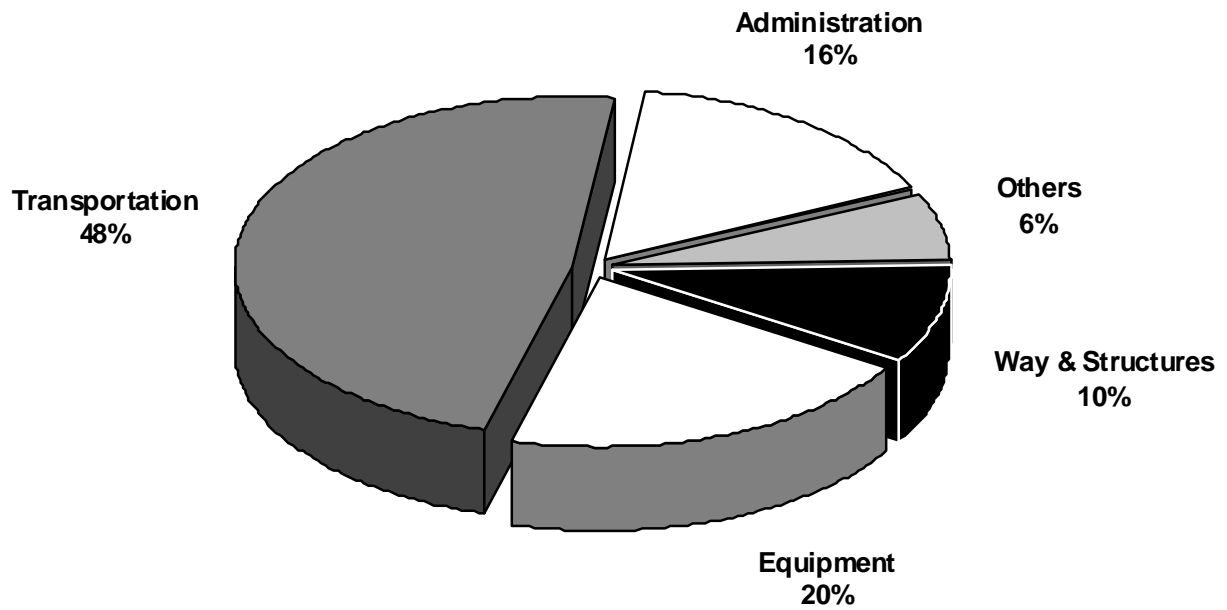
**SWITCHING ACTIVITY**  
**Year to Date - December 2007 (83,416 cars)**



**TOTAL OPERATING EXPENSES \***  
**Year to Date - December 2008 (\$17,008,068)**



**TOTAL OPERATING EXPENSES \***  
**Year to Date - December 2007 (\$15,945,274)**



\* City Gross Earnings Taxes are not included in Total Operating Expenses.

*This page has been left blank intentionally.*

## SUPERINTENDENT'S REPORT

Tacoma Rail continued to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and Tacoma's industrial areas (Tidelands Division), Lakeview, East Olympia areas (Capital Division) and to Morton, Elbe and Frederickson (Mountain Division) in 2008. Doing so meant remaining flexible and making adjustments to respond to changes in the national and world economies as they pertain to the rail industry.

Tacoma Rail's intermodal line haul volumes decreased by 10.4 percent while all other railcar volume decreased by 8.2 percent. Switching revenues decreased by 5 percent over the previous year due to lower volumes. Tacoma Rail formalized its locomotive servicing pilot program for Union Pacific into a two-year contract that is expected to result in revenue of \$1.5 million over the biennium.

Staff conducted Tacoma Rail's annual customer workshops to receive input on and provide information about current operations. Twenty-eight customers from the Tidelands, Capital and Mountain divisions attended the workshops provided. Topics included Tacoma Rail's environmental progress, the focus on safety, a review of overall railcar volumes, tariff rate comparisons and a preliminary look at service forecasts.

Tacoma Rail initiated and continues to engage in the process for succession planning and staff development. Staff training in all crafts will be a priority for 2009.

### Tidelands Division

We are working closely with the Port of Tacoma to prepare for projected additions to terminal capacity over the next three years. Our automated switch installation project is on target for completion by the end of the first quarter of 2009. This will greatly improve the efficient movement of traffic through key junctions on the division.

For 2007, Tacoma Rail had a revised rate structure in its tariff that targets intermodal platforms rather than intermodal railcars. Intermodal railcars are being included for historical reference. Line hauls during the year:

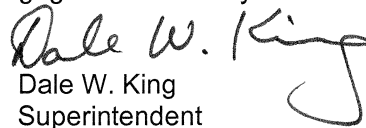
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Intermodal Platforms	181,000	202,962	252,193	301,746	236,084
All others	27,382	29,832	27,798	27,236	26,246
<b>Total line hauls</b>	<b>208,382</b>	<b>231,778</b>	<b>279,991</b>	<b>328,982</b>	<b>262,330</b>
Intermodal Railcars	48,715	54,575	72,283	91,238	71,169

### Capital Division

Tacoma Rail continued to provide excellent service to its customers on the three separate branch lines that make up this division. We are working on new interchange and operating agreements with BNSF Railway and Union Pacific to improve the velocity of shipments to and from the division. We are also working actively with the Port of Olympia to grow business from their rail facilities which have been essentially dormant since 2006.

### Mountain Division

A study was completed in 2008 by HDR Associates which developed three scenarios for the future operation of this division. We are actively engaged with the City of Tacoma to determine the best course to pursue.

  
Dale W. King  
Superintendent

*This page has been left blank intentionally.*