
ANNUAL

TACOMA RAIL

2013

**FINANCIAL
REPORT**



Public Utility Board

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DEPARTMENT OF PUBLIC UTILITIES
CITY OF TACOMA

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA 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, 2013 and 2012, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Division adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 33 through 46 and the superintendent's report presented on 47 through 48 are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.



Tacoma, Washington
April 7, 2014

MANAGEMENT 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, 2013 and 2012. 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 (GAAP) applied on a consistent basis and include amounts that are based on management's best estimates and judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2013 and 2012, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position 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.

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

Financial Highlights

Tacoma Rail continued to meet its goal of providing efficient, cost-effective rail service to the Ports of Tacoma and Olympia as well as Tacoma's industrial areas. Doing so required adding operating staff, upgrading infrastructure and enforcing a disciplined tactical plan to respond to growth in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2013 indicate modest improvement in the industry as a whole and active management of the Division in response to a changing economic environment.

Overview of the Financial Statements

Tacoma Rail is reporting a change in net operating income of \$1.9 million in 2013, compared to \$2.2 million in 2012, a decrease of \$0.3 million. The decrease in net income was due to an increase of \$3.9 million in operating revenues, an increase of \$3.6 million in operating expenses, a decrease of \$0.1 million in non-operating revenues, a decrease of \$0.3 million in contributions, and an increase of \$0.3 million in transfers out.

In 2012, Tacoma Rail realized a change in net operating income of \$2.2 million, 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.

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

<u>Description</u>	OPERATING RESULTS (in thousands)				
	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)	<u>13/12</u> Increase (Decrease)	<u>12/11</u> Increase (Decrease)
Operating Revenues	\$ 26,943	\$ 23,044	\$ 19,404	\$ 3,899	\$ 3,640
Operating Expenses	23,782	20,191	17,099	3,591	3,092
Operating Income	3,161	2,853	2,305	308	548
Net Non-Operating Revenues	980	1,047	712	(67)	335
Contributions	-	255	3,171	(255)	(2,916)
Transfers Out	(2,273)	(1,952)	(1,645)	(321)	(307)
Net Operating Income	<u>\$ 1,868</u>	<u>\$ 2,203</u>	<u>\$ 4,543</u>	<u>\$ (335)</u>	<u>\$ (2,340)</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.

<u>Description</u>	<u>2013</u>	<u>2012</u>		<u>2011</u>		<u>13/12</u>	<u>12/11</u>
			<u>(As Restated)</u>	<u>(As Restated)</u>		<u>Increase</u>	<u>Increase</u>
						<u>(Decrease)</u>	<u>(Decrease)</u>
Capital Assets (Net)	\$ 18,016	\$ 16,259	\$ 13,959	\$ 1,757	\$ 2,300		
Current and Other Assets	13,027	11,795	9,267	1,232	2,528		
Total Assets	\$ 31,043	\$ 28,054	\$ 23,226	\$ 2,989	\$ 4,828		
Net Investments in Capital Assets	\$ 14,797	\$ 13,401	\$ 11,412	\$ 1,396	\$ 1,989		
Restricted Net Position	65	397	400	(332)	(3)		
Unrestricted Net Position	7,356	6,552	6,335	804	217		
Total Net Position	22,218	20,350	18,147	1,868	2,203		
Long-Term Debt, net of current maturities	2,765	2,167	2,002	598	165		
Current and Long Term Liabilities	6,060	5,537	3,077	523	2,460		
Total Liabilities	8,825	7,704	5,079	1,121	2,625		
Total Net Position & Liabilities	\$ 31,043	\$ 28,054	\$ 23,226	\$ 2,989	\$ 4,828		

Revenues

2013 Compared to 2012

In 2013, Tacoma Rail operating revenues of \$26.9 million were \$3.9 million higher than the \$23.0 million in 2012. Overall switching revenues increased \$3.8 million (18.2%), from 2012. 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)			
	2013	2012	Var	% Chg	2013	2012	Var	% Chg
Intermodal Line Hauls	104,620	59,407	45,213	76.1%	\$ 11,314	\$ 10,163	\$ 1,151	11.3%
Commercial Line Hauls	29,303	28,292	1,011	3.6%	9,278	8,940	338	3.8%
Capital Div. Line Hauls	2,622	1,855	767	41.3%	1,179	810	369	45.6%
Miscellaneous Switches	1,865	2,563	(698)	(27.2%)	2,800	880	1,920	218.2%
Total Line Hauls	138,410	92,117	46,293	50.3%	\$ 24,571	\$ 20,793	\$ 3,778	18.2%

Demurrage and other operating revenues also increased \$122,000. Demurrage revenue increased by \$109,000 and locomotive servicing revenue and other revenue increased \$13,000.

2012 Compared to 2011

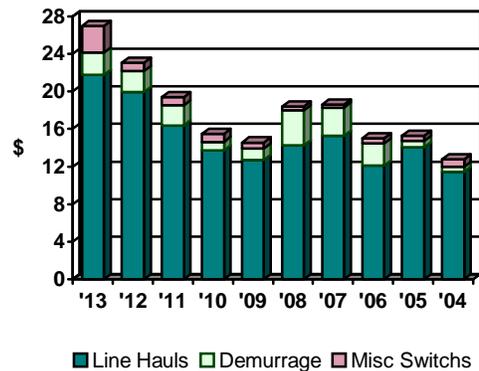
In 2012, Tacoma Rail operating revenues of \$23.0 million were \$3.6 million higher than the \$19.4 million in 2011. This was the result of a \$3.5 million increase in switching revenues and a \$0.1 million increase in demurrage and other operating revenues.

Switching Activities

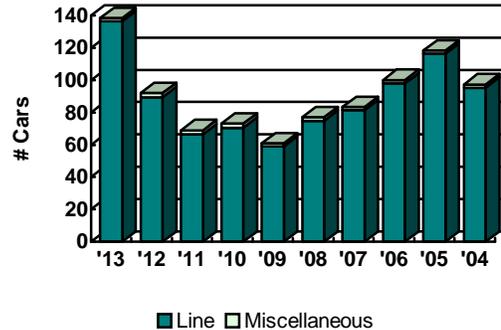
Switching activities increased in 2013 by 46,293 cars (50.3%) to 138,410, from 92,117 in 2012. The most significant increase in switching activity can be seen in intermodal line-hauls which were up by 45,213 cars (76.1%) due to an increase in intermodal rail traffic and change in rate structure. The average number of cars switched over the last ten years is 91,015.

During 2012, total switching activities increased by 23,164 cars (33.6%) from 2011. The increase in intermodal rail traffic was the dominant factor. Intermodal line-hauls were up by 22,868 cars (62.6%) in 2012. The table below shows the changes in switching volumes for the last three years.

OPERATING REVENUES
(in millions)



SWITCHING ACTIVITIES
(in thousands)



SWITCHING ACTIVITIES

<u>Description</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	13/12	12/11
				<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Line Hauls	136,545	89,554	66,440	46,991	23,114
Miscellaneous Switches	1,865	2,563	2,513	(698)	50
Total Cars Switched	138,410	92,117	68,953	46,293	23,164

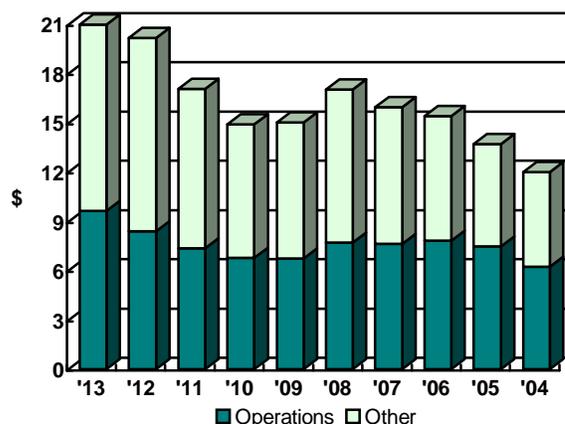
Expenses

2013 Compared to 2012

Operating expenses increased \$3.6 million (17.8%) in 2013 primarily due to an increase of \$ 0.7 million in salaries and wages and increase of \$2.6 million in supplies and expenses. Salaries and wages were higher in 2013 due to 11 new personnel in response to increased traffic volume and the annual wage increase per labor contracts.

The increase in supplies and expenses was mainly attributable to the volume incentive allowance and incurred but not reported (IBNR) claims. Volume incentive allowance was \$2.1 million compared to \$1.2 million in 2012, a \$0.9 million increase in 2013. IBNR claims increased \$1.3 million in 2013 from (\$0.2) million in 2012. Capitalized A&G decreased \$0.4 million due to less spending on capital projects compared to 2012. Depreciation increased \$0.2 million due to an increase in depreciable assets of \$3.4 million compared to 2012.

OPERATING EXPENSES
(in millions)



2012 Compared to 2011

In 2012, Tacoma Rail operating expenses increased \$3.1 million largely due to an increase of \$1.0 million in salaries and wages and increases 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 were attributable to establishment of a volume incentive allowance agreement 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 increased \$0.1 million as a result of higher revenues. Depreciation increased \$0.2 million due to increase in depreciable assets of \$4.6 million compared to 2011.

Capital Assets

Total Capital Asset additions of \$4.8 million were recorded during 2013. This increase was reflected primarily in road property plant which increased by \$1.1 million mainly due to replacing rail and ties at various locations to improve up-keep and operational safety conditions. Machinery and equipment increased \$0.1 million mainly due to a locomotive simulator purchase.

During 2012, total Capital Asset additions of \$4.3 million were recorded. 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 \$1.6 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.

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>2013</u>	<u>2012</u>	<u>2011</u>	<u>13/12</u> <u>Increase</u> <u>(Decrease)</u>	<u>12/11</u> <u>Increase</u> <u>(Decrease)</u>
Land	\$ 160	\$ 160	\$ 160	\$ -	\$ -
Road Property Plant	7,687	6,566	4,451	1,121	2,115
Building	1,754	1,757	184	(3)	1,573
Machinery Equipment	7,693	7,567	7,997	126	(430)
Office and Fixture	21	206	43	(185)	163
Construction Work In Progress	701	3	1,124	698	(1,121)
Total Net Plant and Properties	\$ 18,016	\$ 16,259	\$ 13,959	\$ 1,757	\$ 2,300

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

Debt Administration

In 2013, Tacoma Rail obtained one new Washington State loan from the Department of Transportation for Port Pass in the amount of \$247,500. In addition, Tacoma Rail entered into \$823,227, \$366,387, \$773,070, \$1,105,074 and \$515,789 of Washington State loans in 2013 to replace Yard Tracks 8 & 9, N. Intermodal Yard Lead Track, East Loop, Taylor Way and West Loop, respectively, from which no funds have been drawn. Draws were taken in 2013 on East 11th Street Crossing and Yard Tracks 5&6 in the amounts of \$347,320 and \$363,938 respectively

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 were drawn in 2012. 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>2013</u>	<u>2012</u>	<u>2011</u>	<u>13/12</u> Increase (Decrease)	<u>12/11</u> Increase (Decrease)
Long-Term Debt Balance, December 31	\$3,219	\$2,858	\$2,552	\$361	\$306

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2013, principal and interest were covered 19.73 times compared to 18.14 times in 2012 and 14.05 times in 2011.

Summary

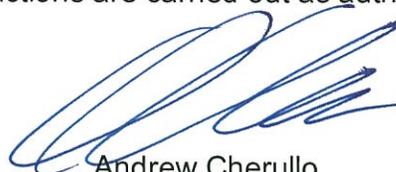
The Financial Statements were prepared according to GAAP in the United States of America, and they fairly portray Tacoma Rail's financial position and operating results. The Notes to the Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The 2013 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

	DECEMBER 31,	
ASSETS	2013	2012 (As Restated)
CAPITAL ASSETS		
Road and Equipment Property	\$32,599,709	\$30,544,104
Less Accumulated Depreciation	(15,285,319)	(14,288,537)
Total	17,314,390	16,255,567
Construction Work in Progress	701,285	3,359
Net Capital Assets	18,015,675	16,258,926
SPECIAL FUNDS		
Debt Service Funds	65,110	397,381
Total Special Funds	65,110	397,381
CURRENT ASSETS		
Cash & Equity in Pooled Investments	7,374,004	5,783,968
Customer Accounts Receivable	2,479,261	2,388,352
(Net of Allowance for Doubtful Accounts of \$117,012 in 2013 and \$120,928 in 2012)		
Interfund Receivable	81,455	434,866
Prepayments	2,187,428	2,173,793
Materials and Supplies Inventory	839,670	616,936
Total Current Assets	12,961,818	11,397,915
TOTAL ASSETS	\$31,042,603	\$28,054,222

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2013	2012 (As Restated)
NET POSITION		
Net Investment in Capital Assets.....	\$14,796,854	\$13,400,447
Restricted for:		
Debt Service	65,110	397,381
Unrestricted	7,356,215	6,552,142
TOTAL NET POSITION	<u>22,218,179</u>	<u>20,349,970</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
2006 Senior Lien Revenue Bond	548,332	771,620
State Loans.....	2,216,627	1,395,131
Total Long-Term Debt	<u>2,764,959</u>	<u>2,166,751</u>
CURRENT LIABILITIES		
Accounts Payable	1,106,566	614,703
Customer Deposits	54,300	61,500
Wages Payable and Compensated Absences	450,774	399,475
Unemployment and Other Tax Payables	230,058	413,174
Volume Incentive Payable	791,668	1,208,333
Current Portion of Long-Term Debt	453,862	691,728
Interest Payable	10,398	14,233
Interfund Payable	134,653	516,921
Total Current Liabilities	<u>3,232,279</u>	<u>3,920,067</u>
LONG-TERM LIABILITIES		
On the Job Injury Reserve	647,158	574,493
Long-Term Portion of Compensated Absences	697,546	747,880
Other Long-Term Liabilities	1,482,482	295,061
Total Long-Term Liabilities	<u>2,827,186</u>	<u>1,617,434</u>
TOTAL LIABILITIES	<u>8,824,424</u>	<u>7,704,252</u>
TOTAL NET POSITION AND LIABILITIES	<u><u>\$31,042,603</u></u>	<u><u>\$28,054,222</u></u>

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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,	
	2013	2012 (As Restated)
OPERATING REVENUES		
Switching Revenues	\$24,570,867	\$20,793,364
Demurrage and Other Operating Revenues	2,372,435	2,250,434
Total Operating Revenues	26,943,302	23,043,798
 OPERATING EXPENSES		
Maintenance of Way and Structures	2,291,652	2,391,048
Mechanical	3,510,327	3,575,966
Operations	9,630,427	8,420,381
Administration	6,915,862	4,574,754
Taxes - State	437,282	404,105
Depreciation	996,782	824,549
Total Operating Expenses	23,782,332	20,190,803
 Net Operating Income	3,160,970	2,852,995
 NON-OPERATING REVENUES (EXPENSES)		
Interest Income	21,155	81,907
Miscellaneous	1,004,957	1,026,817
Interest Expense	(45,941)	(62,090)
Total Non-Operating Revenues	980,171	1,046,634
 Contributions - Grants	-	174,560
Contributions - Others	-	80,897
Total Contributions	-	255,457
 Transfers		
City of Tacoma Gross Earnings Tax	(2,240,525)	(1,931,338)
Transfers to Other Funds	(32,407)	(20,577)
Total Transfers	(2,272,932)	(1,951,915)
 CHANGE IN NET POSITION	1,868,209	2,203,171
 TOTAL NET POSITION - BEGINNING OF YEAR	20,349,970	18,151,885
 EFFECT OF RESTATEMENT		(5,086)
 TOTAL NET POSITION - BEGINNING OF YEAR (Restated)		18,146,799
 TOTAL NET POSITION - END OF YEAR	\$22,218,179	\$20,349,970

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,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$27,198,605	\$22,032,271
Cash Paid to Suppliers	(12,519,357)	(8,998,808)
Cash Paid to Employees	(9,111,300)	(8,239,844)
Taxes Paid	(620,398)	(398,669)
Net Cash Provided by Operating Activities	4,947,550	4,394,950
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(2,272,932)	(1,734,079)
Proceeds from Non-Capital Contributions	-	101,823
Net Cash Used in Non-Capital Financing Activities	(2,272,932)	(1,632,256)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(2,753,531)	(3,124,657)
Principal Payments on Long-Term Debt	(702,097)	(550,002)
Interest Paid	(49,776)	(66,999)
Proceeds from Capital Contributions	-	281,741
Proceeds from Long-Term Debt	1,062,439	856,910
Proceeds from Other Non-Operating Revenues	1,004,957	1,025,801
Net Cash Used in Capital and Related Financing Activities	(1,438,008)	(1,577,206)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	21,155	81,907
Net Cash Provided by Investing Activities	21,155	81,907
Net Increase in Cash and Equity in Pooled Investments	1,257,765	1,267,395
Cash & Equity in Pooled Investments at January 1	6,181,349	4,913,954
Cash & Equity in Pooled Investments at December 31	\$7,439,114	\$6,181,349

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

	YEAR ENDED DECEMBER 31,	
	2013	2012
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities:		
Operating Income	\$3,160,970	\$2,852,995
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	996,782	824,549
Cash provided from changes in operating		
assets and liabilities:		
Accounts Receivable	(90,909)	(601,277)
Interfund Receivable	353,411	(403,350)
Materials and Supplies Inventory	(222,734)	(86,925)
Prepayments	(13,635)	(296,039)
Accounts Payable	491,863	132,048
Customer Deposits	(7,200)	(6,900)
Unemployment and Other Tax Payables	(183,116)	5,436
Wages Payable	56,891	62,950
Volume Incentive Payable	(416,665)	1,208,333
Interfund Payable	(382,268)	388,896
Accrued Compensated Absences	(55,926)	121,196
Other Long-Term Liabilities & OJI Reserve.....	1,260,086	193,038
Total Adjustments	<u>1,786,580</u>	<u>1,541,955</u>
Net Cash Provided by Operating		
Activities	<u>\$4,947,550</u>	<u>\$4,394,950</u>
Reconciliation of Cash and Equity in Pooled		
Investments to Balance Sheet:		
Cash and Equity in Pooled Investments		
in Special Funds	\$65,110	\$397,381
Cash and Equity in Pooled Investments		
in Operating Funds	<u>7,374,004</u>	<u>5,783,968</u>
Cash and Equity in Pooled Investments		
at December 31	<u>\$7,439,114</u>	<u>\$6,181,349</u>

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

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

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 GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

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

In March 2012, the GASB issued Statement No 65, Items Previously Reported as Assets and Liabilities effective for financial statements periods beginning after December 15, 2012. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources and further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The Division adopted this new pronouncement in the current year and has restated amounts of effected items within the financial statements as of December 31, 2012. The specific accounts impacted by the restatement are detailed in Note 10.

CASH 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.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The 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 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.

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.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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.

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.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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 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.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 CAPITAL ASSETS - A summary of the balances and changes in capital assets for 2013 and 2012 follows:

	Balance December 31, 2012	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2013
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	15,896,510	1,534,020	-	3,005	17,433,535
Building	3,654,376	135,302	-	-	3,789,678
Machinery Equipment	9,811,502	379,067	-	162,517	10,353,086
Office and Fixture	1,021,260	7,216	-	(165,522)	862,954
Total Capital Assets In Service	30,544,104	2,055,605	-	-	32,599,709
Less Accumulated Depreciation	(14,288,537)	(996,782)	-	-	(15,285,319)
	16,255,567	1,058,823	-	-	17,314,390
Construction Work In Progress	3,359	2,753,532	-	(2,055,606)	701,285
Net Capital Assets	<u>\$ 16,258,926</u>	<u>\$ 3,812,355</u>	<u>\$ -</u>	<u>\$ (2,055,606)</u>	<u>\$ 18,015,675</u>

	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)
	12,834,651	3,441,361	-	(20,445)	16,255,567
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)

NOTE 4 LONG-TERM DEBT - Long-term debt activities for 2013 and 2012 were as follows:

	Balance December 31, 2012	Additions	Reductions	Balance December 31, 2013	Due Within One Year
Senior Lien Bond:					
2006 Revenue Bond	\$ 983,268	\$ -	\$ 211,648	\$ 771,620	\$ 223,288
Junior Lien Debts:					
2003 Revenue Bond	331,000	-	331,000	-	-
Locomotive Idling					
Improvements State Loan	21,109	-	1,760	19,349	1,759
Locomotive Servicing					
Facility State Loan	216,192	-	16,630	199,562	16,630
Locomotive Repower					
State Loan	450,000	-	45,000	405,000	45,000
Annie 1 & 2 Tracks					
State Loan	612,000	-	61,200	550,800	61,200
Yard Tracks 2, 3, & 4					
State Loan	244,910	103,681	34,859	313,732	34,859
Yard Tracks 5, & 6					
State Loan	-	363,938	-	363,938	36,394
E 11th St Crossing					
State Loan	-	347,320	-	347,320	34,732
Port Pass West					
State Loan	-	247,500	-	247,500	-
Total Long-Term Debt	<u>\$ 2,858,479</u>	<u>\$ 1,062,439</u>	<u>\$ 702,097</u>	<u>\$ 3,218,821</u>	<u>\$ 453,862</u>
	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)

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:

	<u>Principal</u>	<u>Interest</u>
2014	\$223,288	\$37,127
2015	235,569	24,847
2016	248,525	11,891
2017	64,238	866
	<u>\$771,620</u>	<u>\$ 74,731</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.

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 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.

During 2013 an additional draw was made on 2012 yard tracks 2, 3 and 4 loan in the amount of \$103,681. Tacoma Rail obtained 3 additional 10-year interest free Washington State loans from Department of Transportation for East 11th Street Crossing, Yard Tracks 5&6 and Port Pass in the amounts of \$347,320, \$363,938 and \$247,500 respectively. The East 11th Street Crossing loan will mature on May 1, 2023, with annual principal payments of \$34,732, commencing May 1, 2014. The Yard Tracks 5 & 6 loan has a \$36,394 annual principal repayment schedule beginning in 2014 and matures on July 1, 2023. The Port Pass loan has a \$25,000 annual repayment schedule beginning in 2015 and matures on June 1, 2024.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

	Principal	Interest
2014	\$ 230,574	-
2015	255,324	-
2016	255,324	-
2017	255,324	-
2018	255,324	-
2019-2023	1,135,562	-
2024-2025	59,769	-
	\$ 2,447,201	\$ -

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 26% and 60% of total revenues, respectively, in 2013. Revenue in 2012 was 28% and 64%, respectively. Accounts receivable from UP and BNSF in 2013 represented 24% and 52% of total customer accounts receivable, respectively. Accounts receivable in 2012 was 26% and 60%, 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 2013 and 2012 were \$483,567 and \$423,800, 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 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 \$50,004 in 2013 and \$204,000 in 2012. Assets in the Self-Insurance Fund total \$5.7 million which exceeds accrued and incurred but not reported liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchases a \$15 million Fiduciary Policy with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee 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 \$1.5 million for general comprehensive liability. The public official's policy has a \$200,000 deductible. The general government comprehensive liability policies provide \$15 million of excess coverage with \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit (\$1 million self-insured retention).

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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 2013 and 2012, Tacoma Rail contributed \$1,711,015 and \$1,505,987, respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2013</u>	<u>2012</u>
Employer Tier I	\$ 113,700	\$ 110,100
Employer Tier II	84,300	81,900
Employer Medicare	No Limit	No Limit

	<u>TAX RATE</u>	
	<u>2013</u>	<u>2012</u>
Employer Tier I	6.20%	6.20%
Employer Tier II	12.60%	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. GAAP requires that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

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

ANNUAL OPEB COST AND NET OPEB OBLIGATION - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

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

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

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

EXCISE TAX FOR HIGH COST OR “CADILLAC” HEALTH PLANS IN 2018 AND BEYOND –

An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds for qualified retirees aged 55-64 are \$11,850 for single coverage and \$30,950 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

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

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

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

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

	<u>January 1, 2011</u>	<u>January 1, 2013</u>
Total membership:		
Active employees	3,675	3,335
Terminated vested employees	363	394
Retired employees & dependents	<u>790</u>	<u>846</u>
Total	<u>4,828</u>	<u>4,575</u>
Annual Benefit Payments	\$ 9,569,648	\$ 9,887,335
Discount rate	4.00%	3.75%
Present Value of Benefits (PVB)	\$ 319,550,419	\$ 326,742,538
Actuarial Accrued Liability (AAL)	\$ 248,571,791	\$ 251,839,846
Assets	<u>\$ -</u>	<u>\$ -</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 248,571,791</u>	<u>\$ 251,839,846</u>
Normal Cost	\$ 5,559,350	\$ 5,484,587
Annual Required Contribution (ARC)	\$ 19,734,040	\$ 20,058,760

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, 2013.

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

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2013. This is recorded within Other Deferred Credits.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 93,945
Amortization of UAAL	14,574,173	60,445
Annual Required Contribution (ARC)	<u>\$ 20,058,760</u>	<u>\$ 154,390</u>
Determination of Net OPEB Obligation:		
Annual Required Contribution (ARC)	\$ 20,058,760	\$ 154,390
Interest on prior year Net OPEB Obligation	1,742,601	6,851
Adjustments to ARC	(2,272,594)	(7,403)
Annual OPEB Cost	19,528,767	153,838
Actual benefits paid	9,887,334	74,972
Increase in Net OPEB Obligation	9,641,433	78,866
Net OPEB Obligation - beginning of year	46,469,368	182,685
Net OPEB Obligation - end of year	<u>\$ 56,110,801</u>	<u>\$ 261,551</u>

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

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 for 2011 and 2012 and 3.75% for 2013.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2011	\$19,596,420	\$ 195,430	\$9,569,648	\$ 108,560	\$36,393,620	\$ 90,096
12/31/2012	\$19,469,177	\$ 195,524	\$9,393,431	\$ 102,935	\$46,469,368	\$ 182,685
12/31/2013	\$19,528,767	\$ 153,838	\$9,887,334	\$ 74,972	\$56,110,801	\$ 261,551

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).

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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 is now 24 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2013	
Census Date	January 1, 2013	
Actuarial Cost Method:	Entry Age	
Amortization Method:	Combination of level percentage and level dollar amount, see note above.	
Remaining Amortization Period:	24 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	3.75% for pay-as-you-go funding	
Medical Cost Trend	2013	8.9%
	2014	6.5%
	2015	5.8%
	2020	6.0%
	2030	5.9%
	2040	5.6%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions-Discount Rate (Liabilities) 3.75%

Demographic Assumptions Eligibility:
Disability - Five years of service are required for non-service connected disability.

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

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT - In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The Division expensed bond issuance costs previously deferred and amortized. The following table shows restated amounts of effected balances within the financial statements:

	<u>REPORTED</u>	<u>RESTATED</u>	<u>RESTATEMENT</u>
Statements of Net Postion			
Other Assets	\$4,070	-	(\$4,070)
Net Investment in Capital Assets	13,404,517	13,400,447	(4,070)
 Statements of Revenues, Expenses and Changes in Net Postion			
Non-Operating Revenues (Expenses):			
Miscellaneous	1,025,801	1,026,817	1,016
Net Postion Beginning of Year	18,151,885	18,146,799	(5,086)

NOTE 11 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, 2013, the remaining deposit is \$58,650.

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, 2013.

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.

STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

STATEMENTS OF NET POSITION	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)	<u>2010</u>
ASSETS				
Railway Plant - Net	\$18,015,675	\$16,258,926	\$13,958,818	\$9,446,780
Other Property and Special Funds ..	65,110	397,381	399,607	400,792
Current and Accrued Assets	12,961,818	11,397,915	8,867,794	8,686,413
Other Assets	-	-	-	6,103
TOTAL ASSETS	31,042,603	28,054,222	23,226,219	18,540,088
LIABILITIES				
Long-Term Debt	2,764,959	2,166,751	2,001,568	2,101,571
Current and Accrued Liabilities ..	3,232,279	3,920,067	1,762,532	1,602,400
Long-Term Liabilities	2,827,186	1,617,434	1,315,320	1,226,721
Total Liabilities	8,824,424	7,704,252	5,079,420	4,930,692
NET POSITION	22,218,179	20,349,970	18,146,799	13,609,396
TOTAL LIABILITIES AND NET POSITION .	\$31,042,603	\$28,054,222	\$23,226,219	\$18,540,088
STATEMENTS OF INCOME				
OPERATING REVENUES				
Switching Revenues	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858
Other Operating Revenues	2,372,435	2,250,434	2,153,392	898,739
Total Operating Revenues	26,943,302	23,043,798	19,403,619	15,479,597
OPERATING EXPENSES				
Operation and Maintenance	22,348,268	18,962,149	16,117,560	13,942,626
Taxes	437,282	404,105	339,525	261,854
Depreciation	996,782	824,549	641,315	706,323
Total Operating Expenses	23,782,332	20,190,803	17,098,400	14,910,803
NET OPERATING INCOME (LOSS)	3,160,970	2,852,995	2,305,219	568,794
NON-OPERATING REVENUES (EXPENSE)				
Net Other Income	1,004,957	1,282,274	3,836,348	1,524,627
Interest Earned on Investments ...	21,155	81,907	132,196	74,327
Interest on Unfunded Debt	(45,941)	(62,090)	(80,959)	(102,293)
Total Non-Operating Revenues ...	980,171	1,302,091	3,887,585	1,496,661
TRANSFERS OUT				
City Gross Earnings Tax	2,240,525	1,931,338	1,632,180	1,311,439
Transfers to Other Funds	32,407	20,577	13,049	-
NET INCOME (LOSS)	\$1,868,209	\$2,203,171	\$4,547,575	\$754,016

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

2009	2008	2007	2006	2005	2004
\$9,813,322	\$9,422,038	\$7,931,353	\$7,554,726	\$7,456,261	\$7,070,923
406,268	414,059	2,199,564	2,340,445	885,204	901,040
8,474,144	8,912,688	7,691,279	5,939,738	6,156,457	5,707,936
7,121	8,138	9,155	10,151	-	-
<u>18,700,855</u>	<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>
2,641,116	2,878,279	3,711,125	3,833,389	2,317,000	2,648,000
1,569,847	1,768,188	1,403,086	2,300,300	1,775,528	1,467,177
1,634,512	1,245,906	643,203	528,548	437,044	335,395
<u>5,845,475</u>	<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>12,855,380</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>
\$18,700,855	\$18,756,923	\$17,831,351	\$15,845,060	\$14,497,922	\$13,679,899
\$13,365,092	\$14,690,148	\$15,632,973	\$12,664,741	\$14,672,745	\$12,230,886
1,212,804	3,718,926	2,980,855	2,347,726	629,227	531,130
<u>14,577,896</u>	<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>
14,235,461	16,126,814	14,940,364	14,457,946	12,762,618	11,178,245
214,935	270,106	265,425	218,687	243,571	191,422
577,643	611,148	739,485	751,910	706,272	656,054
<u>15,028,039</u>	<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>
(450,143)	1,401,006	2,668,554	(416,076)	1,589,511	736,295
1,678,847	860,497	1,298,744	889,414	442,549	486,248
139,662	264,272	251,757	128,085	150,468	96,959
(133,177)	(174,994)	(205,174)	(87,003)	(78,381)	(81,222)
<u>1,685,332</u>	<u>949,775</u>	<u>1,345,327</u>	<u>930,496</u>	<u>514,636</u>	<u>501,985</u>
1,244,359	1,525,080	1,568,134	1,279,984	1,276,709	1,067,586
-	35,088	-	98,501	88,415	52,494
<u>(\$9,170)</u>	<u>\$790,613</u>	<u>\$2,445,747</u>	<u>(\$864,065)</u>	<u>\$739,023</u>	<u>\$118,200</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
SWITCHING REVENUES				
Line Hauls	\$21,771,343	\$19,913,410	\$16,395,640	\$13,744,377
Local and Miscellaneous	<u>2,799,524</u>	<u>879,954</u>	<u>854,587</u>	<u>836,481</u>
TOTAL SWITCHING REVENUES	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858
NUMBER OF CARS SWITCHED				
Line Hauls	136,545	89,554	66,440	70,574
Local and Miscellaneous	<u>1,865</u>	<u>2,563</u>	<u>2,513</u>	<u>2,601</u>
TOTAL NUMBER OF CARS SWITCHED .	138,410	92,117	68,953	73,175
SWITCHING STATISTICS (AVERAGE)				
Revenue/Line Haul Car	\$159.44	\$222.36	\$246.77	\$194.75
Revenue/Local & Miscellaneous Car	\$1,501.09	\$343.33	\$340.07	\$321.60

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$12,735,114	\$14,277,743	\$15,303,787	\$12,110,422	\$14,087,830	\$11,418,915
<u>629,978</u>	<u>412,405</u>	<u>329,186</u>	<u>554,319</u>	<u>584,915</u>	<u>811,971</u>
\$13,365,092	\$14,690,148	\$15,632,973	\$12,664,741	\$14,672,745	\$12,230,886
58,892	74,940	81,366	97,923	116,353	95,454
<u>2,032</u>	<u>2,254</u>	<u>2,050</u>	<u>2,151</u>	<u>2,121</u>	<u>1,963</u>
60,924	77,194	83,416	100,074	118,474	97,417
\$216.25	\$190.52	\$188.09	\$123.67	\$121.08	\$119.63
\$310.03	\$182.97	\$160.58	\$257.70	\$275.77	\$413.64

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

CAPITAL ASSETS - YEAR 2013

PLANT ACCOUNTS

	Book Cost 1/1/13	Additions 2013
LAND	\$ 160,456	\$ -
ROADS RR & BRIDGES.....	15,896,510	1,534,020
BUILDING.....	3,654,376	135,302
MACHINERY/EQUIPMENT.....	9,811,502	379,067
OFFICE/FIXTURE EQUIPMENT	1,021,260	7,216
TOTAL BELTLINE PLANT IN SERVICE	30,544,104	2,055,605
CONSTRUCTION WORK IN PROGRESS	3,359	2,753,532
 TOTAL	 \$ 30,547,463	 \$ 4,809,137

DEPRECIATION ACCOUNTS

	Depreciation Rate %	Accumulated Depreciation 1/1/13	Annual Accrual Cr.
ROADS RR & BRIDGES.....	Various	\$ 9,330,637	\$ 416,453
BUILDING.....	Various	1,897,223	139,315
MACHINERY/EQUIPMENT.....	Various	2,245,345	414,799
OFFICE/FIXTURE EQUIPMENT	Various	815,332	26,215
 TOTAL PLANT DEPRECIATION		 \$ 14,288,537	 \$ 996,782

Retirements 2013	Transfers & Adjustments	Book Cost 12/31/13
\$ -	\$ -	\$ 160,456
-	3,005	17,433,535
-	-	3,789,678
-	162,517	10,353,086
-	(165,522)	862,954
-	-	32,599,709
-	(2,055,606)	701,285
<u>\$ -</u>	<u>\$ (2,055,606)</u>	<u>\$ 33,300,994</u>

Book Cost of Plant Retired	Cost of Removal	Salvage, Transfers and Adjustments	Accumulated Depreciation 12/31/13
\$ -	\$ -	\$ -	\$ 9,747,090
-	-	-	2,036,538
-	-	165,522	2,825,666
-	-	(165,522)	676,025
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,285,319</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND SWITCHING REVENUES

	DECEMBER	DECEMBER	YEAR ENDED DECEMBER 31,	
	2013	2012	2013	2012
SWITCHING REVENUES				
LINE HAULS--INTERMODAL	\$874,925	\$908,854	\$11,314,295	\$10,162,743
LINE HAULS--COMMERCIAL	702,040	832,815	9,278,205	8,940,345
LINE HAULS--CAPITAL DIVISION	106,958	64,671	1,178,843	810,322
MISCELLANEOUS SWITCHES	350,460	74,281	2,799,524	879,954
TOTAL SWITCHING REVENUES	<u>\$2,034,383</u>	<u>\$1,880,621</u>	<u>\$24,570,867</u>	<u>\$20,793,364</u>
 SWITCHING ACTIVITIES (CARS)				
LINE HAULS--INTERMODAL	5,567	5,479	104,620	59,407
LINE HAULS--COMMERCIAL	2,220	2,612	29,303	28,292
LINE HAULS--CAPITAL DIVISION	238	149	2,622	1,855
MISCELLANEOUS SWITCHES	171	194	1,865	2,563
TOTAL CARS SWITCHED	<u>8,196</u>	<u>8,434</u>	<u>138,410</u>	<u>92,117</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

FUNDS AVAILABLE FOR DEBT SERVICE

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Income	\$ 27,923,473	\$ 24,089,416	\$ 20,114,994	\$ 16,327,899	\$ 15,426,031
Less: Operating Exp ...	<u>22,785,550</u>	<u>19,366,254</u>	<u>16,457,085</u>	<u>14,204,480</u>	<u>14,450,396</u>
Income Available for Debt Service	<u>\$ 5,137,923</u>	<u>\$ 4,723,162</u>	<u>\$ 3,657,909</u>	<u>\$ 2,123,419</u>	<u>\$ 975,635</u>
 Bond Redemption	 \$ 211,648	 \$ 200,614	 \$ 190,156	 \$ 180,242	 \$ 170,846
Bond Interest	48,768	59,802	70,260	80,174	89,570
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	 19.73	 18.14	 14.05	 8.15	 3.75

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2013

FEDERAL

Railroad Retirement	\$1,711,015	
Railroad Unemployment Insurance	11,425	
Total	<u>11,425</u>	\$1,722,440

STATE OF WASHINGTON

Retail Sales & Use Tax	510,010	
Utility and Business Occupation Tax	437,282	
Total	<u>437,282</u>	947,292

CITY OF TACOMA

Gross Earnings Tax		<u>2,240,525</u>
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TOTAL TAXES		<u>\$4,910,257</u>
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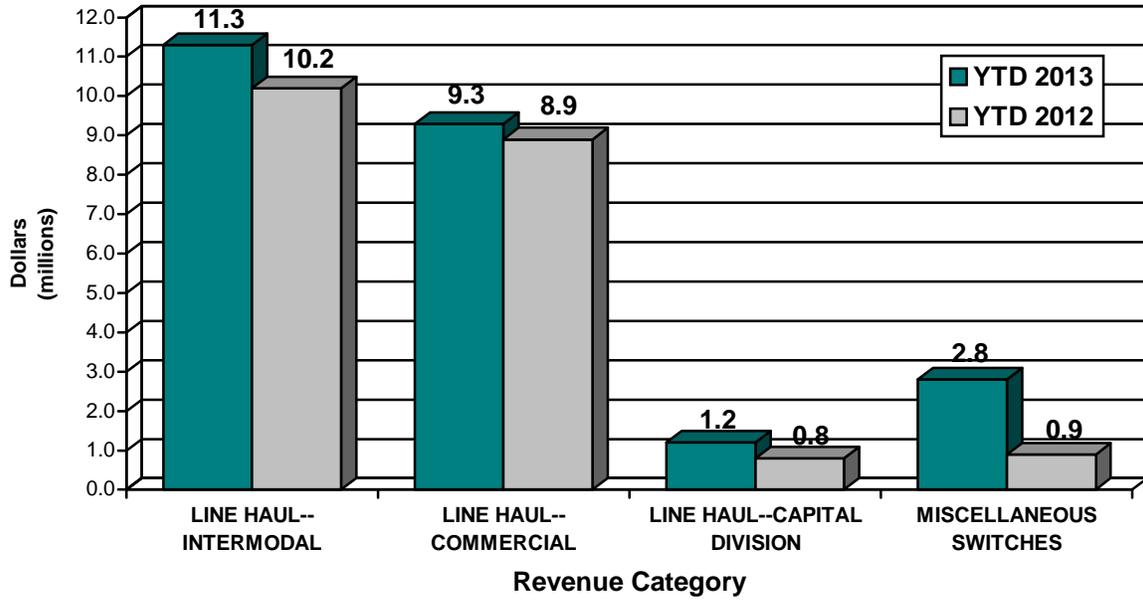
Taxes as a % of Total Operating Revenues of \$26,943,302 18.22%

EMPLOYEE WELFARE CONTRIBUTIONS

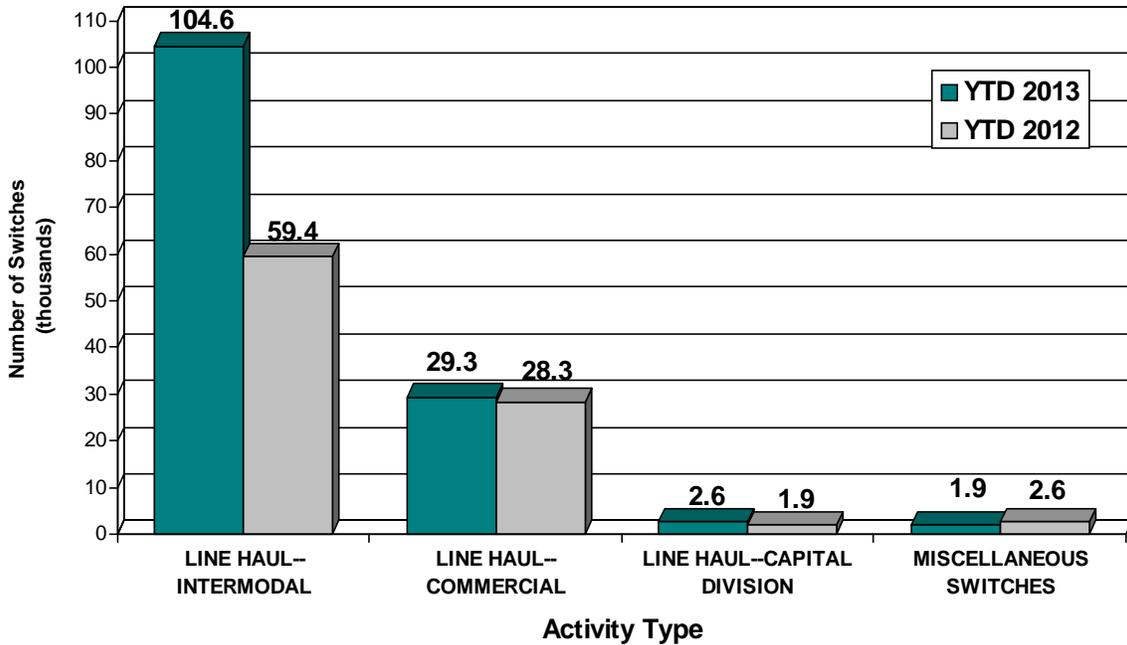
Pierce County Medical Bureau	\$1,585,257	
Washington Dental Service	149,727	
Other Contributions	230,882	
	<u>230,882</u>	

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u>\$1,965,866</u>
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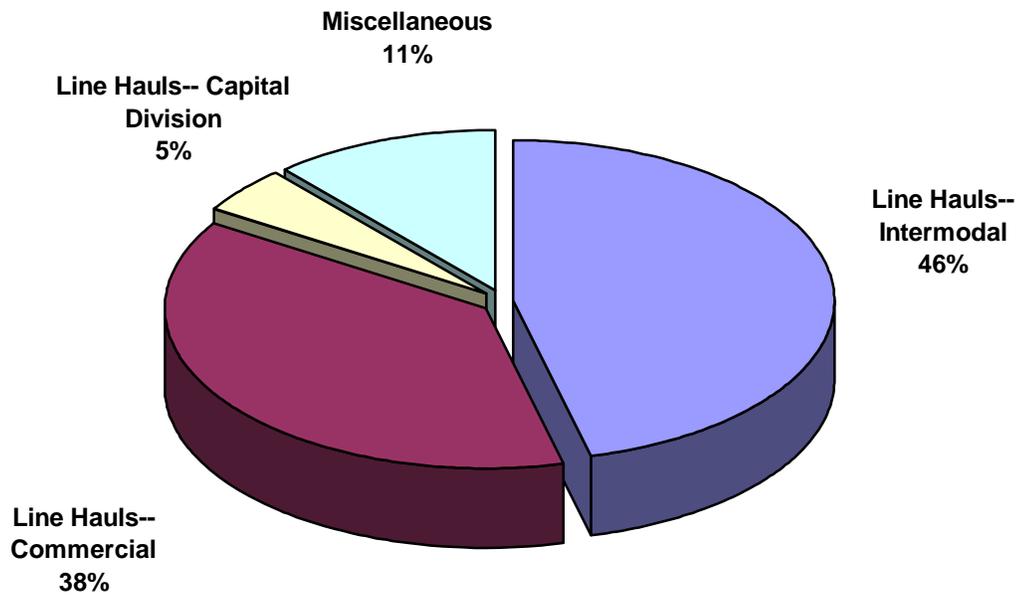
SWITCHING REVENUES
Year to Date - December 2013 & 2012



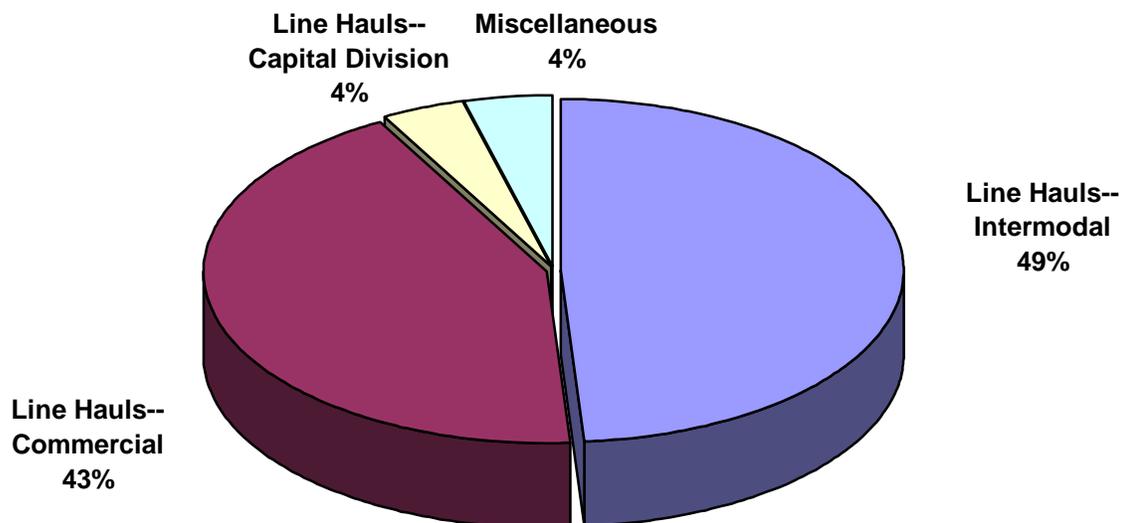
SWITCHING ACTIVITIES
Year to Date - December 2013 & 2012



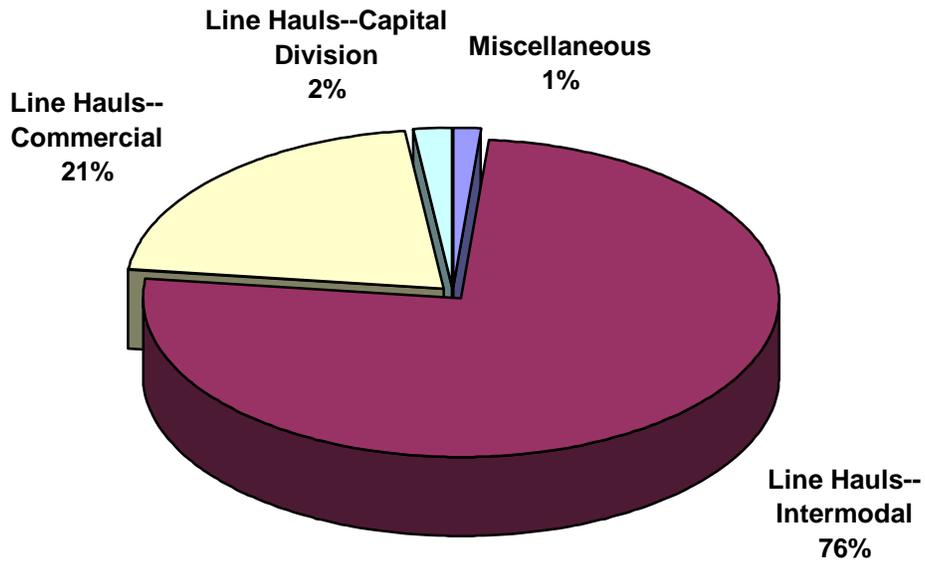
SWITCHING REVENUES
Year to Date - December 2013 (\$24,570,867)



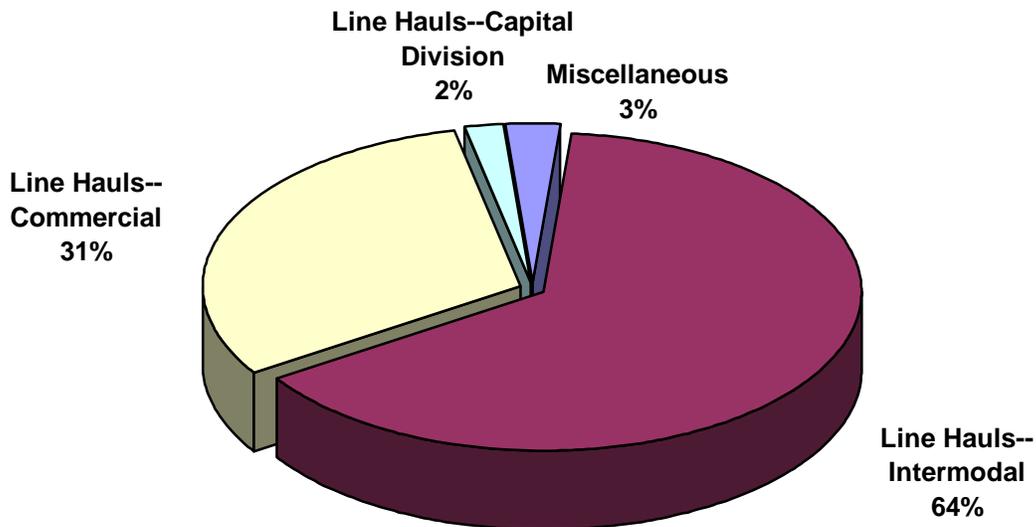
SWITCHING REVENUES
Year to Date - December 2012 (\$20,793,364)



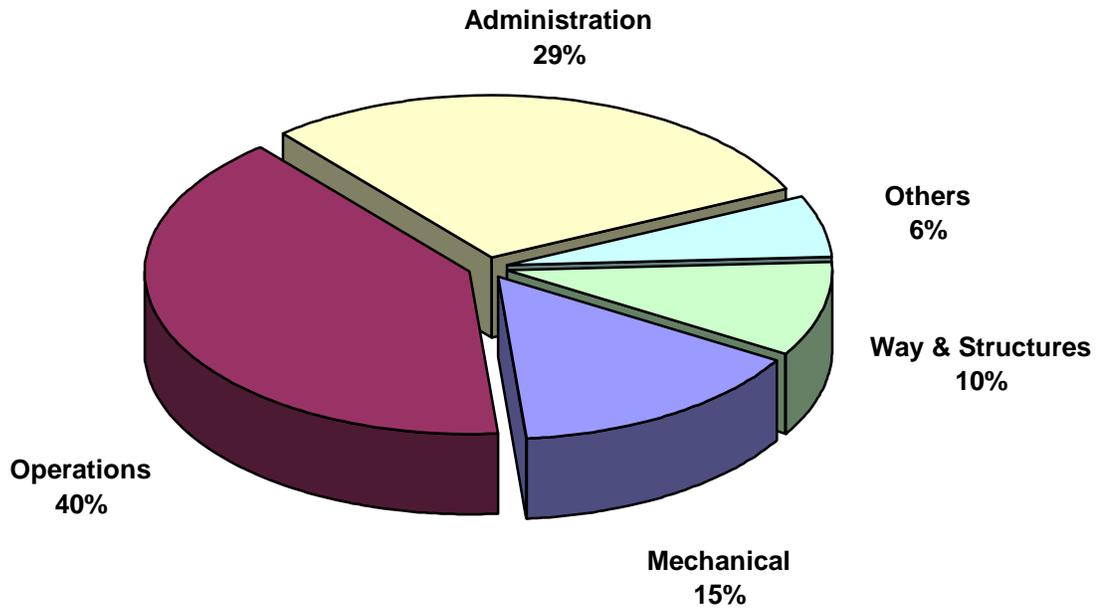
SWITCHING ACTIVITY
Year to Date - December 2013 (138,410 cars)



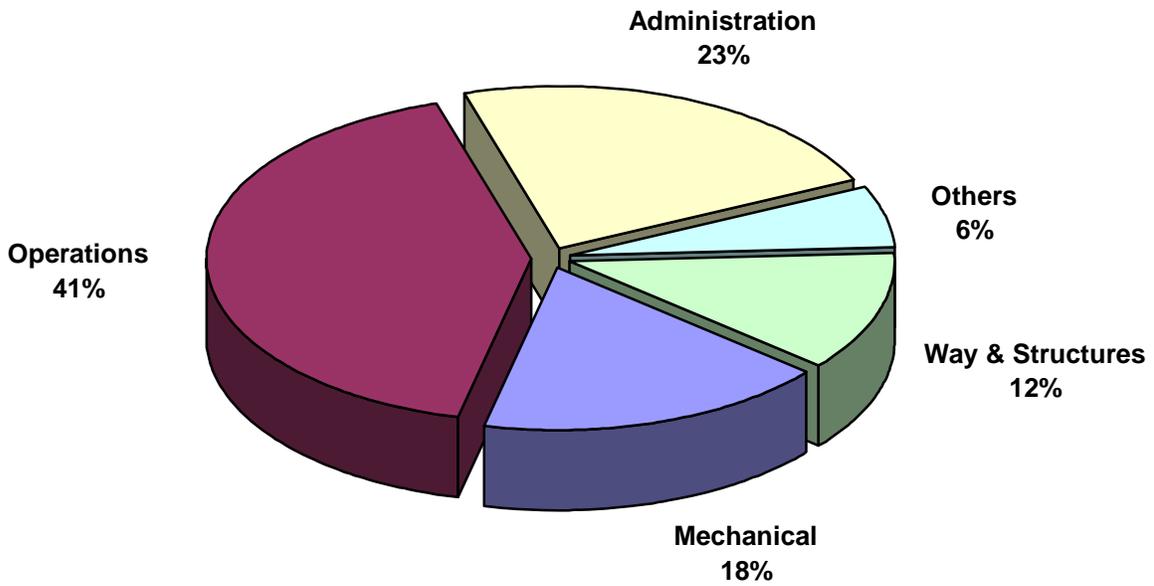
SWITCHING ACTIVITY
Year to Date - December 2012 (92,117 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2013 (\$23,782,332)



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



**2013 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 2013. It was a year of remarkable growth in terms of revenue with every succeeding month setting an all-time record. This record revenue was achieved without increasing rates and in spite of a softening international intermodal market in the last half of 2013.

Tacoma Rail entered into a historic new 20-year operating agreement with the Port of Tacoma establishing it as the Port's sole provider of rail service through 2033. The operating agreement calls for the establishment of key performance indicators to gauge the progress of improved rail service, management oversight through increased communication and the maintenance of the combined organizations' exceptional rates and service. All of this is geared to secure Tacoma Rail's future through alignment, control and efficiency that will lead to traffic volume growth in highly competitive transportation markets.

Tacoma Rail realized the benefits of its longstanding relationship with U. S. Oil and Refining Company at the latter's facility in the heart of the Tidelands Division. U. S. Oil shifted the sourcing of its refinery feedstock from ocean-transported Alaskan crude to the rail-served Bakken region of North Dakota in 2012. Construction was completed on the first phase of a multi-million dollar unit train unloading facility late in that year. Traffic volume steadily grew in 2013 from one to recently as many as four 108-car crude oil unit trains per week into the new facility.

TIDELANDS DIVISION

Tacoma Rail established a volume incentive program to attract more intermodal business as part of its new operating agreement with the Port of Tacoma. It also put in place a new unit train rate structure for crude oil.

	2013	2012	2011	2010	2009	2008
Intermodal Platforms	179,673	162,297	117,656	125,119	119,200	181,000
Unit trains	8,759	-	-	-	-	-
All others	30,904	31,454	30,887	25,155	25,440	27,382
Total line hauls	219,336	193,751	148,543	150,274	144,640	208,382

CAPITAL DIVISION

The Port of Olympia continued to move ceramic sand via transload from ships to railcars bound for the shale oil producing region in North Dakota. It reached a milestone in late 2013 by shipping over 1,000 railcars for the first time in its history. These increased volumes coupled with the BNSF Railway's changes to its operating plan have presented severe challenges to Tacoma Rail's ability to efficiently service the Capital Division. We are working with the Port of Olympia on infrastructure and service improvement plans in anticipation of further traffic volume growth in 2014.

MOUNTAIN DIVISION

Tacoma Rail operates the Mountain Division for the City of Tacoma's Department of Public Works. Tacoma Rail continued to divest parts of the Mountain Division no longer needed for freight service. Thirteen miles were added in 2013 to the existing operating lease with Western Washington Railroad. This brings the total WWR trackage to 20 miles between the end of the line in Chehalis to the northern junction with Tacoma Rail at Maytown. Mount Rainier Scenic Railroad continued to run their tourist steam train operations over a portion of their leased line between Eatonville and Morton. Finally, sale of a 1.2-mile section of the Mountain Division from TR Junction to D Street to Sound Transit was approved by the Tacoma City Council and ST's board of directors. The transaction is expected to close in April 2014. The Mountain Division operated at near-breakeven in 2013.

Dale W. King
Superintendent



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