



20 Tacoma Rail 23 Annual Financial Report

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2023
PREPARED BY THE FINANCE DEPARTMENT

TACOMA RAIL
TACOMA PUBLIC UTILITIES

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DEPARTMENT OF PUBLIC UTILITIES

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Tacoma, Department of Public Utilities, Rail Division (the Division), as of and for the years ended December 31, 2023 and 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Division as of December 31, 2023 and 2022, and the respective 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, 2023 and 2022, 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. 96, *Subscription-Based Information Technology Arrangements*, effective January 1, 2022. 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 the 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 accompanying management's discussion and analysis 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 basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 basic financial statements and our auditor's report thereon. Our opinion on the basic 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 basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic 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 May 29, 2024, 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 of the Division's internal control over financial reporting and compliance.



Tacoma, Washington
May 29, 2024

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, 2023, 2022 and 2021. This discussion and analysis are 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 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, 2023 and 2022, 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all 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 fluctuations in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2023 indicate an increase in total intermodal traffic from 2022 with volume growth at all four of the intermodal terminals. Of Tacoma Rail's top 15 (fifteen) customers, 9 (nine) of them experienced at least some growth from the prior year. The largest increase in traffic was with Wallenius Wilhelmsen Solutions with their import automobile traffic. Tacoma Rail has responded to the continuous variations in line haul revenue with necessary expenditure and capital investment controls.

Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$8.1 million in 2023, compared to negative \$0.7 million in 2022, an increase of \$8.8 million. The decrease in change in net position is predominately due to an increase of \$7.0 million in operating revenues, a decrease of \$1.2 million in operating expenses, along with an increase of \$1.1 million in non-operating revenues, and an increase of \$0.1 million in contributions – grants, offset with a decrease in net transfers of \$0.6 million.

In 2022, Tacoma Rail realized a change in net position of negative \$0.7 million, compared to \$0.9 million in 2021, a decrease of \$1.7 million. The decrease in change in net position was due to a decrease of \$2.0 million in operating revenues, offset with a decrease of \$1.6 million in operating expenses, a decrease of \$0.5 million in non-operating revenue, along with a decrease of \$1.0 million in contributions, and a decrease in net transfers of \$0.2 million.

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

OPERATING RESULTS (in thousands)					
Description	2023	2022 (As Restated)	2021	23/22 Increase (Decrease)	22/21 Increase (Decrease)
Operating Revenues	\$39,095	\$32,131	\$34,088	\$6,964	(\$1,957)
Operating Expenses	29,089	30,323	31,877	(1,234)	(1,554)
Operating Income	10,006	1,808	2,211	8,198	(403)
Non-Operating Revenues/ (Expenses)	957	(147)	360	1,104	(507)
Contributions	267	190	1,141	77	(951)
Transfers from/ (to)	(3,176)	(2,599)	(2,766)	(577)	167
Change in Net Position	<u>\$8,054</u>	<u>(\$748)</u>	<u>\$946</u>	<u>\$8,802</u>	<u>(\$1,694)</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.

STATEMENTS OF NET POSITION (in thousands)					
Description	2023	2022 (As Restated)	2021	23/22 Increase (Decrease)	22/21 Increase (Decrease)
Net Capital Assets	\$38,800	\$36,638	\$33,137	\$2,162	\$3,501
Total Current Assets	22,472	18,801	22,813	3,671	(4,012)
Deferred Outflows	1,183	1,659	2,054	(476)	(395)
Total Assets and Deferred Outflows	<u>\$62,455</u>	<u>\$57,098</u>	<u>\$58,004</u>	<u>\$5,357</u>	<u>(\$906)</u>
Invested in Capital Assets, Net of Related Debt	\$35,108	\$33,137	\$29,807	\$1,971	\$3,330
Unrestricted Net Position	4,046	(2,037)	2,040	6,083	(4,077)
Total Net Position	39,154	31,100	31,847	8,054	(747)
Long-Term Debt	2,767	2,577	2,486	190	91
Current Liabilities	3,466	4,417	3,467	(951)	950
Long-Term Liabilities	13,271	16,070	17,387	(2,799)	(1,317)
Total Liabilities	19,504	23,064	23,340	(3,560)	(276)
Deferred Inflows	3,797	2,934	2,817	863	117
Total Net Position, Liabilities, and Deferred Inflows	<u>\$62,455</u>	<u>\$57,098</u>	<u>\$58,004</u>	<u>\$5,357</u>	<u>(\$906)</u>

Revenues

2023 Compared to 2022

In 2023, Tacoma Rail operating revenues of \$39.1 million were \$7.0 million higher than the \$32.1 million in 2022. Overall switching revenues increased \$8.3 million or 31.4%, from 2022. The following table summarizes the switching revenues by activity type for the last three years.

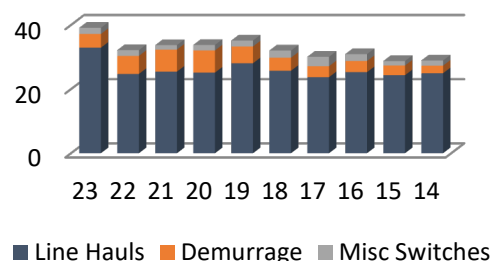
Activity Types	Switching Revenues (in thousands)						
				23/22 Increase (Decrease)		22/21 Increase (Decrease)	
	2023	2022	2021	Var	%Chg	Var	%Chg
Intermodal Line Hauls	\$ 12,051	\$ 8,740	\$ 10,132	3,311	37.9%	(1,392)	-13.7%
Commercial Line Hauls	20,436	15,556	14,219	4,880	31.4%	1,337	9.4%
Capital Div. Line Hauls	427	424	433	3	0.7%	(9)	-2.1%
Miscellaneous Switches	1,912	1,790	2,442	122	6.8%	(652)	-26.7%
Total Line Hauls	\$ 34,826	\$ 26,510	\$ 27,226	\$ 8,316	31.4%	\$ (716)	-2.6%

Demurrage and other operating revenues decreased \$1.4 million. Demurrage revenue decreased by \$0.5 million and locomotive servicing revenue and other revenue decreased \$0.9 million. This is due to a decrease in locomotive servicing and a decrease in allowing customers railcars to dwell in transit longer than in 2022.

2022 Compared to 2021

In 2022, Tacoma Rail operating revenues of \$32.1 million were \$2.0 million lower than the \$34.1 million in 2021. Overall switching revenues decreased \$0.7 million or 2.6%, from 2021.

OPERATING REVENUES
(in millions)

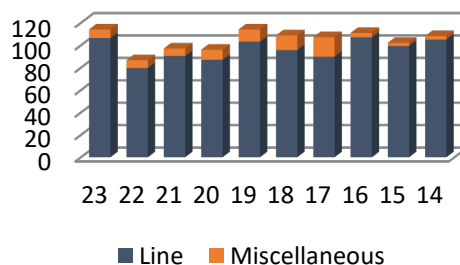


Switching Activities

Switching activities increased in 2023 by 27,829 cars or 32.3% to 114,036, from 86,207 in 2022. The most significant increase in switching activity can be seen in commercial line-hauls which were up by 12,149 cars or 45.8% due to an increase in intermodal line haul rail traffic. The average number of cars switched over the last ten years is 104,435.

During 2022, total switching activities decreased by 10,822 cars or 11.2% from 2021. The decrease in intermodal line haul rail traffic was the dominant factor. Intermodal line-hauls were down by 10,508 cars or 16.8% in 2022.

SWITCHING ACTIVITIES
(in thousands)



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

Description	SWITCHING ACTIVITIES				
	2023	2022	2021	23/22 Increase (Decrease)	22/21 Increase (Decrease)
Line Hauls	106,388	79,176	90,406	27,212	(11,230)
Miscellaneous Switches	7,648	7,031	6,623	617	408
Total Cars Switched	<u>114,036</u>	<u>86,207</u>	<u>97,029</u>	<u>27,829</u>	<u>(10,822)</u>

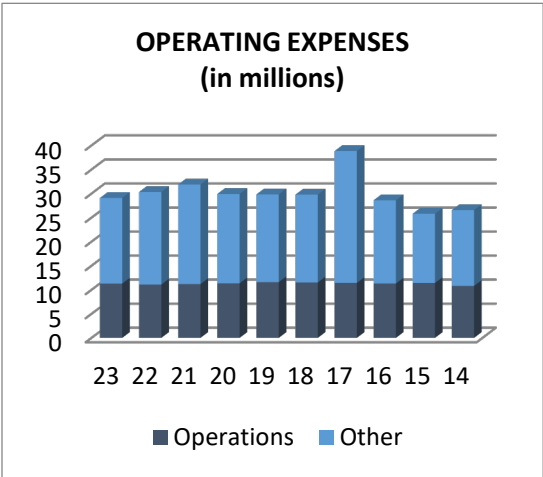
Expenses

2023 Compared to 2022

In 2023, Tacoma Rail operating expenses of \$29.1 million were \$1.2 million lower than \$30.3 million in 2022. This was primarily due to decreases of \$1.1 million in fuel usage and locomotive servicing, \$0.3 million in car hire expenses, and \$0.1 million in assessments compared to 2022. These increases were offset by an increase of \$0.3 million in salaries and wages.

2022 Compared to 2021

In 2022, Tacoma Rail operating expenses of \$30.3 million which were \$1.6 million lower than \$31.9 million in 2021. This was primarily due to decreases of \$1.5 million in fuel usage and locomotive servicing, \$0.7 million in pension expense, \$0.2 million in OPEB expense. These decreases were offset by increases of \$0.3 million in depreciation expenses, \$0.2 million in salaries and wages, and \$0.2 million in repair and maintenance material and services.



Non-Operating Revenues/ (Expenses)

In 2023, Interest income increased by \$0.1 million compared to 2022 due to higher cash balance and higher interest rates in City pooled investments in 2023. Unrealized Net Gain (Loss) on Fair Value Investment increased by \$0.6 million in 2023 due to higher market value of investments as of December 31, 2023, compared to December 31, 2022.

Gain (Loss) from Disposition of Property decreased by \$0.3 million due the less vehicles surplus in 2023 compared to 2022.

There was \$0.2 million operating grant in 2023. This operating grant is from Federal Emergency Management Agency for public assistance for disaster recovery through the Washington State Military Department. There was no operating grant in 2022.

Contribution - Grants

In 2023, contribution – grants increased \$0.1 million from 2022 due to the funding for Lincoln Avenue Port of Tacoma Road Signals project.

Transfers

In 2023, transfer from/(to) Other Funds increased \$0.6 million compared to a decrease of \$0.2 million in 2022. The changes were mainly due to the changes in Gross Earnings Tax.

Capital Assets

Net Capital Assets increased \$2.2 million during 2023. The increase was due to the additions of \$6.3 million in building, \$1.6 million in road and equipment property, and \$0.3 million in machinery equipment and office and fixtures. These increases were offset with \$3.4 million decrease in Construction Work In Progress (“CWIP”) and \$2.6 million increase in accumulated depreciation. The primary building increase during the year was the completion of the East Barn Locomotive Fueling Facility in the amount of \$6.1 million. The road property plant increases during the year were the completion of project Yard Track Upgrades 7 & 14-17. The machinery equipment increases were mainly vehicles. CWIP decreases were mainly due to the completed projects that were placed in service.

The Division implemented GASB Statement No. 96, *Subscription-based information technology arrangements (SBITAs)*, effective January 1, 2022. The implementation required the recognition of a right-to-use of another entity's information technology software, alone or in combination with tangible capital assets as specified in the contract for a period of time in an exchange or exchange-like transactions. The Division restated the 2022 capital assets for the adoption of GASB Statement No. 96. Right to use subscription assets were recorded in the net amount of \$28,300 as of December 31, 2023 compared to \$47,168 as of December 31, 2022. Further information can be found in Note 5 and Note 6.

During 2022, Net Capital Assets increased \$3.5 million. This increase was reflected primarily in additions of \$4.5 million in Construction Work In Progress, \$1.2 million in road property plant, and \$0.3 million in office and fixture equipment. These increases were offset with \$2.8 million retirement in machinery equipment. The CWIP addition was mainly the Lincoln Track Upgrade project. The road property plant increases during the year were the completion of projects Transfer Lead Rehabilitation, Warehouse Roll Door, and Lincoln Track Blair Peninsula Upgrade. The office and fixture equipment increase during the year was placing a radio repeater communication system into service. The machinery equipment retirements were mainly locomotives.

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>2023</u>	<u>2022</u> <u>(As Restated)</u>	<u>2021</u>	<u>23/22</u> <u>Increase</u> <u>(Decrease)</u>	<u>22/21</u> <u>Increase</u> <u>(Decrease)</u>
Land	\$ 172	\$ 172	\$ 172	\$ -	\$ -
Software Subscription	28	47	0	(19)	47
Road Property Plant	19,820	19,755	19,983	65	(228)
Building	7,634	1,572	1,764	6,062	(192)
Machinery Equipment	7,973	8,495	9,479	(522)	(984)
Office and Fixture	662	705	125	(43)	580
Vehicles	733	752	968	(19)	(216)
Construction Work In Progress	1,778	5,140	646	(3,362)	4,494
Total Net Capital Assets	<u>\$ 38,800</u>	<u>\$ 36,638</u>	<u>\$ 33,137</u>	<u>\$ 2,162</u>	<u>\$ 3,501</u>

Additional information on Tacoma Rail's capital assets can be found in Note 5 to the Financial Statements.

Debt Administration

In 2023, draws were taken from Washington State loans from the Department of Transportation on Lincoln Track Upgrade in the amount of \$100,000, Tacoma Rail Yard Track Upgrades in the amount of \$433,450, and Alexander Wye Track Upgrades in the amount of \$545,000. An accrual of \$37,804 loan fee was recorded in 2023 as part of the loan additions. Tacoma Rail obtained two new Washington State loans from the Department of Transportation for Blair Peninsula Switches in the amount of \$400,000 and Annie Tracks Switch & Curve Upgrade in the amount of \$1,590,000. No funds have been drawn on these new projects.

In 2022, draws were taken from Washington State loans from the Department of Transportation on East Locomotive Service Facility in the amount of \$840,000, Lincoln Track Upgrade in the amount of \$210,000 and Tacoma Rail Yard Track Upgrades in the amount of \$16,550. An accrual of \$28,000 loan fee was recorded in 2022 as part of the loan additions. Tacoma Rail obtained one new Washington State loan from the Department of Transportation for Alexander Wye Track Upgrades in the amount of \$606,000.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 7 to the Financial Statements.

LONG-TERM DEBT (In thousands)					
	2023	2022	2021	23/22 Increase (Decrease)	22/21 Increase (Decrease)
Long-Term Debt Balance, Including current portion	\$ 3,664	\$ 3,455	\$ 3,330	\$ 209	\$ 125

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2023, 2022 and 2021, 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 accurate, 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,	
	2023	2022 (As Restated)
CAPITAL ASSETS		
Road and Equipment Property	\$68,009,536	\$59,898,772
Less Accumulated Depreciation	(31,015,263)	(28,448,433)
Net Road and Equipment Property	36,994,273	31,450,339
Right to Use Subscription Assets	56,601	56,601
Less Accumulated Amortization	(28,301)	(9,433)
Net Right to Use	28,300	47,168
Construction Work in Progress	1,777,783	5,140,175
Net Capital Assets	38,800,356	36,637,682
CURRENT ASSETS		
Cash & Equity in Pooled Investments	12,592,771	11,312,463
Customer Accounts Receivable	4,428,852	3,392,550
(Net of Allowance for Doubtful Accounts of \$325,730 in 2023 and \$225,739 in 2022)		
Grants Receivable	31,890	171,756
Prepayments	3,974,873	2,625,653
Materials and Supplies Inventory	1,442,977	1,299,035
Total Current Assets	22,471,363	18,801,457
DEFERRED OUTFLOWS		
Deferred Outflows for OPEB	1,182,933	1,659,142
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$62,454,652	\$57,098,281

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

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

NET POSITION AND LIABILITIES	DECEMBER 31,	
	2023	2022 (As Restated)
NET POSITION		
Net Investment in Capital Assets	\$35,108,235	\$33,137,045
Unrestricted	4,045,560	(2,037,366)
TOTAL NET POSITION	39,153,795	31,099,679
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
State Loans	2,767,054	2,577,327
Total Long-Term Liabilities	2,767,054	2,577,327
CURRENT LIABILITIES		
Accounts Payable	1,078,941	1,782,023
Customer Deposits	100,000	100,000
Wages Payable	369,038	411,805
Unemployment and Other Tax Payables	373,333	323,570
Current Portion of Long-Term Debt	896,633	877,399
Current Portion of Compensated Absences	154,767	148,630
Current OPEB Liability	244,449	469,521
Current Portion of Pension Withdrawal Liability	229,581	286,976
Current Subscription Liability	18,868	17,532
Total Current Liabilities	3,465,610	4,417,456
LONG-TERM LIABILITIES		
On the Job Injury Reserve	535,177	717,564
Long-Term Portion of Compensated Absences	1,392,904	1,337,672
Pension Withdrawal Liability	2,290,581	2,520,162
OPEB Liability	8,517,668	10,077,629
Long-Term Subscription Liability	9,567	28,379
Incurred but not Reported Claims	525,683	1,388,291
Total Long-Term Liabilities	13,271,580	16,069,697
TOTAL LIABILITIES	19,504,244	23,064,480
DEFERRED INFLOWS		
Deferred Inflows for OPEB	3,796,613	2,934,122
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	\$62,454,652	\$57,098,281

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 Revenues, Expenses and Changes in Net Position

	YEAR ENDED DECEMBER 31,	
	2023	2022 (As Restated)
OPERATING REVENUES		
Switching Revenues	\$34,826,695	\$26,509,822
Demurrage and Other Operating Revenues	4,268,263	5,621,336
Total Operating Revenues	39,094,958	32,131,158
OPERATING EXPENSES		
Maintenance of Way and Structures	3,152,349	2,816,935
Mechanical	5,953,500	6,601,587
Operations	11,290,088	11,069,393
Administration	5,405,275	6,678,526
Taxes - State	664,931	532,756
Depreciation and Amortization	2,623,263	2,623,387
Total Operating Expenses	29,089,406	30,322,584
Net Operating Income	10,005,552	1,808,574
NON-OPERATING REVENUES/ (EXPENSES)		
Interest Income	280,964	144,446
Unrealized Net Gain (Loss) on Fair Value Investment	236,020	(345,672)
Loss from Disposition of Property	(51,950)	(328,050)
Operating Grants	152,021	-
Other Non-operating Revenue	340,655	381,940
Total Non-Operating Revenues/ (Expenses)	957,710	(147,336)
Contributions - Grants	267,314	190,163
Total Contributions	267,314	190,163
Transfers		
City of Tacoma Gross Earnings Tax	(3,176,460)	(2,599,167)
Total Transfers	(3,176,460)	(2,599,167)
CHANGE IN NET POSITION	8,054,116	(747,766)
TOTAL NET POSITION - BEGINNING OF YEAR	31,099,679	31,847,445
TOTAL NET POSITION - END OF YEAR	\$39,153,795	\$31,099,679

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

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

	YEAR ENDED DECEMBER 31,	
	2023	2022 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$38,058,656	\$32,303,644
Cash Paid to Suppliers	(13,017,981)	(10,063,308)
Cash Paid to Employees	(16,720,878)	(16,235,576)
Taxes Paid	(615,168)	(524,542)
Cash from Other Non-Operating Revenues	527,604	406,700
Net Cash From Operating Activities	8,232,233	5,886,918
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(3,176,460)	(2,599,167)
Net Cash From Non-Capital Financing Activities	(3,176,460)	(2,599,167)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for capital assets acquisitions	(4,856,186)	(6,398,990)
Principal and Interest Payments on Subscriptions	(18,300)	(7,250)
Principal Payments on Long-Term Debt	(907,293)	(970,102)
Proceeds from Capital Contributions	407,180	446,087
Proceeds from Long-Term Debt	1,078,450	1,066,550
Proceeds from sale of capital assets	3,700	3,800
Net Cash From Capital and Related Financing Activities	(4,292,449)	(5,859,905)
CASH FLOWS FROM INVESTING ACTIVITIES ^a		
Interest and Investments Income (Loss)	516,984	(201,226)
Net Cash From Investing Activities	516,984	(201,226)
Net Change in Cash and Equity in Pooled Investments	1,280,308	(2,773,380)
Cash and Equity in Pooled Investments at January 1	<u>11,312,463</u>	<u>14,085,843</u>
Cash and Equity in Pooled Investments at December 31	<u>\$12,592,771</u>	<u>\$11,312,463</u>

^a Increases and decreases in the fair value of investments are treated as additions or deductions to cash and equity in pooled investments and long term-term investments. Information on the increases and decreases in the fair value of long-term investments is shown in the Noncash Investing, Capital, and Financing Activities section of the Statement of Cash Flows.

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

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

	YEAR ENDED DECEMBER 31,	
	2023	2022
		(As Restated)
Reconciliation of Operating Income to Net Cash From Operating Activities:		
Operating Income	\$10,005,552	\$1,808,574
Adjustments to Reconcile Operating Income to Net Cash From Operating Activities:		
Depreciation and Amortization Expense	2,623,263	2,623,387
Net OPEB Expense	(446,333)	(105,800)
Other Non-Operating Revenues	527,604	406,700
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable	(1,036,303)	172,486
Materials and Supplies Inventory	(430,918)	(116,763)
Prepayments	(1,349,220)	754,106
Accounts Payable	(684,782)	351,495
Unemployment and Other Tax Payables	49,763	8,214
Wages Payable and Compensated Absences	(36,630)	13,891
Long-Term Portion of Compensated Absences	55,232	26,624
On the Job Injury Reserve	(182,387)	1,862
Incurred but not Reported Claims	(862,608)	(57,858)
Total Adjustments	(1,773,319)	4,078,344
Net Cash From Operating Activities	<u>\$8,232,233</u>	<u>\$5,886,918</u>
Noncash Investing, Capital, and Financing activities		
Fee adjustments - Department of Transportation State Loans	\$37,804	\$28,000
Unrealized Net Gain (Loss) on Fair Value Investment	\$236,020	(\$345,672)

City of Tacoma, Washington
Department of Public Utilities
Tacoma Rail

Notes to Financial Statements
Years Ended December 31, 2023 and 2022

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 Annual Comprehensive Financial Report (ACFR) 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 Burlington Northern Santa Fe (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 Annual Report. An operating agreement between Tacoma Rail and the Mountain Division is in place through 2024.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation – The financial statements of the Division are prepared 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 2023, the Division implemented the following new accounting and reporting standards issued by the GASB:

GASB Statement No. 94 – *Public-Private and Public-Public Partnership and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). It also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). Under this Statement, a transferor is required to recognize the receivables for installment payments to be submitted by the operator and a deferred inflow of resources, while an operator is required to recognize a liability for installment payments to be submitted and a deferred outflow of resources, which taken together enhance the relevance and consistency of information about governments' outsourcing of functions to external operators. The Division did not have any agreements covered by GASB Statement No. 94 in the fiscal year ended December 31, 2023. Therefore, there are no effects on the Division's financial statements upon implementation.

GASB Statement No. 96 – *Subscription-based information technology arrangements (SBITAs)*. The objective of this statement is to better meet the information needs of financial statement users by establishing a definition for SBITAs and prescribing accounting and financial reporting for SBITAs by governments. Prior to the issuance of GASB Statement No. 96, there was no accounting or financial reporting guidance specifically for SBITAs. Under this Statement, a subscriber is required to recognize a subscription liability and an intangible right-to-use subscription asset, thereby enhancing the relevance and consistency of information about governments' SBITA activities. The Division implemented the provisions of GASB Statement No. 96 effective January 1, 2022, and restated financial results for the year ended December 31, 2022, as required by the standard (see Note 3).

GASB Statement No. 99 – *Omnibus 2022*. This statement is to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. This Statement addresses a variety of topics including issues related to leases implementation, derivative instruments, nonmonetary transactions, public-private and public-public partnerships and availability payment arrangements, subscription-based information technology arrangements, LIBOR, SNAP and other terminology updates. Specifically, the paragraphs implemented for the fiscal year ended December 31, 2023 address the following topics:

- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives (paragraphs 11-17)
- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset (paragraphs 18-22)
- Clarification of provisions in Statement No. 96 SBITAs related to terms and definitions: subscription termination, short-term SBITAs, and measurement of subscription liabilities (paragraphs 23-25)

GASB Statement No. 99 paragraphs 11-17, 18-22, and 23-25 were implemented by the Division for the fiscal year ended December 31, 2023. There is no effect on the Division's financial statements as a result of the implementation. Additionally, the Division does not have derivative or hedging instruments as defined by Statement No. 99.

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. Pooled investments are reported on the Statement of Net Position as Cash and equity in pooled investments. 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 and the equity in pooled investments is considered cash for cash flow reporting purposes.

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, 2023 and 2022 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 Treasurer's LGIP is authorized by RCW 43.250. The LGIP is operated like a money market 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 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 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.

Capital Assets, Depreciation and amortization – 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, additions, and betterments are capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

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

Roads and bridges	7 – 20 years
Building	10 – 25 years
Machinery Equipment	10 – 25 years
Office and Fixture	5 – 20 years
Right to Use	depends on the life of the lease or subscription

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.

Asset Impairment - 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. There was no impairment existed in 2023 or 2022.

Capital Contributions – In accordance with GASB No. 33 *Accounting and Financial Reporting for Non-exchange 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 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.

Deferred Outflows of Resources – Deferred outflows of resources, represents a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources consist of balances 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 will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of balances related to other post employment benefits other than pensions.

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 such as interest and gain (loss) on disposition of property.

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, 2023, and 2022, there were no restricted components of Net Position.

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

SBITA – Subscription-based information technology arrangements are recognized in accordance with GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This statement defines a SBITA as a contract that conveys control of the right to use another party’s (the SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction.

A subscriber is required to recognize a subscription liability and an intangible right-to-use subscription asset at the commencement of the subscription term. The City uses various SBITA assets that it contracts through cloud computing arrangements such as software as a service and platform as a service. The related obligations are presented in the amounts equal to the net present value of future subscription payments and is adjusted over time by payments and interest. Future subscription payments are discounted using the City’s average incremental borrowing rate. Payments for future subscription may be fixed or variable, based on the terms of the agreement between the subscriber and the vendor. The subscription asset is initially recorded as the sum of the subscription liability, payments made at the commencement of the subscription term, and capitalizable implementation costs, less any incentives received prior to the commencement of the subscription term and is subsequently amortized over the life of the subscription. Subscription and capitalizable implementation cost payments made prior to the commencement of the subscription are classified as assets under construction until the subscription commences; after the subscription commences, the assets under construction are reclassified as an intangible right-to-use subscription asset.

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 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, right to use subscription assets, accrued compensated absences, depreciation, Other Post-Employment Benefits (OPEB) liability, pension withdrawal liability, self-insurance liabilities, subscription 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.

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 Incurred but not Reported Claims on 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, 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 RESTATEMENT

The Division restated the December 31, 2022, financial statements for the adoption of GASB Statement No. 96 – SBITAs as summarized below.

	2022 (As previously reported)	Effect of Restatement related to adoption of GASB No. 96	2022 (As Restated)
Statement of Net Position			
CAPITAL ASSETS			
Net Capital Assets, excluding Subscription Assets	\$36,590,514	-	\$36,590,514
Subscription Assets	-	56,601	56,601
Less Accumulated Amortization	-	(9,433)	(9,433)
CURRENT ASSETS	18,801,457	-	18,801,457
DEFERRED OUTFLOWS	1,659,142	-	1,659,142
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$57,051,113</u>	<u>\$47,168</u>	<u>\$57,098,281</u>
NET POSITION			
Net Investment in Capital Assets	\$33,135,788	\$1,257	\$33,137,045
Unrestricted	(2,037,366)	-	(2,037,366)
Total Net Position	31,098,422	1,257	31,099,679
LONG-TERM DEBT, NET OF CURRENT MATURITIES	2,577,327	-	2,577,327
CURRENT LIABILITIES			
Current Liabilities, excluding Subscription Liability	3,930,403	-	3,930,403
Current Subscription Liability	-	17,532	17,532
Total Current Liabilities	3,930,403	17,532	3,947,935
LONG-TERM LIABILITIES			
Total Long-term Liabilities, excluding Subscription Liability	16,510,839	-	16,510,839
Long-Term Subscription Liability	-	28,379	28,379
Total Long-Term Liabilities	16,510,839	28,379	16,539,218
TOTAL LIABILITIES	<u>23,018,569</u>	<u>45,911</u>	<u>23,064,480</u>
DEFERRED INFLOWS	2,934,122	-	2,934,122
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS	<u>\$57,051,113</u>	<u>\$47,168</u>	<u>\$57,098,281</u>

	YEAR ENDED DECEMBER 31,		
	2022 (As previously reported)	Effect of Restatement related to adoption of GASB No. 96	2022 (As Restated)
Statement of Revenues, Expenses, and Changes in Net Position			
OPERATING REVENUES	\$32,131,158	-	\$32,131,158
OPERATING EXPENSES			
Operating Expenses, excluding Depreciation and Amortization	27,710,447	(11,250)	27,699,197
Depreciation and Amortization	2,613,954	9,433	2,623,387
Total Operating Expenses	30,324,401	(1,817)	30,322,584
Net Operating Income	1,806,757	1,817	1,808,574
NON-OPERATING REVENUES/ (EXPENSES)			
Non-Operating Revenues/ (Expenses), excluding Other Non-operating Revenue	(529,276)	-	(529,276)
Other Non-operating Revenue	382,500	(560)	381,940
Total Non-Operating Revenues/ (Expenses)	(146,776)	(560)	(147,336)
Contributions - Grants	190,163	-	190,163
Transfers			
City of Tacoma Gross Earnings Tax	(2,599,167)	-	(2,599,167)
CHANGE IN NET POSITION	(749,023)	1,257	(747,766)
TOTAL NET POSITION - BEGINNING OF YEAR	31,847,445	-	31,847,445
TOTAL NET POSITION - END OF YEAR	\$31,098,422	\$1,257	\$31,099,679

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 (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 Financial Statements (continued)

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

	As of 12/31/2023	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury Securities	\$ 643,384,888	\$ -	\$ 643,384,888	\$ -
U.S. Agency Securities	673,735,766	-	673,735,766	-
Supranational Securities	32,104,066	-	32,104,066	-
Municipal Bonds	22,877,649	-	22,877,649	-
Corporate Securities	77,539,603	-	77,539,603	-
	<u>\$ 1,449,641,972</u>	<u>\$ -</u>	<u>\$ 1,449,641,972</u>	<u>\$ -</u>

	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>

Tacoma Rail's share of the City Investments shown in the table above is 0.80% and 0.77% as of December 31, 2023 and 2022, respectively.

NOTE 5 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2023 and 2022 follows:

	Balance December 31, 2022 (As Restated)	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2023
Road and Equipment Property					
Land	\$ 172,186	\$ -	\$ -	\$ -	\$ 172,186
Road Property Plant	37,844,187	-	-	1,559,756	39,403,943
Building	5,031,027	-	-	6,267,096	11,298,123
Machinery Equipment	15,788,811	-	(89,517)	333,679	16,032,973
Office and Fixtures	1,062,561	-	-	39,750	1,102,311
Total Road and Equipment Property	59,898,772	-	(89,517)	8,200,281	68,009,536
Right to Use					
Subscription Assets	56,601	-	-	-	56,601
Total Capital Assets In Service	59,955,373	-	(89,517)	8,200,281	68,066,137
Less					
Accumulated Depreciation	(28,448,433)	(2,604,395)	37,565	-	(31,015,263)
Accumulated Amortization	(9,433)	(18,868)	-	-	(28,301)
Total Accumulated Depreciation & Amortization	(28,457,866)	(2,623,263)	37,565	-	(31,043,564)
Total Capital Assets In Service, Net	31,497,507	(2,623,263)	(51,952)	8,200,281	37,022,573
Construction Work In Progress	5,140,175	5,575,242	-	(8,937,634)	1,777,783
Net Capital Assets	<u>\$ 36,637,682</u>	<u>\$ 2,951,979</u>	<u>\$ (51,952)</u>	<u>\$ (737,353)</u>	<u>\$ 38,800,356</u>

Notes to Financial Statements (continued)

	Balance December 31, 2021	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2022 (As Restated)
Road and Equipment Property					
Land	\$ 172,186	\$ -	\$ -	\$ -	\$ 172,186
Road Property Plant	36,626,107	-	-	1,218,080	37,844,187
Building	5,012,687	-	-	18,340	5,031,027
Machinery Equipment	18,532,221	-	(2,806,064)	62,654	15,788,811
Office and Fixtures	786,337	-	(325,508)	601,732	1,062,561
Total Road and Equipment Property	61,129,538	-	(3,131,572)	1,900,806	59,898,772
Right to Use					
Subscription Assets	-	56,601	-	-	56,601
Total Capital Assets In Service	61,129,538	56,601	(3,131,572)	1,900,806	59,955,373
Less					
Accumulated Depreciation	(28,638,002)	(2,613,954)	2,803,523	-	(28,448,433)
Accumulated Amortization	-	(9,433)	-	-	(9,433)
Total Accumulated Depreciation & Amortization	(28,638,002)	(2,623,387)	2,803,523	-	(28,457,866)
Total Capital Assets In Service, Net	32,491,536	(2,566,786)	(328,049)	1,900,806	31,497,507
Construction Work In Progress	645,992	6,398,564	-	(1,904,381)	5,140,175
Net Capital Assets	\$ 33,137,528	\$ 3,831,778	\$ (328,049)	\$ (3,575)	\$ 36,637,682

NOTE 6 SUBSCRIPTION LIABILITY

The Division entered into a subscription agreement for three (3) years started on July 1, 2022 and will end on June 30, 2025. Principal and interest on subscription activity in the amount of \$18,300 was paid in 2023 compared to \$7,250 paid in 2022.

The City used its average incremental borrowing rate of 2.671% as of December 31, 2023 in calculation of net present value of subscription liability, as the interest rate is not stated in the agreement.

Subscription Liability for the year ended December 31, 2023 is as follows:

	Subscription Liability
Beginning balance, January 1, 2023	\$ (45,911)
Additions	(56)
Reductions	17,532
Ending Balance, December 31, 2023	\$ (28,435)

	Subscription Liability
Beginning balance, January 1, 2022	\$ -
Additions	(52,690)
Reductions	6,779
Ending Balance, December 31, 2022	\$ (45,911)

Current subscription liability as of December 31, 2023 is \$18,868 including interest accrual of \$56 compared to \$17,532 including interest accrual of \$89 as of December 31, 2022.

Interest expenses on subscription activity of \$824 was recorded in 2023 and \$560 in 2022 under Other Non-operating Revenue, Net.

Future annual subscription liability as of December 31, 2023 is as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 18,812	\$ 448	\$ 19,260
2025	9,567	63	9,630
Total	\$ 28,379	\$ 511	\$ 28,890

NOTE 7 LONG-TERM DEBT

Long-Term debt activities for 2023 and 2022 were as follows:

	Balance December 31, 2022	Additions (*)	Reductions	Balance December 31, 2023	Due Within One Year
Department of Transportation State Loans	\$ 3,454,726	\$ 1,116,254	\$ (907,293)	\$ 3,663,687	\$ 896,633
Total Long-Term Debt	\$ 3,454,726	\$ 1,116,254	\$ (907,293)	\$ 3,663,687	\$ 896,633

	Balance December 31, 2021	Additions (*)	Reductions	Balance December 31, 2022	Due Within One Year
Department of Transportation State Loans	\$ 3,330,278	\$ 1,094,550	\$ (970,102)	\$ 3,454,726	\$ 877,399
Total Long-Term Debt	\$ 3,330,278	\$ 1,094,550	\$ (970,102)	\$ 3,454,726	\$ 877,399

(*) Included in the additions in 2023 and 2022 are \$37,804 and \$28,000 of loan fee accruals, respectively. These loan fee accruals are considered as Long-Term Debt based on the debt payment schedules.

Tacoma Rail's long-term debt at December 31, 2023 and 2022 consists of the following payables:

Washington State Department of Transportation Loans (WSDOT)	2023	2022
2009 WSDOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024.	\$ 1,759	\$ 3,519
2009 WSDOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025.	33,260	49,893
2013 WSDOT loan for East 11th Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023.	-	34,732
2013 WSDOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023.	-	36,394
2013 WSDOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024.	61,863	123,725
2013 WSDOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024.	25,000	49,998
2013 WSDOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025.	73,277	109,916

Notes to Financial Statements (continued)

Junior Lien Debt continued	2023	2022
2013 WSDOT loan for East Loop 17th St., with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025.	154,614	231,921
2013 WSDOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025.	221,012	331,517
2013 WSDOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025.	103,154	154,731
2014 WSDOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$91,000 from 2016 through 2025.	182,002	273,002
2015 WSDOT loan for Edwards Crossover Rehabilitation, with 0% interest, due in yearly installments of \$12,112 from 2017 through 2026.	36,335	48,447
2015 WSDOT loan for East Lead Low Side Rebuild, with 0% interest, due in yearly installments of \$40,574 from 2017 through 2026.	121,724	162,298
2015 WSDOT loan for Transfer Yard Connection (Phase 3), with 0% interest, due in yearly installments of \$15,000 from 2017 through 2026.	45,005	60,000
2015 WSDOT loan for West Lead High Side Rebuild, with 0% interest, due in yearly installments of \$36,952 from 2017 through 2026.	110,880	147,824
2015 WSDOT loan for Taylor Wye Rehabilitation, with 0% interest, due in yearly installments of \$31,146 from 2017 through 2026.	93,437	124,583
2019 WSDOT loan for Mazda Siding Rehabilitation, with 0% interest, due in yearly installments of \$23,305 from 2021 through 2030.	163,136	186,441
2019 WSDOT loan for Tote Yard Rehabilitation, with 0% interest, due in yearly installments of \$39,753 from 2021 through 2030.	278,274	318,035
2020 WSDOT loan for East Barn Facility Upgrade, with 0% interest, due in yearly installments of \$86,750 from 2022 through 2031.	693,953	781,200
2021 WSDOT loan for Lincoln Ave Track Upgrade, with 0% interest, due in yearly installments of \$31,792 from 2023 through 2032.	286,160	210,000
2021 WSDOT loan for Yard Track Upgrade 7 & 14-17, with 0% interest, due in yearly installments of \$46,368 from 2023 through 2032.	417,842	16,550
2021 WSDOT loan for Alexander Wye Rehabilitation, with 0% interest, due in yearly installments of \$60,600 from 2024 through 2033.	561,000	-
Subtotal Junior Lien Debt	3,663,687	3,454,726
Less Current Portion of Debt	(896,633)	(877,399)
Long-term Portion of Junior Lien Debt	<u>\$ 2,767,054</u>	<u>\$ 2,577,327</u>

As of December 31, 2023, scheduled principal maturities on junior lien debts and interest payments are as follows:

	Principal	Interest
2024	\$ 896,633	\$ -
2025	803,076	-
2026	419,470	-
2027	283,639	-
2028	283,639	-
2029-2033	977,230	-
	<u>\$ 3,663,687</u>	<u>\$ -</u>

Tacoma Rail obtained two new Washington State loans from the Department of Transportation for Blair Peninsula Switches in the amount of \$400,000 and for Annie Tracks Switch & Curve Upgrade in the amount of \$1,590,000. Blair Peninsula Switches loan has zero interest and is due in yearly installments of \$40,800 from 2025 to 2034. Annie Tracks Switch & Curve Upgrade loan has zero interest and is due in yearly installments of \$162,200 from 2025 to 2034. No funds have been drawn on these new projects in 2023.

NOTE 8 SIGNIFICANT CUSTOMERS

Tacoma Rail's predominate sources of revenue are Union Pacific (UP), Burlington Northern Santa Fe (BNSF) and U.S. Oil & Refining Co. Revenue from UP, BNSF, and U.S. Oil represented 31%, 50%, and 12% of total revenues, respectively, in 2023. Revenue in 2022 was 32%, 45% and 14%, respectively. Accounts receivable from UP, BNSF, and U.S. Oil in 2023 represented 26%, 46%, and 15% of total customer accounts receivable, whereas in 2022 it was 23%, 45%, and 17%, respectively.

NOTE 9 FLEET SERVICES FUND

The Department of Public Utilities Fleet Services Fund provides administration, repair and maintenance of the vehicles and related equipment for all divisions, and replacements for the service divisions.

Tacoma Rail pays Fleet Services Fund to cover fleet operating expenses related to administration, overhead, repair and maintenance of the division-owned vehicles and related equipment. The Division also pays Fleet Services Fund a usage fee on an as-needed basis for the use of pool cars. This fee contributes to the replacement of pool vehicles. Payments made by Tacoma Rail in 2023 and 2022 were \$400,061 and \$335,586, respectively.

Fleet Services' management conducts a biennial assessment of the maintenance and capital replacements needs for all division-owned vehicles and related equipment.

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 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 \$240,000 in 2023 and 2022. Assets in the Self-Insurance Fund total \$12.6 million which exceeds accrued and incurred but not reported (IBNR) liabilities of 4.3 million. 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 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. For loss due to earthquake, a limit of \$10.0 million applies with a deductible of 5% of the value of the property that is damaged subject to a \$250,000 minimum. For loss due to flood, a limit of \$15.0 million applies for property in Flood Zones A & V, while a limit of \$50.0 million applies to property in all other Flood Zones. A \$250,000 deductible applies to loss due to flood. 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 \$57.5 million each occurrence with a \$57.5 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.

Changes in the Division's estimated claims settlements liability under self-insurance fund for the past three years were as follows:

	2023	2022	2021
Balance 01/01	\$ 1,388,292	\$ 1,446,150	\$ 334,081
New Claims	200,056	5,064	119,277
Adjustments to Claims	(1,060,803)	(57,858)	1,043,257
Claims Payment	(1,861)	(5,065)	(50,468)
Balance 12/31	<u>\$ 525,683</u>	<u>\$ 1,388,291</u>	<u>\$ 1,446,149</u>

Tacoma Rail's share of the Self-Insurance Fund shown in the table above is 12.28%, 48.33%, and 47.10% as of December 31, 2023, 2022, and 2021, respectively.

NOTE 11 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 2023 and 2022, Tacoma Rail contributed \$2,317,409 and \$2,253,307 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2023</u>	<u>2022</u>
Employer Tier I	\$ 160,200	\$ 147,000
Employer Tier II	118,800	109,200
Employer Medicare	No Limit	No Limit

	<u>TAX RATE</u>	
	<u>2023</u>	<u>2022</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 \$56.4 billion as of December 31, 2019. 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 12 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.

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.

Rail had 26 employees who participated in the plan, those employees who vested would be eligible for benefits based on their date of withdrawal.

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, 2023, 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 2023 and 2022. There were no contributions paid by the City in 2023 and 2022.

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 the Plan. The actuaries for the Plan determined that the withdrawal liability attributed to City of Tacoma is \$44,325,881 in total, but the liability was recorded 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 at 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 are 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 \$1.7 million and \$1.0 million were made by the City during 2023 and 2022, respectively.

As of December 31, 2023, the Division reported a liability of \$2,520,162 for its proportionate share of the City's collective total withdrawal liability of \$14,824,481 compared to \$2,807,138, at December 31, 2022. The current portion of the withdrawal liability is \$229,581 as of December 31, 2023, compared to \$286,976 as of December 31, 2022. At December 31, 2023 and 2022, the Division's proportion was 17.0%. There was no withdrawal expense for the year ended December 31, 2023 and 2022.

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. On January 2, 2024, the City received the ruling on motions for summary judgement and award regarding the interest rate used to calculate the withdrawal liability from American Arbitration Association. On January 23, 2024, the City filed a complaint to enforce arbitration award to United States District Court Western District of Washington in Seattle. The outcome of the complaint is uncertain at the time of the report issuance and may affect the estimated liability amount.

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, 2023 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, 2023 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, 2022. This is the date as of which the total OPEB liability is determined. Note that GASB 75 allows a lag up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2023 and 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
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Medical Cost Trend:	2023	6.50%
	2024	6.90%
	2030	4.60%
	2040	4.30%
	2050	4.30%
	2060	4.40%
	2070	4.10%
	2080	3.90%

Note that the trend for year 2023 reflects the percent by which 2024 medical costs are expected to exceed 2023 medical costs. 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):	3.75%
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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 3.75% in 2023 from 2.00% in 2022. The medical cost discount rate was updated to 6.5% in 2023 from 5.5% in 2022. 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, 2023 the Division reported a total liability of \$8,762,117 for its proportionate share of the collective total OPEB liability of \$192.1 million compared to \$10,547,150 at December 31, 2022. At December 31, 2023 the Division reported a current liability of \$244,449 compared to \$469,521 at December 31, 2022. At December 31, 2023, the participating Division's proportion was 4.56196% as compared to 4.63770% at December 31, 2022. For the year ended December 31, 2023, the participating Division recognized a credit OPEB expense of \$446,333 compared to a credit of \$105,800 in 2022.

At December 31, 2023, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2023		December 31, 2022	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (57,324)	\$ 97,206	\$ (86,019)	\$ 120,699
Changes of assumptions	(1,601,961)	643,783	(429,390)	920,783
Changes in Employer Proportion	(1,212,216)	301,172	(1,500,632)	521,489
Differences in Contributions	(925,112)	-	(918,081)	-
Contributions Made Subsequent to the Measurement Date	-	140,772	-	96,171
Total	\$ (3,796,613)	\$ 1,182,933	\$ (2,934,122)	\$ 1,659,142

The Division reported \$140,772 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, 2024.

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

2024	\$	(767,490)
2025		(409,229)
2026		(457,671)
2027		(457,673)
2028		(393,727)
Thereafter		(268,662)
	\$	<u>(2,754,452)</u>

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

As of December 31, 2023, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.75%, 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, 2.75%, or one percentage point higher, 4.75%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2023	2.75%	3.75%	4.75%
Net OPEB liability	\$ 9,720,522	\$ 8,762,117	\$ 7,941,023

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	\$ 11,891,323	\$ 10,547,150	\$ 9,420,209

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

As of December 31, 2023, 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, 2023	5.50%	6.50%	7.50%
Net OPEB liability	\$ 7,819,595	\$ 8,762,117	\$ 9,866,258

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	\$ 9,371,290	\$ 10,547,150	\$ 11,937,791

NOTE 14 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, 2023.

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. The trackage reduced to 33 miles on March 15, 2023. Tacoma Rail is under contract with Public Works to perform as its operator through 2023 and maintenance through 2024. The agreement states that Public Works would fund Tacoma Rail for any operations and maintenance on the Mountain Division.

Required Supplementary Information

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,						
	2022	2021	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	4.56%	4.64%	4.87%	5.27%	4.87%	5.52%	5.28%
Employer's proportion share of collective OPEB liability	\$8,762,117	\$10,547,150	\$11,164,478	\$10,987,505	\$9,947,627	\$12,179,967	\$11,048,417
Employer's covered-employee payroll**	\$11,438,060	\$11,320,512	\$11,723,243	\$11,607,990	\$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	76.60%	93.17%	95.23%	94.65%	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, 2023

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 3.75% in 2023 from 2.00% in 2022. The medical cost discount rate was updated to 6.5% in 2023 from 5.5% in 2022. The actuarial cost method is the individual entry age 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

	2023	2022 (As Restated)	2021	2020
STATEMENTS OF NET POSITION				
ASSETS AND DEFERRED OUTFLOWS				
Railway Plant - Net	\$38,800,356	\$36,637,682	\$33,137,528	\$30,811,566
Other Property and Special Funds	-	-	-	-
Current and Accrued Assets	22,471,363	18,801,457	22,812,776	23,713,995
Deferred Outflows	1,182,933	1,659,142	2,053,980	1,598,608
TOTAL ASSETS AND DEFERRED OUTFLOWS	62,454,652	57,098,281	58,004,284	56,124,169
LIABILITIES AND DEFERRED INFLOWS				
Long-Term Debt	2,767,054	2,577,327	2,486,723	3,096,059
Current and Accrued Liabilities	3,465,610	4,417,456	3,465,564	4,061,047
Long-Term Liabilities	13,271,580	16,069,697	17,387,120	15,635,186
Total Liabilities	19,504,244	23,064,480	23,339,407	22,792,292
Deferred Inflows	3,796,613	2,934,122	2,817,432	2,430,515
NET POSITION	39,153,795	31,099,679	31,847,445	30,901,362
TOTAL LIABILITIES AND NET POSITION AND DEFERRED INFLOWS	\$62,454,652	\$57,098,281	\$58,004,284	\$56,124,169
STATEMENTS OF INCOME				
OPERATING REVENUES				
Switching Revenues	\$34,826,695	\$26,509,822	\$27,225,671	\$26,831,756
Other Operating Revenues	4,268,263	5,621,336	6,862,697	6,676,326
Total Operating Revenues	39,094,958	32,131,158	34,088,368	33,508,082
OPERATING EXPENSES				
Operation and Maintenance	25,801,212	27,166,441	29,071,103	27,611,982
Taxes	664,931	532,756	536,765	515,803
Depreciation and Amortization	2,623,263	2,623,387	2,269,298	1,784,227
Total Operating Expenses	29,089,406	30,322,584	31,877,166	29,912,012
NET OPERATING INCOME (LOSS)	10,005,552	1,808,574	2,211,202	3,596,070
NON-OPERATING REVENUES (EXPENSE)				
Net Other Income	708,040	244,053	1,599,162	2,139,765
Interest and Investments Income (Loss)	516,984	(201,226)	(97,905)	368,330
Interest on Unfunded Debt	-	-	-	-
Total Non-Operating Revenues	1,225,024	42,827	1,501,257	2,508,095
TRANSFERS				
City Gross Earnings Tax	(3,176,460)	(2,599,167)	(2,769,194)	(2,773,643)
Transfers from/ (to) Other Funds	-	-	2,818	1,469,695
CHANGE IN NET POSITION	\$8,054,116	(\$747,766)	\$946,083	\$4,800,217

2019	2018	2017 (As Restated)	2016	2015	2014
\$27,166,350	\$26,113,399	\$26,705,711	\$28,216,744	\$24,748,388	\$21,058,809
-	-	-	64,974	64,861	65,104
22,857,298	18,693,794	13,964,325	13,960,977	14,843,745	15,964,236
738,535	993,546	114,073	-	-	-
<u>50,762,183</u>	<u>45,800,739</u>	<u>40,784,109</u>	<u>42,242,695</u>	<u>39,656,994</u>	<u>37,088,149</u>
3,582,991	4,403,234	5,223,477	5,397,028	5,556,302	4,482,801
4,056,634	3,421,462	2,240,256	3,793,795	3,443,589	4,096,245
14,654,928	16,872,528	14,461,464	4,017,974	3,615,442	4,278,913
22,294,553	24,697,224	21,925,197	13,208,797	12,615,333	12,857,959
2,366,485	289,802	-	-	-	-
<u>26,101,145</u>	<u>20,813,713</u>	<u>18,858,912</u>	<u>29,033,898</u>	<u>27,041,661</u>	<u>24,230,190</u>
<u>\$50,762,183</u>	<u>\$45,800,739</u>	<u>\$40,784,109</u>	<u>\$42,242,695</u>	<u>\$39,656,994</u>	<u>\$37,088,149</u>
\$29,891,207	\$27,933,469	\$26,648,873	\$27,417,653	\$25,690,797	\$26,495,108
6,920,393	5,231,761	4,068,008	3,409,347	3,474,443	2,962,289
36,811,600	33,165,230	30,716,881	30,827,000	29,165,240	29,457,397
27,475,800	27,582,675	36,761,179	26,696,068	24,168,168	25,063,534
506,359	465,808	432,081	439,317	417,135	429,875
1,840,439	1,737,714	1,644,373	1,472,955	1,220,882	1,069,265
29,822,598	29,786,197	38,837,633	28,608,340	25,806,185	26,562,674
6,989,002	3,379,033	(8,120,752)	2,218,660	3,359,055	2,894,723
1,112,903	1,174,556	426,311	2,287,330	1,878,109	1,830,033
426,085	152,072	68,420	86,126	51,379	72,535
-	-	(6)	(8,542)	(21,678)	(34,122)
1,538,988	1,326,628	494,725	2,364,914	1,907,810	1,868,446
(3,042,980)	(2,750,860)	(2,548,959)	(2,591,337)	(2,410,016)	(2,440,631)
<u>(197,578)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,378)</u>	<u>(310,527)</u>
<u>\$5,287,432</u>	<u>\$1,954,801</u>	<u>(\$10,174,986)</u>	<u>\$1,992,237</u>	<u>\$2,811,471</u>	<u>\$2,012,011</u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Rail
Ten-Year Switching Statistics

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
SWITCHING REVENUES				
Line Hauls	\$32,914,577	\$24,719,441	\$24,784,022	\$25,126,836
Local and Miscellaneous	<u>1,912,118</u>	<u>1,790,381</u>	<u>2,441,649</u>	<u>1,704,920</u>
TOTAL SWITCHING REVENUES	<u><u>\$34,826,695</u></u>	<u><u>\$26,509,822</u></u>	<u><u>\$27,225,671</u></u>	<u><u>\$26,831,756</u></u>
NUMBER OF CARS SWITCHED				
Line Hauls	106,388	79,176	90,406	86,999
Local and Miscellaneous	<u>7,648</u>	<u>7,031</u>	<u>6,623</u>	<u>8,965</u>
TOTAL NUMBER OF CARS SWITCHED	<u><u>114,036</u></u>	<u><u>86,207</u></u>	<u><u>97,029</u></u>	<u><u>95,964</u></u>
SWITCHING STATISTICS (AVERAGE)				
Revenue/Line Haul Car	\$309.38	\$312.21	\$274.14	\$288.82
Revenue/Local & Miscellaneous Car	\$250.02	\$254.64	\$368.66	\$190.18

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$28,035,621	\$25,713,116	\$23,704,622	\$25,683,614	\$24,334,649	\$24,933,732
<u>1,855,586</u>	<u>2,220,353</u>	<u>2,944,251</u>	<u>1,734,039</u>	<u>1,356,148</u>	<u>1,561,376</u>
<u><u>\$29,891,207</u></u>	<u><u>\$27,933,469</u></u>	<u><u>\$26,648,873</u></u>	<u><u>\$27,417,653</u></u>	<u><u>\$25,690,797</u></u>	<u><u>\$26,495,108</u></u>
103,201	95,678	89,748	107,059	99,277	105,079
<u>10,835</u>	<u>13,041</u>	<u>17,382</u>	<u>3,863</u>	<u>2,896</u>	<u>3,058</u>
<u><u>114,036</u></u>	<u><u>108,719</u></u>	<u><u>107,130</u></u>	<u><u>110,922</u></u>	<u><u>102,173</u></u>	<u><u>108,137</u></u>
\$271.66	\$268.75	\$264.12	\$239.90	\$245.12	\$237.29
\$171.26	\$170.26	\$169.39	\$448.88	\$468.28	\$510.59

City of Tacoma, Washington
Department of Public Utilities
Tacoma Rail
Comparison of Cars Switched and Switching Revenues

	December 2023	December 2022	YEAR ENDED	
			December 31, 2023	December 31, 2022
SWITCHING REVENUES				
LINE HAULS--INTERMODAL	\$1,042,067	\$841,440	\$12,051,228	\$8,740,342
LINE HAULS--COMMERCIAL	1,936,002	1,290,744	20,436,183	15,555,680
LINE HAULS--CAPITAL DIVISION	19,527	26,478	427,166	423,419
MISCELLANEOUS SWITCHES	<u>148,585</u>	<u>212,014</u>	<u>1,912,118</u>	<u>1,790,381</u>
TOTAL SWITCHING REVENUES	<u>\$3,146,181</u>	<u>\$2,370,676</u>	<u>\$34,826,695</u>	<u>\$26,509,822</u>
 SWITCHING ACTIVITIES (CARS)				
LINE HAULS--INTERMODAL	5,719	4,969	67,022	51,941
LINE HAULS--COMMERCIAL	3,823	2,613	38,685	26,536
LINE HAULS--CAPITAL DIVISION	31	44	681	699
MISCELLANEOUS SWITCHES	<u>538</u>	<u>1,318</u>	<u>7,648</u>	<u>7,031</u>
TOTAL CARS SWITCHED	<u>10,111</u>	<u>8,944</u>	<u>114,036</u>	<u>86,207</u>

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

	2023	2022 (As Restated)	2021	2020	2019
Total Income	\$ 40,052,668	\$ 31,983,822	\$ 34,448,692	\$ 34,859,947	\$ 38,304,908
Less: Operating Exp	<u>26,466,143</u>	<u>27,699,197</u>	<u>29,607,868</u>	<u>28,127,785</u>	<u>27,982,159</u>
Income Available for Debt Service	<u>\$ 13,586,525</u>	<u>\$ 4,284,625</u>	<u>\$ 4,840,824</u>	<u>\$ 6,732,162</u>	<u>\$ 10,322,749</u>
Bond Redemption	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Interest	-	-	-	-	-
Debt Service Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Tacoma, Washington
Department of Public Utilities
Tacoma Rail
Taxes and Employee Welfare Contributions
For the Year 2023

FEDERAL

Railroad Retirement	\$2,317,409	
Railroad Unemployment Insurance	<u>51,701</u>	
Total		2,369,110

STATE OF WASHINGTON

Retail Sales & Use Tax	701,390	
Utility and Business Occupation Tax	<u>664,931</u>	
Total		1,366,321

CITY OF TACOMA

Gross Earnings Tax		<u>3,176,460</u>
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TOTAL TAXES		<u><u>\$6,911,891</u></u>
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Taxes as a % of Total Operating Revenues of \$39,094,958	17.68%
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EMPLOYEE WELFARE CONTRIBUTIONS

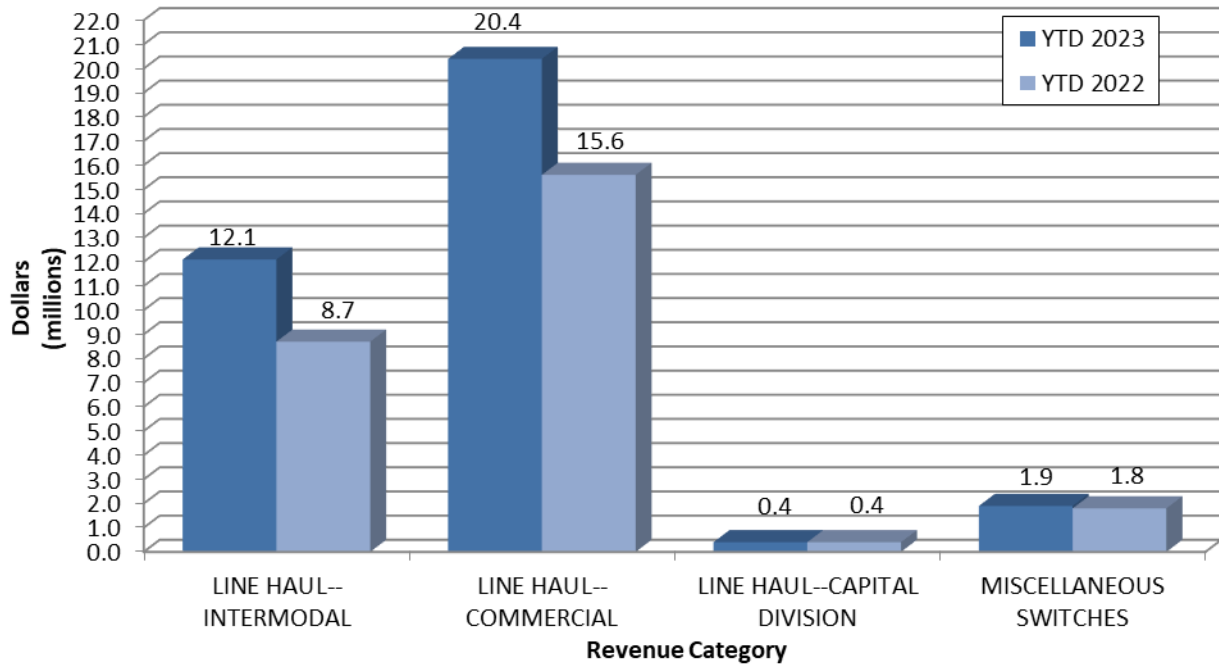
Pierce County Medical Bureau	\$2,226,488
Washington Dental Service	166,597
Other Contributions	<u>332,827</u>

TOTAL EMPLOYEE WELFARE CONTRIBUTIONS	<u><u>\$2,725,912</u></u>
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Graphs

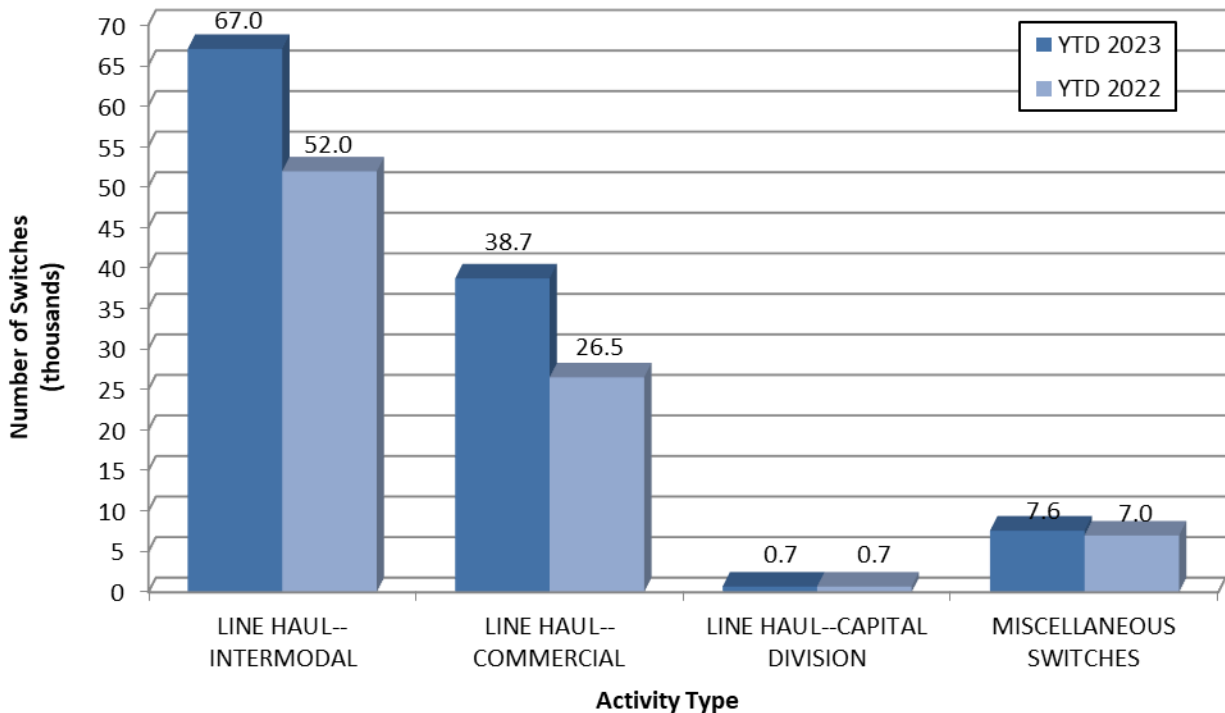
SWITCHING REVENUES

Year to Date - December 2023 & 2022

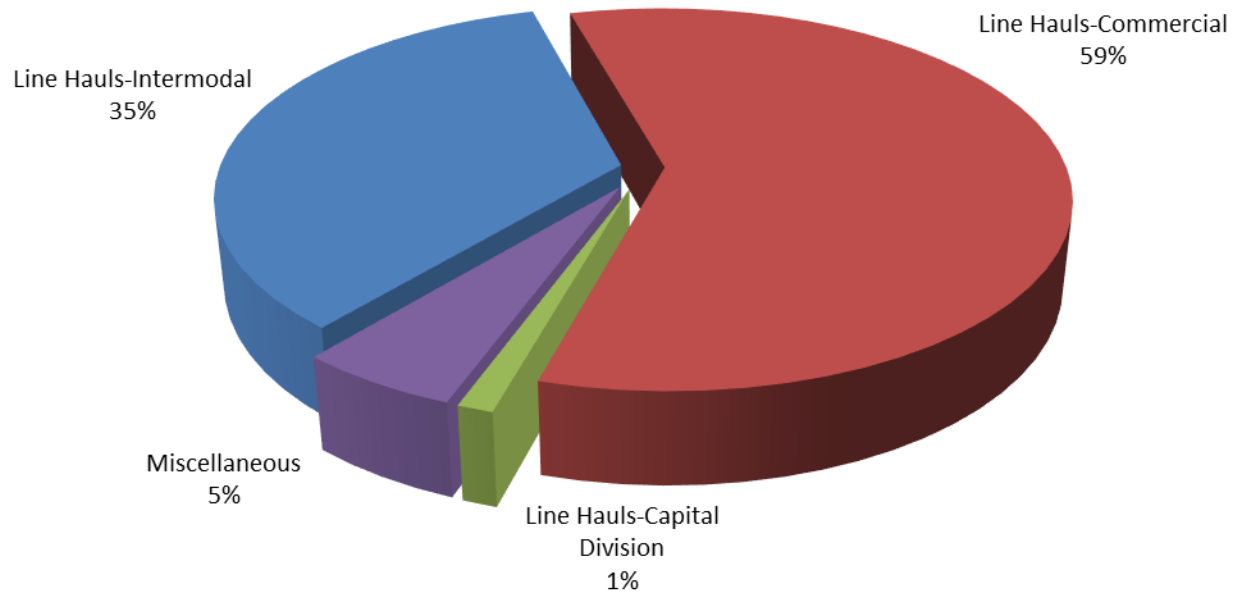


SWITCHING ACTIVITIES

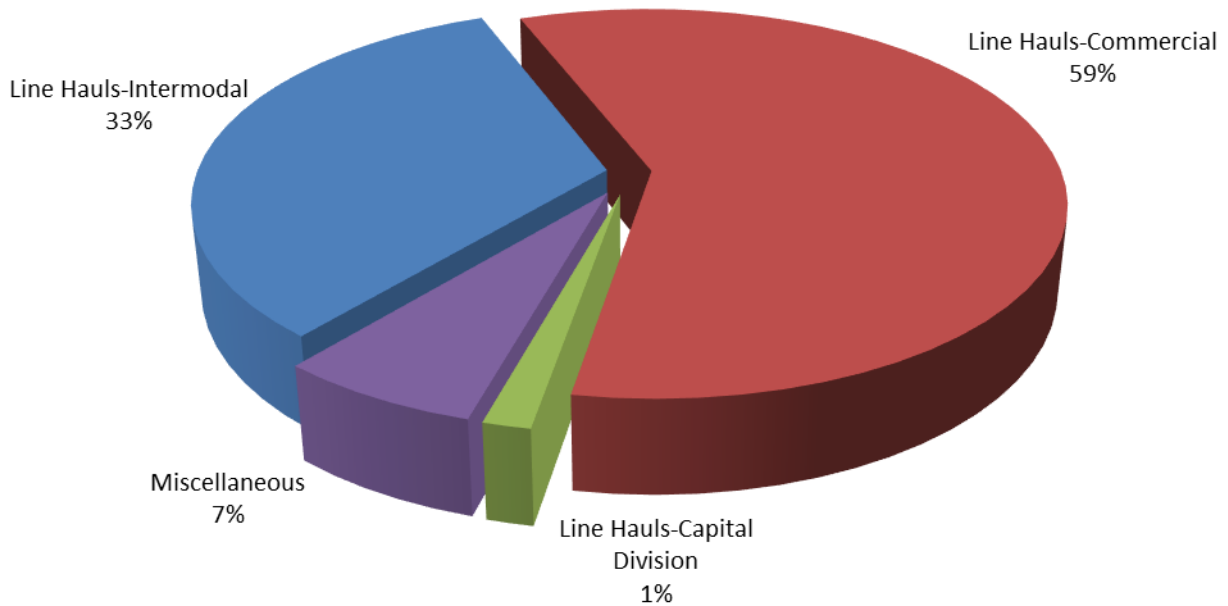
Year to Date - December 2023 & 2022



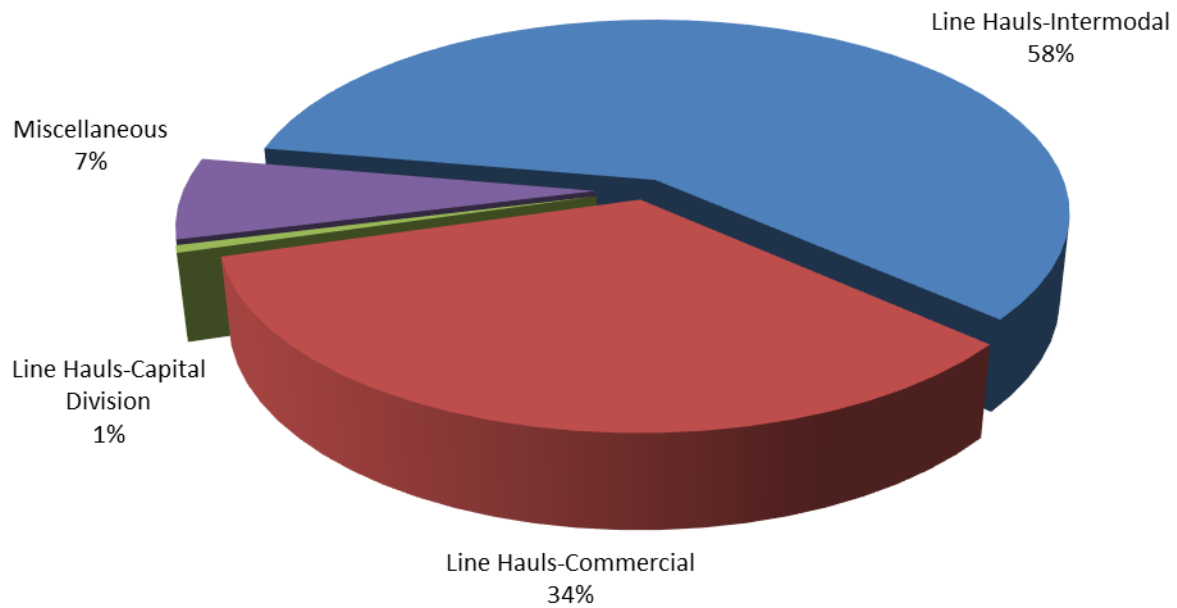
SWITCHING REVENUES
Year to Date - December 2023 (\$34,826,695)



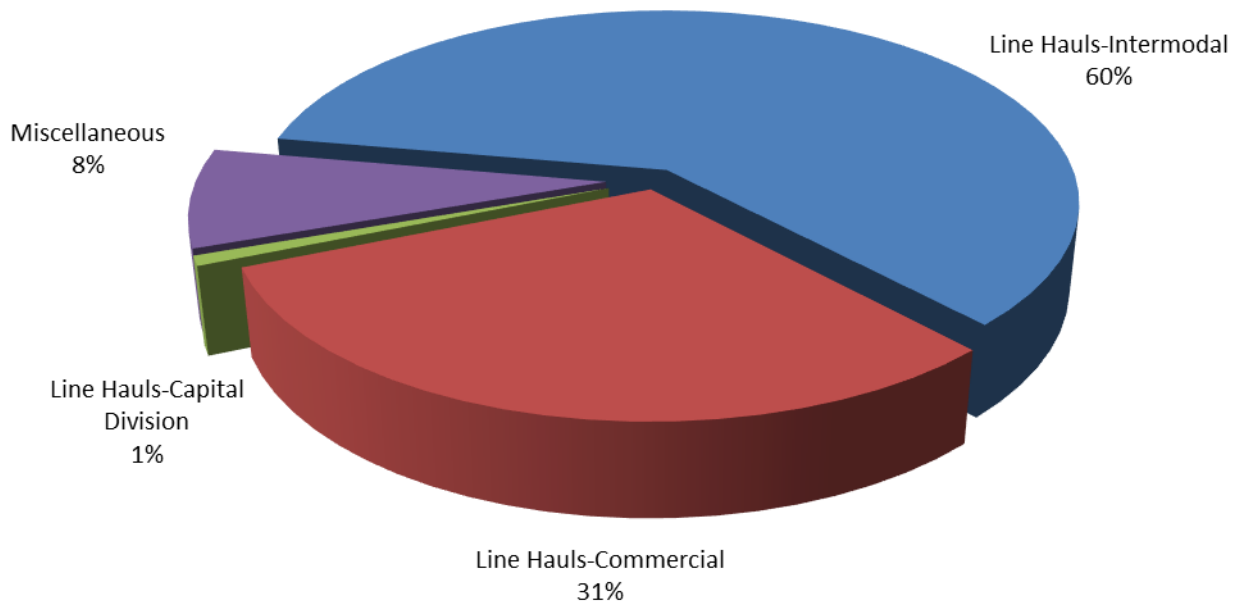
SWITCHING REVENUES
Year to Date - December 2022 (\$26,509,822)



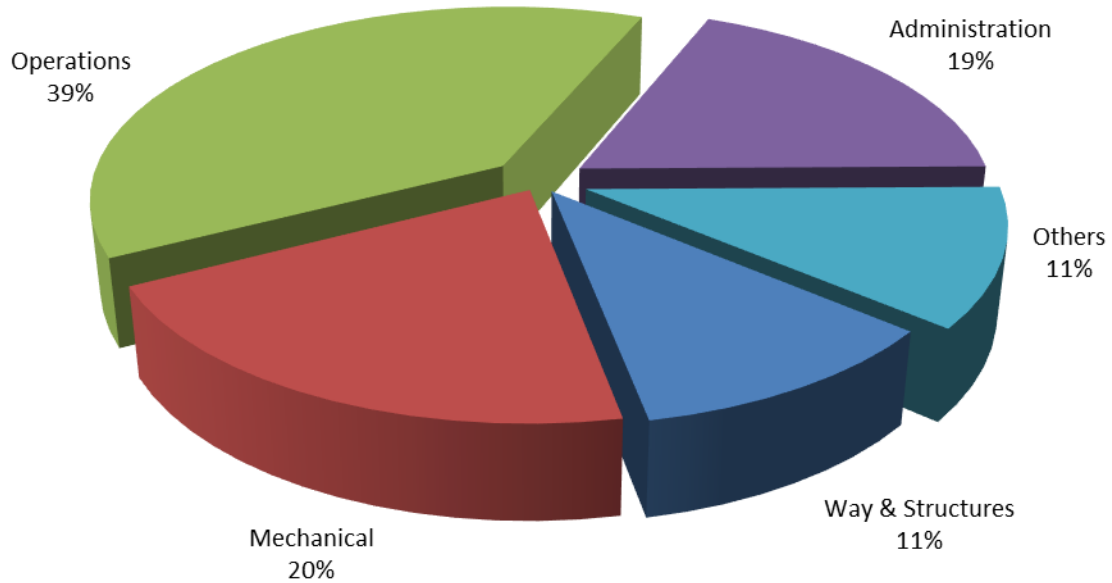
SWITCHING ACTIVITY
Year to Date - December 2023 (114,036 cars)



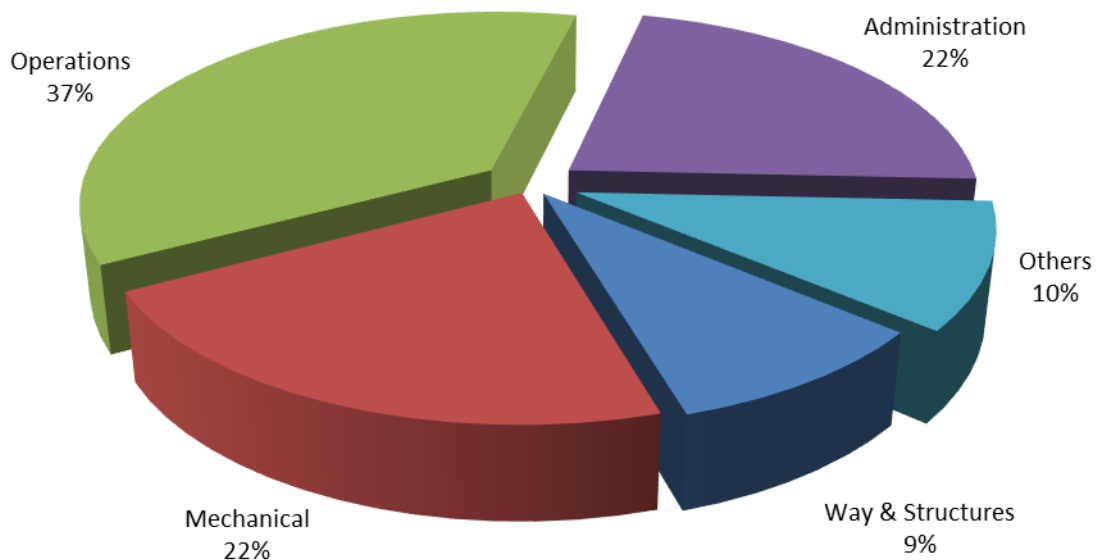
SWITCHING ACTIVITY
Year to Date - December 2022 (86,207 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2023 (\$29,089,406)



TOTAL OPERATING EXPENSES
Year to Date - December 2022 (\$30,322,584)





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.