
ANNUAL

TACOMA RAIL

2012

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES
CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA RAIL

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FINANCIAL DATA

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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Washington Department of Public Utilities, Rail Division (the Division), which comprise the Statements of Net Position as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Division as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules presented on pages 34 through 48 are not a required part of the basic financial statements, but are supplemental information presented for the purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

A handwritten signature in blue ink that reads "Miss Adams LLP". The signature is written in a cursive, slightly slanted style.

Portland, Oregon
April 3, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Rail's (the Division) financial performance provides an overview of the financial activities for the years ended December 31, 2012 and 2011. This discussion and analysis should be read in conjunction with Tacoma Rail's financial statements and accompanying notes, which follow this section.

The Finance Department of the City of Tacoma and 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, 2012 and 2011, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital related financing, non-capital financing and investing activities.

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

Financial Highlights

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. Doing so meant remaining flexible and making adjustments to respond to changes in the local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2012 indicate slow improvement in the industry as a whole and active management of the Division in response to a difficult operating environment.

Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$2.2 million in 2012, compared to \$4.5 million in 2011, a decrease of \$2.3 million. The decrease in net income was due to an increase of \$3.6 million in operating revenues, an increase of \$3.1 million in operating expenses, an increase of \$0.3 million in non-operating revenues, a decrease of \$2.9 million in contributions, and an increase of \$0.3 million in transfers out.

In 2011, Tacoma Rail realized a change in net position of \$4.5 million compared to \$0.8 million in 2010, an increase of \$3.8 million. The increase in net income was due to an increase of \$3.9 million in operating revenues, an increase of \$2.2 million in operating expenses, a decrease of \$0.1 million in non-operating revenues, an increase of \$2.5 million in contributions, and an increase of \$0.3 million in transfers out.

The following table highlights Tacoma Rail's past three years' operating results.

OPERATING RESULTS
(in thousands)

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11</u> <u>Increase</u> <u>(Decrease)</u>	<u>11/10</u> <u>Increase</u> <u>(Decrease)</u>
Operating Revenues	\$ 23,044	\$ 19,404	\$ 15,480	\$ 3,640	\$ 3,924
Operating Expenses	20,191	17,099	14,911	3,092	2,188
Operating Income (Loss)	2,853	2,305	569	548	1,736
Net Non-Operating Revenues	1,046	711	848	335	(137)
Contributions	255	3,171	648	(2,916)	2,523
Transfers Out	(1,952)	(1,645)	(1,311)	(307)	(334)
Change in Net Position	<u>\$ 2,202</u>	<u>\$ 4,542</u>	<u>\$ 754</u>	<u>\$ (2,340)</u>	<u>\$ 3,788</u>

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

STATEMENTS OF NET POSITION
(in thousands)

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11</u> <u>Increase</u> <u>(Decrease)</u>	<u>11/10</u> <u>Increase</u> <u>(Decrease)</u>
Capital Assets (Net)	\$ 16,259	\$ 13,959	\$ 9,447	\$ 2,300	\$ 4,512
Current and Other Assets	11,799	9,272	9,093	2,527	179
Total Assets	<u>\$ 28,058</u>	<u>\$ 23,231</u>	<u>\$ 18,540</u>	<u>\$ 4,827</u>	<u>\$ 4,691</u>
Net Investments in Capital Assets	\$ 13,405	\$ 11,412	\$ 6,812	\$ 1,993	\$ 4,600
Restricted Net Position	397	400	401	(3)	(1)
Unrestricted Net Position	6,552	6,340	6,396	212	(56)
Total Net Position	20,354	18,152	13,609	2,202	4,543
Long-Term Debt, net of current maturities	2,167	2,002	2,102	165	(100)
Current and Long Term Liabilities	5,537	3,077	2,829	2,460	248
Total Liabilities	7,704	5,079	4,931	2,625	148
Total Net Position & Liabilities	<u>\$ 28,058</u>	<u>\$ 23,231</u>	<u>\$ 18,540</u>	<u>\$ 4,827</u>	<u>\$ 4,691</u>

Revenues

2012 Compared to 2011

In 2012, Tacoma Rail operating revenues of \$23.0 million were \$3.6 million higher than the \$19.4 million in 2011. Overall switching revenues increased \$3.5 million (20.5%), from 2011. Tacoma Rail's intermodal line hauls volume significantly increased with the arrival of new shipping lines with Grand Alliance at the Port of Tacoma in July 2012. The following table summarizes the switching revenues by activity type for the last two years.

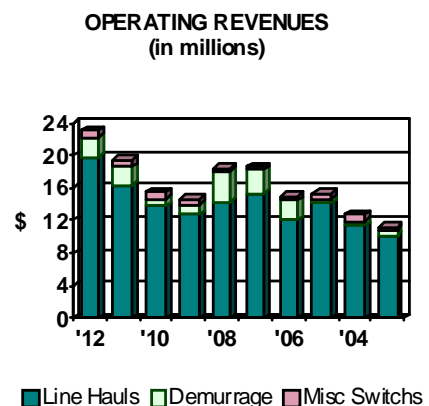
Activity Types	Rail Cars				Switching Revenues (in thousands)			
	2012	2011	Var	% Chg	2012	2011	Var	% Chg
Intermodal Line Hauls	59,407	36,539	22,868	62.6%	\$ 10,163	\$ 7,157	\$ 3,006	42.0%
Commercial Line Hauls	28,292	28,343	(51)	(0.2%)	8,940	8,583	357	4.2%
Capital Div. Line Hauls	1,855	1,558	297	19.1%	810	655	155	23.7%
Miscellaneous Switches	2,563	2,513	50	2.0%	880	855	25	2.9%
Total Line Hauls	92,117	68,953	23,164	33.6%	\$ 20,793	\$ 17,250	\$ 3,543	20.5%

As of February 1, 2011, Tacoma Rail stopped billing on empty intermodal cars and increased billing rates on loaded intermodal cars to compensate for the loss of the empty intermodal revenue. In addition, rates on loaded intermodal containers increased January 1, 2011. Tacoma Rail reinstated the charge on empty intermodal cars and decreased the intermodal rate on January 1, 2012 to respond to the large increase in number and ratio of empty intermodal moves. The following table summarizes the impact of these new fee structures.

	Platforms/Containers				Switching Revenues (in thousands)			
	2012	2011	Var	% Chg	2012	2011	Var	% Chg
Intermodal Empty Platforms	43,781	3,221	40,560	1259.2%	\$ 2,058	\$ 80	\$ 1,978	2472.5%
Intermodal Loaded Platforms	162,297	117,656	44,641	37.9%	7,629	6,640	989	14.9%
Intermodal Loaded Containers	16,425	15,070	1,355	9.0%	476	437	39	8.9%
Total Intermodal Line Hauls	222,503	135,947	86,556	63.7%	\$ 10,163	\$ 7,157	\$ 3,006	42.0%

In the tables above, Intermodal Line Hauls and Intermodal Empty Platforms for 2011 only include January 2011 billed portion related to the empty intermodal line hauls.

Demurrage and other operating revenues also increased \$97,000. Lower commercial traffic decreased railcar dwell time and caused demurrage revenue to decrease by \$168,000. Locomotive servicing revenue and other revenue, however, increased \$265,000.



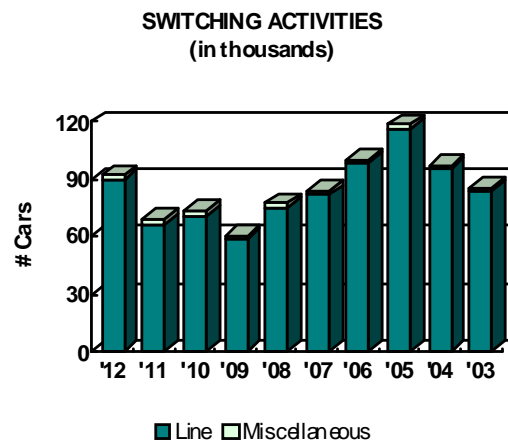
2011 Compared to 2010

In 2011, Tacoma Rail operating revenues of \$19.4 million were \$3.9 million higher than the \$15.5 million in 2010. This was the result of a \$2.7 million increase in switching revenues and a \$1.3 million increase in demurrage and other operating revenues.

The increase in demurrage and other operating revenues was mainly attributable to a boost of \$0.5 million in demurrage revenues and an increase of \$0.4 million in locomotive servicing revenue. The increase in demurrage revenue was attributable to higher commercial volumes resulting in higher dwell time at Tacoma Rail's yard. The fuel surcharge was reinstated in the high fuel cost environment which brought in \$0.3 million of additional revenues. Other revenue increased by \$0.1 million.

Switching Activities

Switching activities increased in 2012 by 23,164 cars (33.6%) to 92,117, from 68,953 in 2011. The most significant increase in switching activity can be seen in intermodal line-hauls which were up by 22,868 cars (62.6%) due to an increase in intermodal rail traffic and change in rate structure. The average number of cars switched over the last ten years is 85,676.



During 2011, total switching activities decreased by 4,222 cars (5.8%) from 2010.

The decrease in intermodal rail traffic was the dominant factor. Intermodal line-hauls were down by 10,281 cars (22.0%) in 2011. The table below shows the changes in switching volumes between 2010 and 2012.

<u>Description</u>	SWITCHING ACTIVITIES			12/11	11/10
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Line Hauls	89,554	66,440	70,574	23,114	(4,134)
Miscellaneous Switches	2,563	2,513	2,601	50	(88)
Total Cars Switched	<u>92,117</u>	<u>68,953</u>	<u>73,175</u>	<u>23,164</u>	<u>(4,222)</u>

Expenses

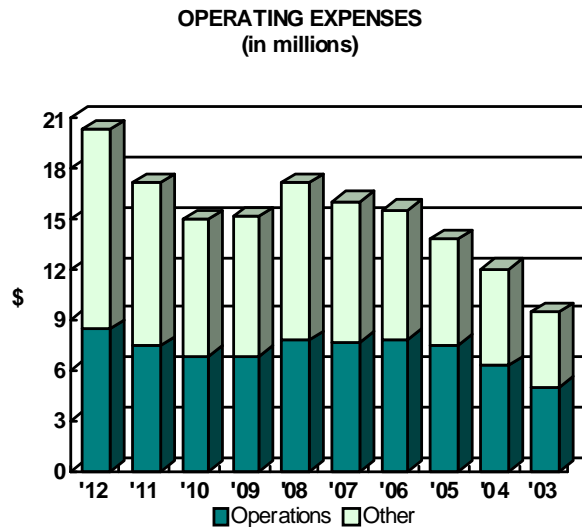
2012 Compared to 2011

Operating expenses increased \$3.1 million (18.1%) in 2012 due to an increase of \$1.0 million in salaries and wages and increase of \$2.1 million in supplies and expenses. Salaries and wages were higher in 2012 due to 7 additional FTE's in response to increased traffic volume and the annual wage increase per labor contracts.

The increase in supplies and expenses was mainly attributable to establishment of a volume incentive allowance arrangement of \$1.2 million in 2012 with the Port of Tacoma as a result of new customers. Capitalized A&G decreased \$0.4 million due to less spending on capital projects compared to 2011. State taxes also increase \$0.1 million as a result of higher revenues. Depreciation increased \$0.2 million due to an increase in depreciable assets of \$4.3 million compared to 2011. Higher traffic volume, track maintenance and compliance with Federal Railroad Administration regulations also contributed to the increase in supplies and expenses of approximately \$0.2 million.

2011 Compared to 2010

In 2011, Tacoma Rail operating expenses increased \$2.2 million largely due to an increase of \$0.4 million in salaries and wages and increases of \$1.8 million in supplies and expenses. Salaries and wages were higher in 2011 due to increased traffic volume and the annual wage increase per labor contracts. The increase in supplies and expenses in part were attributable to higher fuel costs. Fuel was up \$0.7 million in 2011 due to increased usage and rising prices. Tacoma Rail purchased 123,000 gallons, or 33.9%, more diesel fuel than in 2010 as a result of the increase in commercial line hauls and locomotive servicing activities. The average fuel price climbed 23.6% from \$2.61 per gallon in 2010 to \$3.23 per gallon in 2011.



In addition, total expense related to materials and supplies increased by \$0.6 million compared to 2010 primarily due to writing off obsolete items from track inventory in 2011. Repair and maintenance costs on Sound Refining Incorporated's track also increased \$0.2 million which was reimbursed in 2011 by the Washington State Department of Transportation and the customer.

Capital Assets

Total Capital Asset additions of \$4.3 million were recorded during 2012. This increase was reflected primarily in road property plant which increased by \$2.4 million mainly due to replacing rail and ties at various locations to improve up-keep and operational safety conditions. Subsequently, \$0.6 million of replaced rail and ties at those locations were retired from service. A new locomotive servicing facility was completed in 2012 which increased buildings by \$1.7 million. Office and fixture increased \$0.2 million mainly due to the narrow-banding of radios to remain in compliance with Federal regulations governing rail operations. Several pieces of machinery equipment in the amount of \$0.2 million were retired from plant.

During 2011, total Capital Asset additions of \$5.2 million were recorded. This increase was reflected primarily in machinery equipment which increased by \$4.8 million due to repowering three switcher locomotives to meet EPA Tier 2 emission standards.

Subsequently, two locomotives were retired from service which reduced equipment & other properties by \$572,000. Tacoma Rail increased road and equipment property in service by \$325,000 for railroad track improvements.

The following table summarizes Tacoma Rail's capital assets, net of accumulated depreciation, for the last three years.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
(in thousands)

<u>Description</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11</u> Increase (Decrease)	<u>11/10</u> Increase (Decrease)
Land	\$ 160	\$ 160	\$ 160	\$ -	\$ -
Road Property Plant	6,566	4,451	4,472	2,115	(21)
Building	1,757	184	237	1,573	(53)
Machinery Equipment	7,567	7,997	3,829	(430)	4,168
Office and Fixture	206	43	4	163	39
Construction Work In Progress	3	1,124	745	(1,121)	379
Total Net Plant and Properties	<u>\$ 16,259</u>	<u>\$ 13,959</u>	<u>\$ 9,447</u>	<u>\$ 2,300</u>	<u>\$ 4,512</u>

Additional information on Tacoma Rail's capital assets can be found in Note 3 to the Financial Statements.

Debt Administration

In 2012, Tacoma Rail obtained two new Washington State loans from the Department of Transportation for replacement of Annie tracks 1 and 2 and yard tracks 2, 3, and 4 in the amounts of \$612,000 and \$245,000, respectively. In addition, Tacoma Rail entered into \$355,000 and \$364,000 of Washington State loans in 2012 to replace crossing surfaces at East 11th Street and yard tracks 5 and 6, respectively, from which no funds have been drawn. In 2011, Tacoma Rail obtained a Washington State loan from the Department of Transportation for locomotive repower in the amount of \$450,000.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 4 to the Financial Statements.

LONG-TERM DEBT
(in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>12/11</u> Increase (Decrease)	<u>11/10</u> Increase (Decrease)
Long-Term Debt Balance, December 31	\$2,858	\$2,552	\$2,641	\$306	(\$89)

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2012, principal and interest were covered 18.14 times compared to 14.05 times in 2011 and 8.15 times in 2010.

Summary

The Financial Statements were prepared according to accounting principles generally accepted in the United States of America, and they fairly portray Tacoma Rail's financial position and operating results. The Notes to the Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The 2012 Financial Statements have been audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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



William A. Gaines
Director of Utilities/CEO



Andrew Cherullo
Finance Director

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF NET POSITION

ASSETS	DECEMBER 31,	
	2012	2011
CAPITAL ASSETS		
Road and Equipment Property	\$30,544,104	\$27,110,343
Less Accumulated Depreciation	(14,288,537)	(14,275,692)
Total	16,255,567	12,834,651
Construction Work in Progress	3,359	1,124,167
Net Capital Assets	16,258,926	13,958,818
SPECIAL FUNDS		
Debt Service Funds	397,381	399,607
Total Special Funds	397,381	399,607
CURRENT ASSETS		
Cash & Equity in Pooled Investments	5,783,968	4,514,347
Customer Accounts Receivable	2,388,352	1,787,075
(Net of Allowance for Doubtful Accounts of \$120,928 in 2012 and \$14,044 in 2011)		
Grants Receivable	-	128,107
Interfund Receivable	434,866	31,516
Prepayments	2,173,793	1,876,738
Materials and Supplies Inventory	616,936	530,011
Total Current Assets	11,397,915	8,867,794
OTHER ASSETS		
Bond Issuance Costs	4,070	5,086
TOTAL ASSETS	\$28,058,292	\$23,231,305

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2012	2011
NET POSITION		
Net Investment in Capital Assets.....	\$13,404,517	\$11,412,333
Restricted for:		
Debt Service	397,381	399,607
Unrestricted	6,552,142	6,339,945
TOTAL NET POSITION	20,354,040	18,151,885
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
2006 Senior Lien Revenue Bond	771,620	983,267
2003 Junior Lien Revenue Bond	-	331,000
State Loans.....	1,395,131	687,301
Total Long-Term Debt	2,166,751	2,001,568
CURRENT LIABILITIES		
Accounts Payable	614,703	482,655
Customer Deposits	61,500	68,400
Wages Payable and Compensated Absences	399,475	324,405
Unemployment and Other Tax Payables	413,174	189,902
Volume Incentive Payable	1,208,333	-
Current Portion of Long-Term Debt	691,728	550,003
Interest Payable	14,233	19,142
Interfund Payable	516,921	128,025
Total Current Liabilities	3,920,067	1,762,532
LONG-TERM LIABILITIES		
On the Job Injury Reserve	574,493	554,806
Long-Term Portion of Compensated Absences	747,880	638,804
Other Long-Term Liabilities	295,061	121,710
Total Long-Term Liabilities	1,617,434	1,315,320
TOTAL LIABILITIES	7,704,252	5,079,420
TOTAL NET POSITION AND LIABILITIES	\$28,058,292	\$23,231,305

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2012	2011
OPERATING REVENUES		
Switching Revenues	\$20,793,364	\$17,250,227
Demurrage and Other Operating Revenues	2,250,434	2,153,392
Total Operating Revenues	23,043,798	19,403,619
OPERATING EXPENSES		
Maintenance of Way and Structures	2,391,048	1,852,987
Mechanical	3,575,966	3,385,261
Operations	8,420,381	7,368,978
Administration	4,574,754	3,510,334
Taxes - State	404,105	339,525
Depreciation	824,549	641,315
Total Operating Expenses	20,190,803	17,098,400
Net Operating Income	2,852,995	2,305,219
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	81,907	132,196
Loss from Disposition of Property	-	(254,809)
Miscellaneous	1,025,801	914,947
Interest Expense	(62,090)	(80,959)
Total Non-Operating Revenues	1,045,618	711,375
Contributions - Grants	174,560	2,770,958
Contributions - Others	80,897	400,166
Total Contributions	255,457	3,171,124
Transfers		
City of Tacoma Gross Earnings Tax	1,931,338	1,632,180
Transfers to Other Funds	20,577	13,049
Total Transfers	1,951,915	1,645,229
CHANGE IN NET POSITION	2,202,155	4,542,489
TOTAL NET POSITION - BEGINNING OF YEAR	18,151,885	13,609,396
TOTAL NET POSITION - END OF YEAR	\$20,354,040	\$18,151,885

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$22,032,271	\$19,093,824
Cash Paid to Suppliers	(8,998,808)	(8,527,827)
Cash Paid to Employees	(8,239,844)	(7,435,977)
Taxes Paid	(398,669)	(300,760)
Net Cash Provided by Operating Activities	4,394,950	2,829,260
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(1,734,079)	(1,645,229)
Proceeds from Non-Capital Contributions	101,823	638,095
Net Cash Used in Non-Capital Financing Activities	(1,632,256)	(1,007,134)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(3,124,657)	(5,530,512)
Principal Payments on Long-Term Debt	(550,002)	(539,545)
Interest Paid	(66,999)	(85,377)
Proceeds from Capital Contributions	281,741	2,519,767
Proceeds from Long-Term Debt	856,910	450,000
Proceeds from Sale of Plant	-	122,350
Proceeds from Other Non-Operating Revenues	1,025,801	914,947
Net Cash Used in Capital and Related Financing Activities	(1,577,206)	(2,148,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	81,907	132,196
Net Cash Provided by Investing Activities	81,907	132,196
Net Increase (Decrease) in Cash and Equity in Pooled Investments	1,267,395	(194,048)
Cash & Equity in Pooled Investments at January 1	4,913,954	5,108,002
Cash & Equity in Pooled Investments at December 31	\$6,181,349	\$4,913,954

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

	YEAR ENDED DECEMBER 31,	
	2012	2011
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities:		
Operating Income	\$2,852,995	\$2,305,219
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	824,549	641,315
Accounts Receivable	(601,277)	(336,972)
Interfund Receivable	(403,350)	33,777
Materials and Supplies Inventory	(86,925)	262,131
Prepayments	(296,039)	(318,901)
Accounts Payable	132,048	123,633
Customer Deposits	(6,900)	(6,600)
Unemployment and Other Tax Payables	5,436	38,765
Wages Payable	62,950	7,841
Volume Incentive Payable	1,208,333	-
Interfund Payable	388,896	(16,305)
Accrued Compensated Absences	121,196	67,582
Other Long-Term Liabilities & OJI Reserve.....	193,038	27,775
Total Adjustments	<u>1,541,955</u>	<u>524,041</u>
Net Cash Provided by Operating		
Activities	<u>\$4,394,950</u>	<u>\$2,829,260</u>
Reconciliation of Cash and Equity in Pooled		
Investments to Balance Sheet:		
Cash and Equity in Pooled Investments		
in Special Funds	\$397,381	\$399,607
Cash and Equity in Pooled Investments		
in Operating Funds	<u>5,783,968</u>	<u>4,514,347</u>
Cash and Equity in Pooled Investments		
at December 31	<u>\$6,181,349</u>	<u>\$4,913,954</u>

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS OF TACOMA RAIL - Tacoma Rail (the Division) is a division of the City of Tacoma, Department of Public Utilities, which also operates the Light and the Water Divisions and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. Tacoma Rail provides rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Capital Division. The Capital Division interchanges rail cars with BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure. In addition, Tacoma Rail manages the Mountain Division which is a reporting unit within Public Works and is included in the CAFR. Tacoma Rail is reimbursed for direct expenses. A new operating agreement between Tacoma Rail and the Mountain Division is in place through 2016.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

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

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

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

CUSTOMER ACCOUNTS RECEIVABLES - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts.

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

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

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

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council.

BOND ISSUANCE COSTS - Bond issuance costs are amortized over the life of the bonds using the straight-line basis.

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Depreciation is recorded using the straight-line method at the beginning of the year and based on estimated economic lives of operating assets placed in service as follows:

Roads RR & bridges	7 – 20 years
Building	10 – 25 years
Machinery Equipment	10 – 25 years
Office and Fixture	5 – 20 years

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

CONTRIBUTIONS - In accordance with GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", grants and contributions are recorded as contribution revenue.

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

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

OPERATING REVENUES - Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Revenues are based on services rendered through the end of the year. Tacoma Rail adopted a revision to its rate structure effective January 1, 2012.

NON-OPERATING REVENUES AND EXPENSES - These are items that do not qualify as operating defined above.

TAXES – The City charges the Division Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays business and occupation tax to the State at the rate of 1.8% on service revenues. The Division is exempt from payment of federal income tax.

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

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

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position components are those that are not “net investment in capital assets” or “restricted”.

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

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

ON THE JOB INJURY RESERVE - Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, general economic conditions, fuel supply availability and rising fuel prices, weather and natural disaster-related disruptions, collective bargaining labor disputes, federal government regulations such as Federal Railroad Administration and Environmental Protection Agency or orders concerning the operation, maintenance and/or licensing of facilities, transportation of chemicals and other hazardous materials, acts of terrorism, war, or risk of war.

NOTE 3 CAPITAL ASSETS - A summary of the balances and changes in capital assets for 2012 and 2011 follows:

	Balance December 31, 2011	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2012
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	14,089,166	2,405,083	(597,739)	-	15,896,510
Building	1,987,191	1,667,185	-	-	3,654,376
Machinery Equipment	9,977,017	20,452	(165,522)	(20,445)	9,811,502
Office and Fixture	896,513	173,190	(48,443)	-	1,021,260
Capital Assets	27,110,343	4,265,910	(811,704)	(20,445)	30,544,104
Less Accumulated Depreciation	(14,275,692)	(824,549)	811,704	-	(14,288,537)
	<u>12,834,651</u>	<u>3,441,361</u>	<u>-</u>	<u>(20,445)</u>	<u>16,255,567</u>
Construction Work In Progress	1,124,167	3,124,656	-	(4,245,464)	3,359
Net Capital Assets	<u>\$ 13,958,818</u>	<u>\$ 6,566,017</u>	<u>\$ -</u>	<u>\$ (4,265,909)</u>	<u>\$ 16,258,926</u>

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2010	Additions	Retirements	Transfer & Adjustments	Balance December 31, 2011
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456.00
Road Property Plant	13,763,950	325,216			14,089,166
Building	1,987,191				1,987,191
Machinery Equipment	5,766,349	4,795,581	(571,864)	(13,049)	9,977,017
Office and Furniture	853,152	43,361			896,513
Capital Assets	22,531,098	5,164,158	(571,864)	(13,049)	27,110,343
Less Accumulated Depreciation	(13,829,082)	(641,315)	194,705		(14,275,692)
	8,702,016	4,522,843	(377,159)	(13,049)	12,834,651
Construction Work in Progress	744,764	553,051		-515,108	1,124,167
Net Capital Assets	\$ 9,446,780	\$ 10,053,354	\$ (377,159)	\$ (5,164,157)	\$ 13,958,818

NOTE 4 LONG-TERM DEBT - Long-term debt activities for 2012 and 2011 were as follows:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Senior Lien Bond:					
2006 Revenue Bond	\$1,183,881	\$ -	\$ 200,613	\$ 983,268	\$ 211,648
Junior Lien Debts:					
2003 Revenue Bond	662,000	-	331,000	331,000	331,000
Locomotive Idling					
Improvements State Loan	22,868	-	1,759	21,109	1,759
Locomotive Servicing					
Facility State Loan	232,822	-	16,630	216,192	16,630
Locomotive Repower					
State Loan	450,000		-	450,000	45,000
Annie 1 & 2 Tracks					
State Loan	-	612,000	-	612,000	61,200
Yard Tracks 2, 3, & 4					
State Loan	-	244,910	-	244,910	24,491
Total Long-Term Debt	<u>\$2,551,571</u>	<u>\$ 856,910</u>	<u>\$ 550,002</u>	<u>\$2,858,479</u>	<u>\$ 691,728</u>

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Senior Lien Bond:					
2006 Revenue Bond	\$ 1,374,037	\$ -	\$ 190,156	\$ 1,183,881	\$ 200,614
Junior Lien Debts:					
2003 Revenue Bond	993,000	-	331,000	662,000	331,000
Locomotive Idling					
Improvements State Loan	24,627	-	1,759	22,868	1,759
Locomotive Servicing					
Facility State Loan	249,452	-	16,630	232,822	16,630
Locomotive Repower					
State Loan	-	450,000	-	450,000	-
Total Long-Term Debt	<u>\$ 2,641,116</u>	<u>\$ 450,000</u>	<u>\$ 539,545</u>	<u>\$ 2,551,571</u>	<u>\$ 550,003</u>

SENIOR LIEN BOND:

City Council Substitute Ordinance No. 27545, passed in November 2006, 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.

Scheduled principal maturities on bonds and interest payments are as follows:

	Principal	Interest
2013	\$211,648	\$48,768
2014	223,288	37,127
2015	235,569	24,847
2016	248,525	11,891
2017	64,238	866
	<u>\$983,268</u>	<u>\$123,499</u>

JUNIOR LIEN DEBTS:

In June 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, 2012 was 1.188% and was paid quarterly on a 366-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. This debt was subsequently paid off in January 2013.

During 2009, Tacoma Rail obtained two 15-year interest free Washington State loans from the Department of Transportation for locomotive idling improvements and locomotive servicing facility upgrades in the amounts of \$26,000 and \$249,000, respectively. The Idling

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Improvement loan will mature on July 1, 2024, with an annual principal payment of \$1,759, commencing July 1, 2010. The Facility Upgrade loan has a \$16,630 annual principal repayment schedule beginning in 2011 and matures on July 1, 2025.

During 2011, Tacoma Rail obtained 10-year interest free Washington State loan from the Department of Transportation for locomotive repower in the amount of \$450,000. The Locomotive Repower will mature on May 1, 2022, with an annual principal payment of \$45,000, commencing May 1, 2013.

During 2012, Tacoma Rail obtained two 10-year interest free Washington State loans from the Department of Transportation for replacement of Annie tracks 1 and 2 and yard tracks 2, 3, and 4 in the amounts of \$612,000 and \$244,910, respectively. The Annie 1 & 2 Tracks loan will mature on June 1, 2022, with annual principal payment of \$61,200, commencing June 1, 2013. The Yard Tracks 2, 3, & 4 loan has a \$24,491 annual principal repayment schedule beginning in 2013 and matures on July 1, 2022.

Scheduled principal maturities on junior lien debts and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$480,080	\$ -
2014	149,080	-
2015	149,080	-
2016	149,080	-
2017	149,080	-
2018-2022	745,402	-
2023-2025	53,409	-
	<u>\$1,875,211</u>	<u>\$ -</u>

Tacoma Rail's revenue bonds are secured by the net revenue of Tacoma Rail and all cash and investments held in the bond fund. The bonds as well as junior liens are subject to certain financial and non-financial covenants.

NOTE 5 SIGNIFICANT CUSTOMER - Tacoma Rail's predominate sources of revenue are Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Revenue from UP and BNSF represented 28% and 64% of total revenues, respectively, in 2012. Revenue in 2011 was 25% and 65%, respectively. Accounts receivable from UP and BNSF in 2012 represented 26% and 60% of total customer accounts receivable, respectively. Accounts receivable in 2011 were 22% and 63%, respectively.

NOTE 6 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.

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 2012 and 2011 were \$423,800 and \$430,548, respectively.

NOTE 7 SELF-INSURANCE FUND - The Department of Public Utilities maintains a self-insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Rail and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Rail are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$204,000 in both 2012 and 2011. Assets in the Self-Insurance Fund total \$5.4 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

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

NOTE 8 PENSION PLAN - Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2012 and 2011, Tacoma Rail contributed \$1,505,987 and \$1,367,112, respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2012</u>	<u>2011</u>
Employer Tier I	\$ 110,100	\$ 106,800
Employer Tier II	81,900	79,200
Employer Medicare	No Limit	No Limit

	<u>TAX RATE</u>	
	<u>2012</u>	<u>2011</u>
Employer Tier I	6.20%	6.20%
Employer Tier II	12.10%	12.10%
Employer Medicare	1.45%	1.45%

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$50.6 billion as of December 31, 2010. 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 pay, in full, the payroll withholdings to the system.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

ANNUAL OPEB COST AND NET OPEB OBLIGATION - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (4.00%).

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

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

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

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

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

	<u>January 1, 2009</u>	<u>January 1, 2011</u>
Total membership:		
Active employees	3,633	3,675
Terminated vested employees	355	363
Retired employees & Dependents	815	790
Total	<u>4,803</u>	<u>4,828</u>
Annual Benefit Payments	\$ 8,319,788	\$ 9,569,648
Discount rate	4.00%	4.00%
Present Value of Benefits (PVB)	\$ 266,167,781	\$ 319,550,419
Actuarial Accrued Liability (AAL)	\$ 205,168,072	\$ 248,571,791
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 205,168,072</u>	<u>\$ 248,571,791</u>
Normal Cost	\$ 5,615,626	\$ 5,559,350
Annual Required Contribution (ARC)	\$ 16,761,978	\$ 19,734,041

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

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

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2012. This is recorded within Other Deferred Credits.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,559,351	\$ 124,757
Amortization of UAAL	14,174,690	70,664
Annual Required Contribution (ARC)	<u>\$ 19,734,041</u>	<u>\$ 195,421</u>
Determination of Net OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 19,734,041	\$ 195,421
Interest on prior year Net OPEB Obligation	1,455,746	3,604
Adjustments to ARC	(1,720,609)	(3,501)
Annual OPEB Cost	<u>19,469,178</u>	<u>195,524</u>
Actual benefits paid	<u>9,393,431</u>	<u>102,935</u>
Increase in Net OPEB Obligation	10,075,747	92,589
Net OPEB Obligation - beginning of year	36,393,621	90,096
Net OPEB Obligation - end of year	<u>\$ 46,469,368</u>	<u>\$ 182,685</u>

FUNDED STATUS AND FUNDING PROGRESS -

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

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2010	\$16,700,184	\$ 129,196	\$9,206,060	\$ 61,658	\$26,366,848	\$ 3,226
12/31/2011	\$19,596,420	\$ 195,430	\$9,569,648	\$ 108,560	\$36,393,620	\$ 90,096
12/31/2012	\$19,469,178	\$ 195,524	\$9,393,431	\$ 102,935	\$46,469,368	\$ 182,685

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

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

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2011
Census Date	January 1, 2011
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	25 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate	4.00% for pay-as-you-go funding
Medical Cost Trend	2011 8.1%
	2012 7.3%
	2013 6.6%
	2014-2019 6.5%
	2020-2027 6.4%
	Grading down to an ultimate of 5.2% in 2082 and beyond.
Projected Payroll Increases	4.25% per year

Eligibility:

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

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

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

NOTE 10 COMMITMENTS AND CONTINGENCIES

LINK PETROLEUM PROJECT CUSTOMER DEPOSIT AND REFUND AGREEMENT - A contractual agreement was entered in 2009 between Tacoma Rail and Link Petroleum, Inc. Link Petroleum agreed to advance Tacoma Rail \$75,000 for track improvements on Tacoma Rail's property to efficiently and safely handle shipments leading to this customer's service facility. In return, Tacoma Rail agreed to refund the advance to the customer at a rate of \$150 per carload for each of the first 500 carloads handled at the facility, or through December 31, 2015, whichever event first occurs. As of December 31, 2012, the remaining deposit is \$61,500.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Volume Incentive Payable – An operating agreement between Tacoma Rail and the Port of Tacoma is being established which includes volume incentive allowances. The Port of Tacoma will distribute the allowance back to the customers based on traffic volumes. An accrual of \$1.2 million has been made during 2012 for the months of July through December.

It has been determined that none of the cases mentioned below are probable or estimable.

OSHA/Joseph Lochridge v. Tacoma – Mr. Lochridge, a Tacoma Rail employee, filed a whistleblower complaint with the Department of Labor on October 29, 2012, claiming he was discharged for raising safety concerns about a locomotive “shoving” procedure.

OSHA/Robert Bailey v. Tacoma – Mr. Bailey, a Tacoma Rail employee, filed a whistleblower complaint with the Department of Labor on June 10, 2011, alleging retaliation by Tacoma Rail in response to his reporting safety and security concerns.

OSHA/Adron Curtis v. Tacoma – Mr. Curtis filed a whistleblower complaint with the Department of Labor on September 7, 2012, alleging that the termination of his employment was due to his notifying Tacoma Rail of his injury.

GENERAL LEGAL MATTERS - Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail’s financial position beyond amounts already accrued as of December 31, 2012.

TACOMA RAIL OPERATION OF CITY OF TACOMA, DEPARTMENT OF PUBLIC WORKS (“PUBLIC WORKS”), MOUNTAIN DIVISION - Public Works owns approximately 113 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2016. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division. It has incurred over a \$1 million deficit which has been funded in 2012.

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS				
Railway Plant - Net	\$16,258,926	\$13,958,818	\$9,446,780	\$9,813,322
Other Property and Special Funds ..	397,381	399,607	400,792	406,268
Current and Accrued Assets	11,397,915	8,867,794	8,686,413	8,474,144
Other Assets	<u>4,070</u>	<u>5,086</u>	<u>6,103</u>	<u>7,121</u>
TOTAL ASSETS	28,058,292	23,231,305	18,540,088	18,700,855
LIABILITIES				
Long-Term Debt	2,166,751	2,001,568	2,101,571	2,641,116
Current and Accrued Liabilities ..	3,920,067	1,762,532	1,602,400	1,569,847
Long-Term Liabilities	<u>1,617,434</u>	<u>1,315,320</u>	<u>1,226,721</u>	<u>1,634,512</u>
Total Liabilities	7,704,252	5,079,420	4,930,692	5,845,475
NET POSITION	<u>20,354,040</u>	<u>18,151,885</u>	<u>13,609,396</u>	<u>12,855,380</u>
TOTAL LIABILITIES AND NET POSITION .	\$28,058,292	\$23,231,305	\$18,540,088	\$18,700,855
STATEMENTS OF INCOME				
OPERATING REVENUES				
Switching Revenues	\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092
Other Operating Revenues	<u>2,250,434</u>	<u>2,153,392</u>	<u>898,739</u>	<u>1,212,804</u>
Total Operating Revenues	23,043,798	19,403,619	15,479,597	14,577,896
OPERATING EXPENSES				
Operation and Maintenance	18,962,149	16,117,560	13,942,626	14,235,461
Taxes	404,105	339,525	261,854	214,935
Depreciation	<u>824,549</u>	<u>641,315</u>	<u>706,323</u>	<u>577,643</u>
Total Operating Expenses	20,190,803	17,098,400	14,910,803	15,028,039
NET OPERATING INCOME (LOSS)	2,852,995	2,305,219	568,794	(450,143)
NON-OPERATING REVENUES (EXPENSE)				
Net Other Income	1,281,258	3,831,262	1,524,627	1,678,847
Interest Earned on Investments ...	81,907	132,196	74,327	139,662
Interest on Unfunded Debt	<u>(62,090)</u>	<u>(80,959)</u>	<u>(102,293)</u>	<u>(133,177)</u>
Total Non-Operating Revenues ...	1,301,075	3,882,499	1,496,661	1,685,332
TRANSFERS OUT				
City Gross Earnings Tax	1,931,338	1,632,180	1,311,439	1,244,359
Transfers to Other Funds	<u>20,577</u>	<u>13,049</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	\$2,202,155	\$4,542,489	\$754,016	(\$9,170)

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

2008	2007	2006	2005	2004	2003
\$9,422,038	\$7,931,353	\$7,554,726	\$7,456,261	\$7,070,923	\$6,770,655
414,059	2,199,564	2,340,445	885,204	901,040	1,475,013
8,912,688	7,691,279	5,939,738	6,156,457	5,707,936	5,411,598
8,138	9,155	10,151	-	-	-
<u>18,756,923</u>	<u>17,831,351</u>	<u>15,845,060</u>	<u>14,497,922</u>	<u>13,679,899</u>	<u>13,657,266</u>
2,878,279	3,711,125	3,833,389	2,317,000	2,648,000	2,979,000
1,768,188	1,403,086	2,300,300	1,775,528	1,467,177	1,317,247
1,245,906	643,203	528,548	437,044	335,395	249,892
<u>5,892,373</u>	<u>5,757,414</u>	<u>6,662,237</u>	<u>4,529,572</u>	<u>4,450,572</u>	<u>4,546,139</u>
<u>12,864,550</u>	<u>12,073,937</u>	<u>9,182,823</u>	<u>9,968,350</u>	<u>9,229,327</u>	<u>9,111,127</u>
\$18,756,923	\$17,831,351	\$15,845,060	\$14,497,922	\$13,679,899	\$13,657,266
\$14,690,148	\$15,632,973	\$12,664,741	\$14,672,745	\$12,230,886	\$10,330,204
3,718,926	2,980,855	2,347,726	629,227	531,130	766,209
<u>18,409,074</u>	<u>18,613,828</u>	<u>15,012,467</u>	<u>15,301,972</u>	<u>12,762,016</u>	<u>11,096,413</u>
16,126,814	14,940,364	14,457,946	12,762,618	11,178,245	8,585,966
270,106	265,425	218,687	243,571	191,422	162,946
611,148	739,485	751,910	706,272	656,054	642,849
<u>17,008,068</u>	<u>15,945,274</u>	<u>15,428,543</u>	<u>13,712,461</u>	<u>12,025,721</u>	<u>9,391,761</u>
1,401,006	2,668,554	(416,076)	1,589,511	736,295	1,704,652
860,497	1,298,744	889,414	442,549	486,248	478,099
264,272	251,757	128,085	150,468	96,959	133,310
(174,994)	(205,174)	(87,003)	(78,381)	(81,222)	(69,970)
<u>949,775</u>	<u>1,345,327</u>	<u>930,496</u>	<u>514,636</u>	<u>501,985</u>	<u>541,439</u>
1,525,080	1,568,134	1,279,984	1,276,709	1,067,586	921,444
35,088	-	98,501	88,415	52,494	50,572
<u>\$790,613</u>	<u>\$2,445,747</u>	<u>(\$864,065)</u>	<u>\$739,023</u>	<u>\$118,200</u>	<u>\$1,274,075</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
SWITCHING REVENUES				
Line Hauls	\$19,913,410	\$16,395,640	\$13,744,377	\$12,735,114
Local and Miscellaneous	<u>879,954</u>	<u>854,587</u>	<u>836,481</u>	<u>629,978</u>
TOTAL SWITCHING REVENUES	\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092
NUMBER OF CARS SWITCHED				
Line Hauls	89,554	66,440	70,574	58,892
Local and Miscellaneous	<u>2,563</u>	<u>2,513</u>	<u>2,601</u>	<u>2,032</u>
TOTAL NUMBER OF CARS SWITCHED .	92,117	68,953	73,175	60,924
SWITCHING STATISTICS (AVERAGE)				
Revenue/Line Haul Car	\$222.36	\$246.77	\$194.75	\$216.25
Revenue/Local & Miscellaneous Car	\$343.33	\$340.07	\$321.60	\$310.03

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$14,277,743	\$15,303,787	\$12,110,422	\$14,087,830	\$11,418,915	\$10,104,255
<u>412,405</u>	<u>329,186</u>	<u>554,319</u>	<u>584,915</u>	<u>811,971</u>	<u>225,949</u>
\$14,690,148	\$15,632,973	\$12,664,741	\$14,672,745	\$12,230,886	\$10,330,204
74,940	81,366	97,923	116,353	95,454	83,657
<u>2,254</u>	<u>2,050</u>	<u>2,151</u>	<u>2,121</u>	<u>1,963</u>	<u>1,360</u>
77,194	83,416	100,074	118,474	97,417	85,017
\$190.52	\$188.09	\$123.67	\$121.08	\$119.63	\$120.78
\$182.97	\$160.58	\$257.70	\$275.77	\$413.64	\$166.14

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

CAPITAL ASSETS - YEAR 2012

PLANT ACCOUNTS

	Book Cost 1/1/12	Additions 2012
LAND	\$ 160,456	\$ -
ROADS RR & BRIDGES.....	14,089,166	2,405,083
BUILDING.....	1,987,191	1,667,185
MACHINERY/EQUIPMENT.....	9,977,017	20,452
OFFICE/FIXTURE EQUIPMENT	896,513	173,190
TOTAL BELTLINE PLANT IN SERVICE	27,110,343	4,265,910
CONSTRUCTION WORK IN PROGRESS	1,124,167	3,124,656
 TOTAL	 \$ 28,234,510	 \$ 7,390,566

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/12	Annual Accrual Cr.
ROADS RR & BRIDGES.....	Various	\$ 9,638,322	\$ 290,054
BUILDING.....	Various	1,802,966	94,257
MACHINERY/EQUIPMENT.....	Various	1,980,890	429,977
OFFICE/FIXTURE EQUIPMENT	Various	853,514	10,261
 TOTAL PLANT DEPRECIATION		 \$ 14,275,692	 \$ 824,549

Retirements 2012	Transfers & Adjustments	Book Cost 12/31/12
\$ -	\$ -	\$ 160,456
(597,739)	-	15,896,510
-	-	3,654,376
(165,522)	(20,445)	9,811,502
(48,443)	-	1,021,260
(811,704)	(20,445)	30,544,104
-	(4,245,464)	3,359
<u>\$ (811,704)</u>	<u>\$ (4,265,909)</u>	<u>\$ 30,547,463</u>

Book Cost of Plant Retired	Cost of Removal	Salvage, Transfers and Adjustments	Accumulated Depreciation 12/31/12
\$ (597,739)	\$ -	\$ -	\$ 9,330,637
-	-	-	1,897,223
(165,522)	-	-	2,245,345
(48,443)	-	-	815,332
<u>\$ (811,704)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,288,537</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND SWITCHING REVENUES

	DECEMBER 2012	DECEMBER 2011	YEAR ENDED DECEMBER 31,	
			2012	2011
SWITCHING REVENUES				
LINE HAULS--INTERMODAL	\$908,854	\$592,059	\$10,162,743	\$7,157,094
LINE HAULS--COMMERCIAL	832,815	736,005	8,940,345	8,583,167
LINE HAULS--CAPITAL DIVISION	64,671	34,459	810,322	655,379
MISCELLANEOUS SWITCHES	74,281	81,353	879,954	854,587
TOTAL SWITCHING REVENUES	<u>\$1,880,621</u>	<u>\$1,443,876</u>	<u>\$20,793,364</u>	<u>\$17,250,227</u>
 SWITCHING ACTIVITIES (CARS)				
LINE HAULS--INTERMODAL	5,479	2,901	59,407	36,539
LINE HAULS--COMMERCIAL	2,612	2,389	28,292	28,343
LINE HAULS--CAPITAL DIVISION	149	83	1,855	1,558
MISCELLANEOUS SWITCHES	194	351	2,563	2,513
TOTAL CARS SWITCHED	<u>8,434</u>	<u>5,724</u>	<u>92,117</u>	<u>68,953</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Income	\$ 24,089,416	\$ 20,114,994	\$ 16,327,899	\$ 15,426,031	\$ 19,052,185
Less: Operating Exp ...	<u>19,366,254</u>	<u>16,457,085</u>	<u>14,204,480</u>	<u>14,450,396</u>	<u>16,396,920</u>
Income Available for Debt Service	<u>\$ 4,723,162</u>	<u>\$ 3,657,909</u>	<u>\$ 2,123,419</u>	<u>\$ 975,635</u>	<u>\$ 2,655,265</u>
 Bond Redemption	 \$ 200,614	 \$ 190,156	 \$ 180,242	 \$ 170,846	 \$ 161,940
Bond Interest	59,802	70,260	80,174	89,570	98,476
Debt Service Payable ..	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>
 Time Debt Service Covered	 18.14	 14.05	 8.15	 3.75	 10.20

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2012

FEDERAL

Railroad Retirement	\$1,505,987	
Railroad Unemployment Insurance	33,433	
Total	<u>33,433</u>	\$1,539,420

STATE OF WASHINGTON

Retail Sales & Use Tax	496,731	
Utility and Business Occupation Tax	404,105	
Total	<u>404,105</u>	900,836

CITY OF TACOMA

Gross Earnings Tax		<u>1,931,338</u>
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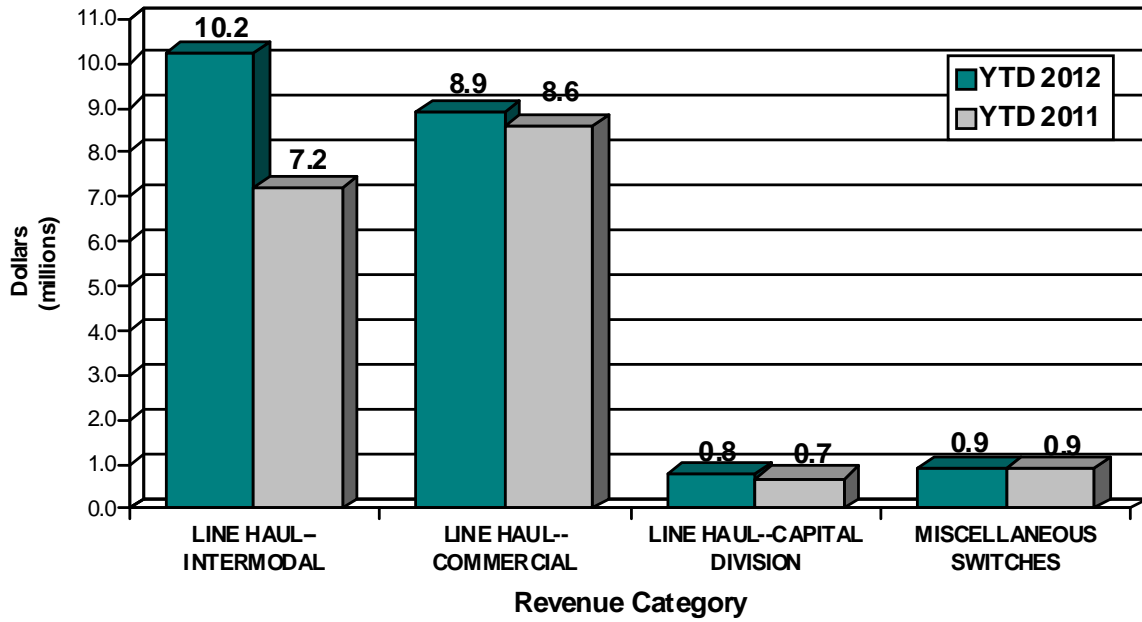
TOTAL TAXES		<u>\$4,371,594</u>
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Taxes as a % of Total Revenues of \$24,406,963 17.91%

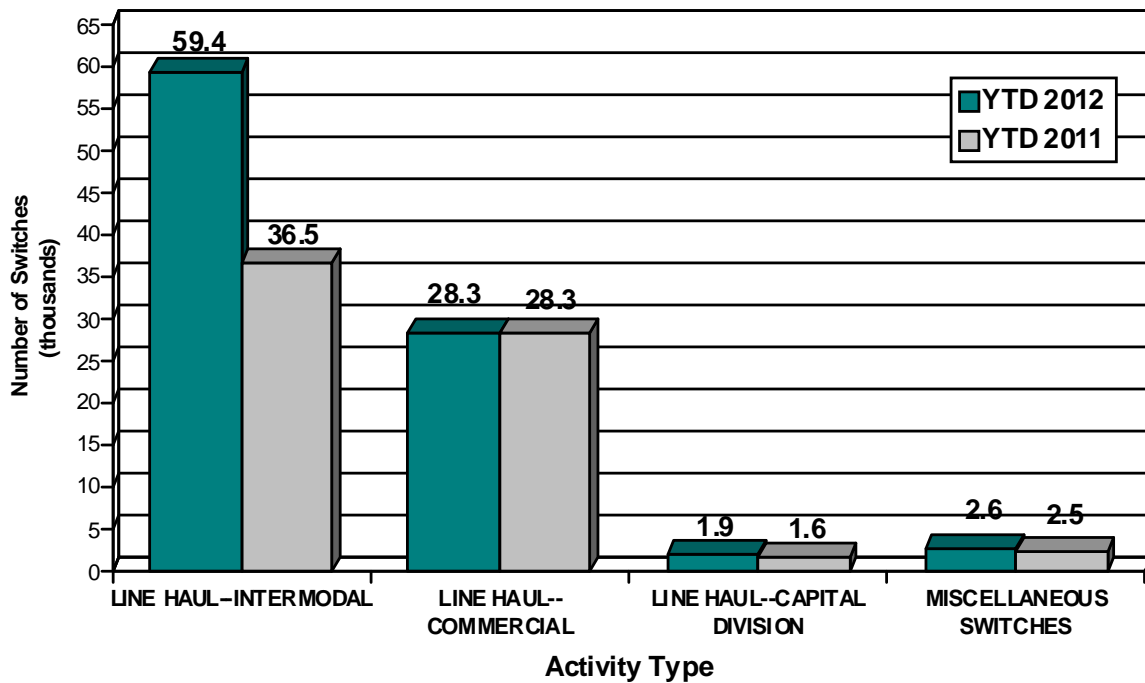
EMPLOYEE WELFARE CONTRIBUTIONS

Pierce County Medical Bureau	\$1,506,609	
Washington Dental Service	151,068	
Other Contributions	197,283	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS	<u>197,283</u>	<u>\$1,854,960</u>

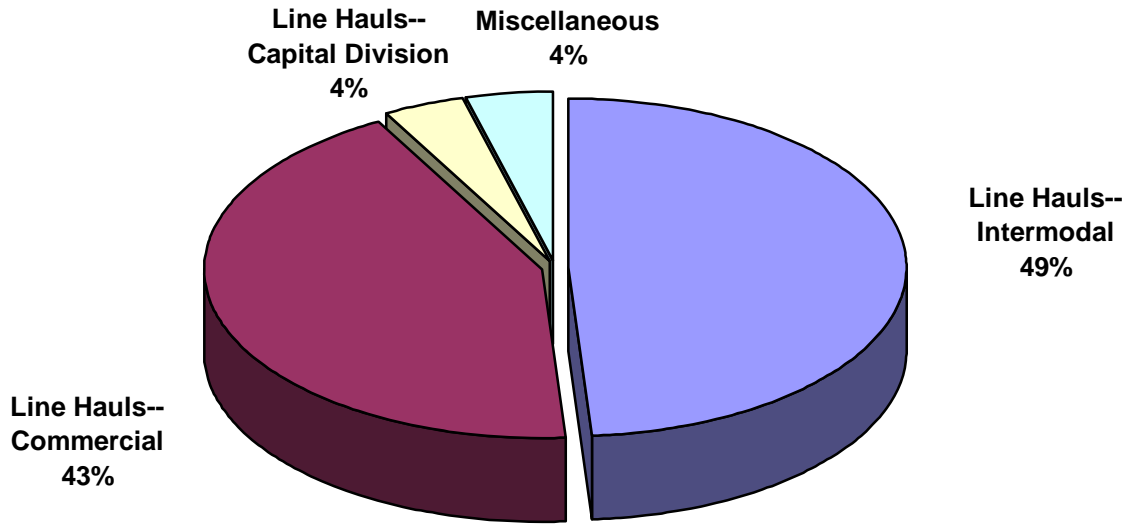
SWITCHING REVENUES
Year to Date - December 2012 & 2011



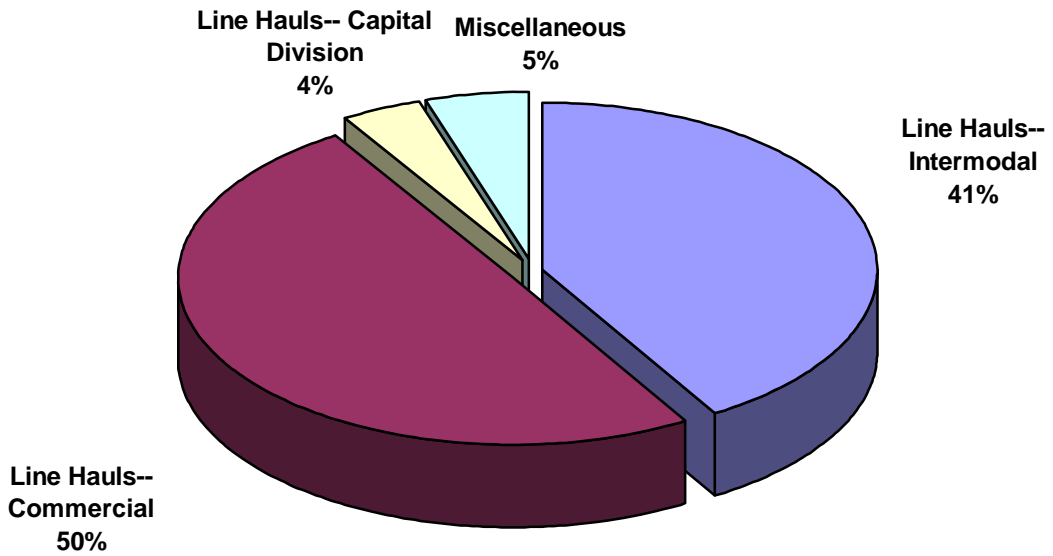
SWITCHING ACTIVITIES
Year to Date - December 2012 & 2011



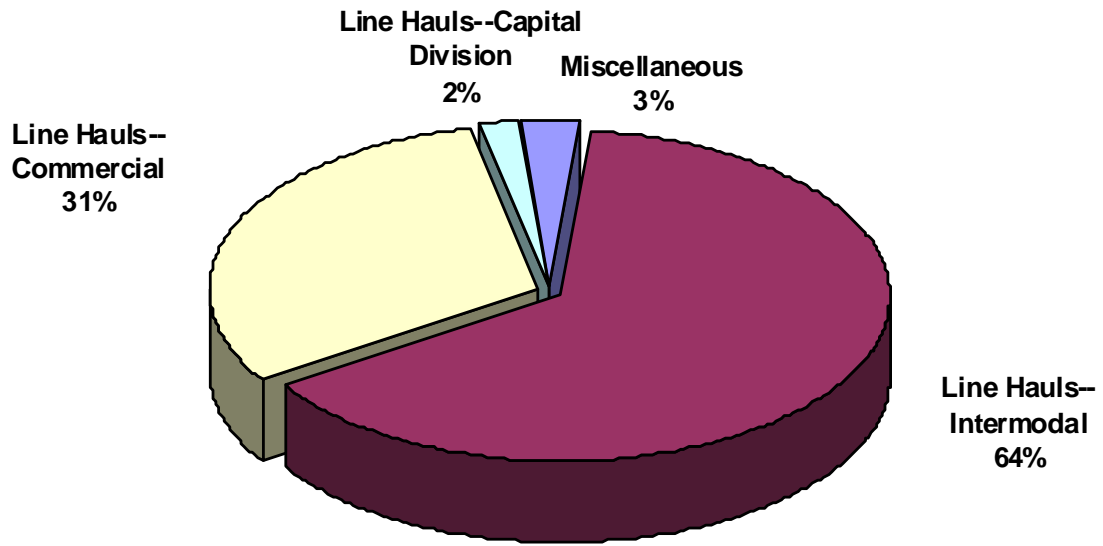
SWITCHING REVENUES
Year to Date - December 2012 (\$20,793,364)



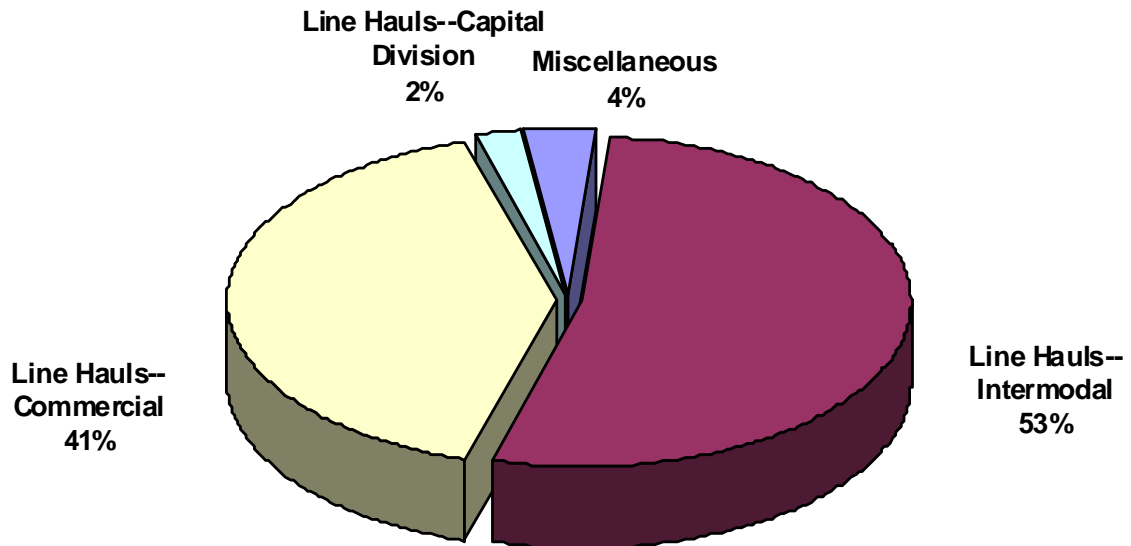
SWITCHING REVENUES
Year to Date - December 2011 (\$17,250,227)



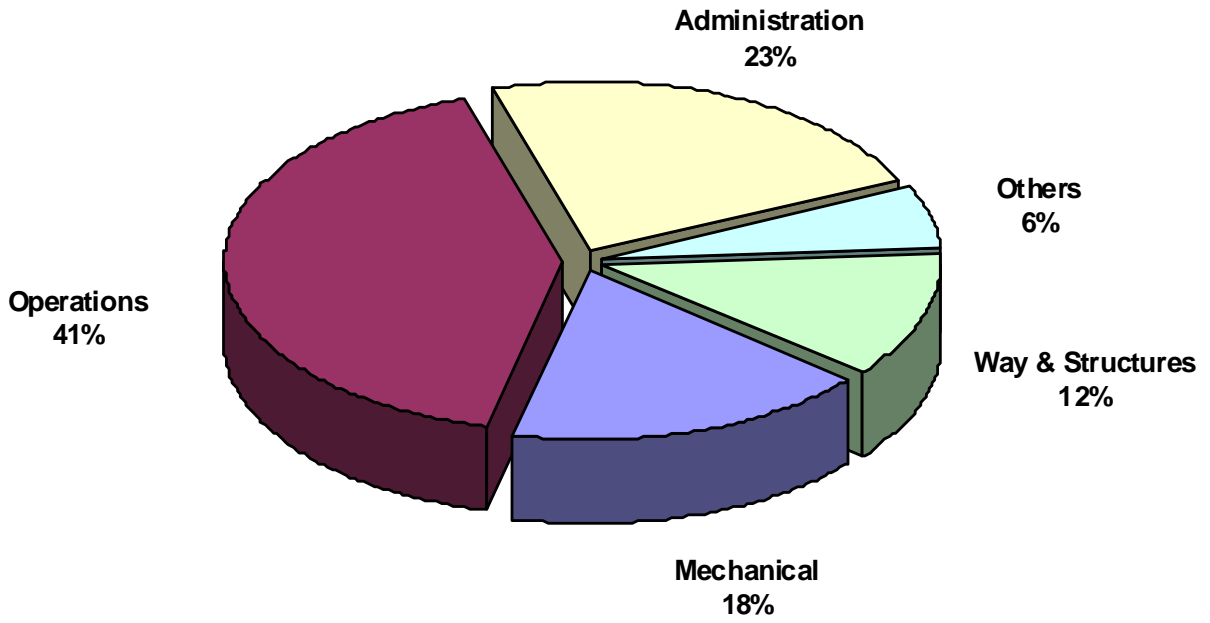
SWITCHING ACTIVITY
Year to Date - December 2012 (92,117 cars)



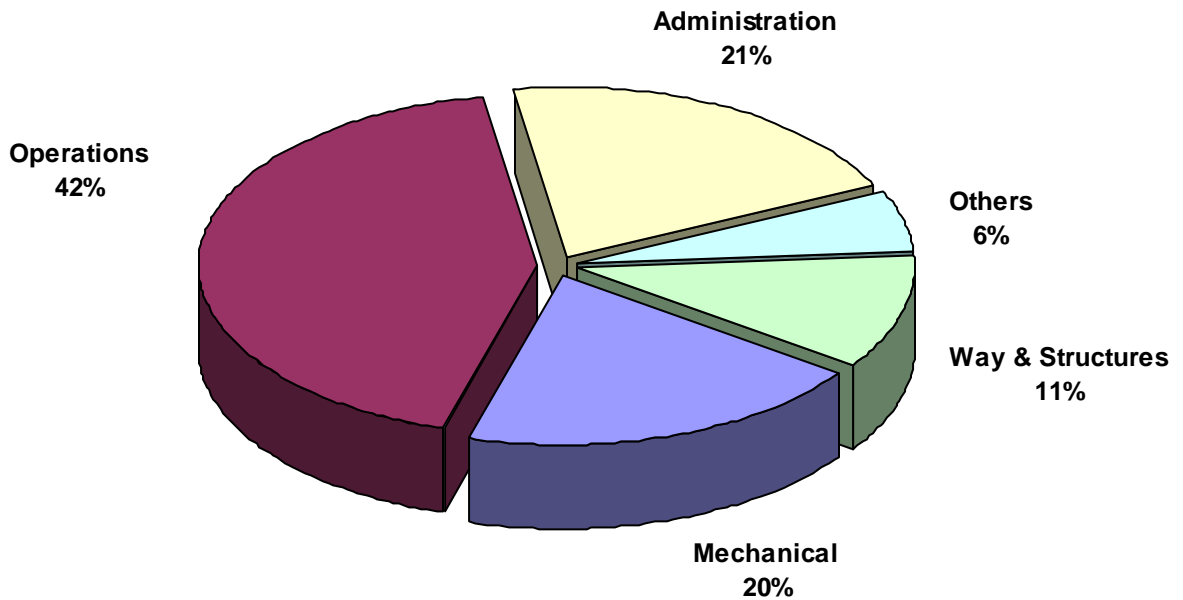
SWITCHING ACTIVITY
Year to Date - December 2011 (68,953 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2012 (\$20,190,803)



TOTAL OPERATING EXPENSES
Year to Date - December 2011 (\$17,098,400)



2012 SUPERINTENDENT'S REPORT TACOMA RAIL

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, and Olympia (Capital Division) and to Frederickson (Mountain Division) in 2012. Faced with the prospect of overnight traffic growth of up to thirty percent with the arrival of the Grand Alliance of shipping lines in July, Tacoma Rail increased its operating labor force by ten percent, completed construction on a new locomotive servicing facility and began the rehabilitation of over 10,000 feet of track serving its marine terminals. All of this led to a smooth transition in rail service while others in the Port Terminal complex struggled to handle the increased international container volumes.

Tacoma Rail's intermodal line haul volumes increased by 38 percent while all other Tidelands Division railcar volumes increased by 2 percent over 2011 numbers. The Grand Alliance Shipping Lines (Hapag-Lloyd, OOCL and NYK Lines) began a three ship per week rotation into Tacoma on July 1, 2012. K-Line increased the size of its vessels calling on Tacoma in September. Coupled with an increased volume of empty container cars to support this business, the number of trains moving into and out of Tacoma nearly doubled to 36 per week by the end of the year. Total switching revenues increased by 21 percent over the previous year due to higher volumes and rate structure changes. Demurrage revenues decreased by 15 percent from the previous year due to decreased commercial railcar dwell time.

Changes in Federal regulations required Tacoma Rail to institute a number of programs to remain in compliance with various laws governing rail operations. Among these were the load rating of bridges over which we operate, the narrow-banding of train radios and the completion of a conductor certification program plan. All of these mandated changes were funded from Tacoma Rail's operating revenue.

Tacoma Rail participated in the planning and approval process for the movement of crude oil unit trains from North Dakota via the BNSF to U.S. Oil's refinery in the Tideflats. The trains are 104 cars in length and began operating on a once per week cycle in October. When U.S. Oil completes its unloading facility expansion in April 2013 this volume will increase to two trains per week. The Port of Tacoma announced plans to partner with Targa Sound Terminals to construct a bulk liquid distribution facility that will come on line at the end of 2014. Tacoma Rail is fully involved in the planning to handle up to three unit trains of bulk liquids each week into this location.

TIDELANDS DIVISION

Tacoma Rail is working closely with the Port of Tacoma on optimizing operational efficiencies and resources to adjust to the shifting intermodal business models.

	2012	2011	2010	2009	2008	2007
Intermodal Platforms	162,297	117,656	125,119	119,200	181,000	202,962
All others	31,454	30,887	25,155	25,440	27,382	29,832
Total line hauls	193,751	148,543	150,274	144,640	208,382	232,794
Intermodal Railcars	44,898	32,223	36,560	33,763	48,715	54,575

CAPITAL DIVISION

The Port of Olympia began moving its first revenue loads in five years when it secured a ceramic sand contract to transload this product from ships to railcars bound for the shale oil producing region in North Dakota. The volumes increased 19 percent in 2012 over the previous year. Sound Transit completed construction of its commuter line from D to M Street in August and Tacoma Rail was instrumental in completing track and signal testing prior to the start of passenger train service to Lakewood in October.

MOUNTAIN DIVISION

Tacoma Rail operates the Mountain Division for the City of Tacoma. Under the new operating agreement with Public Works, Tacoma Rail began divesting parts of the Mountain Division no longer needed for freight service. A seven-mile section of track from Chehalis to Centralia was leased to Western Washington Railroad in November. WWR took over railcar storage operations on the line in December. A lease with Mount Rainier Scenic Railroad was concluded in December for thirty plus miles of track between Eatonville and Morton to allow them to continue their tourist steam train operations. Finally, negotiations with Sound Transit for the purchase of the 1.3 mile commuter line from TR Junction to D Street are in their final stages. All of these actions allowed the Mountain Division to operate at breakeven in 2012.

Dale W. King
Superintendent



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