



# 20 Tacoma Rail 19 Annual Financial Report

FOR THE FISCAL YEAR ENDING  
**DECEMBER 31, 2019**  
PREPARED BY THE FINANCE DEPARTMENT

**TACOMA  RAIL**  
TACOMA PUBLIC UTILITIES





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CITY OF TACOMA

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

## TACOMA RAIL

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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, Rail Division  
Tacoma, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of City of Tacoma, Department of Public Utilities, Rail Division (the Division), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Department of Public Utilities, Rail Division as of December 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, and Schedule of Proportionate Share of the Collective OPEB Liability Last 10 Years, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The statistical data and the superintendent's report are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2020, on our consideration of City of Tacoma, Department of Public Utilities, Rail 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 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  
May 18, 2020

# Management Discussion and Analysis

The following discussion and analysis of Tacoma Rail's financial performance provides an overview of the financial activities for the years ended December 31, 2019, 2018 and 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the 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 judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2019 and 2018, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Rail's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital and related financing, non-capital 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 Tacoma Rail's presentation of financial position, results of operations and changes in cash flow.

## Financial Highlights

Tacoma Rail continued to meet its goal of providing efficient, cost-effective rail service in its service territory. Doing so requires a continued investment in infrastructure and enforcing a disciplined tactical plan to respond to growth in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2019 indicate an increase in both intermodal and non-intermodal traffic. Tacoma Rail's new customer, Wallenius Wilhelmsen Solutions which imports vehicles, contributed to the increase in non-intermodal traffic. In 2019, they loaded more than 2,700 autoracks for more than \$850,000 in revenue to become Tacoma Rail's eighth largest customer. Unit trains also increased over the prior year's volume. Locomotive servicing revenues continue to increase due to the inherent value the service provides to the Union Pacific and BNSF operations.

## Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$5.3 million in 2019, compared to \$2.0 million in 2018, an increase of \$3.3 million. The increase in net position is predominately due to an increase of \$3.6 million in operating revenues, offset with an increase of \$36,000 in operating expenses, an increase of \$279,000 in non-operating revenues, and a decrease of \$66,000 in contributions.

In 2018, Tacoma Rail realized a change in net position of \$2.0 million, compared to negative \$10.2 million in 2017, an increase of \$12.1 million. The increase in net position was due to an increase of \$2.4 million in operating revenues, a decrease of \$9.1 million in operating expenses, an increase of \$0.8 million in non-operating revenue, and an increase of \$76,000 in contributions.

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

**OPERATING RESULTS**  
(in thousands)

<u>Description</u>	<u>2019</u>	<u>2018</u>	<u>2017</u> <u>As Restated</u>	<u>19/18</u> <u>Increase</u> <u>(Decrease)</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>
Operating Revenues	\$36,812	\$33,165	\$30,717	\$3,647	\$2,448
Operating Expenses	29,823	29,786	38,837	37	(9,051)
Operating Income (Loss)	6,989	3,379	(8,120)	3,610	11,499
Net Non-Operating Revenues	1,493	1,215	458	278	757
Contributions	46	112	36	(66)	76
Transfers Out	(3,241)	(2,751)	(2,549)	(490)	(202)
Change in Net Position	<u>\$5,287</u>	<u>\$1,955</u>	<u>(\$10,175)</u>	<u>\$3,332</u>	<u>\$12,130</u>

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.

As a result of the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Net OPEB Obligation was replaced by the Total OPEB Liability resulting in a restatement of the December 31, 2017 net position in the amount of \$9.3 million.

**STATEMENTS OF NET POSITION**  
(in thousands)

<u>Description</u>	<u>2019</u>	<u>2018</u>	<u>2017</u> <u>As Restated</u>	<u>19/18</u> <u>Increase</u> <u>(Decrease)</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>
Net Capital Assets	\$27,166	\$26,113	\$26,706	\$1,053	(\$593)
Total Current Assets	22,857	18,694	13,964	4,163	4,730
Deferred Outflows	739	994	114	(255)	880
Total Assets and Deferred Outflows	<u>\$50,762</u>	<u>\$45,801</u>	<u>\$40,784</u>	<u>\$4,961</u>	<u>\$5,017</u>
Invested in Capital Assets,					
Net of Related Debt	\$22,763	\$20,890	\$20,662	\$1,873	\$228
Unrestricted Net Position	3,338	(76)	(1,803)	3,414	1,727
Total Net Position	26,101	20,814	18,859	5,287	1,955
Long-Term Debt	3,583	4,403	5,223	(820)	(820)
Current Liabilities	4,057	3,421	2,241	636	1,180
Long-Term Liabilities	14,655	16,873	14,461	(2,218)	2,412
Total Liabilities	22,295	24,697	21,925	(2,402)	2,772
Deferred Inflows	2,366	290	-	2,076	290
Total Net Position, Liabilities, and Deferred Inflows	<u>\$50,762</u>	<u>\$45,801</u>	<u>\$40,784</u>	<u>\$4,961</u>	<u>\$5,017</u>

## Revenues

### 2019 Compared to 2018

In 2019, Tacoma Rail operating revenues of \$36.8 million were \$3.6 million higher than the \$33.2 million in 2018. Overall switching revenues increased \$1.9 million (7.0%), from 2018. The following table summarizes the switching revenues by activity type for the last two years.

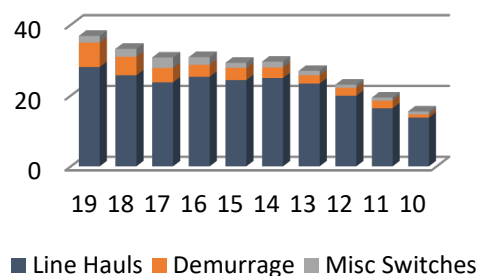
Activity Types	Rail Cars				Switching Revenues (in thousands)			
	2019	2018	Var	%Chg	2019	2018	Var	%Chg
Intermodal Line Hauls	70,496	66,661	3,835	5.8%	\$ 11,953	\$ 11,265	688	6.1%
Commercial Line Hauls	31,864	28,264	3,600	12.7%	15,603	14,029	1,574	11.2%
Capital Div. Line Hauls	841	753	88	11.7%	479	419	60	14.3%
Miscellaneous Switches	10,835	13,041	(2,206)	-16.9%	1,856	2,220	(364)	-16.4%
Total Line Hauls	114,036	108,719	5,317	4.9%	\$ 29,891	\$ 27,933	\$ 1,958	7.0%

Demurrage and other operating revenues increased \$1.7 million. Demurrage revenue increased by \$400,000 and locomotive servicing revenue and other revenue increased \$1.3 million. This is due to increased locomotive servicing, increases in fuel prices and allowing customers railcars to dwell in transit longer than in 2018.

### 2018 Compared to 2017

In 2018, Tacoma Rail operating revenues of \$33.2 million were \$2.5 million higher than the \$30.7 million in 2017. Overall switching revenues increased \$1.3 million (4.8%), from 2017.

**OPERATING REVENUES**  
(in millions)



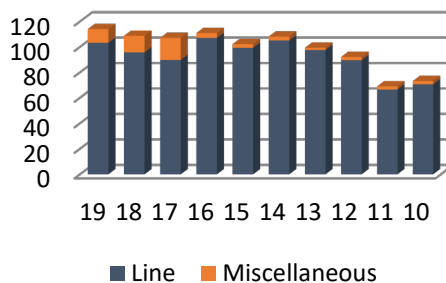
### Switching Activities

Switching activities increased in 2019 by 5,317 cars (4.9%) to 114,036, from 108,719 in 2018. The most significant increase in switching activity can be seen in intermodal line-hauls which were up by 3,835 cars (5.8%) due to an increase in intermodal line haul rail traffic. The average number of cars switched over the last ten years is 98,473.

During 2018, total switching activities increased by 1,589 cars (1.5%) from 2017. The increase in intermodal line haul rail traffic was the dominant factor. Intermodal line-hauls were up by 5,361 cars (8.7%) in 2018.

The table below shows the changes in switching volumes for the last three years.

**SWITCHING ACTIVITIES**  
(in thousands)



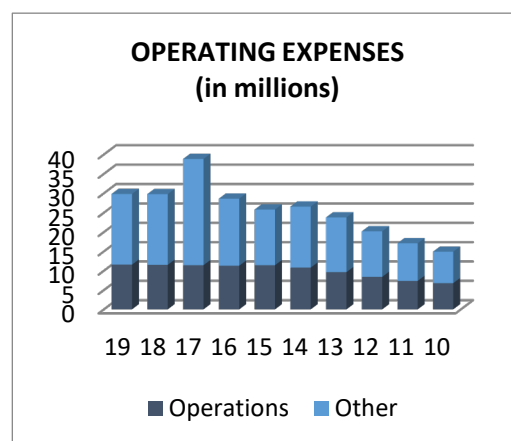
### SWITCHING ACTIVITIES

Description	2019	2018	2017	19/18 Increase (Decrease)	18/17 Increase (Decrease)
Line Hauls	103,201	95,678	89,748	7,523	5,930
Miscellaneous Switches	10,835	13,041	17,382	(2,206)	(4,341)
Total Cars Switched	<u>114,036</u>	<u>108,719</u>	<u>107,130</u>	<u>5,317</u>	<u>1,589</u>

## Expenses

### 2019 Compared to 2018

In 2019, Tacoma Rail operating expenses were \$29.8 million which is consistent with 2018. In 2018 Tacoma Rail recognized a \$2.3 million pension liability related to the early withdraw from the Western Metal Industry Pension Fund (WMIPF). In 2019, Tacoma Rail recognized \$34,440 in additional pension expense related to the withdrawal from WMIPF. The decrease in overall pension expense was off-set with IBNR claims credit adjustment of \$1.0 million and an increase in fuel prices of \$1.4 million.



### 2018 Compared to 2017

In 2018, Tacoma Rail operating expenses of \$29.8 million were \$9.0 million lower than the \$38.8 million in 2017. This was primarily due to an increase of \$2.4 million in repair and maintenance materials and services, and an increase of \$0.6 million in fuel prices. These increases were off-set with IBNR claims credit adjustment of \$1.7 million and a decrease in volume incentive of \$1.0 million. Due to the implementation of GASB 75 in 2017, Administration expenses decreased \$12.7 million in 2018.

## Capital Assets

Net Capital Assets increased \$1.1 million during 2019. The increase was primarily due to the additions of \$1.3 million in road and equipment property in service and \$1.5 million of new activities in Construction Work In Progress, off-set with the increase in accumulated depreciation of \$1.7 million. Of the total, \$1.3 million additions included the Buffelen Curve Upgrade and additional work on the at-grade crossing on Alexander Avenue and the Milwaukee Way project to remove existing and worn 112 pound rail and replace with new 115 pound rail. In 2019, Construction Work in Progress additions were \$2.9 million versus \$1.1 million in 2018.

During 2018, net Capital Assets decreased \$0.6 million. The decrease was primarily due to the accumulated depreciation of \$1.7 million off-set with the additions of \$0.6 million in road and equipment property in service and \$0.5 million of new activity in Construction Work In Progress. Road property plant increased \$0.6 million, which included the new railroad at-grade crossing on Alexander Avenue, including a new switch and lead, to accommodate secondary access into the future Wallenius Wilhelmsen Logistics auto terminal facility.

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

**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION**  
(in thousands)

<u>Description</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>19/18</u> <u>Increase</u> <u>(Decrease)</u>	<u>18/17</u> <u>Increase</u> <u>(Decrease)</u>
Land	\$ 172	\$ 160	\$ 160	\$ 12	\$ -
Road Property Plant	16,079	15,733	16,165	346	(432)
Building	1,612	1,772	1,932	(160)	(160)
Machinery Equipment	7,063	7,649	8,176	(586)	(527)
Office and Fixture	36	64	95	(28)	(31)
Construction Work In Progress	2,204	735	178	1,469	557
Total Net Capital Assets	<u>\$ 27,166</u>	<u>\$ 26,113</u>	<u>\$ 26,706</u>	<u>\$ 1,053</u>	<u>\$ (593)</u>

Additional information on Tacoma Rail's capital assets can be found in Note 4 to the Financial Statements.

## Debt Administration

In 2019 and 2018, no new Washington State loans from the Department of Transportation were obtained.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 5 to the Financial Statements.

	LONG-TERM DEBT (In thousands)			19/18 Increase (Decrease)	18/17 Increase (Decrease)
	2019	2018	2017		
Long-Term Debt Balance, December 31	\$ 4,403	\$ 5,223	\$ 6,044	\$ (820)	\$ (821)

## Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2019, 2018 and 2017, Tacoma Rail had no bonds, only interest free loans.

## 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 Rail'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 independently 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

Rail 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 Rail  
Statements of Net Position

ASSETS	DECEMBER 31,	
	2019	2018
<b>CAPITAL ASSETS</b>		
Road and Equipment Property	\$48,447,692	\$47,174,783
Less Accumulated Depreciation	(23,485,969)	(21,796,237)
Total	24,961,723	25,378,546
Construction Work in Progress	2,204,627	734,853
Net Capital Assets	27,166,350	26,113,399
<b>CURRENT ASSETS</b>		
Cash & Equity in Pooled Investments	15,614,302	12,686,178
Customer Accounts Receivable	4,075,367	3,472,293
(Net of Allowance for Doubtful Accounts of \$196,224 in 2019 and \$163,474 in 2018)		
Interfund Receivable	-	16,786
Prepayments	1,943,289	1,305,685
Materials and Supplies Inventory	1,224,340	1,212,852
Total Current Assets	22,857,298	18,693,794
<b>DEFERRED OUTFLOWS</b>		
Deferred Outflows for OPEB	738,535	993,546
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$50,762,183</b>	<b>\$45,800,739</b>

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2019	2018
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$22,763,111	\$20,889,915
Unrestricted	3,338,034	(76,202)
TOTAL NET POSITION	26,101,145	20,813,713
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>		
State Loans	3,582,991	4,403,234
Total Long-Term Debt	3,582,991	4,403,234
<b>CURRENT LIABILITIES</b>		
Accounts Payable	2,076,748	1,273,977
Customer Deposits	40,000	-
Wages Payable and Compensated Absences	414,755	373,678
Unemployment and Other Tax Payables	371,548	334,953
Volume Incentive Payable	333,333	291,668
Current Portion of Long-Term Debt	820,250	820,250
Interfund Payable	-	326,936
Total Current Liabilities	4,056,634	3,421,462
<b>LONG-TERM LIABILITIES</b>		
On the Job Injury Reserve	824,032	810,912
Long-Term Portion of Compensated Absences	1,110,871	1,064,965
Pension Withdrawal Liability	2,354,440	2,320,000
OPEB Liability	9,947,627	12,179,967
Incurred but not Reported Claims	417,958	496,684
Total Long-Term Liabilities	14,654,928	16,872,528
<b>TOTAL LIABILITIES</b>	22,294,553	24,697,224
<b>DEFERRED INFLOWS</b>		
Deferred Inflows for OPEB	2,366,485	289,802
<b>TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS</b>	<u>\$50,762,183</u>	<u>\$45,800,739</u>

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

	YEAR ENDED DECEMBER 31,	
	2019	2018
<b>OPERATING REVENUES</b>		
Switching Revenues	\$29,891,207	\$27,933,469
Demurrage and Other Operating Revenues	6,920,393	5,231,761
Total Operating Revenues	36,811,600	33,165,230
<b>OPERATING EXPENSES</b>		
Maintenance of Way and Structures	2,323,103	3,358,643
Mechanical	7,390,437	7,505,089
Operations	11,584,362	11,517,919
Administration	6,177,898	5,201,024
Taxes - State	506,359	465,808
Depreciation	1,840,439	1,737,714
Total Operating Expenses	29,822,598	29,786,197
Net Operating Income	6,989,002	3,379,033
<b>NON-OPERATING REVENUES</b>		
Interest Income	426,085	152,072
Miscellaneous	1,067,223	1,062,250
Total Non-Operating Revenues	1,493,308	1,214,322
Contributions - Grants	45,680	112,306
Total Contributions	45,680	112,306
Transfers		
City of Tacoma Gross Earnings Tax	(3,042,980)	(2,750,860)
Transfers to Other Funds	(197,578)	-
Total Transfers	(3,240,558)	(2,750,860)
<b>CHANGE IN NET POSITION</b>	5,287,432	1,954,801
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	20,813,713	18,858,912
<b>TOTAL NET POSITION - END OF YEAR</b>	\$26,101,145	\$20,813,713

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

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

	YEAR ENDED DECEMBER 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash from Customers	\$36,265,312	\$33,056,128
Cash Paid to Suppliers	(11,200,238)	(7,679,348)
Cash Paid to Employees	(16,251,983)	(17,609,274)
Taxes Paid	(469,764)	(420,713)
Net Cash From Operating Activities	8,343,327	7,346,793
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfers to Other Funds	(3,240,558)	(2,750,860)
Net Cash Used In Non-Capital Financing Activities	(3,240,558)	(2,750,860)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Expenditures, Net	(2,893,390)	(1,145,403)
Principal Payments on Long-Term Debt	(820,243)	(820,243)
Proceeds from Capital Contributions	45,680	112,306
Proceeds from Other Non-Operating Revenues	1,067,223	1,062,250
Net Cash Used In Capital and Related Financing Activities	(2,600,730)	(791,090)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on Investments	426,085	152,072
Net Cash From Investing Activities	426,085	152,072
Net Increase in Cash and Equity in Pooled Investments	2,928,124	3,956,915
<b>Cash &amp; Equity in Pooled Investments at January 1</b>	12,686,178	8,729,263
<b>Cash &amp; Equity in Pooled Investments at December 31</b>	<u>\$15,614,302</u>	<u>\$12,686,178</u>

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



	YEAR ENDED DECEMBER 31,	
	2019	2018
<b>Reconciliation of Operating Income to Net Cash From Operating Activities:</b>		
Operating Income	\$6,989,002	\$3,379,033
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities:		
Depreciation Expense	1,840,439	1,737,714
Pension Withdrawal Expense	34,440	2,320,000
Net OPEB Expense	99,354	541,879
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable	(603,074)	(250,274)
Interfund Receivable	16,786	141,172
Materials and Supplies Inventory	(11,488)	(46,079)
Prepayments	(637,604)	(617,372)
Accounts Payable	802,771	520,303
Customer Deposits	40,000	-
Unemployment and other Tax Payables	36,595	45,095
Wages Payable and Compensated Absences	41,077	57,937
Volume Incentive Payable	41,665	291,668
Interfund Payable	(326,936)	266,203
Long-Term Portion of Compensated Absences	45,906	53,203
On the Job Injury Reserve	13,120	(18,849)
Incurred but not Reported Claims	(78,726)	(1,074,840)
Total Adjustments	1,354,325	3,967,760
Net Cash From Operating Activities	<u>\$8,343,327</u>	<u>\$7,346,793</u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Rail

Notes to Financial Statements  
Years Ended December 31, 2019 and 2018

**NOTE 1 OPERATIONS**

**Operations of Tacoma Rail** – Tacoma Rail (the Division) is a division of the City of Tacoma (City), Department of Public Utilities, which also operates the Power and the Water Divisions and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. Tacoma Rail provides rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Capital Division. The Capital Division interchanges rail cars with BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure. In addition, Tacoma Rail manages the Mountain Division, which is a reporting unit within Public Works and is included in the City's CAFR. An operating agreement between Tacoma Rail and the Mountain Division is in place through 2020.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting and Presentation** – The financial statements of the Division are prepared under the accrual basis of accounting in accordance with GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. 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.

**Accounting Changes** – Effective for the fiscal year 2019, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 83 - *Certain Asset Retirement Obligations*. The object of this statement is to address accounting and financial reporting for asset retirements that carry legally enforceable remediation obligations. It establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. This statement will enhance comparability of financial statements among governments by establishing uniform criteria to recognize and measure decision-usefulness of the information provided to finance statement users by requiring disclosure related to those assets. The Division evaluated provisions prescribed by GASB 83 and there were no asset retirement obligations applicable to the Division as of December 31, 2019.

GASB Statement No. 84 – *Fiduciary Activities*. The object of this statement is to improve the identification of fiduciary activities and how they should be reported. It establishes criteria for identifying activities related to control of those assets. Control is defined as holding the assets or the ability to use, exchange, or employ the assets in a manner that provides benefits to the intended recipients. The Division evaluated provisions prescribed by GASB 84 and there were no fiduciary activities applicable to the Division as of December 31, 2019.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The object of this statement is to improve the information that is disclosed in the notes related to debt, clarifying which liabilities should be included when disclosing that information. Debt is defined as a fixed liability that arises from a contractual obligation to pay cash or other assets as established at the contract date. This Statement requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. Where applicable the Division has made the required adjustments as prescribed by GASB Statement No. 88.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The object of this statement now requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Where applicable the Division has made the required adjustments as prescribed by GASB Statement No. 89. The Division elected to early adopt the implementation of this standard as of January 1, 2019 therefore no interest was capitalized during 2019.

GASB Statement No. 90 – *Majority Equity Interests (an Amendment of GASB Statements No. 14 & 61)*. The object of this statement is to clarify the reporting of the City's majority equity interest in a legally separate organization and the component units of 100% equity acquisition. Equity is defined as a financial interest evidenced through an explicit, measurable right to net resources of an organization that is usually based on an investment of financial or capital resources by a government.

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

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances, which are their equity in the TIP. Accordingly, balances are considered 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 and in certificates of deposit with Opus Bank and Home Street Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2019 and 2018 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 2A7 fund and is collateralized by short-term legal investments.

**Customer Accounts Receivable** – Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts.

**Allowance for Doubtful Accounts** – A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally, accounts receivable are considered past due after 30 days.

**Interfund Transactions** – Unsettled transactions between funds at year-end are recorded as due to or due from other funds.

**Materials and Supplies Inventory** – Materials and supplies consist primarily of items for maintenance of Division assets and are valued at the lower of average cost or fair market value.

**Special Funds** – In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. As of December 31, 2019 and 2018 there were zero funds in special funds.

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

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

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

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

**Contributions** – In accordance with Generally Accepted Accounting Principles, Accounting and Financial Reporting for Non-exchange Transactions, grants and contributions are recorded as contribution revenue.

**Compensated Absences** – The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO

(personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned.

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 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.

**Operating Revenues** – Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Revenues are based on services rendered through the end of the year.

**Non-Operating Revenues and Expenses** – These are items that do not qualify as operating defined above.

**Taxes** – The City charges the Division Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays business and occupation tax to the State at the rate of 1.5% on service revenues. The Division is exempt from payment of federal income tax.

**Net Position** – The Statement of Net Position reports all financial and capital resources. The difference between assets and 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 that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. As of December 31, 2019 there were no restricted components of Net Position.

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

**Shared Services** – The Division receives certain services from other departments and agencies of the City including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies.

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

**On the Job Injury Reserve** – Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

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

**Reclassifications** – Changes have been made to prior year account classifications as needed to conform to the current year presentation format.

### **NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE**

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

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

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



## Notes to the Financial Statements (continued)

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

	As of 12/31/2019	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 394,034,439	\$ -	\$ 394,034,439	\$ -
U.S. Agency Securities	449,502,580	-	449,502,580	-
Supranational Securities	20,035,790	-	20,035,790	-
Municipal Bonds	17,764,606	-	17,764,606	-
Corporate Securities	63,736,264	-	63,736,264	-
	<u>\$ 945,073,679</u>	<u>\$ -</u>	<u>\$ 945,073,679</u>	<u>\$ -</u>

	As of 12/31/2018	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
U.S. Agency Securities	447,015,280	-	447,015,280	-
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Corporate Securities	24,607,491	-	24,607,491	-
	<u>\$ 810,007,826</u>	<u>\$ -</u>	<u>\$ 810,007,826</u>	<u>\$ -</u>

Tacoma Rail's share of the City Investments shown in the table above is 1.44% and 1.20% as of December 31, 2019 and 2018.

#### NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2019 and 2018 follows:

	Balance December 31, 2018	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2019
Land	\$ 160,456	\$ -	\$ -	\$ 11,730	\$ 172,186
Road Property Plant	29,010,587	-	-	1,411,886	30,422,473
Building	4,504,209	-	-	-	4,504,209
Machinery Equipment	12,813,816	-	-	(150,707)	12,663,109
Office and Fixture	685,715	-	-	-	685,715
Total Capital Assets In Service	47,174,783	-	-	1,272,909	48,447,692
Less Accumulated Depreciation	(21,796,237)	(1,840,439)	-	150,707	(23,485,969)
	25,378,546	(1,840,439)	-	1,423,616	24,961,723
Construction Work In Progress	734,853	2,895,936	-	(1,426,162)	2,204,627
Net Capital Assets	\$ 26,113,399	\$ 1,055,497	\$ -	\$ (2,546)	\$ 27,166,350

	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	28,421,562	-	-	589,025	29,010,587
Building	4,504,209	-	-	-	4,504,209
Machinery Equipment	12,813,816	-	-	-	12,813,816
Office and Fixture	685,715	-	-	-	685,715
Total Capital Assets In Service	46,585,758	-	-	589,025	47,174,783
Less Accumulated Depreciation	(20,058,523)	(1,737,714)	-	-	(21,796,237)
	26,527,235	(1,737,714)	-	589,025	25,378,546
Construction Work In Progress	178,476	1,148,422	-	(592,045)	734,853
Net Capital Assets	\$ 26,705,711	\$ (589,292)	\$ -	\$ (3,020)	\$ 26,113,399

#### NOTE 5 LONG-TERM DEBT

Long-Term debt activities for 2019 and 2018 were as follows:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Due Within One Year
Department of Transportation State Loans	\$ 5,223,484	\$ -	\$ (820,243)	\$ 4,403,241	\$ 820,250
Total Long-Term Debt	\$ 5,223,484	\$ -	\$ (820,243)	\$ 4,403,241	\$ 820,250

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Department of Transportation State Loans	\$ 6,043,727	\$ -	\$ (820,243)	\$ 5,223,484	\$ 820,250
Total Long-Term Debt	\$ 6,043,727	\$ -	\$ (820,243)	\$ 5,223,484	\$ 820,250

Notes to the Financial Statements (continued)

Washington State Department of Transportation Loans (WSDOT)	2019	2018
2009 WSDOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024.	\$ 8,795	\$ 10,554
2009 WSDOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025.	99,782	116,412
2011 WSDOT loan for locomotive repower, with 0% interest, due in yearly installments of \$45,000 from 2013 through 2022.	135,000	180,000
2012 WSDOT loan for Tacoma Rail Annie Tracks 1&2 Rail Relay, with 0% interest, due in yearly installments of \$61,200 from 2013 through 2022.	183,600	244,800
2012 WSDOT loan for Yard Tracks 2, 3 & 4, with 0% interest, due in yearly installments of \$34,859 from 2013 through 2022.	104,579	139,437
2013 WSDOT loan for East 11th Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023.	138,930	173,660
2013 WSDOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023.	145,574	181,968
2013 WSDOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024.	309,311	371,174
2013 WSDOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024.	124,997	149,997
2013 WSDOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025.	219,831	256,470
2013 WSDOT loan for East Loop 17th St., with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025.	463,842	541,149
2013 WSDOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025.	663,034	773,540
2013 WSDOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025.	309,462	361,039
2014 WSDOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$91,000 from 2016 through 2025.	546,005	637,005
2015 WSDOT loan for Edwards Crossover Rehabilitation, with 0% interest, due in yearly installments of \$12,112 from 2017 through 2026.	84,784	96,896
2015 WSDOT loan for East Lead Low Side Rebuild, with 0% interest, due in yearly installments of \$40,574 from 2017 through 2026.	284,025	324,599

## Notes to the Financial Statements (continued)

Junior Lien Debt continued	2019	2018
2015 WSDOT loan for Transfer Yard Connection (Phase 3), with 0% interest, due in yearly installments of \$15,000 from 2017 through 2026.	105,000	120,000
2015 WSDOT loan for West Lead High Side Rebuild, with 0% interest, due in yearly installments of \$36,952 from 2017 through 2026.	258,669	295,617
2015 WSDOT loan for Taylor Wye Rehabilitation, with 0% interest, due in yearly installments of \$31,146 from 2017 through 2026.	218,021	249,167
Subtotal Junior Lien Debt	4,403,241	5,223,484
Less Current Portion of Debt	(820,250)	(820,250)
Long-term Portion of Junior Lien Debt	<u>\$ 3,582,991</u>	<u>\$ 4,403,234</u>

As of December 31, 2019, scheduled principal maturities on junior lien debts and interest payments are as follows:

	Principal	Interest
2020	\$ 820,250	\$ -
2021	820,250	-
2022	820,250	-
2023	694,183	-
2024	623,059	-
2025-2026	625,249	-
	<u>\$ 4,403,241</u>	<u>\$ -</u>

### NOTE 6 SIGNIFICANT CUSTOMER

Tacoma Rail's predominate sources of revenue are Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Revenue from UP and BNSF represented 36% and 41% of total revenues, respectively, in 2019. Revenue in 2018 was 34% and 42%, respectively. Accounts receivable from UP and BNSF in 2019 represented 37% and 39% of total customer accounts receivable, whereas in 2018 it was 35% and 44% respectively.

### NOTE 7 FLEET SERVICES FUND

The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment. Tacoma Rail pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Rail in 2019 and 2018 were \$259,148 and \$627,082 respectively.

### NOTE 8 SELF-INSURANCE FUND

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

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$600,000 in both 2019 and 2018.

Assets in the Self-Insurance Fund total \$9.1 million which exceeds accrued and incurred but not reported (IBNR) liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. 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 retirement plans. The coverage also provides a Government Crime policy with a \$1.0 million limit and \$75,000 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 million per occurrence and an additional \$250,000 aggregate for all claims for each 12-month policy period and a Cybersecurity policy with a limit of \$5.0 million.

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 \$1.25 million for each wrongful act and a \$2.5 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 with a \$1.5 million retention. Coverage also includes Aviation Liability - Unmanned aircraft liability for drones with a limit of \$1.0 million.

## NOTE 9 PENSION PLAN

Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2019 and 2018, Tacoma Rail contributed \$2,264,180 and \$2,169,591 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2019</u>	<u>2018</u>
Employer Tier I	\$ 132,900	\$ 128,400
Employer Tier II	98,700	95,400
Employer Medicare	No Limit	No Limit

	<u>TAX RATE</u>	
	<u>2019</u>	<u>2018</u>
Employer Tier I	6.20%	6.20%
Employer Tier II	13.10%	13.10%
Employer Medicare	1.45%	1.45%

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$51.3 billion as of December 31, 2016. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to pay, in full, the payroll withholdings to the system.

**NOTE 10 WESTERN METAL INDUSTRY PENSION FUND**

The City of Tacoma had approximately 113 employees who participated in the Western Metal Industry Pension Fund (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.

Information was unavailable to determine if an actuarial liability exists for the City in 2019, however, the Plan was in "critical" status in the Plan Year beginning January 1, 2019. 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 11, 2018 the Tacoma City Council approved the collective bargaining agreement for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma Rail Mechanics and Track Workers. Contained in these agreements were a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2018, payroll was the final contributions made on behalf of the employees in those two units.

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 covering City of Tacoma Rail Yard Clerks. Contained in this agreement was a call for cessation of the participation in the Western Metal Industry Pension Fund (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 January 1, 2020, no employees were participating in the plan. Rail had 26 employees who participated in the plan, those employees who vested would be eligible for benefits based on their date of withdrawal.

The contributions rates for 2018 and 2019 by classification were as follows:

	<u>July 1, 2017 - June 30, 2018</u>	<u>July 1, 2018 - June 30, 2019</u>	<u>July 1, 2019 - December 31, 2019</u>
Yard Clerks	\$1.37 per compensable hour	\$1.48 per compensable hour	\$1.60 per compensable hour
	<u>July 1, 2017 - June 30, 2018</u>	<u>July 1, 2018 - December 31, 2018</u>	
Mechanics	\$252 every two weeks	\$274.40 every two weeks	
Track Workers	7.20% of gross wages	\$213.64 per pay period	

In 2018 and 2019 Tacoma Rail contributed \$143,604 and \$20,421, respectively.



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. The City's obligation is to pay, in full, the payroll withholdings to the system.

At this time, WMIPF has not provided a withdrawal liability estimate. The City utilized employee data from 2017, the last year in which all units were actively contributing to WMIPF to estimate the City's withdrawal liability. The Rail Division has recognized a liability in the amount of \$2,354,440 and \$2,320,000 as of December 31, 2019 and December 31, 2018, respectively.

#### NOTE 11 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, 2019 for non-LEOFF 1 members includes 3,526 active participants, 529 deferred retirees, 577 retirees, and 139 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 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, 2019 for non-LEOFF 1 members and January 1, 2018 for 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, 2018. 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, 2019.

There have been no significant changes between the valuation date and fiscal year ends. If there were significant changes, an additional analysis or valuation might be required.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2018 and January 1, 2019 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2019	
Census Date:	January 1, 2019	
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:	4.10% for pay-as-you-go funding	
Medical Cost Trend:	2019	9.10%
	2020	6.00%
	2021	5.50%
	2030	5.00%

2040	5.10%
2050	5.10%
2060	5.00%

Note that the trend for year 2019 reflects the percent by which 2020 medical costs are expected to exceed 2019 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.30% 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. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -  
Discount Rate (Liabilities):

4.10%

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.

Rail - Certain Rail employees and their spouses are entitled to employer-paid retiree medical benefits until age 65 when retiring at age 60 with 30 years of service.

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 4.10% from 3.44%. 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, 2019 the Division reported a liability of \$9,947,627 for its proportionate share of the collective total OPEB liability of \$204.1 million. The OPEB liability was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2019. At December 31, 2018 the participating Division's proportion was 5.51599% as compared to 4.87358% at December 31, 2019. For the year ended December 31, 2019 the participating Division recognized an OPEB expense of \$99,354.

## Notes to the Financial Statements (continued)

At December 31, 2019, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 2,190
Changes of assumptions	(771,955)	296,791
Changes in Employer Proportion	(1,145,294)	331,053
Differences in Contributions	(449,236)	-
Contributions Made Subsequent to the Measurement Date	-	108,501
Total	<u>\$ (2,366,485)</u>	<u>\$ 738,535</u>

The Division reported \$108,501 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2020	\$ (321,595)
2021	(321,595)
2022	(321,595)
2023	(321,595)
2024	(410,666)
Thereafter	<u>(39,405)</u>
	<u>\$ (1,736,451)</u>

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

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 4.10%, 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 3.10% or one percentage point higher 5.10% than the current rate.

	1% Decrease 3.10%	Current Discount Rate 4.10%	1% Increase 5.10%
Net OPEB liability	\$ 11,227,861	\$ 9,947,627	\$ 8,877,658

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

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 8.10%	Current Trend Rates 9.10%	1% Increase 10.10%
Net OPEB liability	\$ 8,776,944	\$ 9,947,627	\$ 11,341,081

**Excise Tax for High Cost or “Cadillac” Health Plans in 2022 and Beyond** – An excise tax for high cost health coverage, or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levied a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delayed the tax for two years, until 2020. The President signed a continuing resolution (CR) on January 22, 2018. The CR delayed the excise tax by two additional years, so that the first effective year is 2022. Separately, the excise tax indexing basis was changed from Consumer Price Index – Urban (CPI-U) to Chained CPI-U. In addition, the CR provided for an additional one-year moratorium on the Health Insurer Fee for calendar year 2019.

Subsequent to the December 31, 2018 measurement date, H.R. 1865 Further Consolidated Appropriations Act of 2020 was passed into law on December 20, 2019. This law repealed the excise tax completely and removes the Health Insurer Fee permanently beginning in 2021. The next GASB 75 disclosure with a measurement date of December 31, 2019 will completely exclude the excise tax and remove the Health Insurer Fee beginning in 2021.

#### **NOTE 12 COMMITMENTS AND CONTINGENCIES**

**General Legal Matters** - Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail’s financial position beyond amounts already accrued as of December 31, 2018.

**Tacoma Rail Operation of City of Tacoma, Department of Public Works (“Public Works”), Mountain Division** - Public Works owns approximately 142 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2020. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

#### **NOTE 13 SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and the general population. Given the dynamic nature of these circumstances and potential business disruption, the City and the Division could experience a significant short-term impact to operations. Management will continue to monitor the situation closely, but given the uncertainty about the situation, it is unable to estimate the impact to the financial statements.

# Required Supplementary Information

Proportionate Share of the Collective OPEB Liability Last 10 Years\*

	As of Measurement Date December 31,		
	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	4.87%	5.52%	5.28%
Employer's proportion share of collective OPEB liability	\$9,947,627	\$12,179,967	\$11,048,417
Employer's covered-employee payroll**	\$11,191,578	\$10,999,962	\$11,033,203
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	88.88%	110.73%	100.14%

\* 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, 2019**

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 4.10% from 3.44%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

# Statistical Data (Unaudited)

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Rail

Ten-Year Financial Review

	2019	2018	2017 (As Restated)	2016
<b>STATEMENTS OF NET POSITION</b>				
<b>ASSETS</b>				
Railway Plant - Net	\$27,166,350	\$26,113,399	\$26,705,711	\$28,216,744
Other Property and Special Funds	-	-	-	64,974
Current and Accrued Assets	22,857,298	18,693,794	13,964,325	13,960,977
Deferred Outflows	738,535	993,546	114,073	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>50,762,183</b>	<b>45,800,739</b>	<b>40,784,109</b>	<b>42,242,695</b>
<b>LIABILITIES</b>				
Long-Term Debt	3,582,991	4,403,234	5,223,477	5,397,028
Current and Accrued Liabilities	4,056,634	3,421,462	2,240,256	3,793,795
Long-Term Liabilities	14,654,928	16,872,528	14,461,464	4,017,974
Total Liabilities	22,294,553	24,697,224	21,925,197	13,208,797
Deferred Inflows	2,366,485	289,802	-	-
<b>NET POSITION</b>	<b>26,101,145</b>	<b>20,813,713</b>	<b>18,858,912</b>	<b>29,033,898</b>
<b>TOTAL LIABILITIES AND NET POSITION AND DEFERRED INFLOWS</b>	<b>\$50,762,183</b>	<b>\$45,800,739</b>	<b>\$40,784,109</b>	<b>\$42,242,695</b>
<b>STATEMENTS OF INCOME</b>				
<b>OPERATING REVENUES</b>				
Switching Revenues	\$29,891,207	\$27,933,469	\$26,648,873	\$27,417,653
Other Operating Revenues	6,920,393	5,231,761	4,068,008	3,409,347
Total Operating Revenues	36,811,600	33,165,230	30,716,881	30,827,000
<b>OPERATING EXPENSES</b>				
Operation and Maintenance	27,475,800	27,582,675	36,761,179	26,696,068
Taxes	506,359	465,808	432,081	439,317
Depreciation	1,840,439	1,737,714	1,644,373	1,472,955
Total Operating Expenses	29,822,598	29,786,197	38,837,633	28,608,340
<b>NET OPERATING INCOME (LOSS)</b>	<b>6,989,002</b>	<b>3,379,033</b>	<b>(8,120,752)</b>	<b>2,218,660</b>
<b>NON-OPERATING REVENUES (EXPENSE)</b>				
Net Other Income	1,112,903	1,174,556	426,311	2,287,330
Interest Earned on Investments	426,085	152,072	68,420	86,126
Interest on Unfunded Debt	-	-	(6)	(8,542)
Total Non-Operating Revenues	1,538,988	1,326,628	494,725	2,364,914
<b>TRANSFERS OUT</b>				
City Gross Earnings Tax	3,042,980	2,750,860	2,548,959	2,591,337
Transfers to Other Funds	197,578	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$5,287,432</b>	<b>\$1,954,801</b>	<b>(\$10,174,986)</b>	<b>\$1,992,237</b>

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



2015	2014	2013	2012	2011	2010
\$24,748,388	\$21,058,809	\$18,015,675	\$16,258,926	\$13,958,818	\$9,446,780
64,861	65,104	65,110	397,381	399,607	400,792
14,843,745	15,964,236	12,961,818	11,397,915	8,867,794	8,686,413
-	-	-	-	-	6,103
39,656,994	37,088,149	31,042,603	28,054,222	23,226,219	18,540,088
5,556,302	4,482,801	2,764,959	2,166,751	2,001,568	2,101,571
3,443,589	4,096,245	3,232,279	3,920,067	1,762,532	1,602,400
3,615,442	4,278,913	2,827,186	1,617,434	1,315,320	1,226,721
12,615,333	12,857,959	8,824,424	7,704,252	5,079,420	4,930,692
-	-	-	-	-	-
27,041,661	24,230,190	22,218,179	20,349,970	18,146,799	13,609,396
\$39,656,994	\$37,088,149	\$31,042,603	\$28,054,222	\$23,226,219	\$18,540,088
\$25,690,797	\$26,495,108	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858
3,474,443	2,962,289	2,372,435	2,250,434	2,153,392	898,739
29,165,240	29,457,397	26,943,302	23,043,798	19,403,619	15,479,597
24,168,168	25,063,534	22,348,268	18,962,149	16,117,560	13,942,626
417,135	429,875	437,282	404,105	339,525	261,854
1,220,882	1,069,265	996,782	824,549	641,315	706,323
25,806,185	26,562,674	23,782,332	20,190,803	17,098,400	14,910,803
3,359,055	2,894,723	3,160,970	2,852,995	2,305,219	568,794
1,878,109	1,830,033	1,004,957	1,282,274	3,836,348	1,524,627
51,379	72,535	21,155	81,907	132,196	74,327
(21,678)	(34,122)	(45,941)	(62,090)	(80,959)	(102,293)
1,907,810	1,868,446	980,171	1,302,091	3,887,585	1,496,661
2,410,016	2,440,631	2,240,525	1,931,338	1,632,180	1,311,439
45,378	310,527	32,407	20,577	13,049	-
\$2,811,471	\$2,012,011	\$1,868,209	\$2,203,171	\$4,547,575	\$754,016

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Rail

Ten-Year Switching Statistics

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>SWITCHING REVENUES</b>				
Line Hauls	\$28,035,621	\$25,713,116	\$23,704,622	\$25,683,614
Local and Miscellaneous	<u>1,855,586</u>	<u>2,220,353</u>	<u>2,944,251</u>	<u>1,734,039</u>
TOTAL SWITCHING REVENUES	\$29,891,207	\$27,933,469	\$26,648,873	\$27,417,653
 <b>NUMBER OF CARS SWITCHED</b>				
Line Hauls	103,201	95,678	89,748	107,059
Local and Miscellaneous	<u>10,835</u>	<u>13,041</u>	<u>17,382</u>	<u>3,863</u>
TOTAL NUMBER OF CARS SWITCHED	114,036	108,719	107,130	110,922
 <b>SWITCHING STATISTICS (AVERAGE)</b>				
Revenue/Line Haul Car	\$271.66	\$268.75	\$264.12	\$239.90
Revenue/Local & Miscellaneous Car	\$171.26	\$170.26	\$169.39	\$448.88

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$24,334,649	\$24,933,732	\$23,358,089	\$19,913,410	\$16,395,640	\$13,744,377
<u>1,356,148</u>	<u>1,561,376</u>	<u>1,212,778</u>	<u>879,954</u>	<u>854,587</u>	<u>836,481</u>
\$25,690,797	\$26,495,108	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858
99,277	105,079	97,536	89,554	66,440	70,574
<u>2,896</u>	<u>3,058</u>	<u>1,830</u>	<u>2,563</u>	<u>2,513</u>	<u>2,601</u>
102,173	108,137	99,366	92,117	68,953	73,175
\$245.12	\$237.29	\$239.48	\$222.36	\$246.77	\$194.75
\$468.28	\$510.59	\$662.72	\$343.33	\$340.07	\$321.60

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Rail

Comparison of Cars Switched and Switching Revenues

	December 2019	December 2018	YEAR ENDED	
			December 31, 2019	December 31, 2018
<b>SWITCHING REVENUES</b>				
LINE HAULS--INTERMODAL	\$1,000,528	\$1,113,244	\$11,953,243	\$11,265,293
LINE HAULS--COMMERCIAL	1,571,238	1,358,800	15,603,008	14,028,690
LINE HAULS--CAPITAL DIVISION	53,580	30,210	479,370	419,133
MISCELLANEOUS SWITCHES	<u>117,753</u>	<u>169,274</u>	<u>1,855,586</u>	<u>2,220,353</u>
TOTAL SWITCHING REVENUES	<u><u>\$2,743,099</u></u>	<u><u>\$2,671,528</u></u>	<u><u>\$29,891,207</u></u>	<u><u>\$27,933,469</u></u>
 <b>SWITCHING ACTIVITIES (CARS)</b>				
LINE HAULS--INTERMODAL	5,794	6,698	70,496	66,661
LINE HAULS--COMMERCIAL	3,087	3,104	31,864	28,264
LINE HAULS--CAPITAL DIVISION	94	53	841	753
MISCELLANEOUS SWITCHES	<u>454</u>	<u>720</u>	<u>10,835</u>	<u>13,041</u>
TOTAL CARS SWITCHED	<u><u>9,429</u></u>	<u><u>10,575</u></u>	<u><u>114,036</u></u>	<u><u>108,719</u></u>

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Rail

Funds Available for Debt Service

	2019	2018	2017 (As Restated)	2016	2015
Total Income	\$ 38,304,908	\$ 34,379,552	\$ 31,175,358	\$ 32,260,821	\$ 30,248,665
Less: Operating Exp	27,982,159	28,048,483	37,193,260	27,135,385	24,585,303
Income Available for Debt Service	<u>\$ 10,322,749</u>	<u>\$ 6,331,069</u>	<u>\$ (6,017,902)</u>	<u>\$ 5,125,436</u>	<u>\$ 5,663,362</u>
Bond Redemption	\$ -	\$ -	\$ -	\$ 248,525	\$ 235,569
Bond Interest	-	-	-	11,891	24,847
Debt Service Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>
Time Debt Service Covered	-	-	-	19.68	21.75

City of Tacoma, Washington  
Department of Public Utilities  
Tacoma Rail

Taxes and Employee Welfare Contributions  
For the Year 2019

**FEDERAL**

Railroad Retirement	\$2,264,180	
Railroad Unemployment Insurance	<u>48,546</u>	
Total		2,312,726

**STATE OF WASHINGTON**

Retail Sales & Use Tax	571,411	
Utility and Business Occupation Tax	<u>506,359</u>	
Total		1,077,770

**CITY OF TACOMA**

Gross Earnings Tax		<u>3,042,980</u>
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TOTAL TAXES		<u><u>\$6,433,476</u></u>
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Taxes as a % of Total Operating Revenues of \$36,811,600		17.48%
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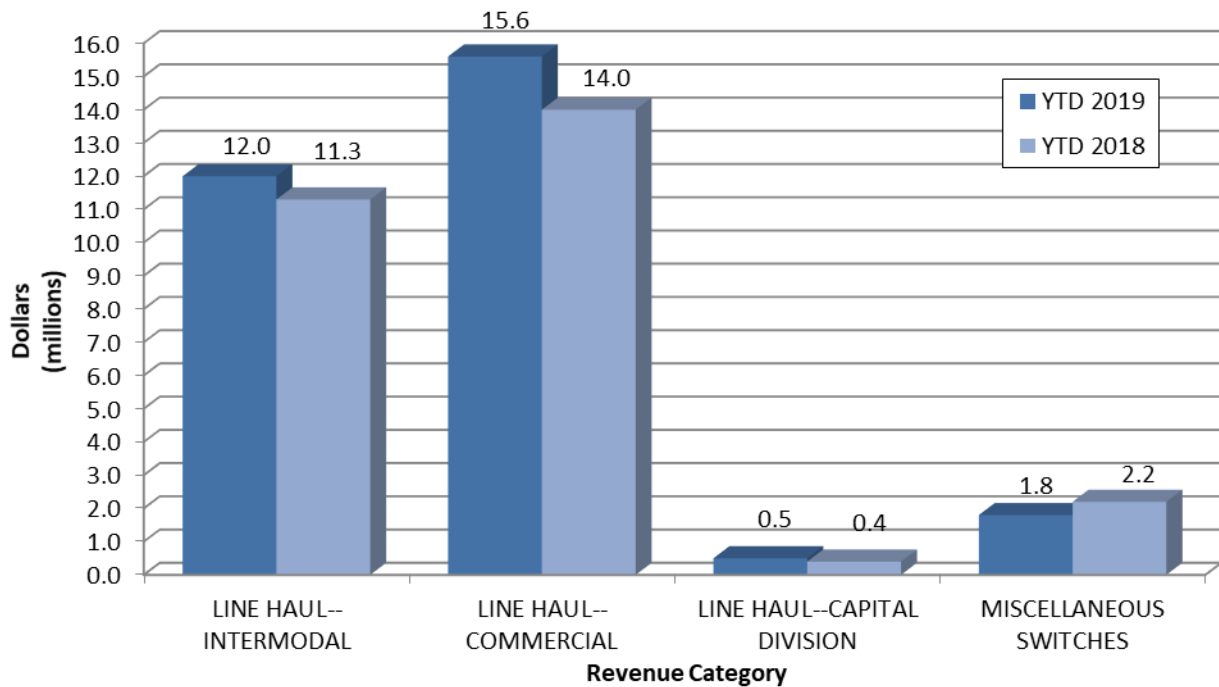
**EMPLOYEE WELFARE CONTRIBUTIONS**

Pierce County Medical Bureau	\$1,896,237	
Washington Dental Service	181,124	
Other Contributions	<u>338,555</u>	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u><u>\$2,415,916</u></u>

# Graphs

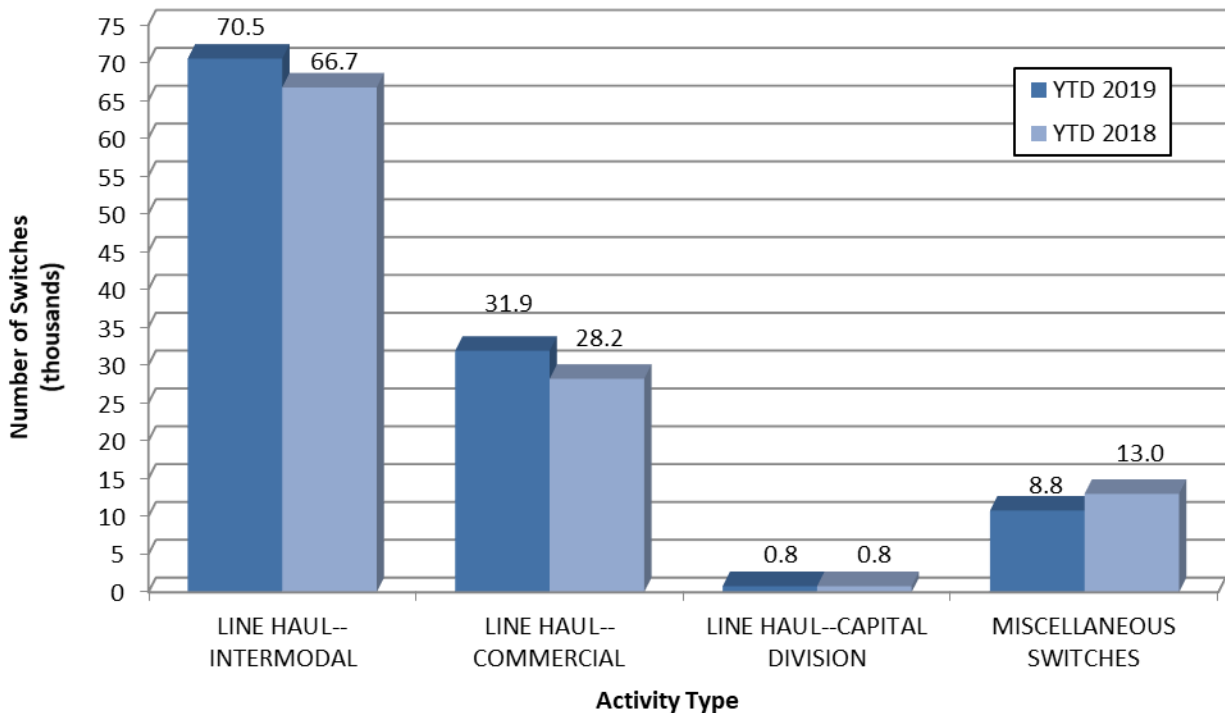
## SWITCHING REVENUES

### Year to Date - December 2019 & 2018



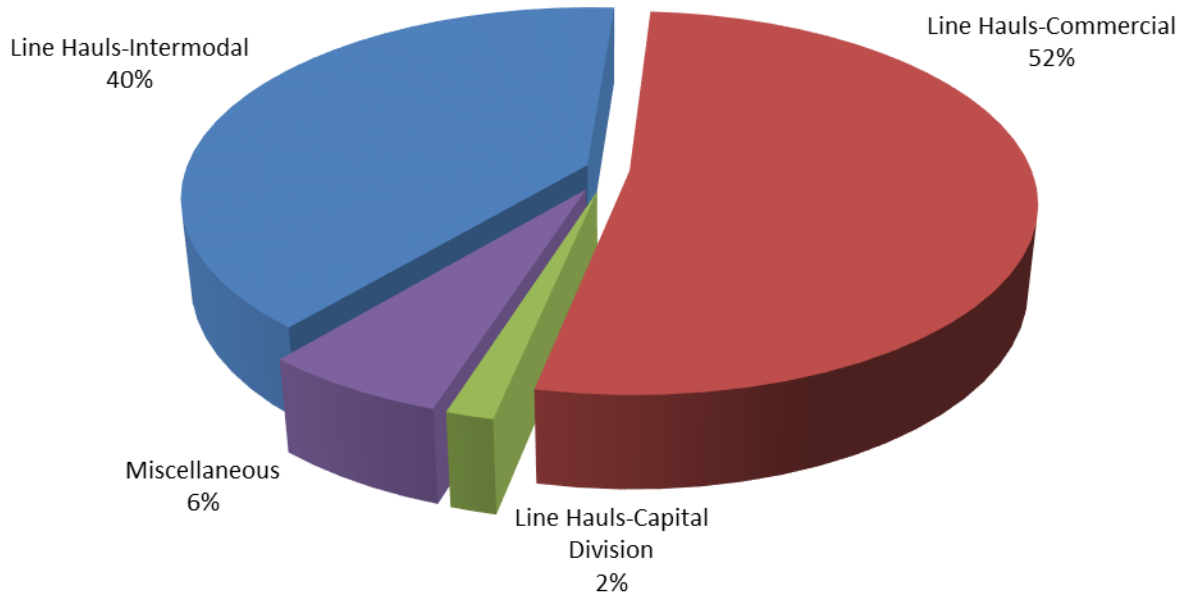
## SWITCHING ACTIVITIES

### Year to Date - December 2019 & 2018

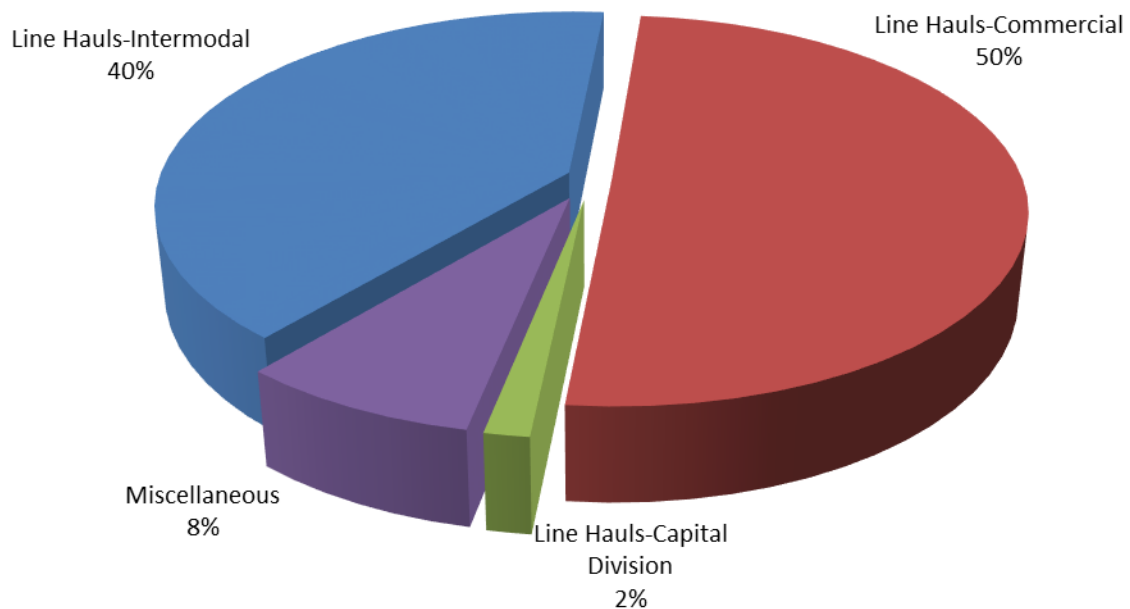




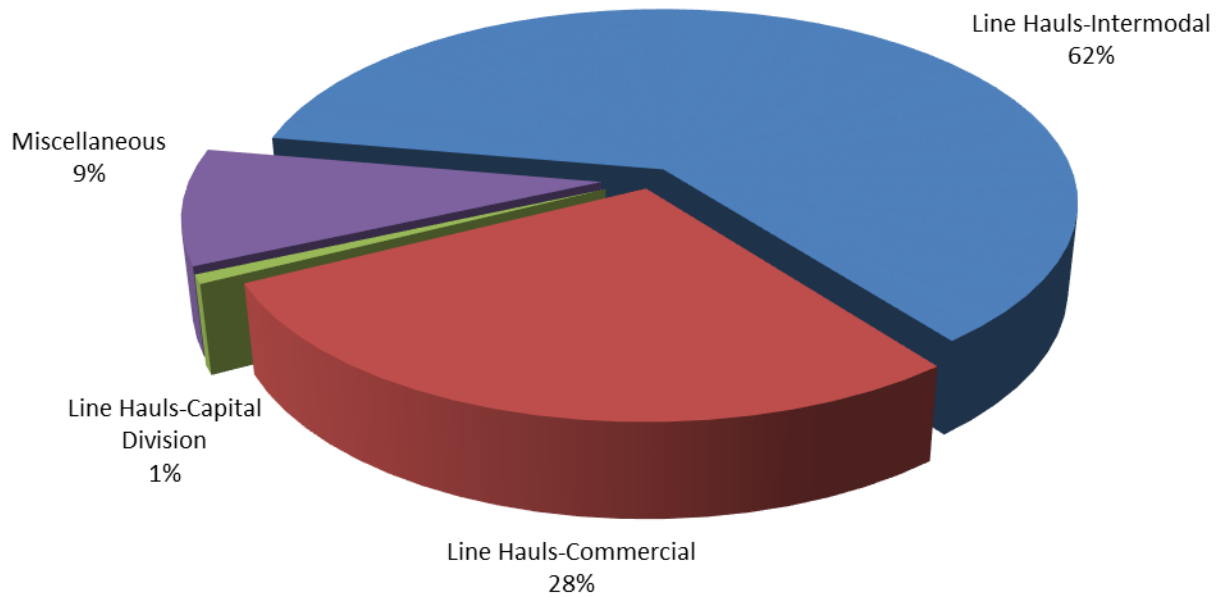
**SWITCHING REVENUES**  
**Year to Date - December 2019 (\$29,891,207)**



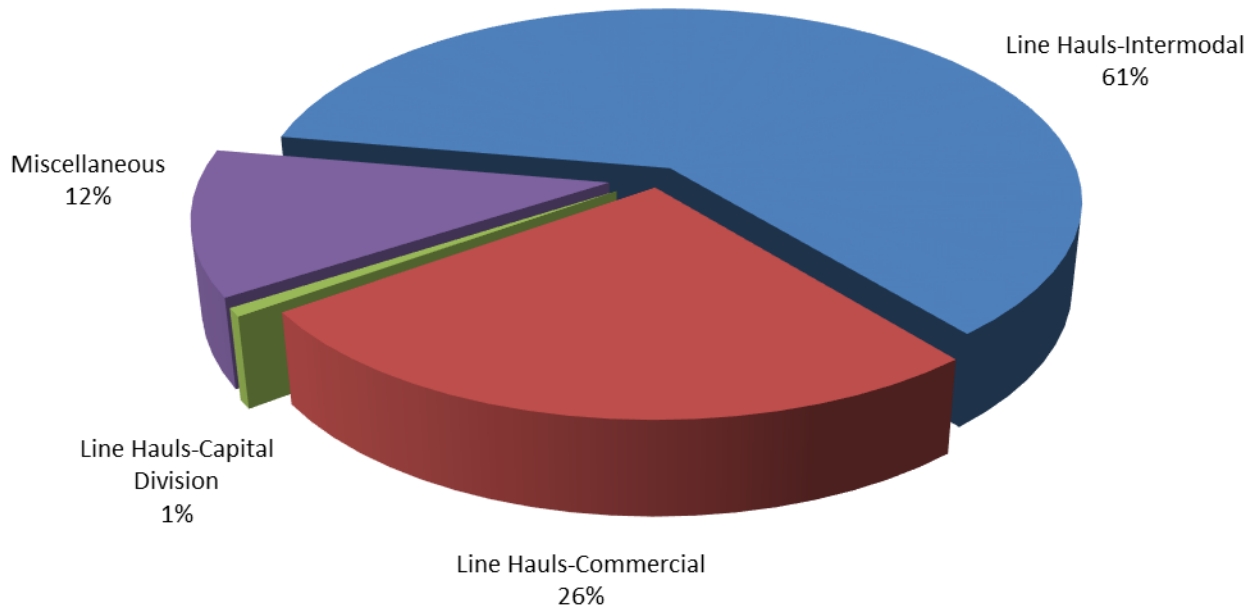
**SWITCHING REVENUES**  
**Year to Date - December 2018 (\$27,933,469)**



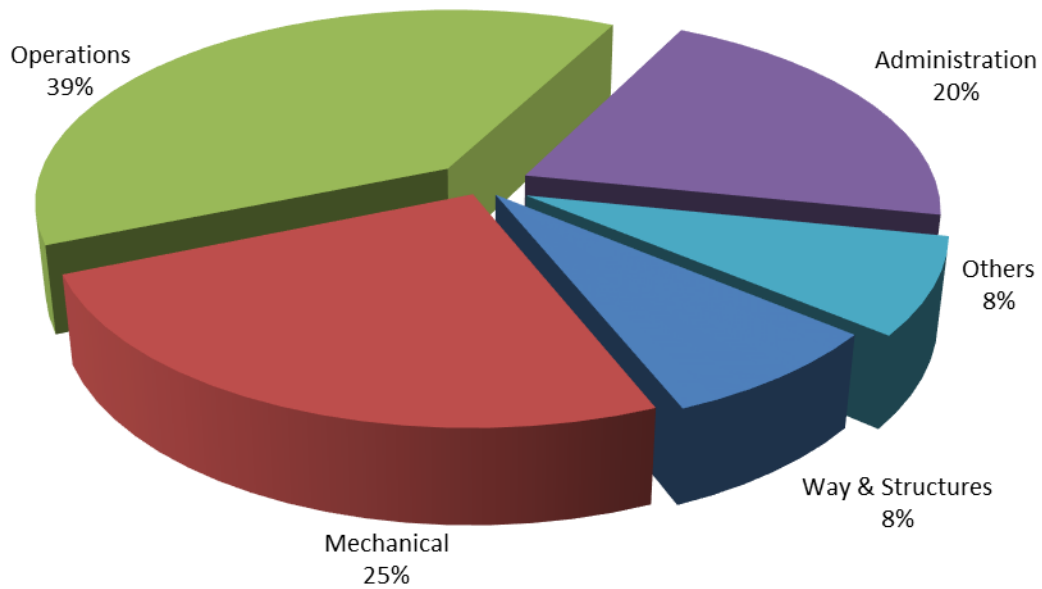
**SWITCHING ACTIVITY**  
**Year to Date - December 2019 (114,036 cars)**



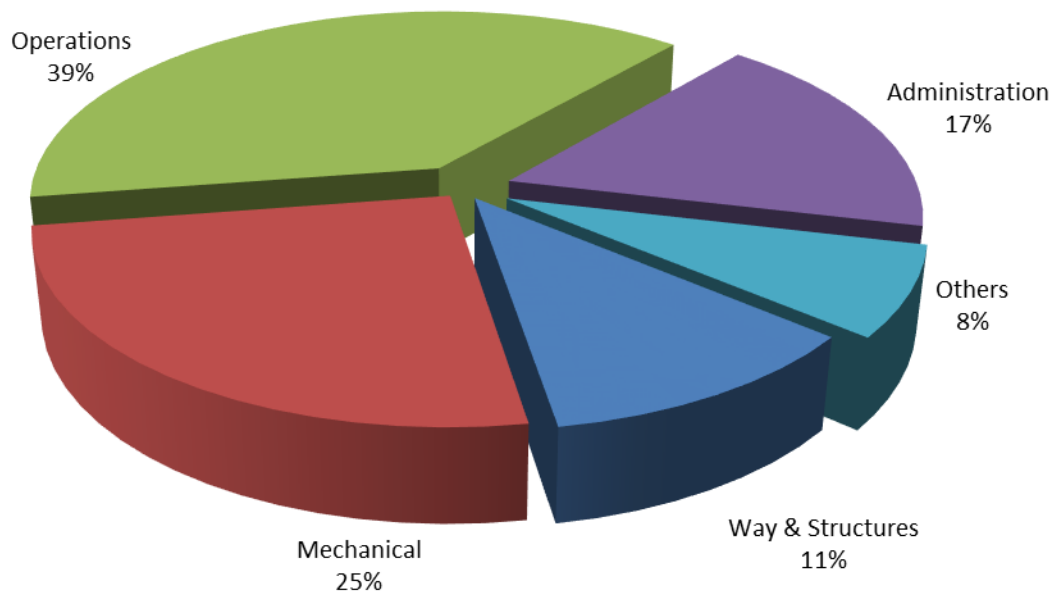
**SWITCHING ACTIVITY**  
**Year to Date - December 2018 (108,719 cars)**



**TOTAL OPERATING EXPENSES**  
**Year to Date - December 2019 (\$29,822,598)**



**TOTAL OPERATING EXPENSES**  
**Year to Date - December 2018 (\$29,786,197)**



# Superintendent's Report (Unaudited)

Tacoma Rail continued to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and Tacoma's industrial areas (Tidelands Division), to Lakeview (Capital Division) and to Frederickson (Mountain Division) in 2019.

## **TIDELANDS DIVISION**

Line haul count was up by more than 13,000 units in 2019 over 2018. An increase in both intermodal platforms and unit train railcars led to a corresponding increase in line haul revenue of approximately \$2.0 million. The Northwest Seaport Alliance (NWSA) experienced volatility in international intermodal trade leading to large monthly volume swings throughout 2019. Tacoma Rail's agreement with the Union Pacific to assemble 10,000-foot intermodal trains on a daily basis continued to add revenue to the top line. Over 25,000 domestic intermodal platforms were handled by Tacoma Rail on behalf of Union Pacific generating nearly \$1.3 million in incremental revenue in 2019.

Both unit trains and other commercial traffic were up versus the prior year. The primary driver for the increase was import automobiles with an overall commercial traffic increase of 11% in 2019. Washington State environmental rules mandating the execution of oil spill contingency plans were a focus area for Tacoma Rail. We successfully completed our second Department of Ecology supervised tabletop spill drill in October.

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Intermodal platforms	199,464	191,129	171,443	214,156	187,827	184,451
Unit train railcars	26,115	24,922	21,641	17,410	13,800	13,838
All others	31,190	27,604	27,519	30,844	31,142	32,509
<b>Total line hauls</b>	<b>256,769</b>	<b>243,655</b>	<b>220,603</b>	<b>262,410</b>	<b>232,769</b>	<b>230,798</b>

## **CAPITAL DIVISION**

From 753 carloads in 2018, total traffic on the Capital Division increased 12% to 841 carloads. The Capital Division provides service to customers in South Tacoma and Lakewood through our freight franchise on the rail line owned by Sound Transit. Expenses have increased on the Capital Division as Positive Train Control (PTC) becomes functional.

## **MOUNTAIN DIVISION**

Tacoma Rail operates the Mountain Division (TRMW) for the City of Tacoma. Carloads handled fell from 1,594 in 2018 to 1,504 in 2019. The decrease was led by Hardie Building Products, which diverted traffic to a BNSF served reload center to avoid demurrage charges. A year-end surge in shipments to Farwest Fabrication offset some of the TRMW business losses. Expenses have increased on the Mountain Division as PTC becomes functional. We continue to collect charges from the tariff that was implemented in 2018 to mitigate this expense.

Dale W. King  
Superintendent



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