



20 Tacoma Power 22 Annual Financial Report

FOR THE FISCAL YEAR ENDING
DECEMBER 31, 2022
PREPARED BY THE FINANCE DEPARTMENT

TACOMA POWER
TACOMA PUBLIC UTILITIES



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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES, LIGHT DIVISION
Doing Business As

Tacoma Power

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Financial Data

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Tacoma, Department of Public Utilities, Power Division (the Division), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of City of Tacoma, Washington, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 3 of the financial statements, the Division adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective January 1, 2021. The financial statements have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, Proportionate Share of Net Pension Liability Last 10 Years, Schedule of Contributions Last 10 Fiscal Years, and Proportionate Share of the Collective OPEB Liability Last 10 Years (the "required supplementary information"), as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, 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 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.

Other Information

Management is responsible for the other information included in the table of contents. The other information comprises the statistical data and graphs but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2023, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington
June 5, 2023

Management Discussion and Analysis

The following management discussion and analysis of Tacoma Power's (Utility) financial performance provides an overview of the financial activities for the years ended December 31, 2022, 2021, and 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the Utility's financial activities, and identify changes in the Utility's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America applied on a consistent basis and include amounts that are based on management's best estimates and judgment.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2022 and 2021, include the 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 Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- Tacoma Power reported a decrease in net position of \$910,000 or 0.1% in 2022 and \$209,000 or 0% in 2021, as restated.
- Operating revenues increased \$10.6 million or 2.3% in 2022 after transferring \$95.0 million of wholesale revenues to the rate stabilization account. Operating revenues in 2021 increased \$9.0 million or 2.0%, as restated after transferring \$25.0 million of wholesale revenues to the rate stabilization account.
- Utility Plant in Service increased \$68.6 million or 3.0% in 2022 and \$75.4 million or 3.4% in 2021, as restated.
- Construction work in progress decreased \$10.9 million or 29.5% in 2022 and \$6.8 million or 15.6% in 2021.

Overview of Financial Statements

Tacoma Power reported net operating income of \$55.3, \$42.9, and \$53.2 million in 2022, 2021, as restated, and 2020, respectively. Operating revenues increased \$10.6 million during 2022 and operating expenses decreased \$1.8 million. For 2021, operating revenues increased \$9.0 million, as restated during 2021 and operating expenses increased \$19.3 million, as restated. Tacoma Power reported a decrease in net position of \$910,000 in 2022 compared to a decrease of \$209,000 in 2021, as restated, and an increase of \$45.0 million in 2020.

The following tables highlight Tacoma Power's past three years' operating results and megawatt-hours billed.

OPERATING RESULTS

(in thousands)

<u>Category</u>	<u>2021</u>			<u>22/21</u>	<u>21/20</u>
	<u>2022</u>	<u>(As Restated)</u>	<u>2020</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Operating Revenues	\$ 480,528	\$ 469,954	\$ 460,953	\$ 10,574	\$ 9,001
Operating Expenses	425,208	427,045	407,737	(1,837)	19,308
Net Operating Income	55,320	42,909	53,216	12,411	(10,307)
Net Non-Operating Expenses	(35,015)	(20,192)	(6,113)	(14,823)	(14,079)
Capital Contributions	8,261	6,760	5,016	1,501	1,744
BABs and CREBs subsidies	3,729	3,729	3,725	-	4
Transfers Out	(42,085)	(36,341)	(36,809)	(5,744)	468
Transfers In	8,880	2,926	25,938	5,954	(23,012)
Change in Net Position					
Increase (decrease)	\$ (910)	\$ (209)	\$ 44,973	\$ (701)	\$ (45,182)

MEGAWATT-HOURS BILLED

(in thousands)

<u>Type of Customer</u>	<u>2021</u>			<u>22/21</u>	<u>21/20</u>
	<u>2022</u>	<u>2021</u>	<u>2020^(*)</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Residential	2,044	1,958	1,933	86	25
Commercial/General/Industrial	2,753	2,699	2,677	54	22
Wholesale	2,095	1,845	2,327	250	(482)
Total	6,892	6,502	6,937	390	(435)

(*) 10 thousands Megawatt-hours billed for Public Street and Highway Lighting was reclassified from Commercial/General/Industrial to Residential in 2020

Net Position

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

NET POSITION (in thousands)					
Description	2022	2021 (As Restated)	2020	22/21 Increase (Decrease)	21/20 Increase (Decrease)
Net Utility and Non-Utility Plant	\$ 1,150,527	\$ 1,124,873	\$ 1,098,761	\$ 25,654	\$ 26,112
Special Funds, Current Assets, and Other Assets	668,429	491,544	427,875	176,885	63,669
Total Assets	1,818,956	1,616,417	1,526,636	202,539	89,781
Deferred Outflows	34,259	38,975	22,628	(4,716)	16,347
Total Assets and Deferred Outflows	\$ 1,853,215	\$ 1,655,392	\$ 1,549,264	\$ 197,823	\$ 106,128
Net Position:					
Net Investment in Capital					
Assets	\$ 559,650	\$ 589,351	\$ 587,891	\$ (29,701)	\$ 1,460
Restricted	91,432	34,973	43,281	56,459	(8,308)
Unrestricted	224,799	252,467	245,828	(27,668)	6,639
Total Net Position	875,881	876,791	877,000	(910)	(209)
Long-Term Debt	595,564	534,255	386,222	61,309	148,033
Other Liabilities	107,854	120,982	219,201	(13,128)	(98,219)
Total Liabilities	703,418	655,237	605,423	48,181	49,814
Deferred Inflows	273,916	123,364	66,841	150,552	56,523
Total Net Position, Liabilities and Deferred Inflows	\$ 1,853,215	\$ 1,655,392	\$ 1,549,264	\$ 197,823	\$ 106,128

Revenues

2022 Compared to 2021

Operating revenues totaled \$480.5 million in 2022 compared to \$470.0 million in 2021, as restated, an increase of \$10.6 million or 2.3% after transferring \$95.0 million of wholesale revenues to the rate stabilization account.

Sales of electric energy increased \$6.5 million or 1.5%. This was primarily due to an increase in revenues from residential, commercial, general, and new large load of \$19.2 million (3.1%) offset with decreases in accrued unbilled revenue, contract industrial, and wholesale of \$12.7 million. There was a 2.0% rate increase effective April 1, 2022 which attributed to \$4.5 million of the total increase. The remaining increase is due to the increase in consumption.

In 2022, residential sales accounted for 44.1% of electric revenues, commercial and industrial revenues accounted for 43.1% and wholesale power revenues accounted for 12.8%.

Other Operating Revenue increased \$4.1 million. The increase is primarily due to the increase in reimbursement of qualified conservation expenses. Tacoma Power entered into an Energy Conservation Agreement (ECA) with Bonneville Power Administration (BPA) in 2009. Under this agreement, funds are collected in wholesale power rates to support regional energy efficiency programs. As utilities implement conservation programs and activities, BPA reimburses these funds per program specifications. Receipt of these funds is cyclical, resulting in a greater amount recovered in the even years of Tacoma Power's biennium.

As a result of GASB 87 implementation as discussed in Note 6, lease revenues were recorded in the amount of \$2.6 million in 2022.

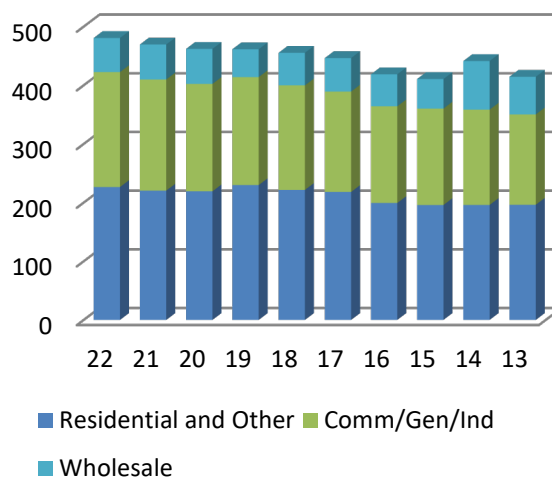
2021 Compared to 2020

Operating revenues totaled \$470.0 million in 2021 compared to \$461.0 million in 2020, an increase of \$9.0 million or 2.0% after transferring \$25.0 million of wholesale revenues to the rate stabilization account.

Sales of electric energy increased \$17.7 million or 4.1%. This was primarily due to an increase in revenues from residential, commercial, general, and industrial customers of \$11.4 million (3.1%) and accrued unbilled revenue of \$5.8 million. There was a 1.5% rate increase effective April 1, 2021 which attributed to \$8.0 million of the total increase. The remaining increase is due to the increase in consumption.

In 2021, residential sales accounted for 44.3% of electric revenues, commercial and industrial revenues accounted for 42.3% and wholesale power revenues accounted for 13.4%.

OPERATING REVENUES
(in millions)



Other Operating Revenues decreased \$5.1 million. The reimbursement of qualified conservation expenses decreased by \$2.4 million. Tacoma Power entered into an Energy Conservation Agreement (ECA) with BPA in 2009. Under this agreement, funds are collected in wholesale power rates to support regional energy efficiency programs. As utilities implement conservation programs and activities, BPA reimburses these funds per program specifications. Receipt of these funds is cyclical, resulting in a greater amount recovered in the even years of Tacoma Power's biennium. This decrease was offset by increases of \$558,000 in camping revenues and \$708,000 in leases revenues from Rainier Connect North, LLC ("Rainier Connect"). On April 1, 2020, Tacoma Power entered into an Indefeasible Right of Use agreement with Rainier Connect and Rainier Connect took operational control of the telecommunications network.

As a result of GASB 87 implementation as discussed in Note 6, lease revenues in the amount of \$3.0 million was decreased from Other Operating Revenues for a separate presentation on the statements of Revenues, Expenses and Changes in Net Position. Lease revenues are now presented on its own under Operating revenues in the amount of \$2.6 million.

Telecommunications Network Operating Revenue decreased by \$6.2 million in 2021 for the reasons mentioned above.

Expenses

2022 Compared to 2021

Total operating expenses decreased \$1.8 million or 0.4% compared to 2021.

Transmission expenses increased \$6.4 million or 17.7%. The increase was primarily due to grid-management related amounts that were sub-allocated as part of the Energy Imbalance Market (EIM) transmission settlement. The EIM transmission settlement process assigns the costs and revenues realized by Tacoma Power's EIM entity scheduling coordinator in the EIM to the transmission responsible entity.

Distribution expenses decreased \$4.8 million or 18.4%. The decrease was primarily due to a decrease in salaries and wages.

Administrative and General expense decreased \$14.7 million or 21.4%. This was primarily due to a decrease in bad debt expense in relation to lower aging accounts receivable.

Taxes increased \$2.4 million or 11.1% primarily due to higher revenues earned prior to the transfer to the rate stabilization fund compared to 2021.

2021 Compared to 2020

Total operating expenses increased \$19.3 million or 4.7% compared to 2020.

Distribution expenses increased \$4.9 million or 22.8%. The increase was primarily due to an increase in salaries and wages.

Telecommunications expense decreased \$4.2 million or 81.7% due to the entering into an Indefeasible Right of Use Agreement on April 1, 2020 with Rainier Connect.

Administrative and General expense increased \$8.6 million or 14.3%. Bad debt expense increased \$4.8 million in relation to aging accounts receivable. Assessments and internal allocations increased \$3.4 million primarily due to an increase in Information Technology projects. Self Insurance expense increased \$1.2 million. These increases were offset with decreases of \$503,000 in salaries and wages and \$833,000 in software license expense. The remaining variance was spread across multiple functional accounts and not attributed to a specific event.

Non-Operating Revenues (Expenses)

Interest income decreased \$5.5 million in 2022 primarily due to significant decrease in fair value of investments by \$7.5 million. The City bought securities at a discount in 2022 compared to buying securities at a premium in 2021 and this is partly offset decrease in income by \$2.0 million.

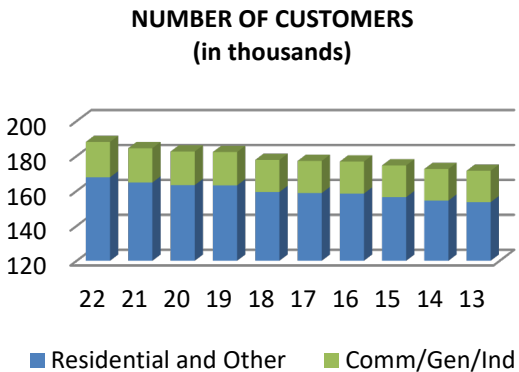
Other expenses increased \$6.8 million in 2022. The increase was mainly due to \$7.8 million increase in expenses to assist overdue utility accounts receivable. In 2022 the Division received a combined total of \$8.9 million compared to \$1.1 million in 2021 in pass-through federal funding from Neighborhood and Community Services (NCS) as part of Emergency Rental Assistance, Tenant Utility Assistance, and the corona virus state fiscal recovery fund federal appropriation programs. The fundings were applied to overdue utility accounts receivable for customers impacted by COVID-19. This increase was offset with an increase in revenue of \$1.0 million from services provided to others and other miscellaneous revenues.

Transfers

In 2022, net transfers increased \$210,000. Gross Earnings tax increased \$5.7 million due to an increase in revenue prior to the transfer of \$95.0 million to the rate stabilization fund. Transfer from increased \$6.0 million mainly due to the transfers from NCS as discussed in the non-operating revenues (expenses) section.

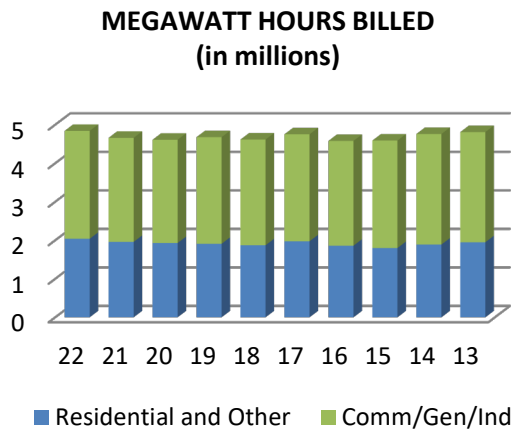
Customer Counts

Tacoma Power's overall customer growth during the past 10 years has been relatively steady averaging between less than 1% and 3% per year. The customer count for 2022 is 187,950 compared to 184,406 in 2021 and 182,526 in 2020.



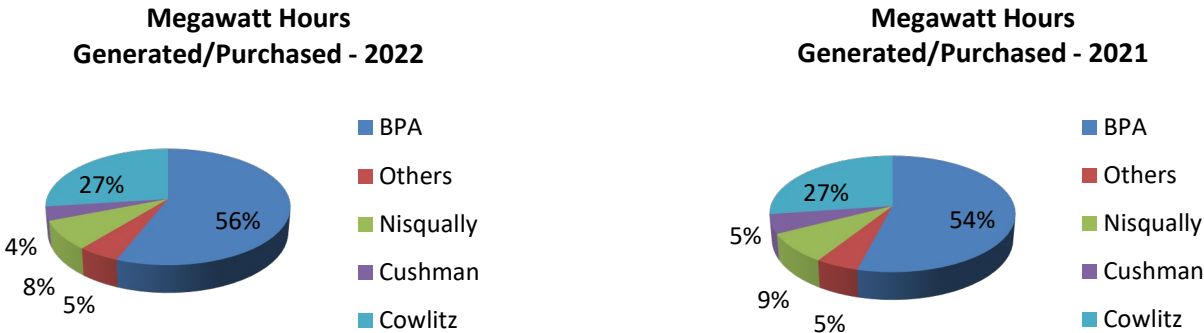
Megawatt-hours Billed

Megawatt-hours billed to residential and other customers increased 4.4% in 2022 and commercial / general / industrial billings increased 2.0%. Wholesale power billed in 2022 was 2,095,334 megawatt-hours compared to 1,845,407 in 2021, an increase of 249,927 megawatt-hours or 13.5%.



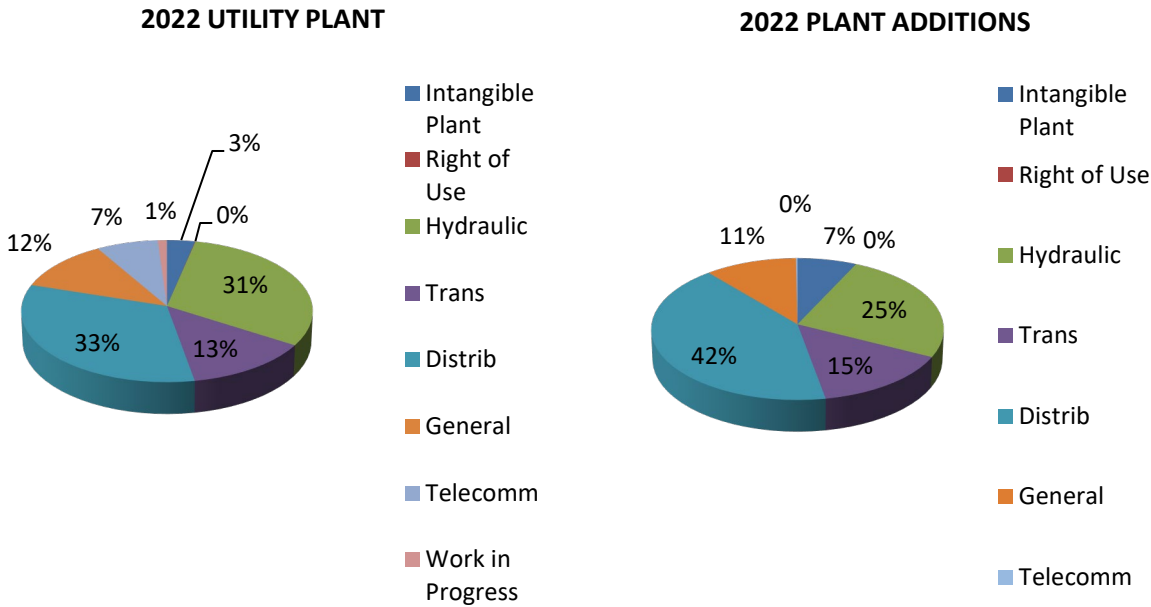
Sources of Power

Tacoma Power's total resources for power supply to serve its retail and wholesale customers for the last two years are shown in the following graphs.



Utility Plant and Plant Additions

Tacoma Power has \$2.4 billion invested in its utility plant assets on a cost basis. The largest portion is for the combined distribution and transmission business unit followed by the generation (hydroelectric) business unit. The following graphs show the total investment in plant and allocation of plant additions.



Additions to Intangible Plant in 2022 were \$6.1 million, which primarily included customer engagement portal, drawing management solution, and advanced meter modules and software. Additions to Hydraulic Plant in 2022 were \$22.0 million, which mainly included Cowlitz salmon hatchery barrier dam, Mayfield water system, and Mossyrock generator breaker replacements.

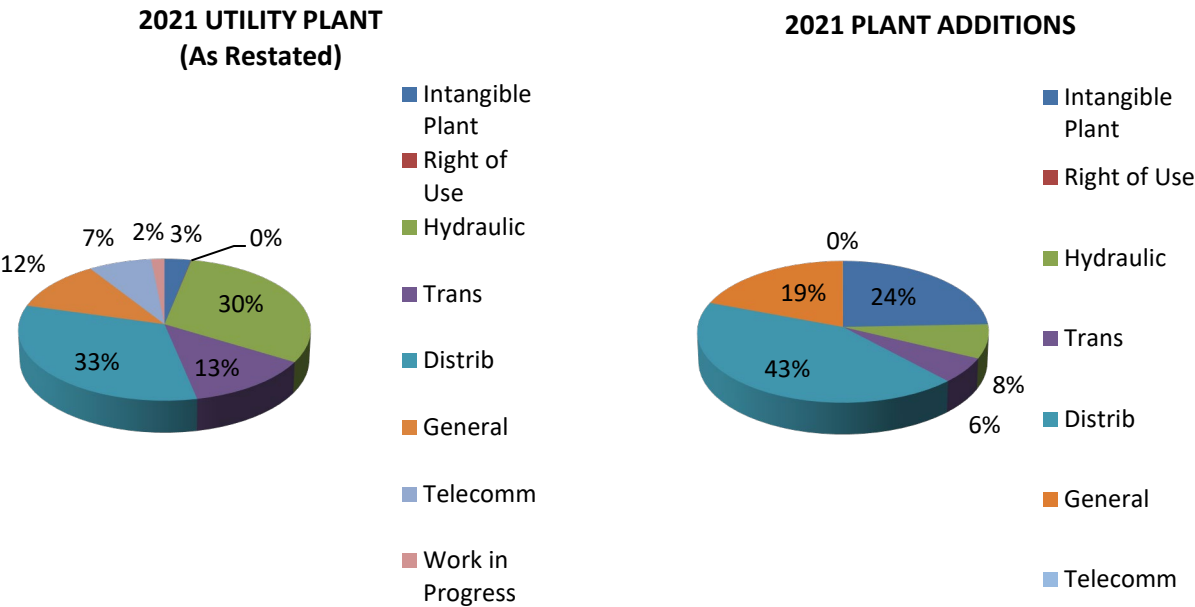
Right-to-use intangible lease assets were recorded in the net amount of \$859,000 as of December 31, 2022. The Division implemented GASB Statement No. 87, *Leases*, effective for periods beginning after January 1, 2021. The implementation required the recognition of a right-to-use of another entity's asset for a specific period in an exchange or exchange-like transactions. Further information can be found in Note 5 and Note 6.

Transmission additions were \$10.9 million, which included Mayfield bank transformer replacement, addition and replacement programs for overhead, substations, transmission, protection and controls, central treatment plant electrical upgrade, Narrows tower fall protection, and road related additions and replacements.

Distribution additions were \$36.1 million, which included addition and replacement programs for overhead and underground distribution, new services, central business district, road related additions and replacements, distribution system and transformers, meters and devices, and the advanced meter project.

Regional Transmission additions were \$1.9 million, which primarily included Energy Imbalance Market (EIM) integration points, modules, and hardware.

Additions to General Plant were \$9.4 million, which included administrative building elevator replacements, fleet related vehicles and equipment, supervisory control and data acquisition systems (SCADA), land mobile radio, and main data center system upgrades. Telecommunications additions were \$156,000, which included hybrid fiber coax plant extensions.



Additions to Intangible Plant in 2021 were \$20.2 million, which primarily included advanced meter modules and software, workforce management software, easements, and integrated voice recognition software. Additions to Hydraulic Plant in 2021 were \$6.4 million, which mainly included LaGrande shop building, Cushman number 2 station service upgrades, Mayfield generator breaker replacements, security additions and replacements, Alder sewer lagoon, fish facilities additions and replacements, and hydro electrical systems additions and replacements.

Right-to-use intangible lease assets were recorded in the net amount of \$932,000 as of December 31, 2021 as a result of implementation of GASB Statement No. 87, *Leases*.

Transmission additions were \$4.4 million, which included addition and replacement programs for overhead, substations, transmission, protection and controls, and road related additions and replacements. Distribution additions were \$35.4 million, which included addition and replacement programs for overhead distribution, new services, central business district, road related additions and replacements, distribution system and transformers, substation, meters and devices, and the advanced meter project.

Regional Transmission additions were \$486,000, which included a Peterman Hill generator replacement and energy management system enhancements.

Additions to General Plant were \$16.0 million, which included land mobile radio, fleet related vehicles and equipment, audio visual equipment, and plant control systems lab modernization. Telecommunications additions were \$20,000, which included hybrid fiber coax plant extensions.

<u>Net Utility Plant</u> (in thousands)	<u>2022</u>	<u>2021</u> <u>(As Restated)</u>	<u>2020</u>	<u>22/21</u> <u>Increase</u> <u>(Decrease)</u>	<u>21/20</u> <u>Increase</u> <u>(Decrease)</u>
Intangible Plant	\$ 56,113	\$ 52,400	\$ 29,919	\$ 3,713	\$ 22,481
Right to Use Lease Asset	859	932	-	(73)	932
Hydraulic Plant	466,600	454,560	458,433	12,040	(3,873)
Transmission Facilities	139,051	134,445	139,384	4,606	(4,939)
Distribution Facilities	357,081	337,111	317,037	19,970	20,074
General Plant	92,615	92,824	90,498	(209)	2,326
Telecommunications Plant	12,030	15,521	19,599	(3,491)	(4,078)
Construction Work in Progress	25,996	36,898	43,709	(10,902)	(6,811)
Total Net Utility Plant	<u>\$ 1,150,345</u>	<u>\$ 1,124,691</u>	<u>\$ 1,098,579</u>	<u>\$ 25,654</u>	<u>\$ 26,112</u>

Additional information on Tacoma Power's capital assets can be found in Note 5 of the financial statements.

Debt Administration

At December 31, 2022, Tacoma Power had outstanding revenue bonds of \$482.0 million, a reduction of \$5.9 million compared to 2021. In April and September 2022, Tacoma Power took a combined total draw of \$50.0 million and in December 2022 another draw of \$20.0 million on the line of credit agreement with Wells Fargo.

At December 31, 2021, Tacoma Power had outstanding revenue bonds of \$488.0 million, an increase of \$114.4 million compared to 2020. Tacoma Power issued \$121.9 million of Electric System Revenue Bonds, Series 2021 (Green Bonds) in September 2021. The proceeds of the issuance were used to pay down \$145.0 million of the Wells Fargo line of credit. In August and October 2021 Tacoma Power took a draw of \$13.8 million and \$10.0 million, respectively, on the line of credit agreement with Wells Fargo.

On May 21, 2020, Tacoma Power entered into a 2-year Note Purchase Agreement with KeyBank in the amount of \$100 million. On September 16, 2021 an amendment was made to the agreement which reduced the amount to \$50 million and extended the maturity date to December 2024. There were no draws outstanding on this Note Purchase Agreement as of December 31, 2022.

All bonds are rated AA by Standard and Poor's and AA- by Fitch, Inc. Bonds prior to 2017 are rated Aa3 by Moody's Investors Service.

Additional information on Tacoma Power's long-term debt can be found in Note 7 of the financial statements.

Debt Service Coverage

Tacoma Power is required by its bond covenants to maintain a debt service coverage ratio of 1.25. In 2022, principal and interest were covered 3.24 times compared to 3.61 times in 2021, as restated, and 4.39 times in 2020.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Power's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The 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.

Request for Information

Power financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

Financial Statements

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS	DECEMBER 31,	
	2022	2021 (As Restated)
UTILITY PLANT		
In Service, at Original Cost	\$2,353,218,766	\$2,284,636,192
Less - Accumulated Depreciation	(1,229,728,104)	(1,197,775,390)
Total	1,123,490,662	1,086,860,802
Right to Use Lease Assets, at Original Cost	1,039,551	1,039,551
Less - Accumulated Amortization	(180,967)	(107,660)
Total	858,584	931,891
Construction Work in Progress	25,995,658	36,898,362
Net Utility Plant	1,150,344,904	1,124,691,055
NON-UTILITY PROPERTY	182,051	182,051
SPECIAL FUNDS		
Construction Funds	6,573,156	921
Debt Service Funds	18,008,955	16,852,027
Special Bond Reserve Funds	4,997,639	4,997,639
Wynoochee Reserve Funds	2,716,911	2,759,318
Fish and Wildlife Reserves	26,557,379	26,269,082
Total Special Funds	58,854,040	50,878,987
CURRENT ASSETS		
Operating Funds Cash and Equity in		
Pooled Investments	360,160,676	248,355,884
Accounts Receivable	50,981,032	41,229,043
(Net of Allowance for Doubtful Accounts of \$13,124,346 in 2022 and \$18,284,628 in 2021)		
Accrued Unbilled Revenue	32,097,187	37,269,282
Materials and Supplies	10,753,282	8,422,718
Prepayments and Other	11,856,468	12,919,827
Current Lease Receivable	3,209,310	3,084,310
Total Current Assets	469,057,955	351,281,064
OTHER ASSETS		
Regulatory Asset - Conservation		
(Net of Amortization of \$75,756,013 in 2022 and \$67,901,943 in 2021)	32,684,299	36,175,434
Net Pension Asset	55,917,696	-
Conservation Loans Receivable	2,671,569	1,961,240
Long-Term Lease Receivable	49,243,534	51,247,217
Total Other Assets	140,517,098	89,383,891
Total Assets	1,818,956,048	1,616,417,048
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow for Pensions	30,747,657	35,750,176
Deferred Outflow for OPEB	3,511,566	3,225,179
Total Deferred Outflows	34,259,223	38,975,355
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$1,853,215,271	\$1,655,392,403

The accompanying notes are an integral part of these financial statements

	DECEMBER 31,	
	2022	2021 (As Restated)
NET POSITION, LIABILITIES AND DEFERRED INFLOWS		
NET POSITION		
Net Investment in Capital Assets	\$559,649,802	\$589,350,702
Restricted for:		
Wynoochee Reserve Funds	2,716,911	2,759,318
Fish and Wildlife Reserves	26,557,379	26,269,082
Debt Service Funds	6,240,000	5,945,000
Net Pension Asset	55,917,696	-
Unrestricted	224,799,149	252,466,892
Total Net Position	875,880,937	876,790,994
LONG-TERM DEBT		
Revenue Bonds	515,564,002	524,254,991
Line of Credit	80,000,000	10,000,000
Total Long-Term Debt	595,564,002	534,254,991
CURRENT LIABILITIES		
Current Portion of Revenue Bonds and Line of Credit	6,240,000	5,945,000
Taxes and Other Payables	25,749,303	18,558,071
Purchased Power Payable	11,924,182	12,321,607
Salaries, Wages and Compensated Absences Payable	6,238,603	5,866,314
Interest Payable	11,768,955	10,907,027
Unearned Revenue	4,789,562	2,017,636
Customers' Deposits	10,809,894	9,474,745
Current Accrued Environmental Liability	375,000	325,000
Current Pension Withdrawal Liability	43,890	35,112
Current Lease Liability	60,801	68,333
Total Current Liabilities	78,000,190	65,518,845
LONG-TERM LIABILITIES		
Long-Term Accrued Compensated Absences	13,949,205	13,519,102
Net Pension Liability	-	26,436,014
Net OPEB Liability	14,048,357	13,295,561
Pension Withdrawal Liability	385,437	420,549
Long-Term Lease Liability	583,144	637,013
Other Long-Term Liabilities	888,040	1,155,213
Total Long-Term Liabilities	29,854,183	55,463,452
Total Liabilities	703,418,375	655,237,288
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow for Pensions	63,964,298	5,657,211
Deferred Inflow for OPEB	1,040,696	1,178,820
Deferred Inflow for Leases	50,910,965	53,528,090
Rate Stabilization	158,000,000	63,000,000
Total Deferred Inflows	273,915,959	123,364,121
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	\$1,853,215,271	\$1,655,392,403

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City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Statements of Revenues, Expenses and Changes in Net Position

	YEAR ENDED DECEMBER 31,	
	2022	2021 (As Restated)
OPERATING REVENUES		
Sales of Electric Energy	\$454,760,186	\$448,241,608
Other Operating Revenue	23,151,035	19,094,851
Lease Revenue	2,617,125	2,617,125
Total Operating Revenue	480,528,346	469,953,584
OPERATING EXPENSES		
Operations		
Purchased and Interchanged Power	147,630,034	142,643,478
Generation	21,536,609	22,391,283
Transmission	42,361,520	35,981,586
Distribution	21,500,215	26,346,064
Other	25,522,724	24,106,995
Maintenance	35,973,761	33,935,186
Telecommunications Expense	858,512	937,449
Administrative and General	53,939,248	68,661,113
Depreciation	52,048,203	50,572,784
Lease Amortization	73,307	73,310
Taxes	23,764,265	21,395,621
Total Operating Expenses	425,208,398	427,044,869
Net Operating Income	55,319,948	42,908,715
NON-OPERATING REVENUES (EXPENSES)		
Investment Income (Loss)	(6,562,198)	(1,096,248)
Interest Income on Lease Activity	1,205,627	1,145,621
Interest Expense on Lease Activity	(6,932)	(6,986)
Contribution to Family Need	(1,000,000)	(1,000,000)
Other	(7,250,243)	(429,211)
Gain on Sale/Disposal of Capital Assets	530,217	605,687
Interest on Long-Term Debt	(24,381,573)	(21,160,541)
Amortization of Debt Premium	2,450,989	1,749,912
Total Non-Operating Expenses	(35,014,113)	(20,191,766)
Net Income (Loss) Before Capital Contributions and Transfers	20,305,835	22,716,949
Capital Contributions		
Cash	7,966,031	5,677,248
Donated Capital Assets	294,538	1,082,599
BABs and CREBs Interest Subsidies	3,729,224	3,729,224
Transfers		
City of Tacoma Gross Earnings Tax	(42,085,291)	(36,340,775)
Transfers to/(from) Other Funds	8,879,606	2,925,802
CHANGE IN NET POSITION	(910,057)	(208,953)
TOTAL NET POSITION - BEGINNING OF YEAR	876,790,994	876,999,947
TOTAL NET POSITION - END OF YEAR	\$875,880,937	\$876,790,994

The accompanying notes are an integral part of these financial statements

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Statements of Cash Flows

YEAR ENDED DECEMBER 31,

	2022	2021 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$575,522,713	\$479,770,254
Cash Paid to Suppliers	(217,528,925)	(214,232,924)
Cash Paid to Employees	(142,277,961)	(133,420,319)
Taxes Paid	(22,123,341)	(21,332,048)
Cash from/(to) Conservation Loans	(710,329)	221,013
Net Cash from Operating Activities	192,882,157	111,005,976
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer Out for Gross Earnings Tax	(42,085,291)	(36,340,775)
Transfer from/(to) Other Funds	8,879,606	1,085,608
Transfer to Family Need Fund	(1,000,000)	(1,000,000)
Net Cash from Non-Capital Financing Activities	(34,205,685)	(36,255,167)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures	(77,509,507)	(73,483,356)
Principal payments on leases	(68,333)	(38,559)
Proceeds from sales of capital assets	568,360	1,126,994
Proceeds from Issuance of Long-Term Debt and LOC	70,000,000	169,477,489
Debt Issuance Costs	-	(752,489)
Principal Payments on Long-Term Debt and LOC	(5,945,000)	(152,470,000)
Interest Paid	(23,519,645)	(19,863,569)
BABs and CREBs Interest Subsidies	3,729,224	3,729,224
Contributions in Aid of Construction (Cash)	7,966,031	5,677,248
Other Long-Term Liabilities	(267,173)	(104,364)
Net Cash from Capital and Related Financing Activities	(25,046,043)	(66,701,382)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income (Loss)	(6,562,198)	(1,096,248)
Other Non-Op Revenues and Deductions	(7,288,386)	(198,029)
Net Cash from Investing Activities	(13,850,584)	(1,294,277)
Net Change in Cash and Equity in Pooled Investments	119,779,845	6,755,150
Cash and Equity in Pooled Investments at January 1	299,234,871	292,479,721
Cash and Equity in Pooled Investments at December 31	\$419,014,716	\$299,234,871

The accompanying notes are an integral part of these financial statements

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2022	2021 As Restated
Reconciliation of Net Operating Income to Net Cash From Operating Activities:		
Net Operating Income	\$55,319,948	\$42,908,714
Adjustments to reconcile net operating income to net cash from operating activities:		
Depreciation	52,048,203	50,572,784
Amortization of Right of Use	73,307	73,310
Amortization of Regulatory Assets	7,854,071	8,594,845
Pension Expenses (Credits)	(19,044,104)	(2,535,448)
Net OPEB Expenses (Credits)	328,285	131,785
Pension Withdrawal Expense	-	199,101
Accrued Environmental Expense	50,000	(75,000)
Rate Stabilization	95,000,000	25,000,000
Lease Revenue Net	427,538	342,184
Cash from changes in operating assets and liabilities:		
Accounts Receivable and Accrued Unbilled Revenue	(4,579,894)	(15,525,514)
Conservation Loans Receivable	(710,329)	221,013
Materials and Supplies, and Other	(1,225,206)	(312,535)
Taxes and Other Payables	9,963,158	(2,429,698)
Purchased Power Payable	(397,425)	1,242,194
Salaries, Wages and Compensated Absences Payable	372,289	745,127
Long-Term Accrued Compensated Absences	430,103	1,414,361
Customers' Deposits	1,335,149	3,188,926
Regulatory Asset - Conservation	(4,362,936)	(2,750,173)
Total Adjustments	137,562,209	68,097,262
Net Cash from Operating Activities	<u>\$192,882,157</u>	<u>\$111,005,976</u>
Reconciliation of Cash and Equity in Pooled Investments to Balance Sheet:		
Cash and Equity in Pooled Investments in Special Funds	\$58,854,040	\$50,878,987
Cash and Equity in Pooled Investments in Operating Funds	<u>360,160,676</u>	<u>248,355,884</u>
Cash and Equity in Pooled Investments at December 31	<u>\$419,014,716</u>	<u>\$299,234,871</u>
Noncash Investing, Capital, and Financing activities		
Donated fixed assets	\$294,538	\$1,082,599
Fixed assets transferred from/(to) Other Funds	\$ -	\$1,840,194

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power

Notes to Financial Statements
Years Ended December 31, 2022 and 2021

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA POWER - The Light Division, doing business as Tacoma Power (Tacoma Power or the Division), is a division of the City of Tacoma, Washington (the City), Department of Public Utilities (the Department) and is included as an enterprise fund in the Annual Comprehensive Financial Report (ACFR) of the City. The Department consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board (the Board) appointed by the City Council. Certain matters relating to utility operations, such as system expansion, issuance of bonds and setting of utility rates and charges, are initiated and executed by the Board, but also require formal City Council approval. Tacoma Power owns and operates the City's electrical generation and distribution facilities. Tacoma Power also owns a telecommunications network which is leased out under an Indefeasible Right of Use (IRU) agreement. Tacoma Power serves approximately 188,000 retail customers and has 974 employees. Tacoma Power is organized into six business units: Generation, Power Management, Transmission and Distribution, Rates, Planning and Analysis, and Utility Technology Services.

GENERATION operates four hydroelectric generating projects (Cowlitz, Cushman, Nisqually and Wynoochee) and the associated recreational facilities, fish hatcheries and other project lands.

POWER MANAGEMENT manages the power supply portfolio, markets bulk and ancillary power supply services, schedules and dispatches division-owned generation and contract power supplies and performs power trading and risk management activities. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors including the availability of water for hydroelectric generation, marginal fuel prices and the demand for power in other areas of the country.

TRANSMISSION AND DISTRIBUTION plans, constructs, operates and maintains the transmission and distribution systems including substations, the underground network system, supervisory control and data acquisition (SCADA) systems, revenue metering facilities and all overhead transmission and distribution systems. Electricity use by retail customers varies from year to year primarily because of weather conditions, customer growth, the economy in Tacoma Power's service area, conservation efforts, appliance efficiency and other technology.

RATES, PLANNING AND ANALYSIS plans for and manages the retail rate process, financial planning, analysis and modeling, budget strategies, the capital program and risk management.

UTILITY TECHNOLOGY SERVICES (UTS) maintains communication networks, operational and informational technology systems, and related equipment and infrastructure to optimize utility operations and improve reliability and service quality. This includes a Project Management Office that establishes and leads Tacoma Public Utilities Information Systems project governance process and implements project portfolio management tools. UTS is responsible for all matters related to Tacoma Power's compliance with North American Electric Reliability Corporation (NERC) Reliability Standards, maintains overall responsibility for the NERC Reliability Standards and manages Tacoma Power's Internal Reliability and Compliance Project.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared in accordance with generally accepted accounting principles (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

The Division follows the provisions set forth in regulatory accounting guidance. In general, regulatory accounting permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers.

The Division accounts are maintained substantially in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission and the Division of Audits of the Washington State Auditor's Office.

ACCOUNTING CHANGES - Effective for the fiscal year 2022, the Division implemented the following new accounting and reporting standard issued by the GASB:

GASB Statement No. 87 – *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Division implemented the provisions of GASB Statement No. 87 effective January 1, 2021 and restated financial results for the year ended December 31, 2021, as required by the standard (see Note 3).

GASB Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB No. 91 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

GASB Statement No. 92 – *Omnibus 2020*. The primary objective of this statement is to enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB No. 92 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates (IBOR)*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of the London Interbank Offered Rates (LIBOR). GASB No. 93 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component unit in fiduciary fund financial statement; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meets the definition of a pension plan and for benefits provided through those plans. GASB No. 97 was implemented by the Division for the fiscal year ended December 31, 2022. There is no effect on the Division's financial statements as a result of this statement.

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 cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issued 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.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2022 and 2021, 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 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 WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a money market fund and is collateralized by short-term legal investments.

RESTRICTED ASSETS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds, fish and wildlife reserves, and customer deposits.

ACCOUNTS RECEIVABLES AND ACCRUED UNBILLED REVENUES - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31, 2022 and 2021.

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 is considered past due after 30 days.

INTERFUND AND INTERGOVERNMENTAL TRANSACTIONS - Unsettled transactions between entities at year end are recorded as due to or due from other funds or other governmental units as appropriate.

MATERIALS AND SUPPLIES - Materials and supplies consist primarily of items for maintenance and construction of Division assets and are valued at the lower of average cost or fair market value.

BOND PREMIUM AND LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using a straight-line basis, are presented as an offset to the long-term debt balance in the statement of net position. Losses on refunding are amortized on a straight-line basis over the applicable bond period and are presented as deferred outflows in the statement of net position.

DEBT ISSUANCE COSTS – Debt issuance costs are recognized as expenses when incurred.

REGULATORY ASSET CONSERVATION - The Division has deferred conservation costs to be charged to future periods matching the time when the revenues are included in rates. Conservation assets represent installation of savings measures at the properties of its customers. The deferred balance is reduced as costs are recovered and are amortized as other operating expense on the statements of revenues, expenses and changes in net position.

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

Depreciation is recorded using a straight-line composite method based on FERC recommended economic asset lives from 2 to 62 years for related operating assets placed in service at the beginning of the year. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The economic lives for plant in service are as follows:

Intangible Plant	2-37 years
Hydraulic Production Plant	62 years
Transmission Plant	29 years
Distribution Plant	27 years
Regional Transmission	5-27 years
General Plant	19 years
Telecommunications Plant	5-19 years

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

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

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

CAPITAL CONTRIBUTIONS - In accordance with GASB No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*, capital grants and capital contributions are recorded as capital contributions.

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.

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. Sick leave pay is recorded as a liability and an expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

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

DEFERRED OUTFLOWS OF RESOURCES - Deferred outflows of resources, represents a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources consist of losses on refunding of bonds, deferred outflows of resources related to pensions, and deferred outflows of resources related to other post-employment benefits other than pensions.

DEFERRED INFLOWS OF RESOURCES - Deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of inflows for rate stabilization, deferred inflows of resources related to pensions, deferred inflows of resources related to other post-employment benefits other than pensions, and deferred inflows of resources related to leases as a result of implementation of GASB Statement No. 87, *Leases*.

OPERATING REVENUE - Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Utility revenues are derived primarily from the sale and transmission of electricity. Utility revenue from power sales and power transmission is recognized when power is delivered to and received by the customer.

NON-OPERATING REVENUES AND EXPENSES - These are items that do not qualify as operating defined above such as interest and gain (loss) on disposition of property.

TAXES - The City charges the Division a Gross Earnings Tax at the rate of 7.5% on electrical revenues. In addition, the Division pays a 3.8734% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Division also pays business and occupation tax to the State at the rate of 1.75% on certain other non-utility revenues, as well as 0.484% for Wholesaling and 0.471% for Retailing. 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 deferred outflows, and liabilities and deferred inflows is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, loans or other borrowings, less outstanding construction funds, which 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".

LEASES

Division as a lessor - A lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease receivable is recognized at the net present value of the leased asset at a borrowing rate either explicitly described in the agreement or implicitly determined by the City, and is reduced by principal payments received. The deferred inflow of resources is recognized in an amount equal to the sum of the lease receivable and any payments relating to future periods which were received prior to the lease commencement. These deferred inflows of resources are amortized over the life of the lease. Key estimates and judgments related to lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses an average incremental borrowing rate as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Division as a lessee - A Lessee is required to recognize a lease payable and an intangible right to use lease asset. A lease payable is recognized at the net present value of future lease payments and is adjusted over time by interest and payments. Future lease payments include fixed payments, variable payments based on index or rate, and reasonably certain residual guarantees. The right to use lease asset is initially recorded at the amount of the lease liability plus prepayments less any lease incentives received prior to lease commencement, and is subsequently amortized over the life of the lease. Key estimates and judgments related to the lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses the interest rate charged by the lessor as the discount rate. When the

interest rate charged by the lessor is not provided, the City generally uses its average incremental borrowing rate as the discount rate for leases. The lease term includes noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

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

ENVIRONMENTAL REMEDIATION COSTS - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

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.

USE OF ESTIMATES - The preparation of the financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, lease receivables, allowance for doubtful accounts, right to use lease assets, accrued compensated absences, depreciation, OPEB, pension, pension withdrawal liability, self-insurance liabilities, lease liability, deferred inflows of leases and other contingencies. Actual results may differ from these estimates.

FAMILY NEED - The Family Need program is Tacoma Power's low income bill assistance program. Contributions are received from customers, employees and Tacoma Power.

INCURRED BUT NOT REPORTED CLAIMS – Liabilities for incurred but not reported claims are initially recorded when the expected loss is both probable and reasonably estimated in Self-Insurance Fund. Equity in the Self-Insurance Fund is transferred to the Division in accordance with GASB 10 and reported under Prepayments and Other and Other Long Term Liabilities on the Statement of Net Position.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

RECLASSIFICATIONS - Changes have been made to prior year account classifications as needed to conform to the current year presentation format.

NOTE 3 RESTATEMENT

The Division restated the December 31, 2021, financial statements for the adoption of GASB Statement No. 87 – Leases as summarized below:

	2021 (As previously reported)	Effect of Restatement related to adoption of GASB No. 87	2021 (As Restated)
Statement of Net Position			
Net Utility & Non-Utility Plant:			
Net Utility & Non-Utility Plant, excluding lease assets	\$ 1,124,559,519	\$ (618,304)	\$ 1,123,941,215
Right-to-use lease assets	-	1,039,551	1,039,551
Less accumulated amortization	-	(107,660)	(107,660)
Current Assets and Special Funds:			
Current Assets and Special Funds, excluding Lease Receivable	399,075,741	-	399,075,741
Current Lease receivable	-	3,084,310	3,084,310
Other Assets:			
Other Assets, excluding Leases Receivable	38,136,674	-	38,136,674
Long Term Lease Receivable	-	51,247,217	51,247,217
Total Assets	1,561,771,934	54,645,114	1,616,417,048
Deferred Outflows	38,975,355	-	38,975,355
Total Assets & Deferred Outflows	1,600,747,289	54,645,114	1,655,392,403
Net Position:			
Net Investment in Capital Assets	\$589,358,088	(7,386)	589,350,702
Restricted	34,973,400	-	34,973,400
Unrestricted	251,663,454	803,438	252,466,892
Total Net Position	875,994,942	796,052	876,790,994
Long-Term Debt	534,254,991	-	534,254,991
Current Liabilities:			
Current Liabilities, excluding lease liability	65,479,199	(28,687)	65,450,512
Current leases liability	-	68,333	68,333
Long-term liabilities:			
Long-term Liabilities, excluding lease liability	55,182,126	(355,687)	54,826,439
Long-term leases liability	-	637,013	637,013
Total Liabilities	654,916,316	320,972	655,237,288
Deferred Inflows	69,836,031	53,528,090	123,364,121
Total Net Position, Liabilities & Deferred Inflows	\$ 1,600,747,289	\$ 54,645,114	\$ 1,655,392,403

	2021 (As previously reported)	December Year-to-Date Effect of Restatement related to adoption of GASB No. 87	2021 (As Restated)
Statement of Revenues, Expenses, and Changes in Net Position			
Operating Revenues:			
Operating revenues, excluding lease revenues	\$ 470,295,768	\$ (2,959,309)	\$ 467,336,459
Lease revenues	-	2,617,125	2,617,125
Operating Expenses:			
Operating expenses, excluding depreciation and lease amortization	376,437,335	(38,560)	376,398,775
Depreciation	50,607,135	(34,351)	50,572,784
Lease amortization	-	73,310	73,310
Net Operating Income	43,251,298	(342,583)	42,908,715
Nonoperating revenues (expenses):			
Nonoperating expenses, excluding interest income and interest expense on lease activity	(21,330,401)	-	(21,330,401)
Interest income on lease activity	-	1,145,621	1,145,621
Interest expense on lease activity	-	(6,986)	(6,986)
Net income before capital contributions and transfers	21,920,897	796,052	22,716,949
Capital Contributions	6,759,847	-	6,759,847
BABs and CREBs Interest Subsidies	3,729,224	-	3,729,224
Transfers	(33,414,973)	-	(33,414,973)
Change in Net Position	(1,005,005)	796,052	(208,953)
Net position - Beginning of year	876,999,947	-	876,999,947
Net position - Ending	\$ 875,994,942	\$ 796,052	\$ 876,790,994

NOTE 4 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

These guidelines recognize a three-tiered fair value hierarchy, as follows:

- **Level 1** - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- **Level 2** - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- **Level 3** - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data.

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

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

	As of 12/31/2022	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 683,653,733	\$ -	\$ 683,653,733	\$ -
U.S. Agency Securities	555,411,908	-	555,411,908	-
Supranational Securities	19,561,285	-	19,561,285	-
Municipal Bonds	20,114,217	-	20,114,217	-
Corporate Securities	61,142,820	-	61,142,820	-
	<u>\$ 1,339,883,963</u>	<u>\$ -</u>	<u>\$ 1,339,883,963</u>	<u>\$ -</u>

	As of 12/31/2021	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 549,528,777	\$ -	\$ 549,528,777	\$ -
U.S. Agency Securities	375,740,028	-	375,740,028	-
Supranational Securities	25,416,670	-	25,416,670	-
Municipal Bonds	5,094,110	-	5,094,110	-
Corporate Securities	56,527,275	-	56,527,275	-
	<u>\$ 1,012,306,860</u>	<u>\$ -</u>	<u>\$ 1,012,306,860</u>	<u>\$ -</u>

Tacoma Power's share of the City investments shown in the table above is 28.74% and 24.73% for 2022 and 2021, respectively.

NOTE 5 UTILITY PLANT

A summary of the balances and changes in utility plant for 2022 and 2021 follows:

	Balance December 31, 2021 (Restated)	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2022
Intangible Plant	\$ 73,278,947	\$ 183,982	\$ (78,414)	\$ 5,878,252	\$ 79,262,767
Right to use Lease Assets	1,039,551	-	-	-	1,039,551
Hydraulic Production Plant	706,856,020	-	(556,859)	21,963,669	728,262,830
Transmission Plant	265,541,928	110,556	(1,649,212)	10,709,029	274,712,301
Distribution Plant	758,497,815	-	(15,171,055)	36,108,348	779,435,108
Regional Transmission	37,379,450	-	-	1,859,330	39,238,780
General Plant	268,282,823	-	(358,175)	9,427,229	277,351,877
Telecommunications Plant	174,799,209	-	-	155,894	174,955,103
Total Utility Plant in Service	2,285,675,743	294,538	(17,813,715)	86,101,751	2,354,258,317
Less Accumulated Depreciation	(1,197,775,390)	(52,048,203)	17,223,033	2,872,456	(1,229,728,104)
Amortization	(107,660)	(73,307)	-	-	(180,967)
	1,087,792,693	(51,826,972)	(590,682)	88,974,207	1,124,349,246
Construction Work In Progress	36,898,362	83,653,045	-	(94,555,749)	25,995,658
Net Utility Plant	<u>\$ 1,124,691,055</u>	<u>\$ 31,826,073</u>	<u>\$ (590,682)</u>	<u>\$ (5,581,542)</u>	<u>\$ 1,150,344,904</u>

	Balance December 31, 2020 (Reclassified)	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2021 (Restated)
Intangible Plant ^(*)	\$ 53,140,145	\$ 910,920	\$ (47,685)	\$ 19,275,567	\$ 73,278,947
Right to use Lease Assets	687,005	352,546	-	-	1,039,551
Hydraulic Production Plant	700,424,093	-	-	6,431,927	706,856,020
Transmission Plant	261,218,701	-	(33,329)	4,356,556	265,541,928
Distribution Plant	726,333,864	171,679	(3,199,679)	35,191,951	758,497,815
Regional Transmission	36,893,861	-	-	485,589	37,379,450
General Plant	255,790,540	-	(3,484,383)	15,976,666	268,282,823
Telecommunications Plant	174,779,179	-	-	20,030	174,799,209
Total Utility Plant in Service	2,209,267,388	1,435,145	(6,765,076)	81,738,286	2,285,675,743
Less Accumulated Depreciation	(1,154,362,513)	(50,572,784)	6,196,513	963,394	(1,197,775,390)
Amortization	(34,350)	(73,310)	-	-	(107,660)
	1,054,870,525	(49,210,949)	(568,563)	82,701,680	1,087,792,693
Construction Work In Progress	43,708,641	78,831,883	-	(85,642,162)	36,898,362
Net Utility Plant	<u>\$ 1,098,579,166</u>	<u>\$ 29,620,934</u>	<u>\$ (568,563)</u>	<u>\$ (2,940,482)</u>	<u>\$ 1,124,691,055</u>

^(*) In 2020, a land retirement in the amount of \$4.2 million was presented as a retirement under intangible assets while it should have been under General Plant. \$4.2 million was added back to intangible assets and deducted from General Plant.

Total Utility Plant in Service includes non-depreciable assets of \$74,540,752 for 2022 and \$74,363,729 for 2021.

Right to use lease assets

A lease is defined as a contract that conveys control of the right of use of another entity's nonfinancial assets as specified in a contract for a specific period in an exchange or exchange-like transactions. The City is party to a variety of lease contracts as lessee for which this right to use has been recognized as an asset on the statement of net position. This recognition is effective for periods beginning after January 1, 2021, due to the implementation of GASB 87.

A summary of the balances and changes in right to use lease assets for 2022 and 2021 follows:

	2021 (As Restated)	Additions	Retirements	Transfers & Adjustments	2022
Right to use Lease Assets					
Land	\$ 352,546	\$ -	\$ -	\$ -	\$ 352,546
Telecommunications	687,005	-	-	-	687,005
Total leased assets	1,039,551	-	-	-	1,039,551
Less: accumulated amortization					
Land	(38,960)	(38,957)	-	-	(77,917)
Telecommunications	(68,700)	(34,350)	-	-	(103,050)
Total accumulated amortization	(107,660)	(73,307)	-	-	(180,967)
Total leased assets, net of accumulated amortization	\$ 931,891	\$ (73,307)	\$ -	\$ -	\$ 858,584

	2020 (As Reclassified)	Additions	Retirements	Transfers & Adjustments	2021 (As Restated)
Right to use Lease Assets					
Land	\$ -	\$ 352,546	\$ -	\$ -	\$ 352,546
Telecommunications	687,005	-	-	-	687,005
Total leased assets	687,005	352,546	-	-	1,039,551
Less: accumulated amortization					
Land	-	(38,960)	-	-	(38,960)
Telecommunications	(34,350)	(34,350)	-	-	(68,700)
Total accumulated amortization	(34,350)	(73,310)	-	-	(107,660)
Total leased assets, net of accumulated amortization	\$ 652,655	\$ 279,236	\$ -	\$ -	\$ 931,891

NOTE 6 LEASES

Lease receivables and Deferred Inflows of Resources - Leases

On February 8, 1966, the Division entered into a lease agreement related to the recreational use of existing Cushman project reservoirs for private development of individual tracts on or near the reservoirs. The lease term started on March 1, 1966 for ninety-nine (99) years and will end on February 28, 2065. The annual rental payment will be increased every five years in accordance with the Consumer Price Index - CPI (All Urban Consumers – Seattle – Tacoma – Bremerton). The basis for this increase is the annual rent for the base year of the lease, which was \$40,000 in 1966. A monthly receipt of \$30,463 from January 1, 2021 to end of lease term, February 28, 2065, is applied to calculate the net present value of the lease receivable in the absence of future CPI. An initial lease receivable was recorded in the amount of \$10.2 million as of January 1, 2021 and as of December 31, 2022, the lease liability is \$9.9 million. An initial deferred inflows was recorded in the amount of \$10.2 million as of January 1, 2021 and as of December 31, 2022, the deferred inflows is \$9.8 million.

On April 1, 2020, Tacoma Power entered into an IRU agreement with Rainier Connect and Rainier Connect took operational control of the telecommunications network. The lease term started on April 1, 2020 for twenty (20) years and will end on March 31, 2040. This agreement may be renewed for up to two additional terms of ten (10) years each. The renewal period was not included in the lease period in calculating the net present value of lease receivables due to uncertainty. Monthly IRU fee range is from \$208,333 to \$250,000 in the first five year of the lease period. Each subsequent year following the fifth year, the IRU fee will be adjusted on the anniversary of the Effective Date to reflect the Consumer Price Index Increase. If there is no Consumer Price Index Increase (i.e. there is deflation during the relevant period), there shall be no reduction in the IRU fee from the prior year. An initial lease receivable was recorded in the amount of \$45.9 million as of January 1, 2021 and as of December 31, 2022, the lease receivable is \$42.5 million. An initial deferred inflows was recorded in the amount of \$45.9 million as of January 1, 2021 and as of December 31, 2022, the deferred inflows is \$41.2 million.

The City used its average incremental borrowing rate of 2.264% as of December 31, 2021 and 2022 in calculation of net present value of lease receipts, as the interest rate is not stated in the agreement.

Total lease receivable as of December 31, 2022 is \$52.5 million and \$54.3 million as of December 31, 2021. Current lease receivable as of December 31, 2022 is \$3.2 million which includes accrued interest receivable of \$1.2 million and \$3.1 million as of December 31, 2021 which includes accrued interest receivable of \$1.2 million.

Interest income on lease activity of \$1.2 million was recorded in 2022 and \$1.1 million in 2021. Lease Revenue in the amount of \$2.6 million was recorded for the year ended December 31, 2022, and 2021.

Lease Liability

The Division entered into a real estate lease for a communication site and associated beams paths at Capital Peak located in Thurston County, Washington. The lease is for ten (10) years which started on August 1, 2013 and will end on July 31, 2023. Tacoma Power is required to make an annual rent of \$12,500 for the period of August 1, 2013 to July 31, 2014. This annual rent will increase by 3% on the first year anniversary and on each anniversary thereafter. The Division also pays annual road use fee in the amount of \$2,300 during the term on the lease. The road use fee may be adjusted by the State annually on the anniversary date. An initial lease liability was recorded in the amount of \$45,648 as of January 1, 2021 and as of December 31, 2022, the lease liability is \$10,683. The value of the right to use asset as of December 31, 2022 was \$45,648 with accumulated depreciation of \$35,341.

On May 1, 2016, the Division entered into a real estate lease for a communication site property situated in Lewis County, Washington for a period of twenty (20) years started on May 1, 2016 and will end on or before April 30, 2036. Annual rental fee for the 1st year is \$17,500 and the fee will increase by 3% on the anniversary date in the subsequent year of the lease term. An initial lease liability was recorded in the amount of \$306,897 as of January 1, 2021 and as of December 31, 2022, the lease liability is \$277,574. The value of the right to use asset as of December 31, 2022 was \$306,898 with accumulated depreciation of \$42,575.

On June 14, 2017, the Division entered into a telecommunication lease agreement for accessing fiber network. The lease is for twenty (20) years from 2017 to 2037. The Division is required to deposit upon execution of this lease agreement \$181,453 and an annual operations fee of \$31,542 for the first year beginning in 2018. After the first year, the annual rate for each succeeding year will increase by amount of the Consumer Price Index for the Seattle/Tacoma area (CPI). Without the CPI at the time of GASB No. 87 implementation, the annual fee of \$31,542 is used in calculating the net present value of the lease liability. An initial lease liability was recorded in the amount of \$687,005 as of December 31, 2017 and as of December 31, 2022, the lease liability was \$355,687. The value of the right to use asset as of December 31, 2022 was \$687,005 with accumulated depreciation of \$103,050.

Notes to the Financial Statements (continued)

The City used its average incremental borrowing rate of 2.264% as of December 31, 2021 and 2022 in calculation of net present value of lease liability, as the interest rate is not stated in the agreement.

Lease liability for the year ended December 31, 2022 and 2021 is as follows:

	<u>Lease Liability</u>
Beginning balance, January 1, 2022	\$ (705,346)
Additions	(6,932)
Reductions	68,333
Ending Balance, December 31, 2022	<u>\$ (643,945)</u>
Beginning balance, January 1, 2021	\$ (766,317)
Additions	(6,986)
Reductions	67,957
Ending Balance, December 31, 2021	<u>\$ (705,346)</u>

Current lease liability as of December 31, 2022 is \$60,801 which includes accrued interest payable of \$6,295 compared to \$68,333 as of December 31, 2021 which includes accrued interest payable of \$6,932.

Interest expense on lease activity of \$6,932 was recorded in 2022 and \$6,986 in 2021.

Future annual lease liability as of December 31, 2022 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 54,506	\$ 6,295	\$ 60,801
2024	44,174	10,864	55,038
2025	44,583	11,133	55,716
2026	45,054	11,360	56,414
2027	45,587	11,546	57,133
2028-2032	238,211	59,028	297,239
2033-2037	171,830	59,618	231,448
<u>Total</u>	<u>\$ 643,945</u>	<u>\$ 169,844</u>	<u>\$ 813,789</u>

NOTE 7 LONG-TERM DEBT

Tacoma Power's long-term debt is primarily for capital improvements. Long-term liability activities for the years ended December 31, 2022 and 2021, were as follows:

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Due Within One Year
Revenue Bonds	\$ 487,960,000	\$ -	\$ (5,945,000)	\$ 482,015,000	\$ 6,240,000
Plus: Unamortized Premium	42,239,991	-	(2,450,989)	39,789,002	-
Net Revenue Bonds	530,199,991	-	(8,395,989)	521,804,002	6,240,000
Line of Credit	10,000,000	70,000,000	-	80,000,000	-
Total Long-Term Debt	<u>\$ 540,199,991</u>	<u>\$ 70,000,000</u>	<u>\$ (8,395,989)</u>	<u>\$ 601,804,002</u>	<u>\$ 6,240,000</u>

	Balance December 31, 2020	Additions	Reductions	Balance December 31, 2021	Due Within One Year
Revenue Bonds	\$ 373,575,000	\$ 121,855,000	\$ (7,470,000)	\$ 487,960,000	\$ 5,945,000
Plus: Unamortized Premium	20,117,415	\$ 23,872,489	(1,749,913)	42,239,991	-
Net Revenue Bonds	393,692,415	145,727,489	(9,219,913)	530,199,991	5,945,000
Line of Credit	131,250,000	23,750,000	(145,000,000)	10,000,000	-
Total Long-Term Debt	<u>\$ 524,942,415</u>	<u>\$ 169,477,489</u>	<u>\$ (154,219,913)</u>	<u>\$ 540,199,991</u>	<u>\$ 5,945,000</u>

Notes to the Financial Statements (continued)

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

	<u>2022</u>	<u>2021</u>
2010B Revenue Bonds, with interest rates ranging from 5.791% to 5.966%, with a Build America Bond (BAB) rebate at 35% of interest, due in yearly installments of \$27,310,000 to \$31,630,000 from 2031 to 2035. Original Issue: \$147,070,000 Current Portion: \$0	\$ 147,070,000	\$ 147,070,000
2010C Revenue Bonds, with an interest rate of 5.641%, with Clean Renewal Energy Bond rebate at 67% of interest, due in one payment of \$24,185,000 in 2027. Original Issue: \$24,185,000 Current Portion: \$0	24,185,000	24,185,000
2013A Refunding Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$10,990,000 to \$14,310,000 from 2036 to 2042. Original Issue: \$181,610,000 Current Portion: \$0	88,655,000	88,655,000
2013B Refunding Bonds, with interest rates ranging from 3.05% to 5.0%, due in yearly installments of \$3,795,000 to \$5,155,000 from 2022 to 2030. Original Issue: \$35,620,000 Current Portion: \$3,985,000	31,825,000	35,620,000
2017 Revenue Bonds, with interest rates ranging from 4.0% to 5.0%, due in yearly installments of \$2,150,000 to \$5,225,000 from 2022 to 2047. Original Issue: \$70,575,000 Current Portion: \$2,255,000	68,425,000	70,575,000
2021 Revenue Bonds, with interest rates ranging from 2.5% to 5.0%, due in yearly installments of \$5,355,000 to \$10,040,000 from 2036 to 2051. Original Issue: \$121,855,000 Current Portion: \$0	<u>121,855,000</u>	<u>121,855,000</u>
	482,015,000	487,960,000
Unamortized premium	39,789,002	42,239,991
Current Portion of Revenue Bond Debt	<u>(6,240,000)</u>	<u>(5,945,000)</u>
Long-term Portion of Revenue Bond Debt	515,564,002	524,254,991
Line of Credit	<u>80,000,000</u>	<u>10,000,000</u>
Total Long Term Debt	<u>\$ 595,564,002</u>	<u>\$ 534,254,991</u>

On May 21, 2020, Tacoma Power entered into a 2-year Note Purchase Agreement with KeyBank in the amount of \$100 million. On September 16, 2021 an amendment was made to the agreement which reduced the amount to \$50 million and extended the maturity date to December 2024. There were no draws outstanding on this Note Purchase Agreement as of December 31, 2022.

On October 1, 2021, Tacoma Power entered into a \$150 million line-of-credit agreement with Wells Fargo to pay for working capital, which will mature on October 1, 2024. There is no repayment term requiring classification of this line-of-credit as current and Tacoma Power has classified outstanding balance as long-term debt on the Statement of Net Position. Each advance will bear interest based on the weekly Securities Industry and Financial Markets Association (SIFMA) index rate. On December 31, 2022, SIFMA was 3.66%. Each advance is secured by Revenues as set forth in the Note Ordinance.

As of December 31, 2022, scheduled principal maturities on the bonds and interest payments are as follows:

	Principal	Interest
2023	\$ 6,240,000	\$ 23,381,910
2024	6,555,000	23,062,035
2025	6,885,000	22,768,886
2026	7,135,000	22,500,831
2027	24,185,000	21,679,912
2028-2032	79,030,000	97,734,266
2033-2037	131,440,000	62,025,668
2038-2042	117,690,000	33,036,675
2043-2047	64,550,000	13,156,225
2048-2051	38,305,000	2,498,775
	<u>\$ 482,015,000</u>	<u>\$ 321,845,183</u>

Tacoma Power's revenue bonds are secured by the net revenue of Tacoma Power and all cash and investments held in the bond and construction funds. The bonds are also subject to certain financial and non-financial covenants. Management believes that the Division was in compliance with all loan covenants at December 31, 2022 and 2021.

NOTE 8 PURCHASED POWER

Tacoma Power purchased electric power and energy from BPA under a long-term contract that expires on September 30, 2028. The contract consists of a base rate per kWh and certain cost-recovery adjustment clauses can be invoked under particular circumstances.

On December 1, 2008, the Board authorized the execution of a twenty-year Slice/Block Power Sales and Creditworthiness Agreement with BPA. The agreement allows Tacoma Power to purchase a Slice/Block power product from BPA which began October 1, 2011 and continues through September 30, 2028. In broad terms, the agreement requires Tacoma Power to purchase a firm amount (Block) and proportionate share (Slice) of power based on a number of criteria and calculations. This is a take or pay arrangement which allows Tacoma Power to remarket excess capacity. The related Creditworthiness Agreement provides for BPA to conduct a credit review of Tacoma Power. To determine if a letter of credit or cash deposit would be required, BPA completed this review and determined that as long as Tacoma Power's credit rating remains above BBB-, no Letter of Credit or cash deposit will be required.

The power received under this contract averaged approximately 448,341 and 401,466 kilowatts per hour for 2022 and 2021, respectively. Charges for the BPA purchased power were approximately \$122.0 million and \$122.3 million for 2022 and 2021, respectively, and are based on the total amount of energy delivered and the monthly peak power demand.

Under fixed contracts with other power suppliers, Tacoma Power has agreed to purchase portions of the output of certain generating facilities. Although Tacoma Power has no investment in such facilities, these contracts require Tacoma Power to pay minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations expense in the Statements of Revenues, Expenses and Changes in Net Position.

Information for the year ended December 31, 2022 pertaining to these contracts is summarized as follows:

Tacoma Power's Current Share of	Columbia Basin Hydropower	Grant County PUD - Priest Rapids Project
Energy Output	292,384 mWh	26,982 mWh
Megawatt Capacity	-	5 mW
Operating Costs	\$ 4,335,618	\$1,785,600
Incentive Payments	\$ 3,457,652	-
Contract Expiration Date	5/9/2024	4/1/2052

On April 17, 2008, the FERC issued a new license to the Public Utility District No. 2 of Grant County (Grant PUD) for the continued operation of the Priest Rapids Hydroelectric Project which consists of the Priest Rapids Development and the Wanapum Development. The renewed license issued by FERC allows Grant PUD a 44-year license for the continued operation of the Project. The term of Tacoma Power's contract with Grant PUD is for the term of the FERC license. Tacoma Power's purchase quantity and costs are tied to the actual costs of the Project.

Total expenses under the above contracts for the years 2022 and 2021 were \$8.2 million and \$8.0 million respectively, for Columbia Basin Hydropower, however, proceeds under the contract exceeded expenses in 2022 and 2021 for Grant County PUD - Priest Rapids resulting in a gain of \$1.8 million and \$84,000, respectively.

In addition, Tacoma Power is required to pay its proportionate share of the variable operating expenses of these projects.

Other Power Transactions - Other power transactions include purchases under short-term agreements and interchanges of secondary power between utilities in response to seasonal resource and demand variations. Fluctuations in annual precipitation levels and other weather conditions materially affect the energy output from Tacoma Power's hydroelectric facilities. Accordingly, the net interchange of secondary power in and out may vary significantly from year to year. Tacoma Power's trading activities are limited to purchasing power to meet native loads, optimizing the value of Tacoma Power's power supply portfolio and selling energy during times of surplus.

In 2022, Tacoma Power also makes secondary power transactions via participation in the California Independent System Operator's (CAISO) Western Energy Imbalance Market (EIM). The EIM is a centrally organized and cleared energy market that strives to optimize the dispatch of generators in its footprint to meet demand at the lowest possible cost while maintaining system reliability. Nearly every major electric utility in the West is a participant. Market participants must show they have sufficient resources submitted into the CAISO system in order to participate in the EIM for that hour. Participants then bid into the EIM for energy purchases or sales. The EIM market optimizes and clears at both fifteen and five-minute intervals resulting in short-term transactions. The CAISO serves as both the market operator and as a clearing house for processing payment between market participants. Invoices are generated by CAISO every Wednesday and must be settled within one week of invoicing.

Tacoma Power records applicable energy contracts using accrual accounting and recognizes the revenue or expense at the time of contract performance, settlement or termination. As of December 31, 2022 Tacoma Power had forward sales contracts totaling \$6.2 million dollars extending out to June 2023 with a fair market value of \$9.4 million. These contracts meet the normal purchase normal sales scope exception for derivative reporting under GASB 53.

Tacoma Power's net power purchases or sales and interchanged activities are reflected in the Statements of Revenues, Expenses and Changes in Net Position.

A breakdown of the net interchange in kilowatt-hours is as follows:

<u>Interchange Summary</u>	<u>2022</u> (in kWh)	<u>2021</u> (in kWh)
Secondary Sales	(2,113,197,000)	(1,836,420,000)
Portfolio Purchases	140,323,000	256,344,000
Miscellaneous Exchanges	(1,337,000)	(1,544,000)
Other	<u>(2,300,000)</u>	<u>(252,998)</u>
Net Interchange	<u>(1,976,511,000)</u>	<u>(1,581,872,988)</u>

NOTE 9 FLEET SERVICES FUND

The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of Department vehicles and related equipment.

Tacoma Power pays the Fleet Services Fund to cover fleet operating expenses. Per Ordinance No. 28688, in 2020 Fleet Services Fund transferred operating division fleet assets to Power, Rail, and Water for funding flexibility. Fleet Services Fund maintains the purchasing and maintenance responsibilities. Starting Jan 1, 2021, Tacoma Power no longer pays operating capital assets recovery revenues to Fleet Services Fund, but still pays for capital recovery revenues on pool vehicles and other operating revenues including maintenance, administrative overhead, fuel and fuel loading, and pool car rentals. Payments made by Tacoma Power in 2022 and 2021 were \$5,478,707 and \$4,989,512, respectively.

Fleet Services' management makes an annual assessment of the capital replacement reserve balance for appropriate funding levels. It is the Fund's policy to maintain the Fund's maximum balance at a level that will provide adequate purchasing power for a three-year cycle.

NOTE 10 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 Power and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Power 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 Power is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Power and administrative expenses of the Fund. Tacoma Power's premium payments were \$1.0 million in 2022 and 2021. Assets in the Self-Insurance Fund total \$11.5 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 Power's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. A separate deductible of \$1.0 million applies to Excessive Fees Claims. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee benefit programs. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.25 million per occurrence. Coverage also has a Cybersecurity policy with a limit of \$2.0 million and a deductible of \$250,000. An Excess Cyber policy is maintained with a limit of \$2.0 million in excess of the primary policy.

Separate from General Government, the Department of Public Utilities maintains Property insurance and Excess Liability insurance. The Property insurance policy has a deductible of \$250,000 per occurrence applies to the buildings and contents while a deductible of \$10,000 per vehicle applies to motor vehicles. Coverage also provides a Wrongful Acts Liability policy with a limit of \$2.25 million for each wrongful act and a \$2.25 million aggregate. Excess Liability policies provide coverage in excess of the previously noted Wrongful Acts liability policy and include General liability and Automobile liability coverage. These policies have a limit of \$52.5 million each occurrence with a \$52.5 million aggregate in excess of a \$2.5 million retention. Coverage also includes Aviation Liability - Unmanned aircraft liability for drones with a limit of \$1.0 million.

NOTE 11 WESTERN METAL INDUSTRY PENSION FUND

The City of Tacoma had approximately 113 employees who participated in the Western Metal Industry Pension Fund (WMIPF or Plan). The Plan is a cost-sharing, defined benefit, multiple-employer pension plan and is administered by the Board of Trustees. The Trustees and other Plan fiduciaries have discretionary authority to interpret the Plan and determine entitlement to Plan benefits.

The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010 and subsequently updated it on July 24, 2012 and December 9, 2016.

The Rehabilitation Plan consists of reductions in adjustable benefits including early retirement benefits and retirement payment options, and contribution increases of 16% per year for up to 11 years over the current contribution level. These contribution increases do not translate into additional benefit accruals but instead are directed solely toward improving the Plan's funded status. The Trustees have adopted the "free look" rule set forth in subsection 4210(a) of ERISA related to withdrawal liabilities.

Annual reports also are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or, a copy of the Plan's annual report may be obtained by making a written request to the Plan administrator.

The employer is required to make contributions to the Plan absent terms of a Collective Bargaining Agreement.

On December 3, 2019, the Tacoma City Council approved the collective bargaining agreement for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 General Unit. Contained in this agreement was a call for cessation of the participation in WMIPF. The contributions submitted for the December 31, 2019, payroll was the final contributions made on behalf of the employees in this unit. As of December 31, 2022, there were no employees participating in the plan.

Those employees who vested would be eligible for benefits based on their date of withdrawal.

There were no contribution rates applicable for 2022 and 2021. There were no contributions in 2022 and 2021.

There is currently no schedule to amortize the unfunded liability for the employees who are remaining within the Plan and the system is currently functioning on a pay-as-you-go basis.

On November 5, 2021, the City received a Withdrawal Liability Demand Letter from WMIPF. The actuaries for the Plan determined that the withdrawal liability attributed to City of Tacoma is \$44,325,881 in total, but the collective liability was recorded by the City of Tacoma for 20-year limitation liability of \$17,863,052 in accordance with Section 4219 (c) of the Employee Retirement Income Security Act (ERISA), 20 U.S.C. 1399(c). Each operating division recorded the respective liability based on its proportionate share of the 20-year limitation liability as of December 31, 2021. The initial \$337,619 payment was due on or before January 1, 2022 which was comprised of \$169,829 attributable to the partial withdrawal and \$167,790 attributable to the complete withdrawal. Subsequent payments will be due quarterly. The partial withdrawal quarterly payment will continue until 80 quarterly payments are made for a total of \$13,586,320 while the last quarterly installment for the complete withdrawal will be due on April 1, 2028 for a total of \$4,276,732, the last payment amount will be \$81,982. The payments of \$1.0 million and \$337,619 were made during 2022 and 2021, respectively.

As of December 31, 2022, the Division reported a liability of \$429,327 for its proportionate share of the Plan's collective total withdrawal liability of \$16,512,576 compared to \$455,661, at December 31, 2021. The current portion of the withdrawal liability is \$43,890 as of December 31, 2022 compared to \$35,112 as of December 31, 2021. At December 31, 2022 and 2021, the Division's proportion was 2.6%. There was no withdrawal expense for the year ended December 31, 2022, compared to \$207,879 for the year ended December 31, 2021.

On January 26, 2022, the City submitted an appeal over the liability calculation subject to the Employee Retirement Income Security Act of 1974 (ERISA). On April 12, 2023, the City submitted a Demand and Notice of Initiation Arbitration to American Arbitration Association. The outcome of the appeal and the arbitration is uncertain at the time of the report issuance and may affect the liability amount.

NOTE 12 TACOMA EMPLOYEES' RETIREMENT SYSTEM FUND (TERS OR THE SYSTEM)

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

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

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

Administration of The System - TERS is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members.

The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members.

The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the Retirement System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

The breakdown of membership as of December 31, 2021 and 2020 (measurement dates) is as follows:

	Measurement date as of December 31,	
	2021	2020
Retirees and beneficiaries currently receiving benefits	2,695	2,653
Terminated vested and other terminated participants	842	790
Active members:		
City of Tacoma	2,790	2,740
Pierce Transit	12	10
South Sound 911	2	2
Tacoma-Pierce County Health Department	292	285
Total active members	3,096	3,037
Total membership	6,633	6,480

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

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

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

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 4154 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

Contributions - The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council.

The total contribution rate continues to be 21%, divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

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

Measurement Date	December 31, 2021
Valuation Date	January 1, 2022
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.25% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration Data 1957-2017.

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

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2022, valuation date and December 31, 2021, the measurement date. Therefore, no adjustments were needed from the January 1, 2022, actuarial valuation date to the calculated liabilities as of December 31, 2021, measurement date for reporting date of December 31, 2022. There were no changes between the January 1, 2021, and January 1, 2022, valuation dates.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2021 and December 31, 2020 for reporting date December 31, 2022 and December 31, 2021, respectively. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated November 2021 and March 2019 for reporting date December 31, 2022, and December 31, 2021, respectively.

Notes to the Financial Statements (continued)

Asset Class	Reporting date			
	December 31, 2022		December 31, 2021	
	Target Allocation	Long-term Expected Arithmetic Real Rate of Return	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	2.00%	19.5%	1.30%
US Bank/ Leveraged Loans	3.0%	3.14%	3.0%	2.39%
US Long Government Bonds	3.0%	2.30%	3.0%	1.75%
High Yield Bonds	6.0%	3.60%	6.0%	3.10%
Emerging Market Debt	5.0%	3.20%	5.0%	2.65%
Global Equity	34.5%	5.15%	34.5%	5.55%
Private Real Estate	10.0%	5.90%	10.0%	6.20%
Private Equity	10.0%	8.10%	10.0%	6.95%
Master Limited Partnerships	4.0%	6.60%	4.0%	7.30%
Timber	1.5%	3.88%	1.5%	6.15%
Infrastructure	2.0%	7.55%	2.0%	6.25%
Agriculture	1.5%	4.23%	1.5%	3.72%
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.23%		1.65%
Portfolio 30 year Arithmetic Rate of Return		7.26%		7.13%
Portfolio 30 year Geometric Rate of Return		6.71%		6.58%
Portfolio Standard Deviation		10.97%		10.89%
Long-Term Expected Rate of Return, net of investment expenses		6.75%		6.75%

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 6.75% as of December 31, 2022 and 2021, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower, 5.75%, or 1 percentage point higher, 7.75%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2022	5.75%	6.75%	7.75%
Net pension liability (asset)	\$ 37,107,619	\$ (55,917,696)	\$ (133,439,695)
	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2021	5.75%	6.75%	7.75%
Net pension liability (asset)	\$117,028,380	\$26,436,014	\$(49,063,538)

Notes to the Financial Statements (continued)

As of December 31, 2022 and 2021, the deferred inflows and outflows of resources are as follows:

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred of Outflows Resources	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (2,021,858)	\$ 4,531,330	\$ (3,701,477)	\$ 4,784,534
Changes of assumptions	-	14,294,900	-	19,659,881
Net Difference Between Projected and Actual Earnings	(61,896,325)	-	(1,938,251)	-
Changes in Employer Proportion	(46,115)	259	(17,483)	359
Contributions Made Subsequent to the Measurement Date	-	11,921,168	-	11,305,402
Total	<u>\$ (63,964,298)</u>	<u>\$ 30,747,657</u>	<u>\$ (5,657,211)</u>	<u>\$ 35,750,176</u>

The Division reported \$11.9 million as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total pension liability in the fiscal year ending December 31, 2023.

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next five years.

Amounts will be recognized in pension expense as follows:

2023	\$ (6,145,976)
2024	(18,312,926)
2025	(7,592,576)
2026	(13,190,243)
2027	103,912
	<u>\$ (45,137,809)</u>

At December 31, 2022, the Division reported a pension asset of \$55,917,696 for its proportionate share of the total System, compared to a pension liability of \$26,436,014 at December 31, 2021. The proportionate share of the Power Division is 38.13% of total System's pension liability as of December 31, 2022, and 38.11% as of December 31, 2021. The proportionate share was based on the actual contributions for the year as of December 31, 2022 and 2021.

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description - The City provides the opportunity to receive medical benefits to most of its retirees until age 65. Eligibility and the amount of benefits paid by the City vary by group (TERS, LEOFF 1, LEOFF 2, or Rail employees). The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of both actives and retirees. Since health claims costs generally increase with age, retiree health premiums would be significantly higher if they were determined without regard to active claims experience. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2022 for non-LEOFF 1 members includes 3,819 active participants, 584 vested terminated participants, 176 retirees and surviving spouses, and 115 spouses of current retirees. The membership as of January 1, 2022 for LEOFF 1 members includes 1 active participant and 348 retirees.

This plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

Actuarial Assumptions and Other Inputs - The valuation date is January 1, 2022 for both non-LEOFF 1 and LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2021. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2022.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2022, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2022
Census Date:	January 1, 2022
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:																			
Discount Rate:	2.00% for pay-as-you-go funding																		
Medical Cost Trend:	<table> <tr><td>2022</td><td>5.50%</td></tr> <tr><td>2023</td><td>5.30%</td></tr> <tr><td>2024</td><td>5.00%</td></tr> <tr><td>2030</td><td>4.50%</td></tr> <tr><td>2040</td><td>4.50%</td></tr> <tr><td>2050</td><td>4.40%</td></tr> <tr><td>2060</td><td>4.40%</td></tr> <tr><td>2070</td><td>4.10%</td></tr> <tr><td>2080</td><td>3.90%</td></tr> </table>	2022	5.50%	2023	5.30%	2024	5.00%	2030	4.50%	2040	4.50%	2050	4.40%	2060	4.40%	2070	4.10%	2080	3.90%
2022	5.50%																		
2023	5.30%																		
2024	5.00%																		
2030	4.50%																		
2040	4.50%																		
2050	4.40%																		
2060	4.40%																		
2070	4.10%																		
2080	3.90%																		

Note that the trend for year 2022 reflects the percent by which 2023 medical costs are expected to exceed 2022 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 3.90% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

Economic Assumptions -	
Discount Rate (Liabilities):	2.00%
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).

- 30 years of service
- 60 years of age
- Age + Service = 80 years
- Age 55 with 10 years of service
- Age 40 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are also eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die prior to retirement are eligible for medical benefits.

The discount rate was based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Changes of Assumptions: The discount rate was updated to 2.00% from 2.12%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At December 31, 2022 the Division reported a liability of \$14,048,357 for its proportionate share of the collective total City liability of \$227.4 million compared to \$13,295,561 at December 31, 2021. At December 31, 2022, the participating Division's proportion was 6.17722% as compared to 5.79927% at December 31, 2021. For the year ended December 31, 2022, the participating Division recognized an OPEB expense of \$328,285.

At December 31, 2022 and 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (114,574)	\$ 160,766	\$ (142,274)	\$ 20,034
Changes of assumptions	(571,930)	1,226,444	(558,353)	1,484,620
Changes in Employer Proportion	(281,046)	1,619,469	(414,877)	1,155,738
Differences in Contributions	(73,146)	14,837	(63,316)	19,623
Contributions Made Subsequent to the Measurement Date	-	490,050	-	545,164
Total	\$ (1,040,696)	\$ 3,511,566	\$ (1,178,820)	\$ 3,225,179

The Division reported \$490,050 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2023.

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

2023	\$	305,592
2024		221,595
2025		525,794
2026		483,133
2027		366,792
Thereafter		77,914
	\$	<u>1,980,820</u>

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.00%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.00%, or one percentage point higher, 3.00%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2022	1.00%	2.00%	3.00%
Net OPEB liability	\$ 15,838,739	\$ 14,048,357	\$ 12,547,320

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.12%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.12%, or one percentage point higher, 3.12%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2021	1.12%	2.12%	3.12%
Net OPEB liability	\$ 15,045,107	\$ 13,295,561	\$ 11,833,619

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

As of December 31, 2022, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
As of December 31, 2022	4.50%	5.50%	6.50%
Net OPEB liability	\$ 12,482,162	\$ 14,048,357	\$ 15,900,632

As of December 31, 2021, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
As of December 31, 2021	5.00%	6.00%	7.00%
Net OPEB liability	\$ 11,693,846	\$ 13,295,561	\$ 15,201,575

NOTE 14 COMMITMENTS AND CONTINGENCIES

Capital Improvements - The financial requirement for Tacoma Power's 2021/2022 biennial Capital Improvement Program is approximately \$149.9 million. As of December 31, 2022, the remaining financial requirement for the 2021/2022 biennial Capital budget was approximately \$24.0 million.

Kosmos Mill Oil Seep - On November 21, 2019, emergency action was initiated and subsequently completed to install a containment cap on oil seepage near Riffe Lake on the Cowlitz River. A sawmill was historically located at this site near the town of Kosmos before the area was inundated by Riffe Lake. The Division is working through an Agreed Order with the Department of Ecology to provide remedial action. Per the Agreed Order, a remedial investigation is in progress, and a feasibility study and a draft cleanup plan will be completed, anticipated by June, 2025. Liability in the amount of \$375,000 has been recognized as the known cost for the site investigation progress in 2022.

General Legal Matters - Tacoma Power has received several other miscellaneous claims that either do not allege significant amounts or that the Legal Department has determined do not pose a risk to liability to the Utility.

Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,							
	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	38.13%	38.11%	38.64%	39.23%	39.43%	39.50%	39.47%	39.80%
Employer's proportion share of net pension liability (asset)	\$ (55,917,696)	\$ 26,436,014	\$ (7,189,022)	\$45,902,976	(\$15,506,238)	\$36,687,245	\$34,177,293	(\$3,823,476)
Employer's covered payroll (1)	\$ 109,506,998	\$ 103,973,693	\$ 103,961,975	\$ 98,135,432	\$95,163,955	\$91,704,363	\$93,063,240	\$86,312,354
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll (1)	-51.06%	25.43%	-6.92%	46.78%	-16.29%	40.01%	36.72%	-4.11%
Plan fiduciary net position as a percentage the total pension liability	107.74%	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$11,921,168	\$11,305,402	\$11,063,963	\$10,961,788	\$10,415,912	\$9,528,899	\$9,322,005	\$9,053,341
Contributions in relation to the contractually required employer contribution	(11,921,168)	(11,305,402)	(11,063,963)	(10,961,788)	(10,415,912)	(9,528,899)	(9,322,005)	(9,053,341)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-	-
Employer's covered employee payroll	\$119,492,391	\$109,506,998	\$103,973,693	\$103,961,975	\$98,135,432	\$95,163,955	\$91,704,363	\$93,063,240
Employer contribution as a percentage of covered-employee payroll	9.98%	10.32%	10.64%	10.54%	10.61%	10.01%	10.17%	9.73%

(1) The 2016 covered payroll has been updated to accurately reflect the covered payroll, which therefore also updated the calculation for the Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll.

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,					
	2021	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	6.18%	5.80%	5.26%	5.17%	5.56%	5.48%
Employer's proportion share of collective OPEB liability	\$14,048,357	\$13,295,561	\$10,972,398	\$10,562,836	\$12,272,355	\$11,471,098
Employer's covered-employee payroll**	\$109,506,998	\$103,973,693	\$103,961,975	\$98,135,432	\$95,163,955	\$92,203,786
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	12.83%	12.79%	10.55%	10.76%	12.90%	12.44%

* The above schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.

** The Division's covered employee payroll has been restated for the measurement date ended December 31, 2017.

Notes to Required Supplementary Information For the Fiscal Year Ended December 31, 2022

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms: There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of Assumptions: The discount rate was updated to 2.00% from 2.12%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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Statistical Data (Unaudited)

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Ten-Year Financial Review

	2022	2021 (As Restated)	2020	2019
STATEMENTS OF NET POSITION				
ASSETS AND DEFERRED OUTFLOWS				
Utility Plant - Net	\$1,150,344,904	\$1,124,691,055	\$1,098,579,166	\$1,069,731,618
Special and Other Assets	199,553,189	140,444,929	111,347,289	113,665,257
Current Assets	469,057,955	351,281,064	316,708,685	254,522,388
Total Assets	1,818,956,048	1,616,417,048	1,526,635,140	1,437,919,263
Deferred Outflows	34,259,223	38,975,355	22,628,413	55,281,371
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,853,215,271	1,655,392,403	1,549,263,553	1,493,200,634
NET POSITION	875,880,937	876,790,994	876,999,947	832,027,328
LIABILITIES AND DEFERRED INFLOWS				
Long-Term Debt	595,564,002	534,254,991	386,222,415	470,424,575
Current Liabilities	78,000,190	65,518,845	192,829,811	73,264,089
Long-Term Liabilities	29,854,183	55,463,452	26,370,429	71,866,789
Total Liabilities	703,418,375	655,237,288	605,422,655	615,555,453
Deferred Inflows	273,915,959	123,364,121	66,840,951	45,617,853
TOTAL NET POSITION, LIABILITIES, AND DEFERRED INFLOWS	\$1,853,215,271	\$1,655,392,403	\$1,549,263,553	\$1,493,200,634
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
OPERATING REVENUES				
Residential	\$203,957,036	\$191,640,622	\$186,622,420	\$182,002,242
Commercial	31,533,517	29,993,197	28,587,971	29,724,195
General	138,284,074	134,048,586	130,529,532	130,604,401
Contract Industrial	23,680,737	23,967,448	23,962,855	23,730,505
New Large Load	2,434,984	1,446,341	-	-
Bulk Power	58,100,867	60,118,206	59,615,216	47,420,681
Unbilled	(5,172,096)	5,249,462	(527,907)	1,816,954
Other	1,941,067	1,777,746	1,748,329	1,767,366
Total Electric Revenues	454,760,186	448,241,608	430,538,416	417,066,344
Other Operating Revenue	25,768,160	21,711,976	30,414,785	44,300,152
Total Operating Revenues	480,528,346	469,953,584	460,953,201	461,366,496
OPERATING EXPENSES				
Operation and Maintenance	349,322,623	355,003,154	338,082,475	388,725,538
Taxes	23,764,265	21,395,621	21,530,739	22,139,736
Depreciation and Lease Amortization	52,121,510	50,646,094	48,123,728	48,700,270
Total Operating Expenses	425,208,398	427,044,869	407,736,942	459,565,544
NET OPERATING INCOME	55,319,948	42,908,715	53,216,259	1,800,952
NON-OPERATING REVENUES (EXPENSES)				
Other Income and Expense (Net)	(6,720,026)	176,476	7,079,995	1,795,633
Interest Earned on Investments	(6,562,198)	(1,096,248)	6,064,525	7,607,143
Interest Charges (Net)	(20,731,889)	(18,271,994)	(18,757,244)	(19,522,990)
Contributions to Family Need	(1,000,000)	(1,000,000)	(500,000)	(500,000)
Net Income Before Contributions, Transfers & Extraordinary Items	20,305,835	22,716,949	47,103,535	(8,819,262)
Total Capital Contributions	11,989,793	10,489,071	8,740,649	11,399,959
Transfers In/Out	(33,205,685)	(33,414,973)	(10,871,565)	(33,985,153)
CHANGE IN NET POSITION	(\$910,057)	(\$208,953)	\$44,972,619	(\$31,404,456)

2018	2017 (As Restated)	2016	2015	2014	2013
\$1,068,290,040	\$1,037,776,028	\$1,033,409,064	\$1,002,810,874	\$978,885,275	\$959,885,269
120,789,034	81,257,489	95,903,332	125,203,792	160,778,160	213,192,582
282,186,074	276,486,000	289,162,319	267,460,091	365,173,352	328,974,357
1,471,265,148	1,395,519,517	1,418,474,715	1,395,474,757	1,504,836,787	1,502,052,208
20,842,914	38,820,632	39,469,454	10,977,517	8,026,229	15,941,231
1,492,108,062	1,434,340,149	1,457,944,169	1,406,452,274	1,512,863,016	1,517,993,439
863,431,784	830,375,494	821,995,693	825,933,297	822,803,061	799,078,660
461,339,467	417,800,137	457,601,726	441,928,130	530,580,510	564,960,765
66,566,861	68,841,615	70,165,746	63,906,544	86,776,174	82,905,132
26,315,935	61,418,039	57,893,021	22,647,914	24,703,271	23,048,882
554,222,263	548,059,791	585,660,493	528,482,588	642,059,955	670,914,779
74,454,015	55,904,864	50,287,983	52,036,389	48,000,000	48,000,000
\$1,492,108,062	\$1,434,340,149	\$1,457,944,169	\$1,406,452,274	\$1,512,863,016	\$1,517,993,439
\$175,979,684	\$169,583,337	\$154,091,270	\$149,195,092	\$150,972,050	\$149,662,791
29,248,620	29,133,553	27,703,400	26,956,059	26,594,512	25,110,481
125,399,026	119,704,634	115,600,650	116,053,999	114,718,365	109,046,936
23,494,502	22,278,802	21,462,712	21,356,911	21,150,771	19,804,613
-	-	-	-	-	-
55,486,697	57,062,247	54,506,535	50,380,147	82,796,740	64,210,259
29,348	2,114,131	(840,477)	677,091	(666,187)	1,651,808
1,755,243	1,754,802	1,725,200	1,643,756	1,609,143	1,562,082
411,393,120	401,631,506	374,249,290	366,263,055	397,175,394	371,048,970
43,898,363	44,711,899	44,365,098	44,363,160	44,070,713	43,413,115
455,291,483	446,343,405	418,614,388	410,626,215	441,246,107	414,462,085
313,885,614	325,018,197	312,790,388	299,200,704	294,741,044	276,558,723
21,486,970	20,755,847	19,727,313	19,993,833	19,276,216	19,562,858
53,869,012	57,231,313	55,702,297	57,381,578	59,156,228	56,397,306
389,241,596	403,005,357	388,219,998	376,576,115	373,173,488	352,518,887
66,049,887	43,338,048	30,394,390	34,050,100	68,072,619	61,943,198
1,776,333	(1,534,389)	1,555,659	(1,923,329)	(728,908)	(252,363)
3,719,705	2,251,477	2,405,144	1,796,071	3,780,834	1,899,829
(17,219,276)	(14,076,794)	(16,196,734)	(19,428,673)	(27,290,021)	(25,688,219)
(100,000)	(100,000)	(480,000)	(480,000)	(900,000)	(900,000)
54,226,649	29,878,342	17,678,459	14,014,169	42,934,524	37,002,445
13,214,597	12,643,334	8,846,216	9,383,844	7,788,292	8,839,960
(34,384,956)	(34,141,875)	(30,462,279)	(24,969,422)	(26,998,415)	(25,970,230)
\$33,056,290	\$8,379,801	(\$3,937,604)	(\$1,571,409)	\$23,724,401	\$19,872,175

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Ten-Year Power Summary

	2022	2021	2020	2019
MWh Available				
Generated				
Nisqually	571,548	544,826	562,674	387,967
Cushman	270,056	347,364	259,101	180,935
Cowlitz	1,896,461	1,771,400	1,838,319	1,034,672
Wynoochee	23,541	35,008	29,756	13,734
Hood Street	-	1,775	3,617	3,543
Grant Net Actual	-	-	-	-
Tacoma's Share of Priest Rapids	26,935	24,753	26,687	21,140
Tacoma's Share of GCPHA	292,384	265,851	258,513	220,240
Total Generated	3,080,925	2,990,977	2,978,667	1,862,231
Purchased	3,927,466	3,516,841	3,697,665	3,551,373
Interchange - Net	(1,976,511)	(1,581,873)	(1,871,233)	(559,101)
Losses - Net	(807)	2,795	2,743	2,367
Total System Load	5,031,073	4,928,740	4,807,842	4,856,870
MWh Billed				
Residential and Other	2,044,365	1,956,674	1,932,973	1,913,582
Commercial/General/Industrial	2,752,467	2,699,507	2,677,791	2,759,606
Total Firm MWh Billed	4,796,832	4,656,181	4,610,764	4,673,188
MWh Available Over MWh Billed (Causes: Timing differences, internal use, and losses other than those reflected above)	234,241	272,559	197,078	183,682
Percent of Power Generated	61.24%	60.68%	61.95%	38.34%
Average Load Factor	58.39%	57.64%	61.19%	59.00%
Average Number of Customers	187,950	184,406	182,526	182,234
Maximum Hourly Energy Load				
MWh	971	968	894	939
Date	12/22/22	12/27/21	1/14/20	2/7/19
Time	1000 hr	1800 hr	1900 hr	0800 hr
Maximum Daily Energy Load				
MWh	21,460	20,895	18,856	19,052
Date	12/22/22	12/27/21	1/14/20	2/6/19
Minimum Hourly Energy Load				
MWh	349	351	315	307
Date	7/3/22	8/22/21	7/6/20	9/8/19
Time	0400 hr	0400 hr	0600 hr	0500 hr
Minimum Daily Energy Load				
MWh	10,208	10,121	9,501	9,911
Date	7/3/22	6/5/21	7/6/20	9/8/19
Average Hourly Energy Load	567	558	547	554

2018	2017	2016	2015	2014	2013
538,674	631,627	630,483	511,592	635,121	572,932
292,553	377,366	507,618	272,457	358,509	239,528
1,556,232	2,138,980	1,989,438	1,630,130	2,111,686	1,792,975
26,071	34,103	37,209	12,680	14,272	24,404
2,892	3,282	2,942	1,889	2,281	3,503
-	-	-	-	(2,018)	(3,279)
26,974	27,440	26,975	25,360	22,733	34,846
241,233	228,781	253,625	258,679	272,846	254,570
2,684,629	3,441,579	3,448,290	2,712,787	3,415,430	2,919,479
3,980,124	4,023,330	3,807,370	3,674,140	3,845,666	3,756,763
(1,804,434)	(2,458,785)	(2,438,369)	(1,569,981)	(2,339,277)	(1,665,811)
5,073	27,919	(8,870)	10,340	14,057	7,398
4,865,392	5,034,043	4,808,421	4,827,286	4,935,876	5,017,829
1,871,796	1,975,096	1,855,706	1,801,114	1,890,970	1,950,829
2,743,659	2,777,190	2,771,822	2,786,233	2,838,966	2,855,932
4,615,455	4,752,286	4,627,528	4,587,347	4,729,936	4,806,761
249,937	281,757	180,893	239,939	205,940	211,068
55.18%	68.37%	71.71%	56.20%	69.20%	58.18%
60.20%	57.27%	60.02%	62.71%	55.31%	54.18%
177,723	177,153	176,784	174,562	172,531	171,506
922	997	913	877	1,016	980
2/23/18	1/5/17	12/17/16	12/31/15	2/6/14	12/9/13
0800 hr	0800 hr	0900 hr	0900 hr	0800 hr	0800 hr
19,318	20,525	19,641	18,675	21,686	21,172
2/23/18	1/5/17	12/17/16	12/31/15	2/6/14	12/09/13
329	350	351	354	348	349
6/7/18	7/2/17	7/5/16	6/21/15	7/6/14	9/8/13
0400 hr	0600 hr	0400 hr	0600 hr	0600 hr	0500 hr
10,208	10,315	10,110	10,262	10,221	10,379
9/2/18	6/4/17	9/4/16	5/24/15	7/5/14	7/4/13
555	571	548	550	562	572

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Gross Generation Report
December 31, 2022 and December 31, 2021

	YEAR ENDED		2022 OVER (UNDER)	PERCENT CHANGE
	Dec 31 2022	Dec 31 2021	2021	
KWH GENERATED, PURCHASED AND INTERCHANGED - Gross				
Generated - LaGrande	343,851,000	336,546,000	7,305,000	2.2%
Generated - Alder	227,697,000	208,280,000	19,417,000	9.3%
TOTAL NISQUALLY	571,548,000	544,826,000	26,722,000	4.9%
Generated - Cushman No 1	109,476,000	136,838,000	(27,362,000)	-20.0%
Generated - Cushman No 2	160,579,866	210,526,000	(49,946,134)	-23.7%
TOTAL CUSHMAN	270,055,866	347,364,000	(77,308,134)	-22.3%
Generated - Mossyrock	1,126,522,000	1,047,245,000	79,277,000	7.6%
Generated - Mayfield	769,939,000	724,155,000	45,784,000	6.3%
TOTAL COWLITZ	1,896,461,000	1,771,400,000	125,061,000	7.1%
Generated - Wynoochee	23,541,000	35,008,000	(11,467,000)	-32.8%
Generated - Hood Street	-	1,774,500	(1,774,500)	-100.0%
Tacoma's Share of Priest Rapids	26,935,000	24,753,000	2,182,000	8.8%
Tacoma's Share of GCPHA	292,384,000	265,851,000	26,533,000	10.0%
TOTAL KWH GENERATED - TACOMA SYSTEM	3,080,924,866	2,990,976,500	89,948,366	3.0%
Purchased Power				
BPA Slice Contract	2,344,688,000	2,049,277,000	295,411,000	14.4%
BPA Block Contract	1,582,778,000	1,467,564,000	115,214,000	7.9%
Interchange Net	(1,976,511,000)	(1,581,872,998)	(394,638,002)	24.9%
TOTAL KWH GENERATED, PURCHASED AND INTERCHANGED	5,031,879,866	4,925,944,502	105,935,364	2.2%
Losses	32,804,114	18,059,744	14,744,370	81.6%
Baldi Replacement	981,553	1,058,627	(77,074)	-7.3%
Ketron	287,700	283,022	4,678	1.7%
NT PC Mutuals Schedules	(33,028,000)	(32,814,000)	(214,000)	0.7%
PC Mutual Inadvertent	(1,852,516)	16,207,930	(18,060,446)	-111.4%
TACOMA SYSTEM FIRM LOAD	5,031,072,718	4,928,739,825	102,332,893	2.1%
PIERCE COUNTY MUTUAL LOAD	1,559,101,000	1,475,829,000	83,272,000	5.6%
KWH BILLED				
Residential Sales	2,028,569,663	1,939,193,768	89,375,895	4.6%
Commercial Sales	324,222,786	307,837,843	16,384,943	5.3%
General	1,938,247,735	1,889,258,787	48,988,948	2.6%
Contract Industrial	480,521,602	498,066,780	(17,545,178)	-3.5%
New Large Load	9,475,200	4,342,800	5,132,400	118.2%
Public Street and Highway Lighting	5,662,227	8,197,155	(2,534,928)	-30.9%
Sales to Other Electric Utilities	10,133,100	9,283,500	849,600	9.2%
TOTAL FIRM	4,796,832,313	4,656,180,633	140,651,680	3.0%
Bulk Power Sales	2,095,334,000	1,845,407,000	249,927,000	13.5%
TOTAL KWH BILLED	6,892,166,313	6,501,587,633	390,578,680	6.0%

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Debt Service Requirements
December 31, 2022

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2023	6,240,000	23,381,910	29,621,910
2024	6,555,000	23,062,035	29,617,035
2025	6,885,000	22,768,886	29,653,886
2026	7,135,000	22,500,831	29,635,831
2027	24,185,000	21,679,911	45,864,911
2028	7,420,000	20,812,273	28,232,273
2029	7,785,000	20,432,148	28,217,148
2030	8,180,000	20,033,024	28,213,024
2031	27,310,000	19,037,763	46,347,763
2032	28,335,000	17,419,059	45,754,059
2033	29,335,000	15,716,052	45,051,052
2034	30,460,000	13,932,368	44,392,368
2035	31,630,000	12,080,223	43,710,223
2036	19,520,000	10,648,700	30,168,700
2037	20,495,000	9,648,325	30,143,325
2038	21,530,000	8,597,700	30,127,700
2039	22,615,000	7,557,675	30,172,675
2040	23,560,000	6,597,750	30,157,750
2041	24,480,000	5,663,075	30,143,075
2042	25,505,000	4,620,475	30,125,475
2043	11,770,000	3,782,500	15,552,500
2044	12,320,000	3,225,825	15,545,825
2045	12,895,000	2,642,825	15,537,825
2046	13,505,000	2,032,100	15,537,100
2047	14,060,000	1,472,974	15,532,974
2048	9,120,000	1,079,912	10,199,912
2049	9,420,000	782,538	10,202,538
2050	9,725,000	476,063	10,201,063
2051	10,040,000	160,263	10,200,263
	<u>482,015,000</u>	<u>321,845,183</u>	<u>803,860,183</u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Funds Available for Debt Service

	<u>2022</u>	<u>2021</u> <u>(As Restated)</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Income	\$478,366,018	\$471,174,087	\$476,791,233	\$473,776,579	\$464,467,429
Less: Operating Exp	<u>373,086,888</u>	<u>376,398,775</u>	<u>359,613,214</u>	<u>410,865,274</u>	<u>335,372,584</u>
Income Available for Debt Service	<u>\$105,279,130</u>	<u>\$94,775,312</u>	<u>\$117,178,019</u>	<u>\$62,911,305</u>	<u>\$129,094,845</u>
Bond Redemption	\$6,240,000	\$5,945,000	\$7,470,000	\$9,365,000	\$10,095,000
Bond Interest	<u>23,537,910</u>	<u>20,332,831</u>	<u>19,220,110</u>	<u>19,688,360</u>	<u>20,143,110</u>
Debt Service Payable on All Debt	\$29,777,910	\$26,277,831	\$26,690,110	\$29,053,360	\$30,238,110
Times Debt Service Covered	3.54	3.61	4.39	2.17	4.27

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Resources
As of December 31, 2022

GENERATING FACILITIES	GENERATING UNITS	AGGREGATE NAME PLATE RATING (kW)	APPROX. RATED 4-YR. AVERAGE ANNUAL OUTPUT (1,000 kWh)
Hydro:			
Alder	2	50,000	197,784
LaGrande	5	64,000	318,998
Cushman No 1	2	43,200	106,986
Cushman No 2	3	81,000	157,388
Mayfield	4	162,000	667,675
Mossyrock	2	300,000	967,596
Wynoochee	1	12,800	25,526
Total Hydro		713,000	2,441,952

Tacoma Power and the City of Seattle Light Department have entered into a 40-year purchase power contract with three Eastern Washington irrigation districts that have combined to develop the Grand Coulee Project Hydroelectric Authority. Tacoma Power and the City of Seattle Light Department share equally the output of the project which has a combined capacity of 128,700 kW and an annual energy capability of about 476,000,000 kWh.

CUSTOMERS BY CLASS	AVERAGE NUMBER OF CUSTOMERS	AVERAGE HOURLY ENERGY (kW)
Residential	166,770	1.386
Incidental	17,595	2.104
General	2,610	106.649
Public Streets and Highways	975	0.517
Total System	187,950	2.910
Circuit Miles of Transmission Lines		
115 kV		308
230 kV		44
Circuit Miles of Distribution Lines		
Overhead		1,170
Underground		866

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
Taxes and Employee Welfare Contributions
For the Year 2022

FEDERAL

Power Social Security (FICA)	<u>\$8,451,244</u>	
Total		\$8,451,244

STATE OF WASHINGTON

Retail Sales and Use Taxes	4,113,000	
Power Utilities and Business Operations Tax	15,951,837	
Power State Employment Security	<u>153,888</u>	
Total		20,218,725

COUNTY

Lewis County - In Lieu of Taxes	1,898,194	
Mason County - In Lieu of Taxes	199,555	
Pierce County School Support - Eatonville	7,000	
White Pass School Support	128,715	
Mossyrock School Support	111,919	
Morton School Support	3,145	
Mason County Fire Protection District	7,136	
Lewis County Fire Protection District	11,960	
Pierce County Fire Protection District	21,318	
Pierce County Drainage District	76,819	
Thurston County	2,491	
Total		2,468,252

MUNICIPALITIES

City of Tacoma Power Gross Earnings Tax	42,085,291	
City of Fife Power Franchise Fee	1,368,413	
City of University Place Power Franchise Fee and taxes	2,489,043	
City of Lakewood Power Franchise Fee	1,216,487	
City of Fircrest Power Franchise Fee	304,595	
City of Steilacoom Power Franchise Fee	5,697	
Total		<u>47,469,526</u>
TOTAL TAXES		<u><u>\$78,607,747</u></u>

Taxes as a % of Operating Revenues of \$480,528,346	16.36%
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EMPLOYEE WELFARE CONTRIBUTIONS

Power Industrial Insurance and Medical Aid	815,669	
Power City of Tacoma Pension Fund	12,083,005	
Power Medical/Life Insurance	<u>20,819,228</u>	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u><u>\$33,717,902</u></u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Power
2022 Electric Rates
(Based on 2022 rate schedules)

RATE PER MONTH

	Tacoma and Other Jurisdictions	University Place
Schedule A-1 - Residential Service		
Customer Charge	\$17.90 per month	\$19.20 per month
Customer Charge (for collectively metered apartments)	\$14.65 per month	\$15.71 per month
Energy (all energy measured in kilowatt-hours)	\$0.045351 per kWh	\$0.048644 per kWh
Delivery (all energy delivered in kilowatt-hours)	\$0.038207 per kWh	\$0.040981 per kWh
Schedule A-2 - Low-Income/Elderly/Handicapped Residential Service		
Sixty-five percent (65%) of the monthly bill as calculated under Section 12.06.160 of the official Code of the City of Tacoma, known as RESIDENTIAL SERVICE - SCHEDULE A-1		
Schedule B - Small General Service		
Customer Charge	\$24.35 per month	\$26.12 per month
Customer Charge (for unmetered services)	\$18.95 per month	\$20.33 per month
Energy (all energy measured in kilowatt-hours)	\$0.044616 per kWh	\$0.047856 per kWh
Delivery (all energy delivered in kilowatt-hours)	\$0.038014 per kWh	\$0.040774 per kWh
Schedule G - General Service		
Customer Charge	\$82.80 per month	\$88.81 per month
Energy (all energy measured in kilowatt-hours)	\$0.051726 per kWh	\$0.055482 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$8.81 per kW	\$9.45 per kW
Schedule HVG - High Voltage General Service		
Customer Charge	\$1,750.00 per month	\$1,877.08 per month
Energy (all energy measured in kilowatt-hours)	\$0.045729 per kWh	\$0.049050 per kWh
Delivery (all kilowatts of Billing Demand delivered)	\$5.21 per kW	\$5.59 per kW

Other schedules also now in effect are:

PR - Prepaid Residential Service

CP - Contract Industrial Service (major industrial power use -
written contract required)

NLL - New large load service

H-1 - Street Lighting and Traffic Signal Service

H-2 - Private Off-Street Lighting Service

H-3 - Street Lighting Service

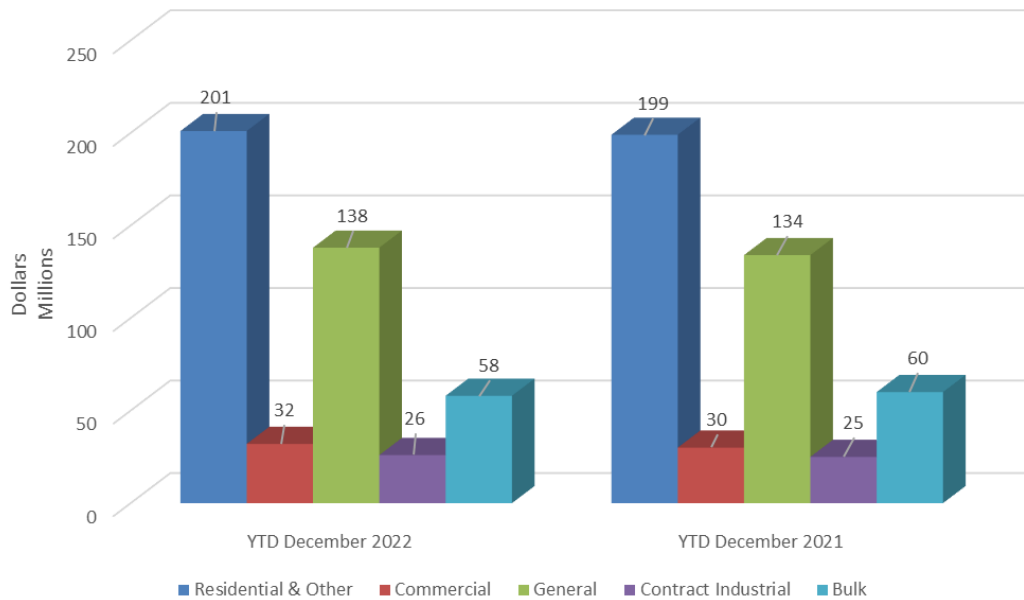
FC - Electric Vehicle Fast Charge

Electric rates were established by Ordinance No. 28737
and became effective April 1, 2022.

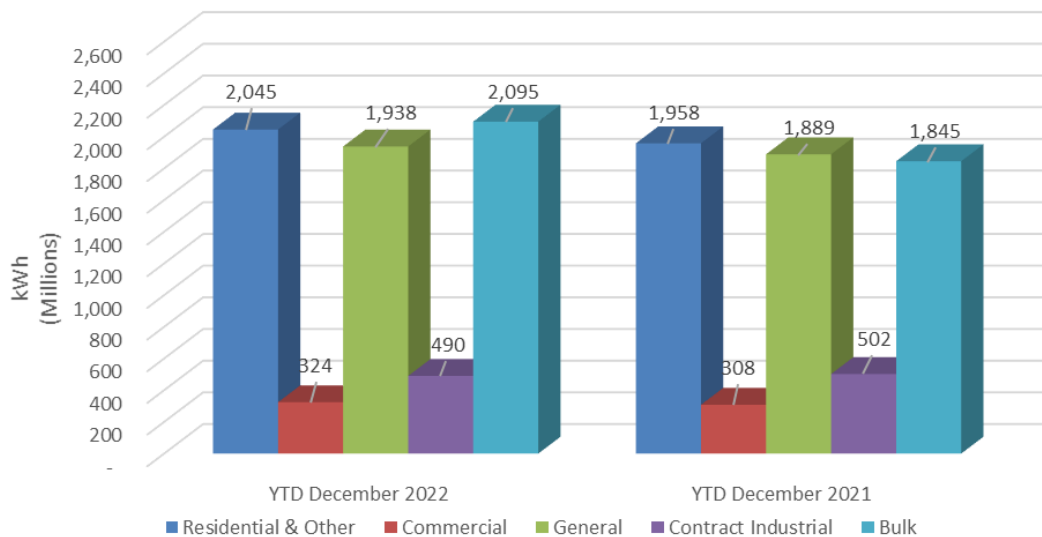
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Graphs

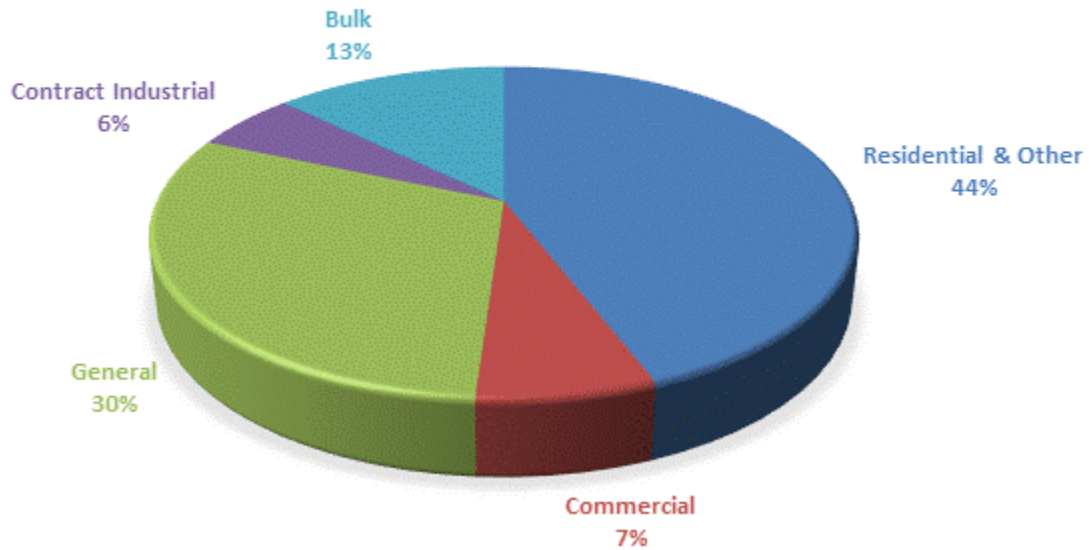
Sales of Electric Energy Year to Date - December 2022 & 2021



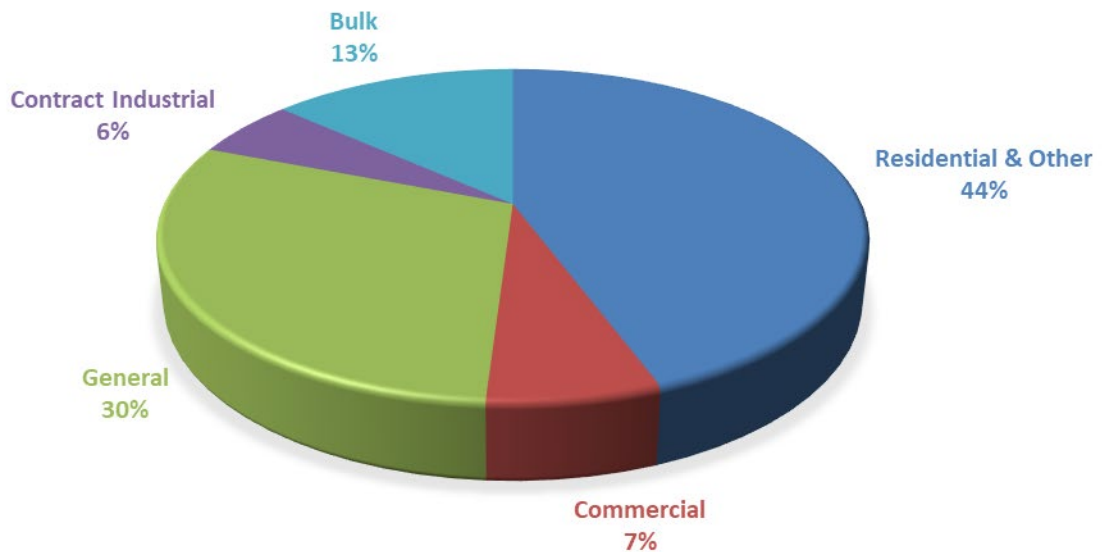
Total Power Billed Year to Date - December 2022 & 2021



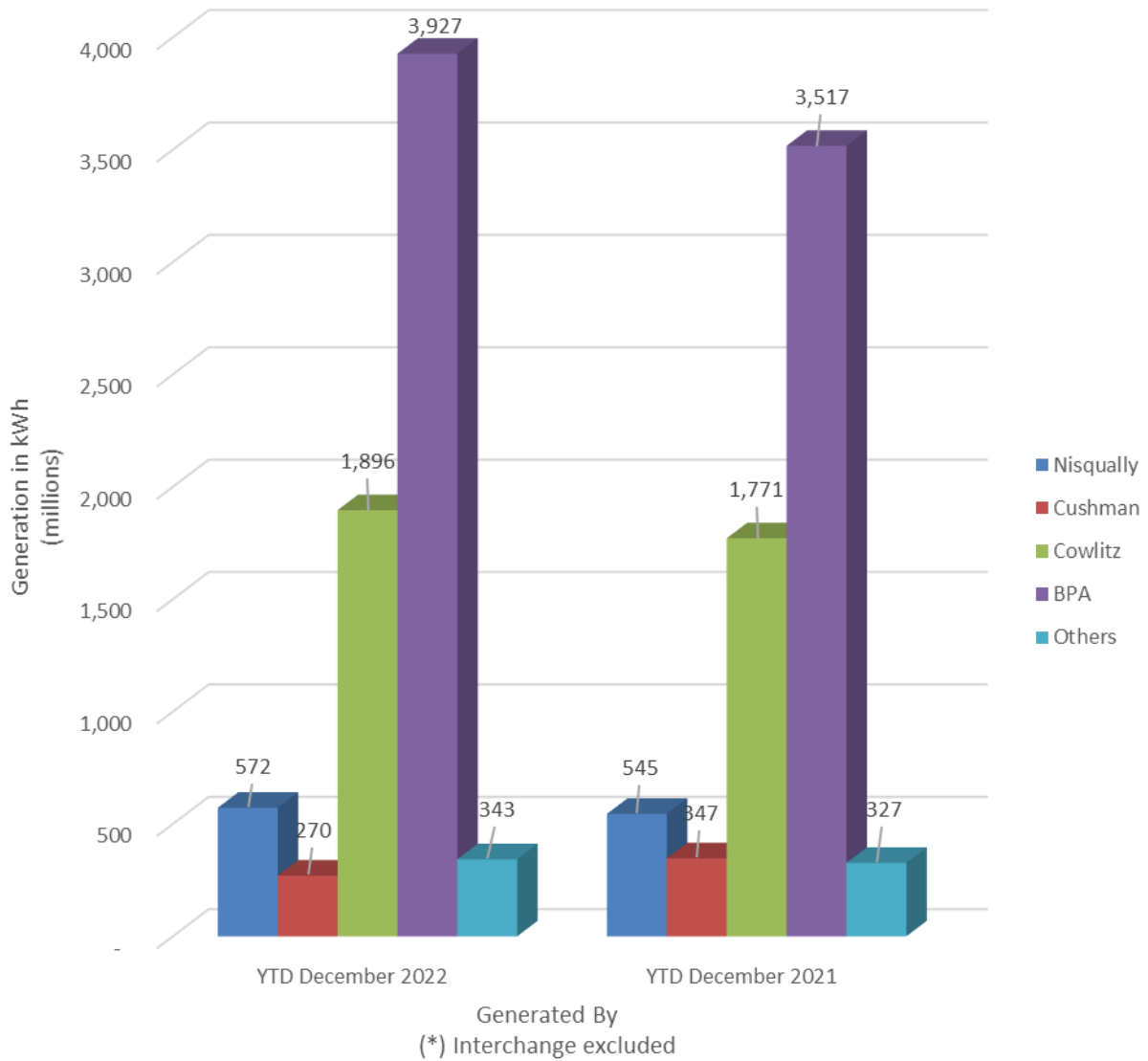
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2022 (\$454,760,186)**



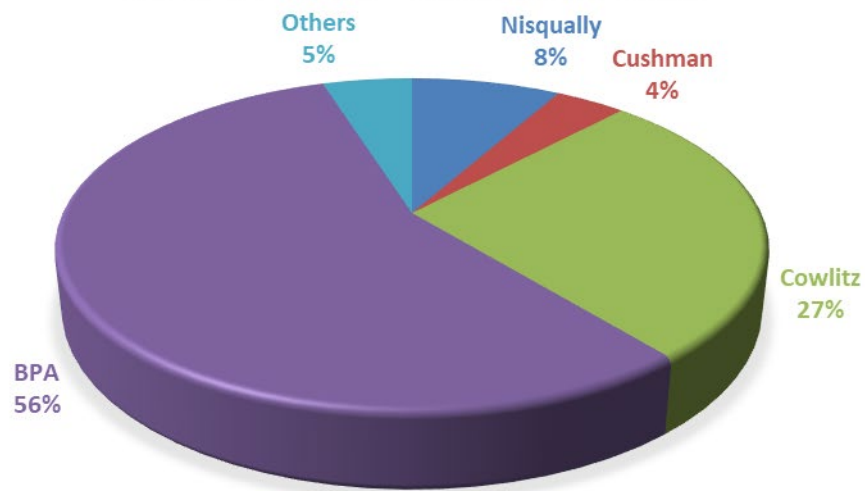
**SALES OF ELECTRIC ENERGY
YEAR TO DATE - DECEMBER 2021 (\$448,241,608)**



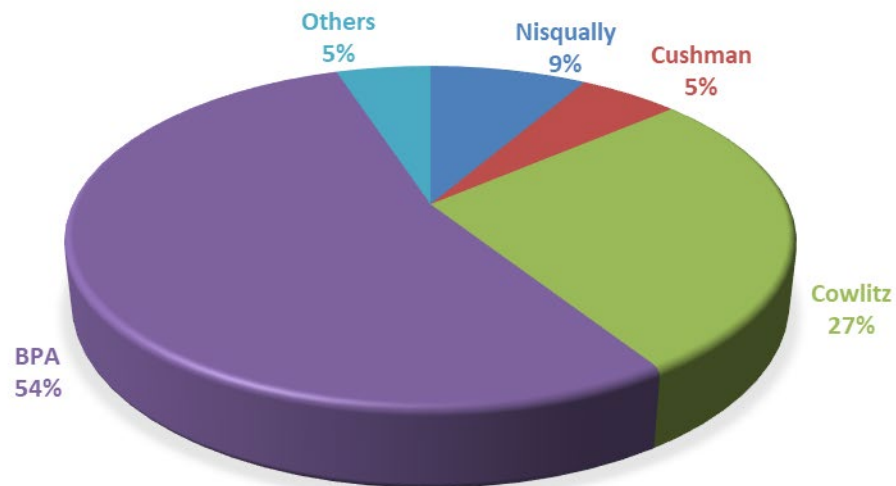
Power Sources (*) Year to Date December 2022 & 2021



POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2022

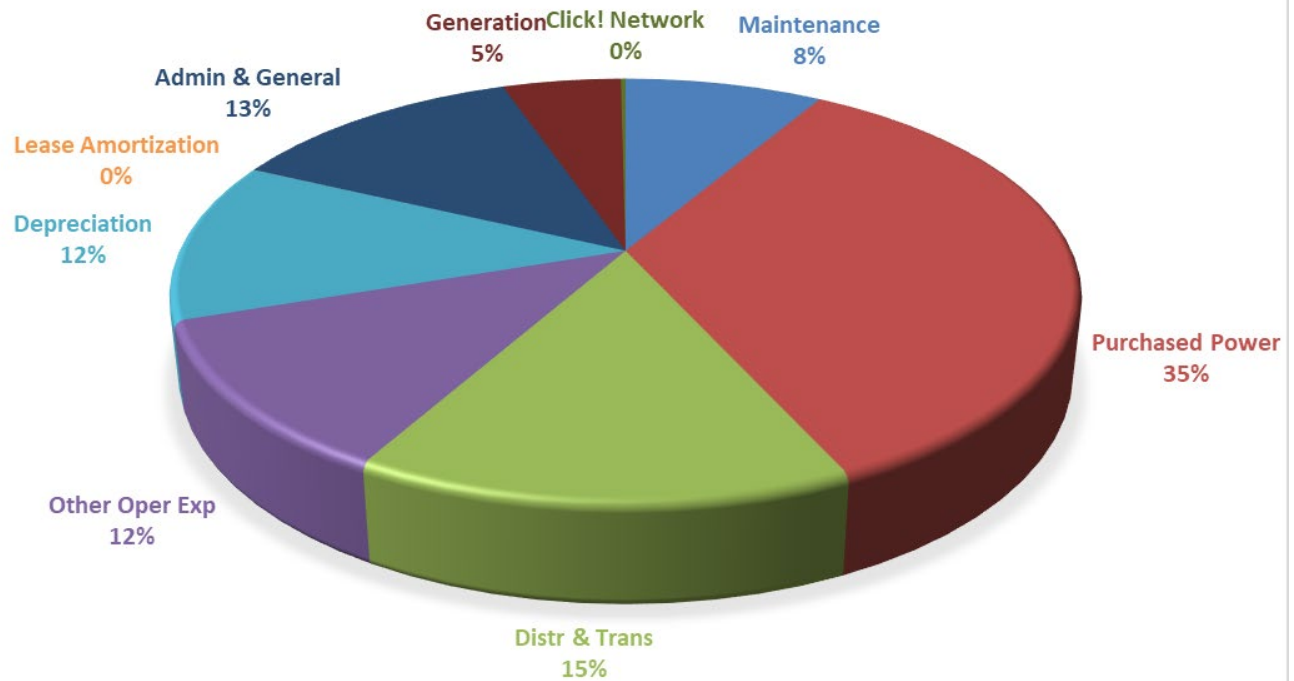


POWER SOURCES (*)
YEAR TO DATE - DECEMBER 2021

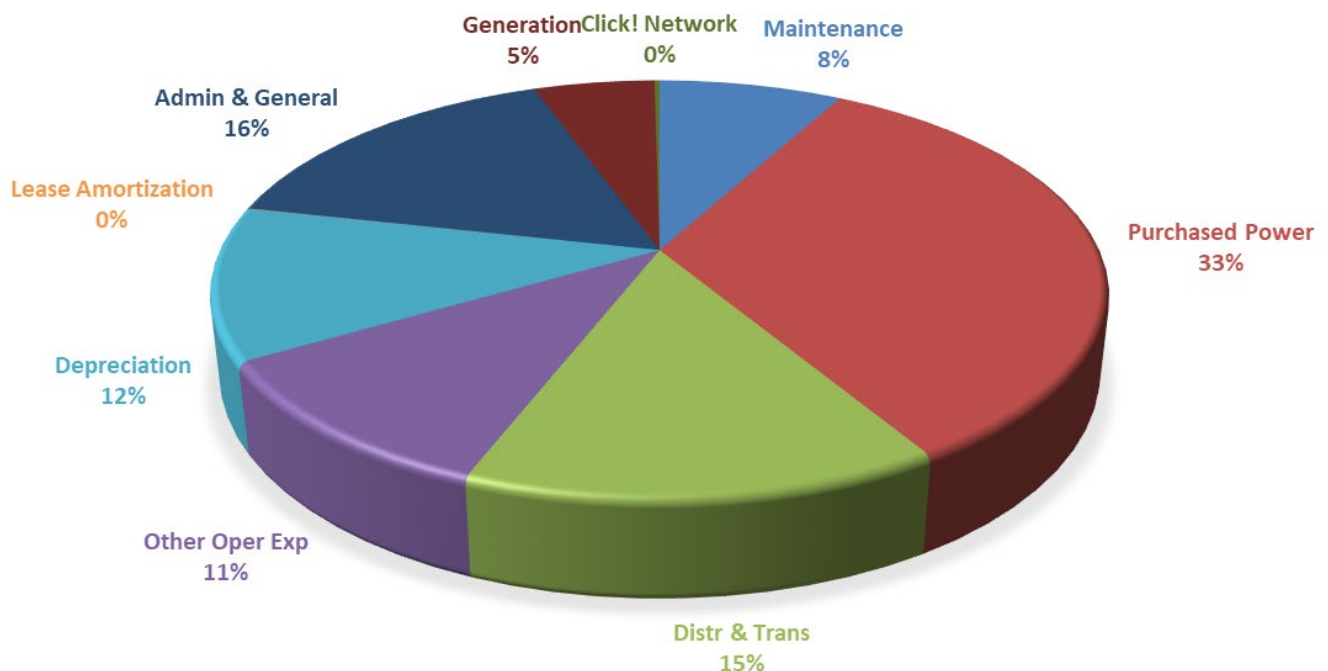


(*) Interchange excluded

TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2022 (\$425,208,398)

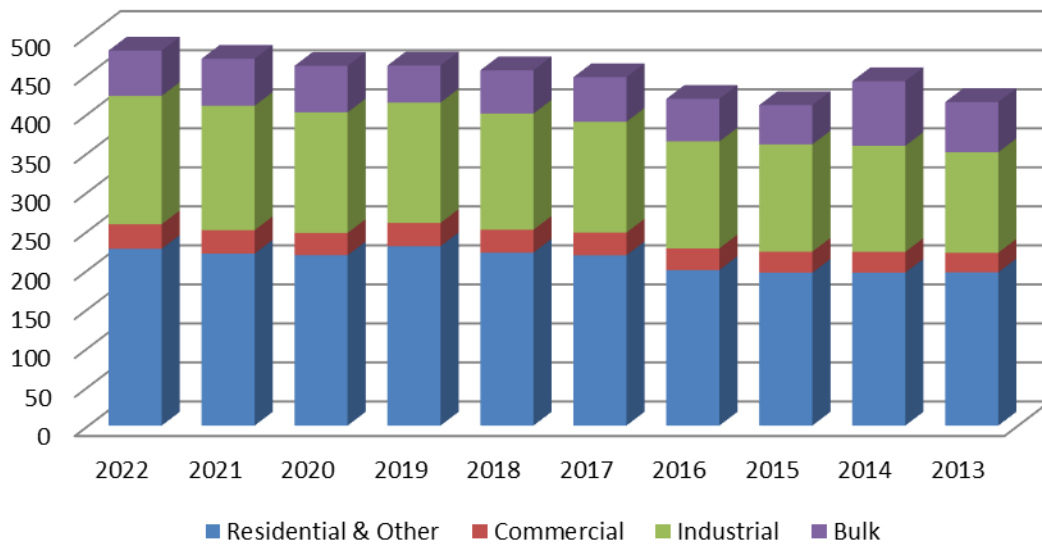


TOTAL OPERATING EXPENSES *
YEAR TO DATE - DECEMBER 2021 (\$427,044,869)

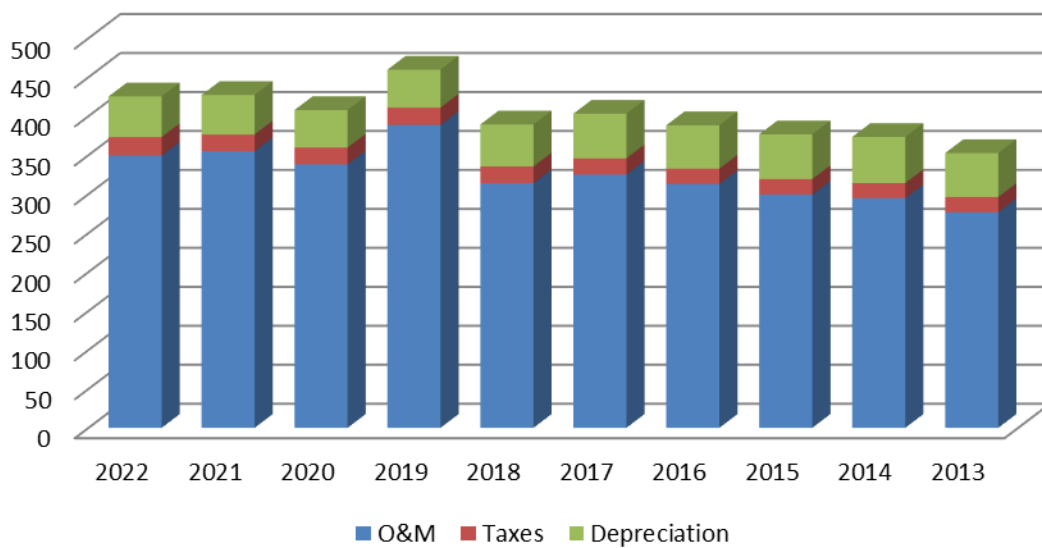


* City Gross Earnings Taxes are not included in Total Operating Expenses.

TEN-YEAR SUMMARY OF OPERATING REVENUES



TEN-YEAR SUMMARY OF OPERATING EXPENSES





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.