



WASTEWATER AND SURFACE WATER
MANAGEMENT

2019

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended **December 31, 2019**
Prepared by the Finance Department

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City of Tacoma, Washington
Environmental Services Department

Wastewater and Surface Water Management

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Financial Data

Report of Independent Auditors

Honorable Mayor and City Council
City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2020, on our consideration of the City of Tacoma, Environmental Services, Wastewater and Surface Water Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington
May 18, 2020

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Management Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Management's Discussion and Analysis
December 31, 2019 and 2018

Introduction

The following discussion and analysis of City of Tacoma Wastewater and Surface Water Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2019, 2018, and 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2019 and 2018, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of City of Tacoma Wastewater and Surface Water Management Division's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- Total net position is \$474.8 million at December 31, 2019 compared to \$458.8 million and \$434.6 million at year-end 2018 and 2017, respectively.
- Operating revenues were \$116.9 million in 2019, \$115.8 million in 2018, and \$110.0 million in 2017.
- Cash and equity in pooled investments was \$180.4 million at December 31, 2019 compared to \$185.3 million in 2018 and \$113.9 million in 2017.

Financial Analysis – Condensed Statements of Net Position

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

	2019	December 31, 2018	2017 (As Restated)
Current, restricted, and other assets	\$ 198,967,967	\$ 208,495,085	\$ 131,273,925
Net capital assets	605,220,487	594,655,680	582,197,274
Total assets	804,188,454	803,150,765	713,471,199
Deferred outflows of resources	20,103,675	8,258,947	14,059,142
Total assets and deferred outflows of resources	<u>\$ 824,292,129</u>	<u>\$ 811,409,712</u>	<u>\$ 727,530,341</u>
Non-current liabilities	\$ 300,543,999	\$ 297,917,406	\$ 248,303,125
Current liabilities	20,131,901	22,029,267	17,244,929
Total liabilities	320,675,900	319,946,673	265,548,054
Deferred inflows of resources	28,853,934	32,624,240	27,350,085
Total liabilities and deferred inflows of resources	<u>349,529,834</u>	<u>352,570,913</u>	<u>292,898,139</u>
Net position:			
Net investment in capital assets	412,290,574	410,745,328	386,408,990
Restricted	4,672,034	14,663,136	14,335,157
Unrestricted	57,799,687	33,430,335	33,888,055
Total net position	<u>474,762,295</u>	<u>458,838,799</u>	<u>434,632,202</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 824,292,129</u>	<u>\$ 811,409,712</u>	<u>\$ 727,530,341</u>

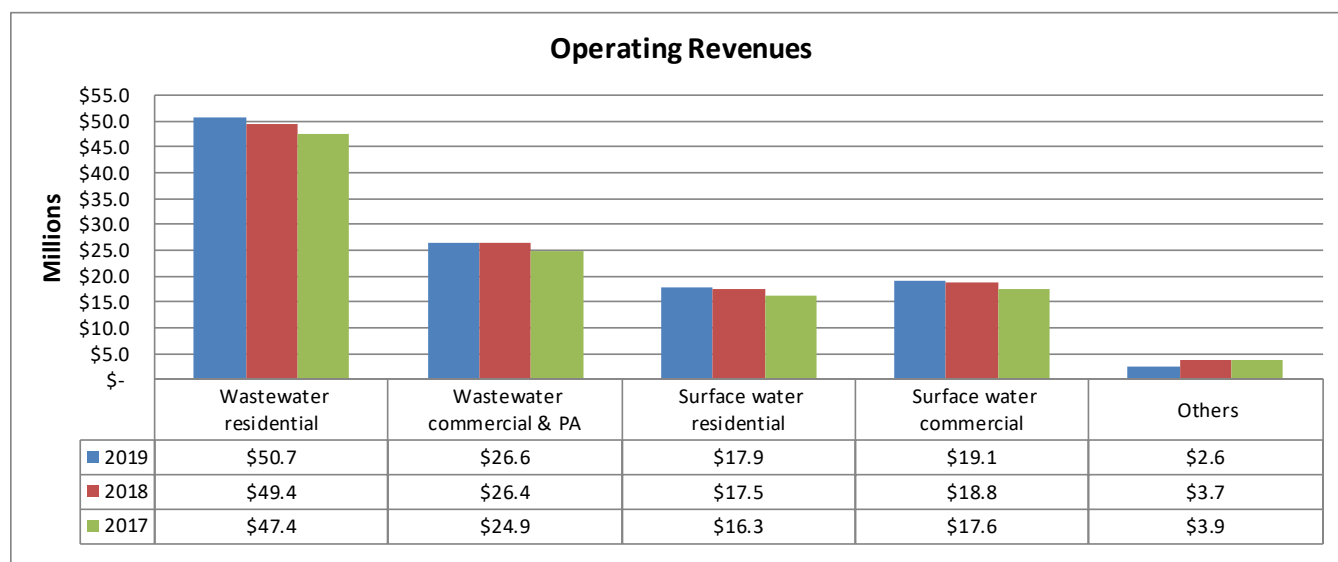
The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$474.8 million in 2019, compared to \$458.8 million in 2018 and \$434.6 million in 2017. The Division's net position increased by \$16.0 million to \$474.8 million compared to an increase of \$24.2 million to \$458.8 million in 2018 and an increase of \$12.5 million to \$434.6 million in 2017. However, the largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The net investment in capital assets component of net position was \$412.3 million in 2019, compared to \$410.7 million for 2018 and \$386.4 million for 2017. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Division's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division's net position is \$4.7 million for 2019, compared to \$14.7 million in 2018 and \$14.3 million in 2017 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$57.8 million for 2019, \$33.4 million for 2018, and \$33.9 million for 2017 is unrestricted.

Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year ended December 31,		
	2019	2018	2017
			(As Restated)
Operating revenues	\$ 116,918,923	\$ 115,817,015	\$ 110,041,372
Operating expenses	92,734,467	83,751,684	89,346,698
Net operating income	24,184,456	32,065,331	20,694,674
Nonoperating revenues (expenses)	(2,007,517)	(4,522,281)	(4,808,373)
Increase in net position			
before transfers	22,176,939	27,543,050	15,886,301
Capital contributions	4,123,876	5,568,353	4,470,024
Transfers	(10,377,319)	(8,904,806)	(7,778,643)
Increase in net position	15,923,496	24,206,597	12,577,682
Net position - Beginning of year	458,838,799	434,632,202	422,054,520
Net position - Ending	\$ 474,762,295	\$ 458,838,799	\$ 434,632,202

Operating revenues

The following graph provides a comparison of operating revenues for the three years.

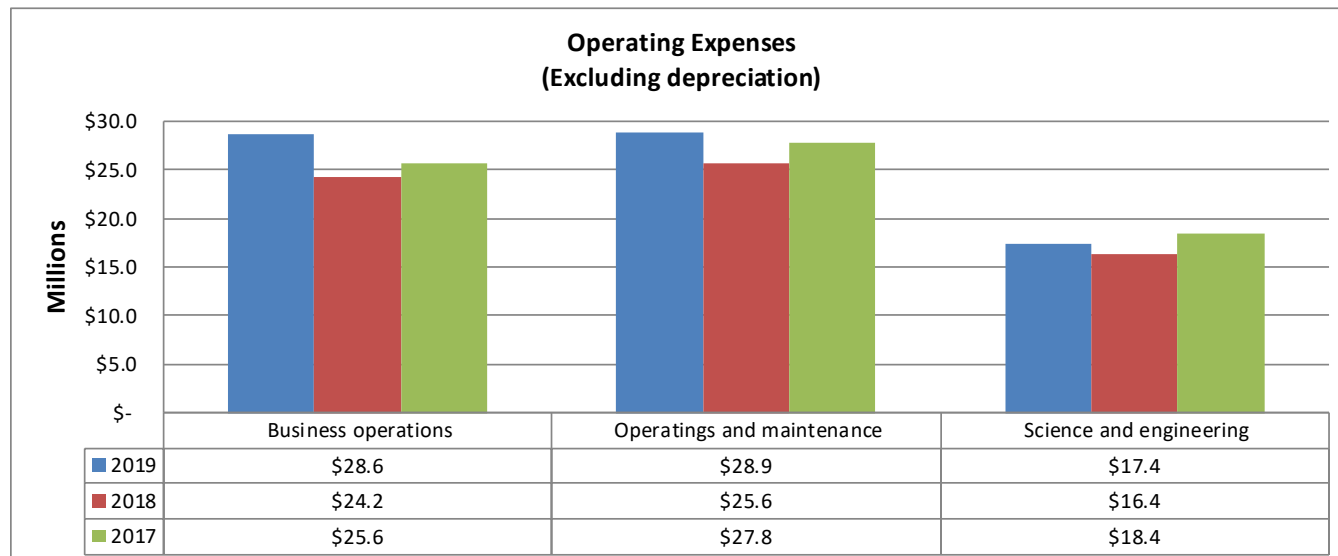


Operating revenues were \$116.9 million in 2019 compared to \$115.8 million in 2018 and \$110.0 million in 2017. The approved average rate increases for Wastewater were 4.0% for 2019, 4.5% for 2018, and 5.5% for 2017. The average rate increases for Surface Water were 3.5% for 2019 and 5.5% for 2018 and 2017. The rate increases went into effect January 1st of each year.

Wastewater residential revenues increased \$1.3 million or 3% compared to \$2.0 million or 4% in 2018, and Wastewater commercial and public authority (PA) revenues increased \$186,000 or 1% compared to \$1.5 million or 6% in 2018. Surface Water residential increased \$391,000 or 2% in 2019 compared to \$1.2 million or 8% in 2018 and Surface Water commercial increased \$351,000 or 2% in 2019 compared to \$1.2 million or 7% in 2018. The reason for these increases was due in part to rate increases and increase in customer accounts. Other revenues decreased \$1.1 million or 30% compared to \$168,000 or 4% in 2018 mainly due to the Site Development division being transferred to the Public Works Department as of January 1, 2019.

Operating expenses

The graph below shows operating expenses for each of the operating groups excluding depreciation expense and other.



2019 Activity

Operating expenses were \$92.7 million in 2019 and \$83.8 million in 2018, an increase of \$8.9 million.

- Business operation expenses increased \$4.4 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$5.0 million. Of this increase, \$3.3 million was related to entries for Western Metal Pension withdrawal expenses and \$1.2 million for pension expenses. The remaining difference of \$500,000 was related to multiple small increases within salaries & wages and pension contributions.
 - Assessment charges from other departments, including Customer Service and IT, decreased \$730,000 for their services.
 - Administrative and General (A&G) credit allocated to capital projects increased \$339,000 due to more spending on capital projects and the A&G rate increases from 6% to 8.5% for Surface Water and 7% to 8.5% for Wastewater.
 - The remaining difference of \$469,000 is related to multiple small increases in other expenses.
- Operations and maintenance expenses increased \$3.3 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$2.5 million primarily due to a \$2.6 million increase in pension expenses, which was allocated based upon last year's labor expenses of each division. The remaining difference of \$100,000 is related to multiple small decreases within salaries & wages and pension contributions.
 - Inventory reclaim account decreased \$530,000, which was used to readjust inventory counts in SAP based on the physical inventory.
 - Solid Waste expense increased \$349,000 due in part to dewatered debris disposal costs at the Land Recovery Inc. (LRI) Landfill.
 - The remaining difference of \$981,000 is related to multiple small increases in other expenses
- Science and engineering expenses increased \$1.0 million. The significant events were:
 - External contract services increased \$953,000 primarily due to increased costs for the field test construction of new permeable mix designs, stormwater collection system with Miles Resources LLC, and the Hosmer Basin maintenance project with Active Construction Inc.
 - Environmental liabilities increased \$214,000 due to re-measured anticipated monitoring costs and a cap material replenishment project for the Olympic View Resource Area (OVRA).
 - The remaining difference of \$167,000 is related to multiple small decreases in other expenses.

2018 Activity

Operating expenses were \$83.8 million in 2018 and \$89.3 million in 2017, a decrease of \$5.5 million.

- Business operation expenses decreased \$1.4 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.7 million. Of this decrease, \$1.2 million was related to entries for pension expenses and \$787,000 for Other Post-Employment Benefits (OPEB). The remaining difference of \$287,000 is related to multiple small increases within salaries & wages and pension contributions.
 - Stock purchases increased \$184,000 primarily due to increased purchases for sawdust, black bark, and sand used for Tagro operations.
 - Bad debts expense increased \$162,000 due to increased aged accounts receivable.
- Operations and maintenance expenses decreased \$2.2 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$2.4 million primarily due to a \$3.0 million decrease of pension expenses, which was allocated based upon last year's labor expenses of each division. The remaining difference of \$600,000 is related to multiple small increases within salaries & wages and pension contributions.
 - Fleet maintenance charges allocated through the Plan Maintenance (PM) orders increased \$262,000.
 - Repair and maintenance service decreased \$195,000 primarily due to a 5 year maintenance contract payment of \$151,000 in 2017 for the Atlas Copco's compressor service for Plant 1 and 3.
- Science and engineering expenses decreased \$2.0 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.8 million. Of this decrease, \$2.8 million was related to entries for pension expenses. Secondary labor charges allocated to capital projects and outside activities increased \$625,000 due in part to reduced spending on capital projects. The remaining difference of \$375,000 is related to multiple small increases within salaries & wages and pension contributions.
 - Environmental liabilities decreased \$617,000 due to re-measured anticipated monitoring costs for the Foss Waterway for next 10 years and new clean-up expected costs in the Olympic View Resource Area (OVRA).
 - Software license and maintenance increased \$171,000 due in part to E-Builder's management software for a centralized project management system.

Capital Assets

Net capital assets increased \$10.6 million in 2019 compared to \$12.5 million in 2018. (See Note 4.)

2019 Activity

Capital assets increased \$10.6 million over the prior year. Buildings increased \$4.0 million primarily due to the Emergency Digester #2 Band Replacement project and Tagro Canopy project. Machinery and equipment increased \$3.9 million primarily due to the South Tacoma Lift Station project and various vehicles purchased through Fleet. Transmission lines and other improvements increased \$19.2 million: 3,940 feet of donated lines were recorded for \$1.4 million, 68,142 feet of old lines were retired at the historical cost of \$261,000, and 35,228 feet of new replacement lines and extended sewer lines were recorded for \$18.1 million. Accumulated depreciation increased \$16.9 million and construction in progress increased \$245,000.

2018 Activity

Capital assets increased \$12.5 million over the prior year. Buildings reported \$191.7 million similar to 2017 of \$191.8 million. Machinery and equipment increased \$450,000: \$2.9 million of assets were disposed according to the result of physical inventory, \$187,000 was disposed for TPU pay-stations, and \$3.9 million of assets were capitalized primarily due to the 40th Street Green Infrastructure project. Transmission lines and other improvements increased \$14.7 million: 9,474 feet of donated lines were recorded for \$2.4 million, 19,783 feet of old lines were retired at the historical cost of \$76,000, and 25,300 feet of new replacement lines and extended sewer lines were recorded for \$12.4 million. Accumulated depreciation increased \$14.2 million and construction in progress increased \$11.2 million.

Debt Administration

At December 31, 2019, the Division had \$288.9 million outstanding in long-term debt: \$36.6 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and the remaining balance is senior parity bonds debt. This compares to \$300.6 million in 2018 and \$239.0 million in 2017.

In October 2018, the Division defeased \$34.3 million of the outstanding 2006 and 2011 Sewer Revenue and Refunding Bonds with cash to reduce debt service and trigger springing-forward bond covenants allowing the required bond reserves for the 2016 Series A and B Revenue Refunding Bonds to be zero, thus freeing up these bond reserves to debt service and allowing future debt required reserves to be zero. In November 2018, the 2018 Sewer Revenues Bonds were issued in the amount of \$100.9 million to finance capital improvements and pay costs of issuance.

The rating agencies maintained the Division's underlying credit ratings on parity bonds of Aa2, AA+, and AA+ from Moody's, Standard & Poor's, and Fitch respectively.

Additional information on the Division's long-term debt can be found in Note 5 of the financial statements.

Debt Service Coverage

The bonds coverage ratio is calculated by dividing net revenue by debt service as defined by bonds covenants. The SRF loans are junior lien debt and excluded from the debt service in the bonds coverage ratio calculation.

The Division is required by its bond covenants to maintain a debt service coverage ratio of 1.3. The debt service coverage ratio is 3.03 at the end of 2019. This compares to a ratio of 4.28 in 2018 and 3.30 in 2017.

2020 Budgets and Rates

The approved average rate increases for 2020 are 4.0% for Wastewater and 3.5% for Surface Water. These rate increases were determined after considering many internal and external factors impacting the Sewer Utility Systems' maintenance and operation such as revenues, expenditures, debt service obligations, and certain future capital needs, as well as planned growth, and utility services obligation, and forecasted cash flows.

The 2020 budget for operating revenues and expenses are \$83.4 million and \$52.6 million for Wastewater and \$38.1 million and \$20.2 million for Surface Water respectively. The 2019 - 2020 biennium budgets for capital expenditures were \$62.5 million for Wastewater and \$51.1 million for Surface Water. After 2019 actual spending of \$18.1 million for Wastewater and \$8.9 million for Surface Water, the remaining budget on capital expenditures for 2020 is \$44.4 million for Wastewater and \$42.2 million for Surface Water. Capital spending varies from year to year due to multiyear projects, weather conditions, and other issues such as permitting and maintenance requirements.

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 the City of Tacoma Wastewater and Surface Water Management's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information. The financial statements have been independently audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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

Request for Information

The Wastewater and Surface Water Management Division's (the Division) 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 interest parties. For questions concerning any of the information provided in this report or requests for additional financial information, please contact the City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

Financial Statements

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position

	As of December 31,	
	2019	2018
ASSETS		
Current assets:		
Cash and equity in pooled investments	\$ 92,118,414	\$ 70,166,144
Accounts receivable, net	7,520,126	7,235,888
Unbilled revenues	7,736,787	8,263,787
Conservation loan fund receivables	151,349	211,795
Due from other funds	-	97,971
Due from other governments	651,662	815,226
Inventory	1,427,934	1,098,786
Prepayments	249,533	226,836
Restricted cash and equity in pooled investments:		
Debt service funds	1,405,464	6,977,290
Construction funds	82,194,733	103,531,351
Total restricted cash and equity in pooled investments	83,600,197	110,508,641
Total current assets	193,456,002	198,625,074
Non-current assets:		
Restricted cash and equity in pooled investments:		
Debt reserves	4,672,034	4,672,034
Net pension asset	-	4,409,368
Conservation loan fund receivables	746,018	600,784
Prepayments	93,913	187,825
Capital assets:		
Land and easements	23,853,122	23,696,173
Buildings	195,685,067	191,724,902
Machinery and equipment	214,154,846	210,276,727
Transmission lines and other improvements	442,526,066	423,336,124
Computer software	9,307,245	9,280,373
Less: accumulated depreciation	(299,766,758)	(282,874,826)
Construction work in progress	19,460,899	19,216,207
Total capital assets, net	605,220,487	594,655,680
Total non-current assets	610,732,452	604,525,691
TOTAL ASSETS	804,188,454	803,150,765
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - loss on refunding bonds	3,629,399	2,286,799
Deferred outflows - OPEB	1,052,545	317,474
Deferred outflows - pensions	15,421,731	5,654,674
TOTAL DEFERRED OUTFLOWS OF RESOURCES	20,103,675	8,258,947
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 824,292,129	\$ 811,409,712

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

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position

	As of December 31,	
	2019	2018
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 4,014,531	\$ 5,640,825
Accrued wages payable and compensated absences payable	1,072,317	1,134,303
Accrued taxes payable	142,380	862,940
Due to other funds	-	556,492
Due to other governments	720,000	599,028
Accrued environmental liability	1,766,057	1,222,334
Accrued State Revolving Fund loan interest payable	167,001	184,878
Current portion of State Revolving Fund loan	4,011,393	3,938,863
Current portion of revenue bonds payable	6,375,417	6,072,917
Unearned revenues	457,341	402,631
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	579,583	552,083
Accrued revenue bonds interest payable	825,881	852,723
Deposit in lieu of bond	-	9,250
Total current liabilities	<u>20,131,901</u>	<u>22,029,267</u>
Non-current liabilities:		
Long-term debt - revenue bonds, net	245,296,846	253,410,173
Long-term accrued compensated absences	2,565,742	2,757,749
Long-term accrued environmental liability	1,192,000	1,012,500
Long-term State Revolving Fund loan	32,624,538	36,635,931
Net pension liability	13,029,876	-
Net OPEB liability	2,555,057	4,101,053
Pension withdrawal liability	3,279,940	-
Total noncurrent liabilities	<u>300,543,999</u>	<u>297,917,406</u>
TOTAL LIABILITIES	<u>320,675,900</u>	<u>319,946,673</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - gain on refunding bonds	35,574	54,135
Deferred inflows - OPEB	2,106,245	64,332
Deferred inflows - pensions	1,712,115	7,505,773
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>28,853,934</u>	<u>32,624,240</u>
NET POSITION		
Net investment in capital assets	412,290,574	410,745,328
Restricted for:		
Bond reserves	4,672,034	4,672,034
Debt service	-	5,572,484
Deposit in lieu of bond	-	9,250
Net pension asset	-	4,409,368
Unrestricted	57,799,687	33,430,335
TOTAL NET POSITION	<u>474,762,295</u>	<u>458,838,799</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 824,292,129</u>	<u>\$ 811,409,712</u>

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses and Changes in Net Position

	For Year ended December 31	
	2019	2018
OPERATING REVENUES		
Wastewater residential	\$ 50,738,543	\$ 49,438,938
Wastewater commercial and public authorities	26,567,803	26,381,317
Surface water residential	17,893,654	17,502,634
Surface water commercial	19,145,563	18,794,271
Other revenues	2,573,360	3,699,855
Total operating revenues	116,918,923	115,817,015
OPERATING EXPENSES		
Business operations	28,572,464	24,179,386
Operations and maintenance	28,883,438	25,576,452
Science and engineering	17,436,244	16,398,104
Other	-	34,448
Depreciation	17,842,321	17,563,294
Total operating expenses	92,734,467	83,751,684
Net operating income	24,184,456	32,065,331
NONOPERATING REVENUES (EXPENSES)		
Investment and other earnings	5,973,435	1,757,313
Interest expenses and other related costs	(10,992,896)	(8,919,756)
Amortization of bond premium and gain/loss on refunding	777,227	877,705
Other nonoperating revenues	2,338,883	1,857,497
Gain or loss on sale/disposal of capital assets	(104,166)	(95,040)
Total nonoperating expenses	(2,007,517)	(4,522,281)
Net income before contributions and transfers	22,176,939	27,543,050
Capital contributions and grants	4,123,876	5,568,353
Transfer in from other funds	670,812	583,011
Transfer out to other funds	(1,268,500)	(42,000)
Gross earnings tax	(9,779,631)	(9,445,817)
Total contributions and transfers	(6,253,443)	(3,336,453)
CHANGE IN NET POSITION	15,923,496	24,206,597
NET POSITION - JANUARY 1	458,838,799	434,632,202
NET POSITION - DECEMBER 31	\$ 474,762,295	\$ 458,838,799

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

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City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	For Year ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 116,485,004	\$ 113,696,634
Payments to suppliers	(35,351,533)	(29,418,073)
Payments to employees	(33,867,193)	(35,453,197)
Payments for taxes	(1,870,483)	(1,823,650)
Net cash from operating activities	45,395,795	47,001,714
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer in from other funds	-	437,959
Transfer out to other funds	(11,767,506)	(9,452,587)
Operating grants received	785	304,295
Principal paid on noncapital debt	(618,788)	(591,600)
Funds place in escrow for bond defeasance	-	(27,453,088)
Interest paid on noncapital debt	(435,636)	(1,677,871)
Contributions and donations	14,760	19,520
Net cash from noncapital financing activities	(12,806,385)	(38,413,372)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Transfer in from other funds	670,812	145,052
Transfer out to other funds	-	(42,000)
Acquisition and construction of capital assets	(27,012,454)	(27,757,610)
Principal payments on capital debt	(9,945,075)	(15,168,054)
Bond refunding costs	(1,742,262)	5,340,964
Interest and issuance costs paid on capital debt	(10,544,123)	(6,904,270)
Proceeds from the issuance of revenue and refunding bonds	-	100,945,000
Gain/loss on bonds defeasance	(57,855)	(150,361)
Contributions and donations	3,385,363	3,146,361
Cash proceeds from sale of capital assets	900	28,680
Insurance recoveries	4,028	21,893
Net cash from capital financing activities	(45,240,666)	59,605,655
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	5,973,435	1,757,313
Other nonoperating income	1,721,647	1,527,476
Net cash from investing activities	7,695,082	3,284,789
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(4,956,174)	71,478,786
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	185,346,819	113,868,033
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	\$ 180,390,645	\$ 185,346,819

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

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	For Year ended December 31	
	2019	2018
RECONCILIATION OF OPERATING INCOME		
(LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating income	\$ 24,184,456	\$ 32,065,331
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	17,842,321	17,563,294
Other	-	34,448
Pension expense (credits)	1,878,529	(4,334,514)
Net OPEB expense (credits)	(239,154)	138,557
Pension withdrawal expense	3,279,940	-
Cash provided from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	(284,238)	(214,534)
Accrued unbilled revenue	527,000	(1,293,000)
Due from other funds	97,971	(96,896)
Inventory	(329,148)	143,671
Prepayments	71,215	87,508
Accounts payable	(1,626,294)	2,375,874
Conservation loan fund receivables	(84,788)	32,596
Accrued wages and compensated absences payable	(61,986)	260,123
Accrued taxes payable	(1,185)	7,934
Deposit in lieu of bonds	(9,250)	9,250
Due to other funds	(556,492)	(175,592)
Due to other governments	120,972	48,542
Accrued environmental liability	543,723	336,661
Unearned revenues	54,710	61,636
Long-term accrued environmental liability	179,500	172,500
Long-term accrued compensated absences	(192,007)	(221,675)
Total adjustments	21,211,339	14,936,383
NET CASH FROM OPERATING ACTIVITIES	\$ 45,395,795	\$ 47,001,714
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	\$ 1,373,616	\$ 2,422,257

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management

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

NOTE 1 OPERATIONS

OPERATIONS OF THE WASTEWATER AND SURFACE WATER MANAGEMENT DIVISION - The Wastewater and Surface Water Management Division (the Division) is presented as an enterprise fund within the Environmental Services Department under the provisions of the City of Tacoma's (the City) Charter and is included in the City's Comprehensive Annual Financial Report.

The Division is responsible for the planning, design, construction, operation, and maintenance of the wastewater and surface water facilities owned by the City. In addition to providing wastewater service within the City, the Division provides sewage treatment and disposal services by contract to the towns of Fife, Ruston, and Fircrest, and portions of Pierce County.

The Division receives certain services from other departments and agencies of the City including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies and, additionally, must pay gross earnings tax to the City. These transactions are required to be arms-length transactions by law.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

ACCOUNTING CHANGES - Effective for the fiscal year 2019 and 2018, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

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

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

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

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

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

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

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 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 issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in certificates of deposit with Opus Bank and Home Street Bank.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2019 and 2018 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to \$250,000.

All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

ACCOUNTS RECEIVABLE AND UNBILLED REVENUE - 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 uncollectible accounts. The Division accrues an estimated amount for services that have been provided but not billed, which is included in accounts receivable as of December 31, 2019.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally, accounts receivable are considered past due after 30 days. Allowance for Uncollectible accounts was \$3,548,999 and \$3,562,162 as of December 31, 2019 and December 31, 2018 respectively.

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

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

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

BOND PREMIUM AND GAIN/LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding, are recorded as offset to Long-term debt, and are presented in the statement of net position. Gains or losses on bond refunding represent the difference between reacquisition price and the carrying value of the old debt and are amortized on a straight-line basis over the applicable bond period, and are presented as deferred outflows in the statement of net position.

CAPITAL ASSETS AND DEPRECIATION - Capital assets consist of utility plant and are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of capital assets contributed is recorded at donated fair value. The cost of maintenance and repairs is charged to expense as incurred while the costs of improvements, additions and major renewals that extend the life of an asset are capitalized.

Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method based upon estimated useful lives of the assets. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The estimated useful lives range as follows:

	<u>Years</u>
Collection and Transmission Mains	75
Structures and Improvements	50
Land Improvements	25
Intangible Plant	7 - 20
Equipment	3 - 20

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

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense through fiscal year ended December 31, 2018. Effective January, 1, 2019, the Division implemented GASB 89, therefore no interest was capitalized during 2019.

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

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

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

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

RATE STABILIZATION FUND - The Division has established a rate stabilization account to better match revenues and expenses which may reduce volatility in rates. Amounts deposited into the account are excluded from the Statement of Revenues, Expenses and Changes in Net Position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions.

OPERATING REVENUES - Revenues are derived from providing wastewater and surface water services. Wastewater services include the collection and treatment of wastewater to produce clean water and biosolids that are then used to produce TAGRO, planting soil amendments. Wastewater rates are based on volume of flow and strength. Total suspended solids (TSS) and biological oxygen demand (BOD) are strength determinants. Customers are billed on bi-monthly or monthly billing cycles.

Surface water services include flooding and erosion control, pollution prevention and control, environmental cleanup and restoration, and street drainage. Surface water rates are based on the area of the parcels and level of development with reductions for direct discharge and approved detention systems.

The rate structure is designed to meet the Division's needs and obligations on a cost-of-service basis while adhering to legal requirements. These legal requirements include computing rates on a reasonable basis, charging rates uniformly within classes, and using the revenues for utility and regulatory purposes. In addition, there may be laws imposed by the State, City Charter or to meet grant or bonds requirements.

The City has a parity bonds ordinance that it will establish, maintain and collect rates or charges in connection with the ownership and operation of the utility that will be fair and nondiscriminatory and adequate to provide gross revenues sufficient for 1) the payment of the principal and interest on all parity bonds and all amounts that the City is obligated to set aside in the bonds fund, 2) the proper operation and maintenance of the utility, 3) the payment of any and all amounts that the City may now or hereafter become obligated to pay from gross revenues.

NON-OPERATING REVENUES AND EXPENSES - The Division reports transactions not directly related to primary services as non-operating revenues and expenses. Significant items include investment and rental income and interest expense.

TAXES - The City charges the Division a gross earnings tax at the rate of 8.0%, which was reported as a transfer. In addition, the Division pays a 3.852% public utility tax to the State on wastewater collection revenues and the 1.5% business and occupation tax to the State on wastewater transmission and treatment and surface water service revenues. The Division is exempt from payment of federal income tax.

NET POSITION - The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as 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 bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

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

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

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

SHARED SERVICES - The Division is charged for services received from other departments and agencies of the City, including those normally considered to be general and administrative.

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 unbilled revenues, allowance for doubtful accounts, accrued compensated absences, environmental liabilities, depreciation, Other Post Employment Benefits (OPEB Liability), self-insurance liabilities, net pension liability and other contingencies. Actual results may differ from these estimates.

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, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

- Level 1 - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. 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 of City's investments in TIP are provided by Interactive Data.

Notes to the Financial Statements (continued)

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

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

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

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

The Division's share of the City's investments shown in the table above is 16.71% and 17.46% as of December 31, 2019 and 2018.

NOTE 4 CAPITAL ASSETS

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

	2018	Additions	Retirements	Transfers & Adjustments	2019
Capital assets, not being depreciated:					
Land and easements	\$ 23,696,173	\$ 126,124	\$ -	\$ 30,825	\$ 23,853,122
Construction work in progress	19,216,207	27,012,454	-	(26,767,762)	\$ 19,460,899
Total capital assets, not being depreciated	42,912,380	27,138,578	-	(26,736,937)	43,314,021
Capital assets, being depreciated:					
Buildings	191,724,902	-	-	3,960,165	195,685,067
Machinery and equipment	210,276,727	-	(786,229)	4,664,348	214,154,846
Transmission lines and other improvements	423,336,124	1,373,616	(261,218)	18,077,544	442,526,066
Computer software	9,280,373	-	(8,008)	34,880	9,307,245
Total capital assets, being depreciated	834,618,126	1,373,616	(1,055,455)	26,736,937	861,673,224
Less: accumulated depreciation	(282,874,826)	(17,842,321)	950,389	-	(299,766,758)
Total capital assets, being depreciated, net	551,743,300	(16,468,705)	(105,066)	26,736,937	561,906,466
Total capital assets, net	\$ 594,655,680	\$ 10,669,873	\$ (105,066)	\$ -	\$ 605,220,487
	2017	Additions	Retirements	Transfers & Adjustments	2018
Capital assets, not being depreciated:					
Land and easements	\$ 23,656,972	\$ 39,201	\$ -	\$ -	\$ 23,696,173
Construction work in progress	8,033,471	27,727,812	-	(16,545,076)	\$ 19,216,207
Total capital assets, not being depreciated	31,690,443	27,767,013	-	(16,545,076)	42,912,380
Capital assets, being depreciated:					
Buildings	191,776,652	-	-	(51,750)	191,724,902
Machinery and equipment	209,826,286	21,025	(3,425,537)	3,854,953	210,276,727
Transmission lines and other improvements	408,641,330	2,383,057	(95,042)	12,406,779	423,336,124
Computer software	8,940,494	-	(8,756)	348,635	9,280,373
Total capital assets, being depreciated	819,184,762	2,404,082	(3,529,335)	16,558,617	834,618,126
Less: accumulated depreciation	(268,677,931)	(17,563,294)	3,366,399	-	(282,874,826)
Total capital assets, being depreciated, net	550,506,831	(15,159,212)	(162,936)	16,558,617	551,743,300
Total capital assets, net	\$ 582,197,274	\$ 12,607,801	\$ (162,936)	\$ 13,541	\$ 594,655,680

The total amount of interest cost incurred and capitalized is \$516,040 for 2018. Starting in 2019, interest cost incurred was no longer included in the historical cost of a capital asset in compliance with GASB 89.

NOTE 5 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2019 and 2018 follows:

	2018	Additions	Reductions	2019	Due within One Year
Revenue bonds	\$ 242,340,000	\$ -	\$ (6,625,000)	\$ 235,715,000	\$ 6,955,000
Plus: Unamortized premium	17,695,173	-	(1,158,327)	16,536,846	-
State Revolving Fund loans	40,574,794	-	(3,938,863)	36,635,931	4,011,393
Total long-term debt	<u>\$ 300,609,967</u>	<u>\$ -</u>	<u>\$ (11,722,190)</u>	<u>\$ 288,887,777</u>	<u>\$ 10,966,393</u>

	2017	Additions	Reductions	2018	Due within One Year
Revenue bonds	\$ 180,740,000	\$ 100,945,000	\$ (39,345,000)	\$ 242,340,000	\$ 6,625,000
Plus: Unamortized premium	13,830,478	7,044,242	(3,179,547)	17,695,173	-
State Revolving Fund loans	44,442,537	-	(3,867,743)	40,574,794	3,938,863
Total long-term debt	<u>\$ 239,013,015</u>	<u>\$ 107,989,242</u>	<u>\$ (46,392,290)</u>	<u>\$ 300,609,967</u>	<u>\$ 10,563,863</u>

The Division's long-term debt at December 31, 2019 and 2018 consists of the following payable from revenues of the Division.

Notes to the Financial Statements (continued)

Parity bond, senior lien:	2019	2018
2015 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$1,245,000 to \$9,485,000 between 2016 and 2045. Original par value \$109,300,000 with a call date of June 1, 2025. Purpose was to (a) finance a portion of the costs of the Division's capital improvement program, (b) to refund a portion of the outstanding 2006 Revenue and Refunding Bonds, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the bonds.	\$102,755,000	\$104,600,000
2016A Revenue Refunding Bonds, with interest rates ranging from 1.75% to 5%, due in yearly installments of \$525,000 to \$2,010,000 between 2016 and 2038. Original par value \$31,855,000 with a call date of June 1, 2026. Purpose was to advance refund of the TES Properties, 2009 Lease Revenue Bonds and contemporaneously terminate the capital lease agreement with TES Properties. Proceeds were also used to fund the bond reserve and pay issuance costs.	28,300,000	29,345,000
2016B Revenue Refunding Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$2,165,000 to \$2,605,000 between 2017 and 2021. Purpose was to refund a portion of the 2006 Revenue and Refunding Bonds and issuance costs.	5,090,000	7,450,000
2018 Revenue Bonds, with interest rates ranging from 3% to 5% due in yearly installments of \$3,422,000 to \$8,256,000 between 2019 and 2048. Purpose was to finance capital improvements and pay costs of issuance.	99,570,000	100,945,000
Total parity bonds, senior lien	235,715,000	242,340,000
Junior lien debt:		
State Revolving Fund loans DOE L040006A & DOE L040006B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$2,297,662 to \$4,532,452 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant Upgrade project.	36,336,361	40,252,430
State Revolving Fund loan 2011 DOE L1000007, with an interest rate of 2.9% in semi-annual installments of \$21,511 to \$31,346 through 2030; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$473,806 to reimburse a portion of costs related to surface water line retrofit projects.	299,570	322,364
Total junior lien debt	36,635,931	40,574,794
Total outstanding debt	272,350,931	282,914,794
Less:		
Current portion	(10,966,393)	(10,563,863)
Plus: Unamortized premium	16,536,846	17,695,173
Total long-term debt	\$277,921,384	\$290,046,104

The division entered into a \$2.8 million State Revolving Fund loan agreement effective 7/1/2019 with the Department of Ecology for the Larchmont Permeable Neighborhood Project. The loans have not been withdrawn yet.

As of December 31, 2019, annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2020	\$ 10,966,393	\$ 10,569,009	\$ 21,535,402
2021	11,360,363	10,172,789	21,533,152
2022	11,355,803	9,821,162	21,176,965
2023	11,687,745	9,498,919	21,186,664
2024	12,071,222	9,102,993	21,174,215
2025-2029	59,923,059	38,996,450	98,919,509
2030-2034	54,871,346	27,686,950	82,558,296
2035-2039	46,440,000	16,122,725	62,562,725
2040-2044	33,875,000	8,448,750	42,323,750
2045-2048	19,800,000	1,774,800	21,574,800
	<u>\$ 272,350,931</u>	<u>\$ 142,194,547</u>	<u>\$ 414,545,478</u>

As of December 31, 2019, the following outstanding bonds were considered defeased in substance:

<u>Issue</u>	<u>Amount</u>
Sewer Revenue Refunding bonds, 2006 and 2011	\$ 34,320,000
Sewer Revenue Refunding Bonds, Series 2016 A (TES Properties Lease Revenue Bonds 2009)	31,055,000
	<u>\$ 65,375,000</u>

These refunded bonds constitute a contingent liability of the Division only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the financial statements because the likelihood of additional funding requirements is considered remote.

NOTE 6 INSURANCE

The major risks to the Division are flooding, recontamination, 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.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled \$381,691 for 2019 and \$404,842 for 2018. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee retirement plans. The coverage also provides a Government Crime policy with a \$1.0 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest

act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 aggregate for all claims for each 12-month policy period and a Cybersecurity policy with a limit of \$5.0 million.

General Government maintains Property insurance policy that covers its buildings contents, and all perils within the buildings and motor vehicles while on insured premises with a limit of \$500.0 million per occurrence. A deductible of \$150,000 per occurrence applies to the building, contents and automobiles except a deductible of \$250,000 for water damage claims. Excess liability policies provide coverage for Wrongful Acts, General liability, and Automobile liability with a \$3.0 million retention for claims other than those related to law enforcement. A retention of \$5.0 million applies to law enforcement liability claims. The coverage also provides Aviation Liability - Unmanned Aircraft liability for drones with a limit of \$1.0 million.

The Division's cost for these policies is \$288,544 in 2019 and \$255,516 in 2018.

NOTE 7 WESTERN METAL INDUSTRY PENSION FUND

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

Information was unavailable to determine if an actuarial liability exists for the City in 2019, however, the Plan was in "critical" status in the Plan Year beginning January 1, 2019. The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010 and subsequently updated it on July 24, 2012 and December 9, 2016.

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

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

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

On December 3, 2019 the Tacoma City Council approved the collective bargaining agreements for the following groups; the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma General Unit, and District Lodge 160, Local Lodge 282 covering Wastewater Treatment Plant Maintenance Supervisors' Unit. Contained in this agreement was a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2019, payroll was the final contributions made on behalf of the employees in this unit. As of January 1, 2020, no employees were participating in the plan.

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

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

Classification	January 1, 2018 - December 31, 2018	January 1, 2019 - December 31, 2019
Fabrication Welder	5.98% of gross pay	6.21% of gross pay
WWTP Assistant	4.95% of gross pay	5.43% of gross pay
WWTP Maintenance Machinist	5.76% of gross pay	6.31% of gross pay
WWTP Maintenance Machinist, Senior	5.67% of gross pay	6.22% of gross pay
WWTP Maintenance Supervisor	3.66% of gross pay	4.03% of gross pay

In 2018 and 2019 the Division contributed \$303,474 and \$305,469, respectively.

There is currently no schedule to amortize the unfunded liability for the employees who are remaining within the Plan and the system is currently functioning on a pay-as-you-go basis. The City's obligation is to pay, in full, the payroll withholdings to the system.

At this time, WMIPF has not provided a withdrawal liability estimate. The City utilized employee data from 2017, the last year in which all units were actively contributing to WMIPF to estimate the City's withdrawal liability. The Division has recognized a liability in the amount of \$3,279,940 as of December 31, 2019.

NOTE 8 TACOMA EMPLOYEES' RETIREMENT SYSTEM

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

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

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

ADMINISTRATION OF THE SYSTEM – The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the Retirement System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

The breakdown of membership as of December 31, 2018 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits	2,474
Terminated vested and other terminated participants	747
Active members:	
City of Tacoma	2,706
Pierce Transit	7
South Sound 911	2
Tacoma-Pierce County Health Department	274
Total active members	2,989
Total membership	6,210

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

BENEFITS - There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year. Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

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

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

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

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

Measurement Date	December 31, 2018
Valuation Date	January 1, 2019
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows*: <ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

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

BENEFIT AND ASSUMPTION CHANGES - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2019 valuation date and December 31, 2018 the measurement date. Therefore, no adjustments were needed from the January 1, 2019 actuarial valuation date to the calculated liabilities as of December 31, 2018, measurement date for reporting date of December 31, 2019. There were no changes between the January 1, 2018 and January 1, 2019 valuation dates.

At its June 8, 2017 meeting, the TERS Board approved updated factors for use in converting member contributions with interest into the unmodified benefit form for comparison to the service retirement benefit. This change will be effective January 1, 2020.

TARGET ALLOCATION - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2018. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.03%
US Inflation-Indexed Bonds	5.0%	1.14%
High Yield Bonds	9.0%	3.90%
Emerging Market Debt	5.0%	3.75%
Global Equity	41.5%	5.41%
Public Real Estate	2.0%	5.76%
Private Real Estate	2.5%	3.84%
Private Equity	10.0%	9.37%
Master Limited Partnerships	4.0%	4.06%
Timber	2.0%	4.05%
Infrastructure	2.0%	5.04%
Agriculture	2.0%	4.54%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.65%
Portfolio Arithmetic Real Mean Return		4.73%
Portfolio Median Nominal Geometric Return		6.93%
Portfolio Standard Deviation		11.01%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

SENSITIVITY ANALYSIS - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower 6% or 1 percentage point higher 8% than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$ 36,152,310	\$ 13,029,876	\$ (6,294,334)

As of December 31, 2019, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (1,709,908)	\$ 407,017
Changes of assumptions	-	1,906,633
Net Difference Between Projected and Actual Earnings	-	9,995,337
Changes in Employer Proportion	(2,207)	1,165
Contributions Made Subsequent to the Measurement Date	-	3,111,579
Total	\$ (1,712,115)	\$ 15,421,731

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

Amounts will be recognized in pension expense as follows:

2020	\$ 3,684,211
2021	1,480,846
2022	1,747,790
2023	3,632,130
2024	53,060
Thereafter	-
	<u>\$ 10,598,037</u>

The proportionate share of the Wastewater & Surface Water Division is 11.14% of total System's pension liability as of December 31, 2019 and 11.21% as of December 31, 2018. The proportionate share was based on the actual contributions for the year as of December 31, 2019 and 2018.

NOTE 9 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, 2018 for LEOFF 1 members includes 1 active participant and 406 retirees. The membership as of January 1, 2019 for non-LEOFF 1 members includes 3,526 active participants, 529 deferred retirees, 577 retirees, and 139 spouses of current retirees.

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

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS - The valuation date is January 1, 2019 for non-LEOFF 1 members and January 1, 2018 for LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2018. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2019. There have been no significant changes between the valuation date and fiscal year ends. If there were significant changes, an additional analysis or valuation might be required.

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

Valuation Date:	January 1, 2019
Census Date:	January 1, 2019
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate: 4.10% for pay-as-you-go funding

Medical Cost Trend:

2019	9.10%
2020	6.00%
2021	5.50%
2030	5.00%
2040	5.10%
2050	5.10%
2060	5.00%

Note that the trend for year 2019 reflects the percent by which 2020 medical costs are expected to exceed 2019 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.30% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -

Discount Rate (Liabilities): 4.10%

Demographic Assumptions:

Eligibility:

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

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

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

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

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

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

CHANGES OF ASSUMPTIONS – The discount rate was updated to 4.10% from 3.44%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES – At December 31, 2019 the Division reported a liability of \$2,555,057 for its proportionate share of the collective total OPEB liability of \$204.1 million. The OPEB liability was measured as of December 31, 2018 and was determined by an actuarial valuation as of January 1, 2019. At December 31, 2018 the participating Division's proportion was 1.85726% as compared to 1.25179% at December 31, 2019. For the year ended December 31, 2019 the participating Division recognized an OPEB expense of negative \$239,154.

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

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ -	\$ 562
Changes of assumptions	(198,277)	76,231
Changes in Employer Proportion	(1,835,711)	818,144
Differences in Contributions	(72,257)	13,077
Contributions Made Subsequent to the Measurement Date	-	144,531
Total	\$ (2,106,245)	\$ 1,052,545

The Division reported \$144,531 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2020	\$ (230,613)
2021	(230,613)
2022	(230,613)
2023	(230,613)
2024	(250,858)
Thereafter	(24,921)
	<u>\$ (1,198,231)</u>

SENSITIVITY OF THE DIVISION'S PROPORTIONATE SHARE OF THE OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 4.10%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower 3.10% or one percentage point higher 5.10% than the current rate.

	1% Decrease 3.10%	Current Discount Rate 4.10%	1% Increase 5.10%
Net OPEB liability	\$ 2,883,886	\$ 2,555,057	\$ 2,280,234

SENSITIVITY OF THE DIVISION'S PROPORTIONATE SHARE OF THE OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES

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

	1% Decrease 8.10%	Current Trend Rates 9.10%	1% Increase 10.10%
Net OPEB liability	\$ 2,254,366	\$ 2,555,057	\$ 2,912,967

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

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

NOTE 11 ENVIRONMENTAL LIABILITIES

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree, effective May 28, 1997. The stated value of the City's settlement was approximately \$7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction was completed on four projects and the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016.

The City provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree were fulfilled. In the Trustees' response, they indicated that monitoring of Place of Circling Waters needed to be complete before the Consent Decree could be closed out. On January 11, 2017, following completion of this monitoring, the City again provided notification to the Trustees that the obligations of the NRDA Consent Decree were fulfilled. On May 28, 2019, the City received notification that the Trustees had executed a Resolution agreeing that the City had completed their obligations under the Consent Decree.

Although the City resolved its NRDA liability, it remains a property owner of the restoration sites. The City expects that any financial obligation it may have related to these parcels in the future will be de minimus and similar to the liability related to ownership of other properties within the City.

OLYMPIC VIEW RESOURCE AREA - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long-term

monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys and a cap material replenishment project was required. A report of these findings was submitted to EPA in early 2017 along with a Contingency Planning Proposal, and upon approval, the City began implementation of this proposal. The project is currently in design and construction is planned for the summer of 2020. Long-term monitoring will be required following construction. Included in the financial statements for the years 2019 and 2018 are liabilities of \$2,046,057 and \$1,050,662 respectively.

FOSS CONSENT DECREE – Following the first ten years of monitoring, the City worked with the Environmental Protection Agency to develop the Long Term Monitoring Plan for the Thea Foss Waterway. Under this Long-term Monitoring Plan developed in accordance with the Foss Consent Decree, the City has an obligation for continued monitoring through at least 2028. The results of this monitoring may result in additional limited cleanup efforts in the future. It is expected that another Long-term Monitoring Plan will be developed following completion of monitoring under the current plan. Included in the financial statements for the years 2019 and 2018 are liabilities of \$912,000 and \$987,500 respectively.

The City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources.

COAL-GAS SITE AGREED ORDER - In 1993 the City became a party to an agreed order with the State Department of Ecology under MTCA (RCW 70.105D.050(1)) for the clean-up of the coal-gas properties located at the head of the Foss Waterway just south of the cable stay bridge below the SR 705 spur. The City is one of several potentially liable parties (PLPs) that are signatories to this agreed order. The agreed order, and subsequent amendments, provided for interim measures to control the coal-tar from migrating from this site into the Foss Waterway but did not provide for final cleanup or closure of the site. In mid-2016, Ecology contacted the City and other potentially liable parties to initiate the negotiations of a new Agreed Order which would address final closure of the Coal Gas Site by completion of a Remedial Investigation/Feasibility Study (RI/FS) and development of a draft Cleanup Plan (dCAP) for the site. The City's role and cost obligation should be limited. This new Agreed Order was fully executed on September 13, 2018 and work has commenced.

NOTE 12 COMMITMENTS AND CONTINGENCIES

LITIGATION AND CLAIMS - Because of the nature of its activities, the Division is subject to various pending and threatened legal actions which arise in the ordinary course of business. The Division believes, based on the information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the Division, but could be material to results of operations or cash flows for a particular annual period.

NOTE 13 SUBSEQUENT EVENTS

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

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Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,				
	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	11.14%	11.21%	11.38%	11.66%	11.65%
Employer's proportion share of net pension liability (asset)	\$13,029,876	(\$4,409,368)	\$10,569,592	\$10,094,045	(\$1,119,219)
Employer's covered payroll **	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556	\$25,070,695
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	47.36%	-16.63%	40.72%	37.44%	-4.46%
Plan fiduciary net position as a percentage the total pension liability	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,				
	2019	2018	2017	2016	2015
Contractually required employer contribution	\$3,111,579	\$2,961,878	\$2,745,272	\$2,753,194	\$2,650,121
Contributions in relation to the contractually required employer contribution	(3,111,579)	(2,961,878)	(2,745,272)	(2,753,194)	(2,650,121)
Employer contribution deficiency (excess)	-	-	-	-	-
Employer's covered employee payroll	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556
Employer contribution as a percentage of covered-employee payroll	11.68%	10.77%	10.35%	10.61%	9.83%

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

** Due to implementation of GASB 82, the division's covered employee payroll has been restated for fiscal years 2016 and 2015 to confirm with GASB 82.

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,		
	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	1.25%	1.86%	1.81%
Employer's proportion share of collective OPEB liability	\$2,555,057	\$4,101,053	\$3,793,836
Employer's covered-employee payroll **	\$27,513,166	\$26,516,978	\$26,221,707
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	9.29%	15.47%	14.47%

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

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

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2019**

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

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

Changes of Assumptions: The discount rate was updated to 4.10% from 3.44%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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Supplemental Information (Unaudited)

Wastewater and Surface Water Management
Unaudited Supplemental Information

City of Tacoma, Washington Sewer Revenue and Refunding Bonds, Series 2015
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016A
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016B
City of Tacoma, Washington Sewer Revenue Bonds, Series 2018

The following continuing disclosure information for 2019 is provided in accordance with SEC Rule 15c2-12(b)(5)

Wastewater and Surface Water Management Audited Financial Statements
Reference Financial Statements Section

Outstanding Sewer Bonds

Reference Note 4 in Notes to Financial Statements

Debt Service Coverage

	<u>2018</u>	<u>2019</u>
Parity Bond Debt Service Coverage Ratio	4.28	3.03
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	3.13	2.37

Number of Customers by Type of Service

Year	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract ⁽¹⁾	Total	Residential	Commercial/ Industrial	Total
2018	59,094	3,793	13,903	76,790	59,774	11,283	71,057
2019	59,331	3,785	14,282	77,398	59,778	11,415	71,193

⁽¹⁾ Includes customers located in the city of Fife, the town of Ruston, the city of Fircrest and in certain areas of Pierce County served pursuant to interlocal agreements between the City and those jurisdictions.

Revenues by Service

Wastewater:	<u>2018</u>	<u>2019</u>
Residential	\$49,438,938	\$50,738,543
Commercial and wholesale	26,381,317	26,567,803
Other revenues	2,625,858	2,438,896
Surface Water:		
Residential	17,502,634	17,893,654
Commercial	18,794,271	19,145,563
Other revenues	1,073,997	134,464
Total operating revenues	<u>\$ 115,817,015</u>	<u>\$ 116,918,923</u>

Top Ten Customers

The System's ten largest customers for 2019 are shown in the following table.

Customer Name	Amount	Percent of 2019 Operating Revenues ⁽¹⁾
Port of Tacoma	\$ 2,598,943	2.22%
Tacoma School District	1,759,360	1.50%
City of Tacoma	1,572,639	1.35%
Puyallup Tribe	1,063,423	0.91%
Metro Parks	945,815	0.81%
Darling International Inc	898,922	0.77%
Pierce County Facilities	807,860	0.69%
Multicare	541,916	0.46%
Salishan	502,591	0.43%
BNSF Railway	479,182	0.41%
Total	<u>\$ 11,170,651</u>	<u>9.55%</u>

⁽¹⁾Total system revenue \$ 116,918,923

Wastewater and Surface Water Rates

Wastewater Rates

The monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

	2018 ⁽¹⁾	2019 ⁽¹⁾
Residential		
Monthly fixed charge	\$ 24.96	\$ 25.87
Flow charge ⁽²⁾	4.68	4.87
Commercial		
Monthly fixed charge	\$ 11.92	\$ 12.50
Flow charge ⁽³⁾	6.50-14.08	6.75-14.13

⁽¹⁾ Rates are effective January 1 of each year.

⁽²⁾ Per 100 cubic feet of water consumed.

⁽³⁾ The flow charges for commercial customers per 100 cubic feet of water consumption vary depending on the user group. The present rates contain eight different user groups as established pursuant to Tacoma Municipal Code Chapter 12.08.

There is no fee for connection to the wastewater component of the System, except for the "in lieu of" assessment charge to properties that were not previously assessed for the cost of the transmission system under a local improvement district or a prior sanitary sewer improvement.

Surface Water Rates

Surface water rates are comprised of a fixed charge, plus an area charge per 500 square feet, depending on development type and whether the property is on the waterfront. The monthly rates for surface water service, as adopted by the Council, are shown in the following table.

Category of Development	2018 ⁽¹⁾		2019 ⁽¹⁾	
	Monthly Charge	Fixed Square Feet of Premises Area per 500	Monthly Charge	Fixed Square Feet of Premises Area per 500
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 7.65	\$ 0.1422	\$ 8.10	\$ 0.1463
Undeveloped-area in excess of one acre	7.65	0.0616	8.10	0.0616
Light development	7.65	0.4350	8.10	0.4505
Moderate development	7.65	0.6071	8.10	0.6300
Heavy development	7.65	0.8724	8.10	0.9118
Very Heavy development	7.65	1.1650	8.10	1.2210
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 7.65	\$ 0.2865	\$ 8.10	\$ 0.2899
Undeveloped area in excess of one acre	7.65	0.0616	8.10	0.0616
Light development	7.65	0.8812	8.10	0.9015
Moderate development	7.65	1.2054	8.10	1.2393
Heavy development	7.65	1.7684	8.10	1.8224
Very Heavy development	7.65	2.3619	8.10	2.4394

⁽¹⁾ Rates are effective January 1 of each year.

Single family residences are placed in the moderate classification of development. Rates for single family residential parcels in excess of 15,000 square feet are based on the moderate development rate for the first 15,000 square feet and at the undeveloped rate (one acre or less) for the remainder. All other customers are charged based on the customer's level of development and measured area of the premises.

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position

	Wastewater		Surface Water	
	As of December 31,		As of December 31,	
	2019	2018	2019	2018
ASSETS				
Current assets:				
Cash and equity in pooled investments	\$ 68,512,031	\$ 57,464,514	\$ 23,606,383	\$ 12,701,630
Accounts receivable, net	5,440,450	5,081,182	2,079,676	2,154,706
Unbilled revenues	4,993,787	5,336,787	2,743,000	2,927,000
Conservation loan fund receivables	151,349	211,795	-	-
Due from other funds	-	10,842	-	87,129
Due from other governments	-	-	651,662	815,226
Inventory	1,427,934	1,098,786	-	-
Prepayments	249,533	226,836	-	-
Restricted cash and equity in pooled investments:				
Debt service funds	822,386	4,767,270	583,078	2,210,020
Construction funds	35,526,712	49,687,885	46,668,021	53,843,466
Total restricted cash and equity in pooled investments	36,349,098	54,455,155	47,251,099	56,053,486
Total current assets	117,124,182	123,885,897	76,331,820	74,739,177
Non-current assets:				
Restricted cash and equity in pooled investments:				
Debt reserves	4,640,000	4,640,000	32,034	32,034
Net pension asset	-	2,983,298	-	1,426,070
Conservation loan fund receivables	746,018	600,784	-	-
Prepayments	93,913	187,825	-	-
Capital assets:				
Land and easements	12,030,410	12,012,788	11,822,712	11,683,385
Buildings	193,820,522	189,753,996	1,864,545	1,970,906
Machinery and equipment	200,190,676	196,909,536	13,964,170	13,367,191
Transmission lines and other improvements	237,005,352	225,221,892	205,520,714	198,114,232
Computer software	5,391,078	5,379,794	3,916,167	3,900,579
Less: accumulated depreciation	(242,554,599)	(229,650,837)	(57,212,159)	(53,223,989)
Construction work in progress	11,255,522	12,956,448	8,205,377	6,259,759
Total capital assets, net	417,138,961	412,583,617	188,081,526	182,072,063
Total non-current assets	422,618,892	420,995,524	188,113,560	183,530,167
TOTAL ASSETS	539,743,074	544,881,421	264,445,380	258,269,344
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - loss on refunding bonds	2,272,191	849,361	1,357,208	1,437,438
Deferred outflows - OPEB	217,076	278,085	835,469	39,389
Deferred outflows - pensions	10,458,400	3,825,850	4,963,331	1,828,824
TOTAL DEFERRED OUTFLOWS OF RESOURCES	12,947,667	4,953,296	7,156,008	3,305,651
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 552,690,741	\$ 549,834,717	\$ 271,601,388	\$ 261,574,995

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position

	Wastewater		Surface Water	
	As of December 31,		As of December 31,	
	2019	2018	2019	2018
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,707,093	\$ 4,051,997	\$ 1,307,438	\$ 1,588,828
Accrued wages payable and compensated absences payable	816,646	823,841	255,671	310,462
Accrued taxes payable	95,793	594,380	46,587	268,560
Due to other funds	-	262,324	-	294,168
Due to other governments	720,000	599,028	-	-
Accrued environmental liability	-	-	1,766,057	1,222,334
Accrued State Revolving Fund loan interest payable	167,001	184,878	-	-
Current portion of State Revolving Fund loan	3,987,930	3,916,070	23,463	22,793
Current portion of revenue bonds payable	3,831,910	3,655,172	2,543,507	2,417,745
Unearned revenues	297,866	268,421	159,475	134,210
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	348,355	332,288	231,228	219,795
Accrued revenue bonds interest payable	474,031	489,809	351,850	362,914
Deposit in lieu of bond	-	9,250	-	-
Total current liabilities	13,446,625	15,187,458	6,685,276	6,841,809
Non-current liabilities:				
Long-term debt - revenue bonds, net	143,637,156	148,376,502	101,659,690	105,033,671
Long-term accrued compensated absences	2,094,738	2,288,084	471,004	469,665
Long-term accrued environmental liability	-	-	1,192,000	1,012,500
Long-term State Revolving Fund loan	32,348,431	36,336,361	276,107	299,570
Net pension liability	8,836,340	-	4,193,536	-
Net OPEB liability	1,350,938	3,732,518	1,204,119	368,535
Pension withdrawal liability	3,279,940	-	-	-
Total noncurrent liabilities	191,547,543	190,733,465	108,996,456	107,183,941
TOTAL LIABILITIES	204,994,168	205,920,923	115,681,732	114,025,750
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - gain on refunding bonds	14,941	22,737	20,633	31,398
Deferred inflows - OPEB	1,988,074	61,726	118,171	2,606
Deferred inflows - pensions	1,161,088	5,078,270	551,027	2,427,503
TOTAL DEFERRED INFLOWS OF RESOURCES	20,164,103	22,162,733	8,689,831	10,461,507
NET POSITION				
Net investment in capital assets	271,117,496	270,814,021	141,173,078	139,931,307
Restricted for:				
Bond reserves	4,640,000	4,640,000	32,034	32,034
Debt service	-	3,945,173	-	1,627,311
Deposit in lieu of bond	-	9,250	-	-
Net pension asset	-	2,983,298	-	1,426,070
Unrestricted	51,774,974	39,359,319	6,024,713	(5,928,984)
TOTAL NET POSITION	327,532,470	321,751,061	147,229,825	137,087,738
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 552,690,741	\$ 549,834,717	\$ 271,601,388	\$ 261,574,995

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses and Changes in Net Position

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2019	2018	2019	2018
OPERATING REVENUES				
Wastewater residential	\$ 50,738,543	\$ 49,438,938	\$ -	\$ -
Wastewater commercial and public authorities	26,567,803	26,381,317	-	-
Surface water residential	-	-	17,893,654	17,502,634
Surface water commercial	-	-	19,145,563	18,794,271
Other revenues	2,438,896	2,625,858	134,464	1,073,997
Total operating revenues	79,745,242	78,446,113	37,173,681	37,370,902
OPERATING EXPENSES				
Business operations	20,174,280	16,756,304	8,398,184	7,423,082
Operations and maintenance	24,878,794	22,198,684	4,004,644	3,377,768
Science and engineering	8,201,965	7,014,877	9,234,279	9,383,227
Other	-	-	-	34,448
Depreciation	13,786,831	13,614,758	4,055,490	3,948,536
Total operating expenses	67,041,870	59,584,623	25,692,597	24,167,061
Net operating income	12,703,372	18,861,490	11,481,084	13,203,841
NONOPERATING REVENUES (EXPENSES)				
Investment and other earnings	3,700,628	1,092,154	2,272,807	665,159
Interest expenses and other related costs	(6,659,796)	(5,348,083)	(4,333,100)	(3,571,673)
Amortization of bond premium and gain/loss on refunding	247,446	444,330	529,781	433,375
Other nonoperating revenues	1,725,315	1,519,794	613,568	337,703
Gain or loss on sale/disposal of capital assets	(78,325)	(61,316)	(25,841)	(33,724)
Total nonoperating expenses	(1,064,732)	(2,353,121)	(942,785)	(2,169,160)
Net income before contributions and transfers	11,638,640	16,508,369	10,538,299	11,034,681
Capital contributions and grants	982,067	2,731,685	3,141,809	2,836,668
Transfer in from other funds	-	116,552	670,812	466,459
Transfer out to other funds	(118,450)	-	(1,150,050)	(42,000)
Gross earnings tax	(6,720,848)	(6,441,744)	(3,058,783)	(3,004,073)
Total contributions and transfers	(5,857,231)	(3,593,507)	(396,212)	257,054
CHANGE IN NET POSITION	5,781,409	12,914,862	10,142,087	11,291,735
NET POSITION - JANUARY 1	321,751,061	308,836,199	137,087,738	125,796,003
NET POSITION - DECEMBER 31	\$ 327,532,470	\$ 321,751,061	\$ 147,229,825	\$ 137,087,738

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City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 79,255,992	\$ 77,392,457	\$ 37,229,012	\$ 36,304,177
Payments to suppliers	(24,618,799)	(19,887,966)	(10,732,734)	(9,530,107)
Payments to employees	(24,686,745)	(24,279,950)	(9,180,448)	(11,173,247)
Payments for taxes	(1,321,854)	(1,293,191)	(548,629)	(530,459)
Net cash from operating activities	28,628,594	31,931,350	16,767,201	15,070,364
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer in from other funds	-	-	-	437,959
Transfer out to other funds	(7,335,402)	(6,447,791)	(4,432,104)	(3,004,796)
Operating grants received	11,172	-	(10,387)	304,295
Principal paid on noncapital debt	-	-	(618,788)	(591,600)
Funds place in escrow for bond defeasance	-	-	-	(27,453,088)
Interest paid on noncapital debt	-	-	(435,636)	(1,677,871)
Contributions and donations	130	260	14,630	19,260
Net cash from noncapital financing activities	(7,324,100)	(6,447,531)	(5,482,285)	(31,965,841)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Transfer in from other funds	-	116,552	670,812	28,500
Transfer out to other funds	-	-	-	(42,000)
Acquisition and construction of capital assets	(18,239,810)	(16,765,677)	(8,772,644)	(10,991,933)
Principal payments on capital debt	(7,903,529)	(13,732,044)	(2,041,546)	(1,436,010)
Bond refunding costs	(1,742,262)	2,418,076	-	2,922,888
Interest and issuance costs paid on capital debt	(6,657,796)	(5,194,859)	(3,886,327)	(1,709,411)
Proceeds from the issuance of revenue and refunding bonds	-	49,575,000	-	51,370,000
Gain/loss on bonds defeasance	(35,655)	(31,980)	(22,200)	(118,381)
Contributions and donations	800,477	2,174,755	2,584,886	971,606
Cash proceeds from sale of capital assets	900	28,680	-	-
Insurance recoveries	2,268	3,873	1,760	18,020
Net cash from capital financing activities	(33,775,407)	18,592,376	(11,465,259)	41,013,279
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	3,700,628	1,092,154	2,272,807	665,159
Other nonoperating income	1,711,745	1,517,563	9,902	9,913
Net cash from investing activities	5,412,373	2,609,717	2,282,709	675,072
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(7,058,540)	46,685,912	2,102,366	24,792,874
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	116,559,669	69,873,757	68,787,150	43,994,276
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 109,501,129</u>	<u>\$ 116,559,669</u>	<u>\$ 70,889,516</u>	<u>\$ 68,787,150</u>

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2019	2018	2019	2018
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Net operating income	\$ 12,703,372	\$ 18,861,490	\$ 11,481,084	\$ 13,203,841
Adjustments to reconcile operating income to net cash				
from operating activities:				
Depreciation expense	13,786,831	13,614,758	4,055,490	3,948,536
Other	-	-	-	34,448
Pension expense (credits)	1,269,906	(2,942,799)	608,623	(1,391,715)
Net OPEB expense (credits)	(394,223)	141,992	155,069	(3,435)
Pension withdrawal expense	3,279,940	-	-	-
Cash provided from changes in operating				
assets and liabilities:				
Accounts receivable, net of allowance	(359,268)	36,334	75,030	(250,868)
Accrued unbilled revenue	343,000	(722,000)	184,000	(571,000)
Due from other funds	10,842	(9,591)	87,129	(87,305)
Inventory	(329,148)	143,671	-	-
Prepayments	71,215	87,421	-	87
Accounts payable	(1,344,904)	2,432,044	(281,390)	(56,170)
Conservation loan fund receivables	(84,788)	32,596	-	-
Accrued wages and compensated absences payable	(7,195)	199,406	(54,791)	60,717
Accrued taxes payable	(2,483)	3,858	1,298	4,076
Deposit in lieu of bonds	(9,250)	9,250	-	-
Due to other funds	(262,324)	(19,932)	(294,168)	(155,660)
Due to other governments	120,972	48,542	-	-
Accrued environmental liability	-	-	543,723	336,661
Unearned revenues	29,445	41,091	25,265	20,545
Long-term accrued environmental liability	-	-	179,500	172,500
Long-term accrued compensated absences	(193,346)	(26,781)	1,339	(194,894)
Total adjustments	15,925,222	13,069,860	5,286,117	1,866,523
NET CASH FROM OPERATING ACTIVITIES	\$ 28,628,594	\$ 31,931,350	\$ 16,767,201	\$ 15,070,364
NONCASH INVESTING, CAPITAL, AND				
FINANCING ACTIVITIES				
Donated capital assets	\$ 163,968	\$ 556,670	\$ 1,209,648	\$ 1,865,587



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.