

WASTEWATER AND STORMWATER MANAGEMENT

2023

ANNUAL FINANCIAL REPORT



For the Fiscal Year Ended **December 31, 2023**
Prepared by the Finance Department

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City of Tacoma, Washington
Environmental Services Department

Wastewater and Stormwater Management

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Financial Data

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Tacoma, Environmental Services Department, Wastewater and Stormwater Management (the Division) as of and for the years ended December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Tacoma, Environmental Services Department, Wastewater and Stormwater Management as of December 31, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of City of Tacoma, Washington, as of December 31, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2024, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Tacoma, Washington
May 29, 2024

Management Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Stormwater Management
Management's Discussion and Analysis
December 31, 2023 and 2022

Introduction

The following management discussion and analysis of City of Tacoma Wastewater and Stormwater Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2023, 2022 and 2021. 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, 2023 and 2022, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of City of Tacoma Wastewater and Stormwater 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 \$559.0 million at December 31, 2023 compared to \$524.8 million at December 31, 2022 and \$502.8 million, as restated at December 31, 2021.
- Operating revenues were \$136.3 million in 2023, \$129.5 million in 2022, and \$123.4 million, as restated in 2021.
- Cash and equity in pooled investments was \$228.7 million at December 31, 2023 compared to \$225.6 million in 2022 and \$164.0 million in 2021.

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.

	December 31,		
	2023	2022	2021 (As Restated)
Current, restricted, and other assets	\$ 257,101,642	\$ 266,682,044	\$ 190,274,317
Net capital assets	724,467,276	707,656,619	662,224,577
Total assets	981,568,918	974,338,663	852,498,894
Deferred outflows of resources	21,741,268	12,906,433	14,880,795
Total assets and deferred outflows of resources	<u>\$ 1,003,310,186</u>	<u>\$ 987,245,096</u>	<u>\$ 867,379,689</u>
Non-current liabilities	\$ 389,580,318	\$ 386,449,318	\$ 302,828,662
Current liabilities	24,557,136	28,376,841	29,186,959
Total liabilities	414,137,454	414,826,159	332,015,621
Deferred inflows of resources	30,152,740	47,594,189	32,536,904
Total liabilities and deferred inflows of resources	<u>444,290,194</u>	<u>462,420,348</u>	<u>364,552,525</u>
Net position:			
Net investment in capital assets	390,353,321	390,966,243	409,091,102
Restricted	4,672,034	19,771,421	4,672,034
Unrestricted	163,994,637	114,087,084	89,064,028
Total net position	<u>559,019,992</u>	<u>524,824,748</u>	<u>502,827,164</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,003,310,186</u>	<u>\$ 987,245,096</u>	<u>\$ 867,379,689</u>

The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$559.0 million in 2023, compared to \$524.8 million in 2022, and \$502.8 million, as restated in 2021. The Division's net position increased by \$34.2 million in 2023 compared to an increase of \$22.0 million in 2022, and an increase of \$12.8 million, as restated in 2021. 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 \$390.4 million in 2023, compared to \$391.0 million in 2022, and \$409.1 million, as restated in 2021. 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 in 2023, compared to \$19.8 million in 2022, and \$4.7 million in 2021 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$164.0 million for 2023, \$114.1 million in 2022, and \$89.1 million, as restated for 2021 is unrestricted.

Current, restricted, and other assets was \$257.1 million, \$266.7 million, and \$190.3 million as of December 31, 2023, 2022, and 2021, respectively. The decrease in 2023 was \$9.6 million, compared to the increase of \$76.4 million in 2022. The decrease in 2023 was mainly due to \$15.1 million decrease in net pension asset. This decrease was offset with the increases of \$3.1 million in cash and equity pooled investments, and \$2.7 million in due from other governments. The increase in 2022 was primarily due to \$61.6 million increase in cash and equity pooled investments primarily from the issuance of Revenue bonds as discussed in Debt Administration section, \$1.0 million increase in due from other governments, and \$15.1 million increase in net pension asset. These increases were offset with the decreases of \$889,000 in accounts receivable, and \$459,000 in accrued unbilled revenue.

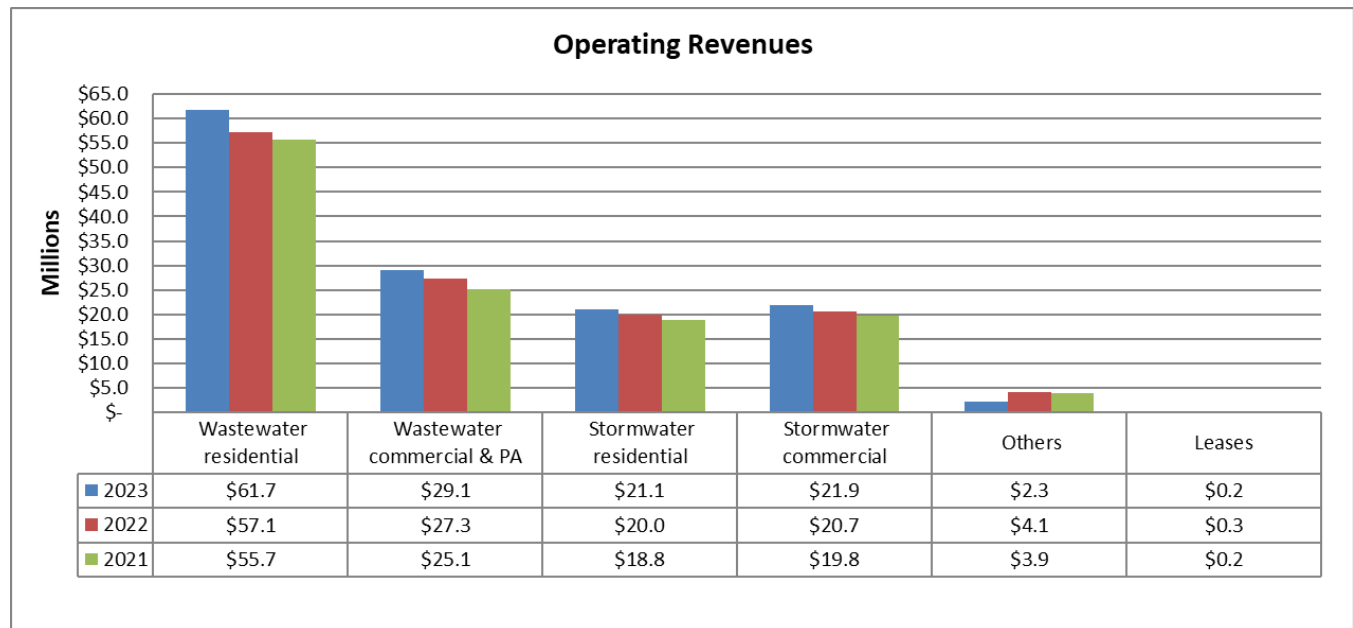
Non-current liabilities was \$389.6 million, \$386.4 million, and \$302.8 million as of December 31, 2023, 2022, and 2021, respectively. The increase in 2023 was \$3.2 million, compared to the increase of \$83.6 million in 2022. The increase in 2023 was mainly due to increases of \$13.8 million in net pension liability and \$2.9 million in Water Infrastructure Finance and Innovation Act (WIFIA) loan, a federal credit program administered by the United States Environmental protection Agency (EPA) for wastewater infrastructure projects. These increases were offset with the decreases of \$9.6 million in net revenue bonds, \$2.3 million in State Revolving Fund (SRF) loan, \$661,000 in net OPEB liability, and \$575,000 in COP loan, and \$312,000 in pension withdrawal liability. The increase in 2022 was mainly due to \$86.0 million in long-term debt from the 2022 Revenue bonds issuance which was offset with the decrease of \$7.2 million in net pension liability.

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

		December 31,	
	2023	2022	2021 (As Restated)
Operating revenues	\$ 136,332,023	\$ 129,485,579	\$ 123,377,943
Operating expenses	107,829,507	89,135,878	95,924,280
Net operating income	28,502,516	40,349,701	27,453,663
Nonoperating revenues (expenses)	849,337	(16,645,943)	(9,043,684)
Increase in net position before transfers	29,351,853	23,703,758	18,409,979
Capital contributions	17,398,242	7,901,980	5,153,121
Transfers	(12,554,851)	(9,608,154)	(10,793,809)
Increase in net position	34,195,244	21,997,584	12,769,291
Net position - Beginning of year	524,824,748	502,827,164	490,057,873
Net position - Ending	\$ 559,019,992	\$ 524,824,748	\$ 502,827,164

Operating revenues

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

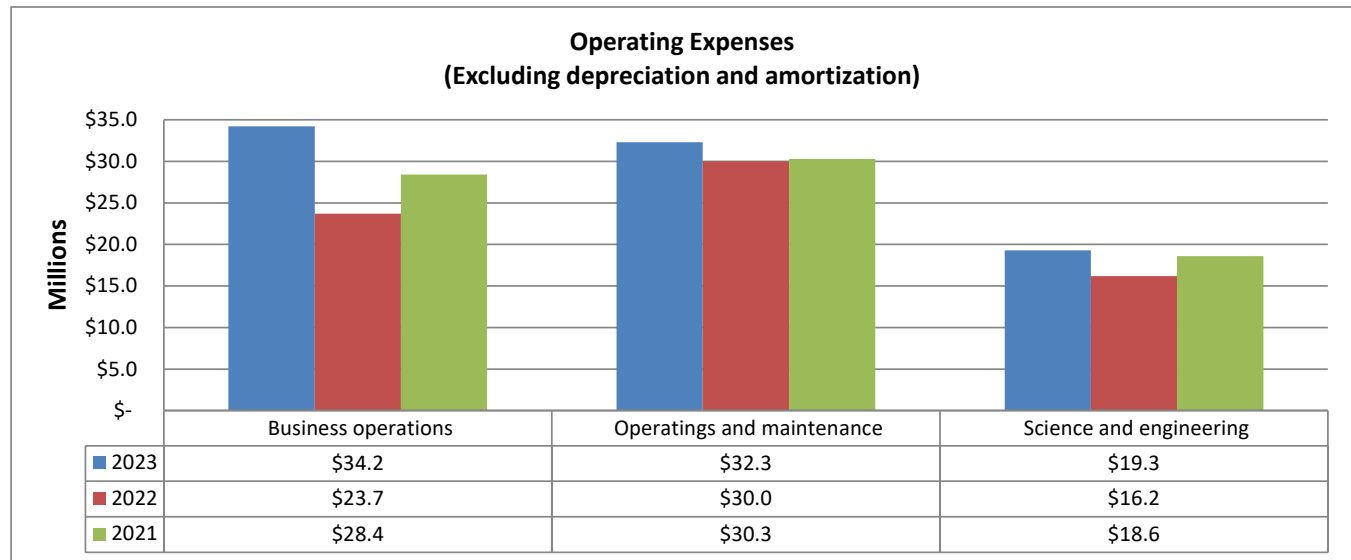


Operating revenues were \$136.3 million in 2023 compared to \$129.5 million in 2022, and \$123.4 million in 2021, as restated due to implementation of GASB No. 87, Leases. The approved average rate increases for Wastewater were 8.0% for 2023 and 2.0% for 2022 and 1.5% for 2021. The approved average rate increases for Stormwater were 6.0% for 2023 and 2.0% for 2022 and 1.5% for 2021. The rate increases went into effect January 1st of each year.

Wastewater residential revenues increased \$4.6 million or 8.1% compared to \$1.5 million or 2.6% in 2022 and Wastewater commercial and public authority (PA) revenues increased \$1.8 million or 6.7% compared to \$2.2 million or 8.8% in 2022. The 2023 increases were due in part to a rate increase and increased consumption. Other revenues decreased \$1.8 million or 43.7% compared to \$150,000 or 3.8% in 2022. The 2023 decrease is mainly due to less revenues from septage haulers and the Land Recovery Inc (LRI). Lease revenues were \$228,000 in 2023, a \$85,000 decrease from \$313,000 in 2022. Stormwater residential increased \$1.1 million or 5.3% compared to \$1.2 million or 6.4% in 2022. Stormwater commercial increased \$1.2 million or 5.8% compared to \$917,000 or 4.6% in 2022. The 2023 increase was due in part to a rate increase and increased consumption.

Operating expenses

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



2023 Activity

Operating expenses were \$107.8 million in 2023 and \$89.1 million in 2022, an increase of \$18.7 million.

- Business operation expenses increased \$10.5 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$2.2 million. Of this increase, \$1.7 million was related to entries for pension expenses. The remaining difference of \$578,000 was related to multiple small changes in all other payroll related costs.
 - Bad debts increased \$1.0 million due to higher outstanding balance in aged accounts receivable.
 - Administrative and General (A&G) credit allocated to capital projects decreased \$2.5 million due in part to less spending on capital projects.
 - Assessment increased \$3.9 million. \$1.7 million of the increase was due to the assessment from other departments, including Customer Service, IT. \$2.2 million of the increase is because the division no longer charges out the cost for biosolids disposal costs from Business operation expenses to Operation and maintenance expenses which leaves this cost in this expense category.
 - The remaining difference of \$822,000 is related to multiple small increases in other expenses.
- Operations and maintenance expenses increased \$2.3 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$3.4 million. Of this increase, \$3.2 million was related to entries for pension expenses. The remaining difference of \$210,000 was related to multiple small changes in all other payroll related costs.
 - External contract increased \$490,000 due in part to increases in repair and maintenance costs for Plant 1, transmission, and biogas facility.
 - Assessment decreased \$2.2 million because there was no charge out for biosolids disposal costs as discussed under Business operation expense section.
 - Fleet charges increased \$167,000.
 - The remaining difference of \$433,000 is related to multiple small changes in other expenses.
- Science and engineering expenses increased \$3.2 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$3.2 million. Of this increase, \$2.7 million was related to entries for pension expenses. The remaining difference of \$542,000 was related to multiple small changes in all other payroll related costs.
 - Environmental liability adjustment decreased \$1.3 million primarily due to the completion of the St. Paul Berm Repair project for the Foss Waterway in 2023.

- Professional service increased \$650,000 due to the increase in consulting and construction services, as well as the increase in the maintenance and equipment for the sewer flow monitoring network.
- The remaining difference of \$608,000 is related to multiple small changes in other expenses.

2022 Activity

Operating expenses were \$89.1 million in 2022 and \$95.9 million, as restated due to implementation of GASB No. 87, *Leases*, in 2021, a decrease of \$6.8 million.

- Business operation expenses decreased \$4.7 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.4 million mainly due to the decreases in pension benefit adjustment of \$959,000 and pension withdrawal expense of \$768,000. The remaining difference of \$361,000 was related to multiple small changes within salaries and wages and pension contributions.
 - Bad debts decreased \$4.3 million due to lower outstanding balance in aged accounts receivable.
 - Interlocal Governmental Service increased \$176,000 due to increased costs to Pierce County for wastewater treatment charges.
 - Assessment charges from other departments, including Customer Service and IT, increased \$559,000 for their services.
 - The remaining difference of \$308,000 is related to multiple small increases in other expenses.
- Operations and maintenance expenses decreased \$352,000. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.5 million mainly due to the decrease in pension benefit adjustment of \$1.9 million. The remaining difference of \$400,000 was related to multiple small changes within salaries and wages and pension contributions.
 - Physical inventory adjustment increased \$604,000 due to writing off the value of chemicals and gases as a result of the physical inventory.
 - Utilities increased \$412,000 mainly due to rate increases.
 - Operating supplies increased \$130,000 mainly due to increases in Biogas facilities and Plant #1 maintenance.
 - The remaining difference of \$2,000 is related to multiple small increases in other expenses.
- Science and engineering expenses decreased of \$2.4 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$1.8 million mainly due to the decrease in pension benefit adjustment of \$1.6 million. The remaining difference of \$200,000 was related to multiple small changes within salaries and wages and pension contributions.
 - Environmental liability adjustment decreased \$1.0 million primarily due to readjusted estimates for the identified maintenance issues requiring repair, and additional modeling of site conditions along with repair alternatives analysis, design and eventual construction for the Foss Waterway.
 - Professional service increased \$438,000 due in part to more service for engineering and project management by Brown and Caldwell for various projects.
 - External contract services increased \$295,000 due in part to emergency sewer replacement/repairs by Pivetta Brothers Co.
 - The remaining difference of \$341,000 is related to multiple small decreases in other expenses.

Nonoperating revenues (expenses)

2023 Activity

Net nonoperating revenues were \$849,000 in 2023 compared to expenses of \$16.6 million in 2022, an increase of \$17.5 million. The significant events were:

- Interest income increased \$3.9 million primarily due to higher cash balance and higher interest rate in City pooled investments in 2023.
- Unrealized net gain on fair value investment was \$4.0 million in 2023, an increase of \$10.1 million from an unrealized loss of \$6.1 million in 2022 due to higher market value of investments as of December 31, 2023.
- Other nonoperating revenues including rental, legal settlement, and operating grants increased \$1.3 million mainly due to grants received from the Washington Department of Ecology (DOE) and Department of Natural Resources for various operating projects and the legal settlement of \$404,000.
- Other nonoperating expenses decreased \$2.1 million mainly due to \$492,000 expenses to assist overdue utility accounts receivable in 2023 compared to \$2.6 million in 2022. The Division received \$492,000 in federal funding passing through from Neighborhood and Community Services (NCS) as part of the corona virus state fiscal recovery fund federal appropriation programs. The funding was applied to overdue utility accounts receivable for customers impacted by COVID-19.

2022 Activity

Net nonoperating expenses were \$16.6 million in 2022 and \$9.0 million in 2021, an increase of \$7.6 million. The significant events were:

- Interest income increased \$1.3 million primarily due to higher cash balance and higher interest rate in City pooled investment in 2023.
- Unrealized net loss on fair value investment was \$6.1 million in 2022, an increase of \$3.6 million from an unrealized loss of \$2.5 million in 2021 due to lower market value of investments as of December 31, 2022.
- Interest expenses and other related costs increased \$3.2 million mainly due to \$721,000 issuance cost and additional interest expenses for 2022 Sewer bonds.
- Other nonoperating expenses increased \$2.2 million mainly due to \$2.6 million expenses to assist overdue utility accounts receivable. The Division received a combined total of \$2.6 million pass-through federal funding from Neighborhood and Community Services (NCS) as part of Emergency Rental Assistance, Tenant Utility Assistance, and the corona virus state fiscal recovery fund federal appropriation programs. The funding was applied to overdue utility accounts receivable for customers impacted by COVID-19.

Contributions and transfers

2023 Activity

Capital contributions and Grants increased \$9.5 million mainly due to increased direct grants from Washington Department Ecology for the and Madison and Larchmont projects. Transfer in from other funds decreased \$2.1 million mainly due to decreased federal funds from NCS as discussed in the Nonoperating revenues (expenses) section.

2022 Activity

Capital contributions and Grants increased \$2.7 million mainly due to increased direct grants from DOE for the Upper Buckley Water Quality grant project. Transfer in from other funds increased mainly due to \$2.6 million federal funds from NCS as discussed in the Nonoperating revenues (expenses) section.

Capital Assets

Net capital assets increased \$16.8 million in 2023 compared to \$45.4 million in 2022 (See Note 5).

2023 Activity

Net capital assets increased \$16.8 million over the prior year. Machinery and equipment increased \$2.5 million mainly due to assets created for the Central Treatment Plant Secondary Clarifier #5 project. Transmission lines and other improvements increased \$37.0 million: 10,187 feet of donated lines were recorded for \$8.7 million, 30,668 feet of old lines were retired at the historical cost of \$118,000, 72,448 feet of new replacement lines and extended sewer lines were recorded for \$28.4 million. All other assets (land and easements, buildings, and computer software) increased \$920,000. Accumulated depreciation increased \$19.6 million and construction in progress decreased \$4.2 million. The Division implemented GASB Statement No. 87, *Leases*, effective January 1, 2021, and GASB 96, *Subscription-Based Information Technology Arrangements*, effective January 1, 2022. The implementation of GASB 96 required the recognition of a right-to-use of another entity's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a specific period in an exchange or exchange-like transactions. Right-to-use lease and subscription assets increased \$276,000 including \$88,000 from lease additions and \$188,000 from subscription additions. In 2022, the Division did not have any SBITAs. Further information can be found in Note 5 and Note 6.

2022 Activity

Net capital assets increased \$45.4 million over the prior year. Building increased \$26.0 million mainly due to the completion of the Energy Management improvement and Central Treatment Plant (CTP) Electrical replacement projects. Machinery and equipment increased \$17.1 million mainly due to assets created for the CTP Electrical replacement project. Transmission lines and other improvements increased \$74.0 million: 4,439 feet of donated lines were recorded for \$3.8 million, 48,480 feet of old lines were retired at the historical cost of \$186,000, 84,314 feet of new replacement lines and extended sewer lines were recorded for \$70.4 million. Accumulated depreciation increased \$19.1 million and construction in progress decreased \$52.7 million. The Division implemented GASB Statement No. 87, *Leases*, effective January 1, 2021. The implementation required the recognition of a right-to-use of another entity's asset for a specific period in an exchange or exchange-like transactions. Right to use lease assets were recorded in the net amount of \$152,000 as of December 31, 2022. Further information can be found in Note 5 and Note 6.

Debt Administration

At December 31, 2023, the Division had \$379.0 million outstanding in long-term debt: \$46.4 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and Certificate of Participation (COP) loan. The remaining balance is senior parity bonds debt. This compares to \$388.0 million in 2022 and \$294.3 million in 2021.

On March 23, 2022, Sewer (Wastewater and Stormwater) issued \$86,425,000 in Revenue bonds to provide funds necessary to finance and/or reimburse the City for costs associated with the construction, improvement and equipping of the utility.

In 2023, the Division received the final disbursement of \$2,685,453 from the WIFIA loan related to the construction of the Central Wastewater Treatment Plant electrical distribution replacement project, and the final disbursement of \$904,860 from State Revolving Fund Loan 2022 DOE EL220451 as a reimbursement for a portion of costs related to the construction of the Central Treatment Plant Electrical Distribution System Replacement projects. In addition, the Division received \$1,632,132 from State Revolving Fund Loans for the Larchmont and Madison District projects. A total of \$275,657 capitalized interest was recorded in 2023 which brings the total loan additions in 2023 to \$5,498,102.

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 7 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 3.02 at the end of 2023. This compares to a ratio of 3.02 in 2022 and 2.85 in 2021.

Future Outlook for 2023 and 2024 Rates

The approved average rate increases in 2023 and 2024 are 8% for Wastewater and 6% for Stormwater. The guiding strategy for these rate adjustments is to maintain the lowest responsible cost increase for customers, while maintaining long-term financial sustainability of the utilities. The proposed rate increases are driven by the continuing impacts of the COVID-19 pandemic, resulting in lower than historical revenues, as well as operating expenses and construction inflation. Included in the proposed revenue plan is increased financial assistance for income-qualifying residential customers.

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 Stormwater 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 accurate, that assets are used appropriately and that business transactions are carried out as authorized.

Request for Information

The Wastewater and Stormwater 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 interested 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 Stormwater Management
Statements of Net Position

	As of December 31,	
	2023	2022
ASSETS		
Current assets:		
Cash and equity in pooled investments	\$ 188,550,221	\$ 159,491,719
Accounts receivable, net	8,663,036	8,982,260
Unbilled revenues	8,147,787	7,796,787
Conservation loan fund receivables	318,163	199,262
Current lease receivables	231,680	315,487
Due from other governments	3,861,086	1,184,113
Inventory	2,791,556	2,588,147
Prepayments	454,701	313,706
Restricted cash and equity in pooled investments:		
Debt service funds	1,732,554	1,733,037
Construction funds	33,763,766	59,733,508
Total restricted cash and equity in pooled investments	35,496,320	61,466,545
Total current assets	248,514,550	242,338,026
Non-current assets:		
Restricted cash and equity in pooled investments:		
Debt reserves	4,672,034	4,672,034
Net pension asset	-	15,099,387
Conservation loan fund receivables	413,628	446,508
Long-term lease receivable	3,501,430	4,126,089
Capital assets:		
Land and easements	25,491,992	25,331,544
Buildings	240,616,249	240,130,998
Machinery and equipment	219,709,199	217,169,061
Transmission lines and other improvements	582,911,447	545,935,599
Computer software	10,497,173	10,222,802
Less: accumulated depreciation	(370,875,879)	(351,263,249)
Right to use lease and subscription assets	543,116	266,669
Less: accumulated amortization	(241,836)	(114,286)
Construction work in progress	15,815,815	19,977,481
Total capital assets, net	724,467,276	707,656,619
Total non-current assets	733,054,368	732,000,637
TOTAL ASSETS	981,568,918	974,338,663
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - loss on refunding bonds	2,807,971	3,013,328
Deferred outflows - OPEB	1,171,295	1,590,354
Deferred outflows - pensions	17,762,002	8,302,751
TOTAL DEFERRED OUTFLOWS OF RESOURCES	21,741,268	12,906,433
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,003,310,186	\$ 987,245,096

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

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

	As of December 31,	
	2023	2022
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 5,315,591	\$ 8,450,920
Accrued wages payable and compensated absences payable	1,441,675	1,555,937
Accrued taxes payable	180,750	201,458
Due to other governments	840,000	810,000
Accrued environmental liability	590,000	1,780,679
Accrued State loan interest payable	175,301	136,610
Current portion of Capital COP loan	575,000	570,000
Current portion of State Revolving Fund loan	4,730,327	4,356,142
Current portion of revenue bonds payable	7,750,416	7,434,137
Current portion of pension withdrawal liability	311,960	389,949
Unearned revenues	726,667	716,722
Current lease and subscription liability	97,800	61,622
Net current OPEB liability	89,095	175,428
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	704,584	675,863
Accrued revenue bonds interest payable	1,027,970	1,057,174
Deposit in lieu of bond	-	4,200
Total current liabilities	<u>24,557,136</u>	<u>28,376,841</u>
Non-current liabilities:		
Long-term debt - revenue bonds, net	304,910,776	314,558,709
Long-term debt - Capital COP loan	10,560,000	11,135,000
Long-term State Revolving Fund loan	30,549,634	32,850,529
Long-term WIFIA loan	19,254,334	16,372,397
Long-term accrued compensated absences	3,464,127	3,346,895
Long-term accrued environmental liability	736,000	901,000
Long-term lease and subscription liability	127,274	95,005
Net pension liability	13,761,228	-
Net OPEB liability	3,104,450	3,765,328
Pension withdrawal liability	3,112,495	3,424,455
Total noncurrent liabilities	<u>389,580,318</u>	<u>386,449,318</u>
TOTAL LIABILITIES	<u>414,137,454</u>	<u>414,826,159</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - OPEB	1,256,238	1,042,927
Deferred inflows - pensions	325,782	17,272,201
Deferred inflows - leases	3,570,720	4,279,061
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>30,152,740</u>	<u>47,594,189</u>
NET POSITION		
Net investment in capital assets	390,353,321	390,966,243
Restricted for:		
Bond reserves	4,672,034	4,672,034
Net pension asset	-	15,099,387
Unrestricted	163,994,637	114,087,084
TOTAL NET POSITION	<u>559,019,992</u>	<u>524,824,748</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 1,003,310,186</u>	<u>\$ 987,245,096</u>

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

	December Year-to-Date	
	2023	2022
OPERATING REVENUES		
Wastewater residential	\$ 61,758,570	\$ 57,147,208
Wastewater commercial and public authorities	29,109,004	27,276,372
Stormwater residential	21,062,586	19,993,574
Stormwater commercial	21,878,308	20,676,172
Other revenues	2,295,542	4,079,151
Lease revenues	228,013	313,102
Total operating revenues	136,332,023	129,485,579
OPERATING EXPENSES		
Business operations	34,211,288	23,725,513
Operations and maintenance	32,304,908	29,969,258
Science and engineering	19,333,304	16,173,817
Depreciation and amortization	21,980,007	19,267,290
Total operating expenses	107,829,507	89,135,878
Net operating income	28,502,516	40,349,701
NONOPERATING REVENUES (EXPENSES)		
Interest income	6,691,930	2,773,249
Unrealized net gain/(loss) on fair value investment	3,965,320	(6,134,512)
Interest expenses and other related costs	(13,710,195)	(13,616,669)
Interest income on lease activities	87,349	103,080
Amortization of bond premium and gain/loss on refunding	987,576	911,641
Other nonoperating revenues	3,279,897	1,963,549
Other nonoperating expenses	(502,195)	(2,556,534)
Loss on sale/disposal of capital assets	49,655	(89,747)
Total nonoperating revenues (expenses)	849,337	(16,645,943)
Net income before contributions and transfers	29,351,853	23,703,758
Capital contributions and grants	17,398,242	7,901,980
Transfer in from other funds	491,840	2,568,549
Transfer out to other funds	(1,675,000)	(1,480,697)
Gross earnings tax	(11,371,691)	(10,696,006)
Total contributions and transfers	4,843,391	(1,706,174)
CHANGE IN NET POSITION	34,195,244	21,997,584
NET POSITION - JANUARY 1	524,824,748	502,827,164
NET POSITION - DECEMBER 31	\$ 559,019,992	\$ 524,824,748

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

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

	Year Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 135,957,906	\$ 131,704,909
Payments to suppliers	(45,993,938)	(39,364,866)
Payments to employees	(39,957,572)	(38,403,538)
Payments for taxes	(2,342,137)	(2,229,730)
Cash from other non-operating revenues (expenses)	1,559,074	(891,016)
Net cash from operating activities	49,223,333	50,815,759
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer in from other funds	491,840	2,568,549
Transfer out to other funds	(13,046,691)	(12,176,703)
Operating grants received	1,325,926	505,234
Principal paid on noncapital debt	(117,450)	(110,925)
Interest paid on noncapital debt	(334,749)	(340,295)
Contributions and donations	3,902	15,000
Net cash from noncapital financing activities	(11,677,222)	(9,539,140)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(30,090,201)	(61,280,034)
Principal payments on leases	(116,157)	(60,415)
Principal payments on capital debt	(13,105,425)	(12,411,864)
Bond premium and issuance costs	-	9,305,896
Interest and issuance costs paid on capital debt	(13,090,302)	(12,833,601)
Proceeds from debt borrowing	5,222,445	97,839,158
Contributions and donations	5,725,150	3,127,228
Cash proceeds from sale of capital assets	338,930	11,000
Insurance recoveries	476	6,127
Net cash from capital financing activities	(45,115,084)	23,703,495
CASH FLOWS FROM INVESTING ACTIVITIES ^a :		
Investment income (loss)	10,657,250	(3,361,263)
Net cash from investing activities	10,657,250	(3,361,263)
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	3,088,277	61,618,851
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	225,630,298	164,011,447
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	\$ 228,718,575	\$ 225,630,298

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

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

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

	Year Ended December 31,	
	2023	2022
RECONCILIATION OF OPERATING INCOME		
(LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating income	\$ 28,502,516	\$ 40,349,701
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	21,852,457	19,210,147
Other non-operating revenues (expenses)	1,559,074	(891,016)
Amortization - Right of use	127,550	57,143
Lease revenue net	87,473	(6,804)
Expense capital project costs	79,310	330,471
Pension expense (credits)	2,454,945	(5,131,450)
Net OPEB expense (credits)	(114,841)	37,905
Cash from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	319,224	582,542
Accrued unbilled revenue	(351,000)	459,000
Inventory	(203,409)	(226,177)
Prepayments	(140,995)	(45,516)
Accounts payable	(3,135,329)	(4,196,555)
Conservation loan fund receivables	(86,021)	37,348
Accrued wages and compensated absences payable	(114,262)	66,398
Accrued taxes payable	(20,708)	735
Deposit in lieu of bonds	(4,200)	4,200
Due to other governments	30,000	30,000
Accrued environmental liability	(1,190,679)	1,565,679
Unearned revenues	9,945	205,044
Pension withdrawal Liability	(389,949)	(233,971)
Long-term accrued environmental liability	(165,000)	(1,420,000)
Long-term accrued compensated absences	117,232	30,935
Total adjustments	20,720,817	10,466,058
NET CASH FROM OPERATING ACTIVITIES	\$ 49,223,333	\$ 50,815,759
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	\$ 8,734,353	\$ 3,820,385
Interest expense accrued as debt principal	\$ 275,657	\$ 181,135
Unrealized net gain(loss) on fair value investment	\$ 3,965,320	\$ (6,134,512)

City of Tacoma, Washington
Environmental Services Department
Wastewater and Stormwater Management

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

NOTE 1 OPERATIONS

OPERATIONS OF THE WASTEWATER AND STORMWATER MANAGEMENT DIVISION - The Wastewater and Stormwater 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 Annual Comprehensive Financial Report (ACFR).

The Division is responsible for the planning, design, construction, operation, and maintenance of the wastewater and stormwater 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 a 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 2023, the Division implemented the following new accounting and reporting standard issued by the GASB:

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

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

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

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

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

CASH, SPECIAL FUNDS 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. Pooled investments are reported on the Statement of Net Position as Cash and equity in pooled investments. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents and the equity in pooled investments is considered cash for cash flow reporting purposes.

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

Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP.

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2023 and 2022 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma investment policy allows for authorized investments up to 60 months to maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions 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 Treasurer's LGIP is authorized by RCW 43.250. The LGIP is operated like a money market fund and is collateralized by short-term legal investments.

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.

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 as of December 31, 2023, and 2022.

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 \$4,044,891 and \$4,996,079 as of December 31, 2023, and 2022, respectively.

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

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.

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 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.

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

CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION - 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 and amortization are 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
Right to Use	depends on the life of the lease or subscription

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

ASSET IMPAIRMENT - The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows. There was no impairment existed in 2023 or 2022.

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

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

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

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

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

RATE STABILIZATION 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.

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

DEFERRED INFLOWS OF RESOURCES - Deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources consist of balances related to rate stabilization, pensions, other post-employment benefits other than pensions, and leases.

OPERATING REVENUES - Revenues are derived from providing wastewater and stormwater services. Wastewater services include the collection and treatment of wastewater to produce clean water and biosolids that are then used to produce environmentally friendly products also known as Tacoma Grow (TAGRO) products, and 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.

Stormwater services include flooding and erosion control, pollution prevention and control, environmental cleanup and restoration, and street drainage. Stormwater 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, and 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 short-term 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 1.75% business and occupation tax to the State on wastewater transmission and treatment and stormwater 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."

LEASES - Division as a lessor and Division as a lessee

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

Division as a lessee - A Lessee is required to recognize a lease payable and an intangible right-to-use lease asset. A lease payable is recognized at the net present value of future lease payments and is adjusted over time by interest and payments. Future lease payments include fixed payments, variable payments, based on index or rate, reasonably certain residual guarantees. The right-to-use lease asset is initially recorded at the amount of the lease liability plus prepayments less any lease incentives received prior to lease commencement, and is subsequently amortized over the life of the lease. Key estimates and judgments related to lease include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The City uses an average incremental borrowing rate as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise. The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease asset and liability if certain changes occur that are expect to significantly affect the amount of the lease liability.

SBTIA - Subscription-based information technology arrangements (SBITA) are recognized in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

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

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, lease receivables, allowance for doubtful accounts, right-to-use lease and subscription assets, accrued compensated absences, environmental liabilities, depreciation and amortization, Other Post Employment Benefits (OPEB Liability), pension withdrawal liability, self-insurance liabilities, net pension liability, lease and subscription liability, deferred inflows of leases 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.

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

Notes to Financial Statements (continued)

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

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

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

The Division's share of the City's investments shown in the table above is 15.46% and 15.48% as of December 31, 2023 and 2022.

NOTE 4 CAPITAL ASSETS

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

	2022	Additions	Retirements	Transfers & Adjustments	2023
Capital assets, not being depreciated/ amortized:					
Land and easements	\$ 25,331,544	\$ 160,448	\$ -	\$ -	\$ 25,491,992
Construction work in progress	19,977,481	29,908,691	-	(34,070,357)	15,815,815
Total capital assets, not being depreciated/ amortized	45,309,025	30,069,139	-	(34,070,357)	41,307,807
Capital assets, being depreciated/ amortized:					
Buildings	240,130,998	-	-	485,251	240,616,249
Right to use lease and subscription assets	266,669	276,447	-	-	543,116
Machinery and equipment	217,169,061	-	(2,411,538)	4,951,676	219,709,199
Transmission lines and other improvements	545,935,599	8,734,353	(117,564)	28,359,059	582,911,447
Computer software	10,222,802	-	-	274,371	10,497,173
Total capital assets, being depreciated/ amortized	1,013,725,129	9,010,800	(2,529,102)	34,070,357	1,054,277,184
Less: accumulated depreciation	(351,263,249)	(21,852,457)	2,239,827	-	(370,875,879)
Less: accumulated amortization	(114,286)	(127,550)	-	-	(241,836)
Total capital assets, being depreciated/ amortized, net	662,347,594	(12,969,207)	(289,275)	34,070,357	683,159,469
Total capital assets, net	<u>\$ 707,656,619</u>	<u>\$ 17,099,932</u>	<u>\$ (289,275)</u>	<u>\$ -</u>	<u>\$ 724,467,276</u>

Notes to Financial Statements (continued)

	2021 (As Restated)	Additions	Retirements	Transfers & Adjustments	2022
Capital assets, not being depreciated/ amortized:					
Land and easements	\$ 25,301,414	\$ 30,130	\$ -	\$ -	\$ 25,331,544
Construction work in progress	72,646,521	60,949,565	-	(113,618,605)	19,977,481
Total capital assets, not being depreciated/ amortized	97,947,935	60,979,695	-	(113,618,605)	45,309,025
Capital assets, being depreciated/ amortized:					
Buildings	214,168,069	-	-	25,962,929	240,130,998
Right to use lease and subscription assets	266,669	-	-	-	266,669
Machinery and equipment	200,112,868	36,224	(123,127)	17,143,096	217,169,061
Transmission lines and other improvements	471,896,335	3,820,385	(185,845)	70,404,724	545,935,599
Computer software	10,114,946	-	-	107,856	10,222,802
Total capital assets, being depreciated/ amortized	896,558,887	3,856,609	(308,972)	113,618,605	1,013,725,129
Less: accumulated depreciation	(332,225,102)	(19,210,147)	172,000	-	(351,263,249)
Less: accumulated amortization	(57,143)	(57,143)	-	-	(114,286)
Total capital assets, being depreciated/ amortized, net	564,276,642	(15,410,681)	(136,972)	113,618,605	662,347,594
Total capital assets, net	\$ 662,224,577	\$ 45,569,014	\$ (136,972)	\$ -	\$ 707,656,619

Right to use lease and subscription assets

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

A subscription-based information technology agreement (SBITA) is defined as a contract that conveys control of the right to use of another entity's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The City is party to a variety of SBITA contracts as a subscriber for which this right to use has been recognized as an asset on the statement of net position. This recognition is effective for periods beginning after January 1, 2022, due to the implementation of GASB 96.

A summary of the balances and changes in right to use lease and subscription assets for 2023 and 2022 follows:

	2022	Additions	Retirements	Transfers & Adjustments	2023
Right to use buildings	\$ 266,669	\$ -	\$ -	\$ -	266,669
Right to use land	-	88,057	-	-	88,057
Right to use subscription assets	-	188,390	-	-	188,390
Total right to use lease and subscription assets	266,669	276,447	-	-	543,116
Less: accumulated amortization					
Right to use buildings	(114,286)	(57,143)	-	-	(171,429)
Right to use land	-	(23,309)	-	-	(23,309)
Right to use subscription assets	-	(47,098)	-	-	(47,098)
Total accumulated amortization	(114,286)	(127,550)	-	-	(241,836)
Total right to use lease and subscription assets, net	\$ 152,383	\$ 148,897	\$ -	\$ -	\$ 301,280

Notes to Financial Statements (continued)

	2021	Additions	Retirements	Transfers & Adjustments	2022
Right to use buildings	\$ 266,669	\$ -	\$ -	\$ -	266,669
Right to use subscription assets	-	-	-	-	-
Total right to use lease and subscription assets	266,669	-	-	-	266,669
Less: accumulated amortization					
Right to use buildings	(57,143)	(57,143)	-	-	(114,286)
Right to use subscription assets	-	-	-	-	-
Total accumulated amortization	(57,143)	(57,143)	-	-	(114,286)
Total right to use lease and subscription assets, net	<u>\$ 209,526</u>	<u>\$ (57,143)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,383</u>

NOTE 6 LEASES

Lease receivables and Deferred Inflows of Resources - Lessor

The Division entered into a lease agreement related to buildings for office and lab space. The lease term starts on July 1, 2021 for sixty-two (62) months and will end on August 31, 2026. There are two (2) five-year options to extend the lease term. Lease requires monthly payments of \$23,555 for the term of the agreement with an annual increase of 3% to occur on the anniversary of the commencement date. An estimate of increase rate of 3% is applied for the extension period.

The City used its average incremental borrowing rate of 2.671% as of December 31, 2023 and 2.264% as of December 31, 2022 in calculation of net present value of lease receipts, as the interest rate is not stated in the agreement. There is no new lease wherein the City is as a lessor in 2023.

Total lease receivable as of December 31, 2023 is \$3.7 million and \$4.4 million as of December 31, 2022. Current lease receivable as of December 31, 2023 is \$231,680 as of December 31, 2023 compared to \$315,487 as of December 31, 2022.

Interest income on lease activity of \$87,349 was recorded in 2023 and \$103,080 in 2022. Lease revenue in the amount of \$228,013 was recorded in 2023 compared to \$313,102 in 2022.

Right to use lease assets and Lease liability - Lessee

On August 1, 2020, the Division entered into a commercial real estate lease for 8,900 rentable square feet of a 20,900 square foot building for a lease term of 60 months ending July 31, 2025. The Division is required to make an annual rent payment of \$4,895 for the duration of the lease with an annual increase of 2% to occur on the anniversary of the commencement date. In addition to the rent, the Division will pay one-twelfth of the pro-rata share of operating costs which the landlord shall provide as soon as possible following the first day of each succeeding calendar year a good faith estimate. As of December 31, 2023, the lease liability was \$98,000 compared to \$157,000 as of December 31, 2022. The value of the right to use asset as of December 31, 2023 was \$267,000 with accumulated amortization of \$171,000 compared to the right to use asset of \$267,000 with accumulated amortization of \$114,000 as of December 31, 2022.

The Division entered into a land lease for 39,482 square feet of nonwatery-dependent aquatic land located in Pierce County, Washington for a lease term of 30 years started on May 1, 2002 and will end April 30, 2032. The 1st annual rent payment was \$7,045 and is subject to annual adjustment pursuant to Chapter 79.105 (2005) Aquatic Lands - General. Without the fair market rental value for the future lease period at the time of recognition of this lease liability, the annual rent payment in the amount of \$9,302 of the lease period ended April 30, 2023 was used in calculating the net present value of the lease liability. As of December 31, 2023, the lease liability was \$69,000. The value of the right to use asset as of December 31, 2023 was \$88,000 with accumulated amortization of \$23,000.

The City used its average incremental borrowing rate of 2.671% as of December 31, 2023 and 2.264% as of December 31, 2022 in calculation of net present value of lease receipts, as the interest rate is not stated in the agreement. Lease liability for the year ended December 31, 2023 and 2021 is as follows:

	Lease Liability
Beginning balance, January 1, 2023	\$ (156,627)
Additions	(97,397)
Reductions	86,657
Ending Balance, December 31, 2023	<u>\$ (167,367)</u>
Beginning balance, January 1, 2022	\$ (212,810)
Additions	(4,232)
Reductions	60,415
Ending Balance, December 31, 2022	<u>\$ (156,627)</u>

Current lease liability as of December 31, 2023 is \$68,816 compared to \$61,622 as of December 31, 2022.

Interest expense on lease activity of \$7,524 was recorded in 2023 and \$4,232 in 2022 under other nonoperating expenses.

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

Fiscal Year	Principal	Interest	Total
2024	\$ 68,816	\$ 3,341	\$ 72,157
2025	44,405	1,829	46,234
2026	7,953	1,349	9,302
2027	8,168	1,134	9,302
2028	8,389	913	9,302
2029-2032	29,636	1,372	31,008
Total	<u>\$ 167,367</u>	<u>\$ 9,938</u>	<u>\$ 177,305</u>

Subscription Liability

The Division entered into a subscription agreement for three (3) years started on April 1, 2023 and will end on March 31, 2026. The subscription liability was \$56,690 as of December 31, 2023 and there was no subscription liability as of December 31, 2022. A principal of \$29,500 was paid during the year and there was no principal payment in 2022. An initial subscription asset was recorded in the amount of \$188,390 including the implementation cost of \$102,200 and a principal payment of \$29,500, with the accumulated depreciation was \$47,098 as of December 31, 2023 and there was no subscription assets as of December 31, 2022.

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

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

	Subscription Liability
Beginning balance, January 1, 2023	\$ -
Additions	(87,207)
Reductions	29,500
Ending Balance, December 31, 2023	<u>\$ (57,707)</u>

Current subscription liability as of December 31, 2023 was \$28,984 including \$1,017 interest accrual and there was no current subscription liability as of December 31, 2022.

Interest expenses on subscription activity of \$1,017 was recorded in 2023 under other nonoperating expenses and there was no interest expense on subscription activity in 2022.

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

Fiscal Year	Principal	Interest	Total
2024	\$ 27,967	\$ 1,533	\$ 29,500
2025	28,723	777	29,500
Total	<u>\$ 56,690</u>	<u>\$ 2,310</u>	<u>\$ 59,000</u>

NOTE 7 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2023 and 2022, follows:

	2022	Additions	Reductions	2023	Due within One Year
Revenue bonds	\$ 300,230,000	\$ -	\$ (8,110,000)	\$ 292,120,000	\$ 8,455,000
Plus: Unamortized premium	22,438,709	-	(1,192,933)	21,245,776	-
State Revolving Fund loans	37,206,671	2,616,165	(4,542,875)	35,279,961	4,730,327
State COP loan	11,705,000	-	(570,000)	11,135,000	575,000
WIFIA loan	16,372,397	2,881,937	-	19,254,334	-
Total long-term debt	<u>\$ 387,952,777</u>	<u>\$ 5,498,102</u>	<u>\$ (14,415,808)</u>	<u>\$ 379,035,071</u>	<u>\$ 13,760,327</u>

	2021	Additions	Reductions	2022	Due within One Year
Revenue bonds	\$ 221,485,000	\$ 86,425,000	\$ (7,680,000)	\$ 300,230,000	\$ 8,110,000
Plus: Unamortized premium	14,249,811	9,305,896	(1,116,998)	22,438,709	-
State Revolving Fund loans	31,212,149	10,272,311	(4,277,789)	37,206,671	4,356,142
State COP loan	12,270,000	-	(565,000)	11,705,000	570,000
WIFIA loan	15,049,415	1,322,982	-	16,372,397	-
Total long-term debt	<u>\$ 294,266,375</u>	<u>\$ 107,326,189</u>	<u>\$ (13,639,787)</u>	<u>\$ 387,952,777</u>	<u>\$ 13,036,142</u>

The Division's long-term debt at December 31, 2023 and 2022 consists of the following payable from revenues of the Division.

Parity bond, senior lien:	2023	2022
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.	\$94,605,000	\$96,765,000
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.	23,710,000	24,895,000
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.	88,525,000	92,630,000
2020 Revenue Bond was placed with US Environmental Protection Agency (EPA) in accordance with a Water Infrastructure Finance and Innovation Act (WIFIA) loan agreement, which evidences the City's repayment obligations. Total \$18,854,175 was reimbursed through the WIFIA loan, with an interest rate of 1.2%, due in yearly installments of \$809,225 from 2026 through 2054. Interest will be accrued until 2025 and the first payment starts in 2026. Total \$400,159 of capitalized interest was accrued from 2021 through 2023.	19,254,334	16,372,397
2022 Revenue Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$485,000 to \$5,150,000 between 2022 and 2051. Purpose was to finance capital improvements and pay costs of issuance.	85,280,000	85,940,000
Total parity bonds, senior lien	311,374,334	316,602,397
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 ("CTP") Upgrade project.	19,939,129	24,151,281
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.	201,498	227,091

Notes to Financial Statements (continued)

Parity bond, junior lien (Continued):	2023	2022
State Revolving Fund loan 2021 DOE EL210166, with an interest rate of 1.2% in semi-annual installments of \$73,684 through 2041; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$2,626,625 to reimburse a portion of costs related to the design of the CTP Electrical Distribution System Replacement projects.	2,319,286	2,437,683
State Revolving Fund loan 2022 DOE EL220451, with an interest rate of 1.6% in semi-annual installments of \$234,878 through 2053; this debt is junior lien and is secured by net operating revenue. Total \$11,111,539 was reimbursed from the SRF loans for the CTP Electrical Distribution System Replacement projects and \$79,174 of capitalized interest was accrued which brings the total loan amount to \$11,190,713. The first loan payment of \$234,878, which included a principal payment of \$186,733 was processed on August 31, 2023.	11,003,980	10,206,680
Local Agency Financing Lease, Series 2020C, known as "Capital (COP) Loan", with an interest rate of approximately 2.12% with annual debt service payments of between \$751,861 and \$787,088 through 2040; this debt is junior lien and is secured by net operating revenue. The issuance costs are included in the interest rate. The proceeds of up to \$12,700,000 to be received on a cost reimbursement basis for Energy Management Project expenditures.	11,135,000	11,705,000
The division entered into a \$2,800,000 State Revolving Fund loan agreement with the Department of Ecology on a cost reimbursement basis for the Larchmont Permeable Neighborhood project effective July 1, 2019, and \$5.0 million for the Madison District Green Infrastructure project effective July 1, 2018. As of December 31, 2023, total \$616,690 and \$1,199,378 have been reimbursed for the Larchmont and Madison District projects, respectively.	1,816,068	183,936
Total junior lien debt	46,414,961	48,911,671
Total outstanding debt	357,789,295	365,514,068
Less:		
Current portion	(13,760,327)	(13,036,142)
Plus: Unamortized premium	21,245,776	22,438,709
Total long-term debt	\$365,274,744	\$374,916,635

On March 23, 2022, Sewer (Wastewater and Stormwater) issued \$86,425,000 in Revenue bonds to provide funds necessary to finance and/or reimburse the City for costs associated with the construction, improvement and equipping of the utility. The proceeds are expected to be used to finance the following capital improvements to the stormwater utility: pipe replacement, main extensions, holding facility improvements for the stormwater collection system, pump station upgrades and repairs and additional projects identified through the asset management process. Also, the proceeds are expected to be used to finance the following capital improvements to the wastewater utility: large trunk replacement and improvements, bio-tower replacement and improvements, digester rehabilitation, sediment tank upgrades, upgrades to pump station facilities and additional projects identified through the asset management process.

As of December 31, 2023, annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2024	\$ 13,760,327	\$ 13,102,943	\$ 26,863,270
2025	14,231,559	12,628,943	26,860,502
2026	14,795,785	12,410,271	27,206,056
2027	16,823,594	11,913,367	28,736,961
2028	16,337,454	11,297,036	27,634,490
2029-2033	72,548,835	47,841,729	120,390,564
2034-2038	75,916,103	32,488,758	108,404,861
2039-2043	57,112,663	20,292,526	77,405,189
2044-2048	54,713,696	9,111,494	63,825,190
2049-2053	20,749,649	1,474,776	22,224,425
2054	799,630	9,596	809,226
	<u>\$ 357,789,295</u>	<u>\$ 172,571,439</u>	<u>\$ 530,360,734</u>

As of December 31, 2023, there were no bonds deceased in substance.

NOTE 8 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 \$186,984 for 2023 and \$40,580 for 2022. 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 benefit programs. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.25 million per occurrence. Coverage also has a Cybersecurity policy with a limit of \$2.0 million and a deductible of \$250,000. An Excess Cyber policy is maintained with a limit of \$2.0 million in excess of the primary policy.

General Government maintains Property insurance policy that covers its buildings and contents within the buildings and motor vehicles on insured premises with a limit of \$500.0 million per occurrence. A deductible of \$150,000 per occurrence applies to the building and contents except a deductible of \$250,000 for water damage claims. For loss due to earthquake, a limit of \$10.0 million applies with a deductible of 5% of the value of the property that is damaged subject to a \$250,000 minimum. For loss due to flood, a \$500,000 deductible applies for property in Flood Zones A & V, while a \$150,000 deductible applies to property in all other Flood Zones. Excess liability policies provide coverage for Wrongful Acts, General liability, and Automobile liability with a limit of \$20.0 million each occurrence and \$20.0 million aggregate with a \$5.0 million retention for claims other than those related to law enforcement. Law enforcement liability is maintained with a limit of \$10.0 million per occurrence and a \$10.0 million aggregate with a \$5.0 million retention. 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 was \$768,407 in 2023 and \$584,682 in 2022.

Changes in the City's estimated claims settlements liability for the past three years were as follows:

(Amounts expressed in thousands)

	Self Insurance Fund			Worker Compensation Fund			TPU Self Insurance Fund		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Balance 01/01	\$ 33,626	\$ 35,525	\$ 33,131	\$ 2,602	\$ 3,487	\$ 4,158	\$ 2,872	\$ 3,070	3,099
New Claims	11,788	138	84	3,302	2,212	1,295	2,560	1,179	1,140
Adjustments to Claims	45	2,012	7,137	3,223	1,371	2,431	(880)	(666)	(648)
Claims Payment	(5,941)	(4,049)	(4,827)	(6,189)	(4,468)	(4,397)	(272)	(711)	(521)
Balance 12/31	\$ 39,518	\$ 33,626	\$ 35,525	\$ 2,938	\$ 2,602	\$ 3,487	\$ 4,280	\$ 2,872	\$ 3,070

NOTE 9 WESTERN METAL INDUSTRY PENSION FUND

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

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

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

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

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

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 Plan. The contributions submitted for the December 31, 2019, payroll was the final contributions made on behalf of the employees in this unit. As of December 31, 2023, there were no employees participating in the plan nor were there any contributions made.

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

There were no contribution rates applicable for 2023 and 2022. There were no contributions paid by the City in 2023 and 2022.

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

On November 5, 2021, the City received a Withdrawal Liability Demand Letter from the Plan. The actuaries for the Plan determined that the withdrawal liability attributed to City of Tacoma is \$44,325,881 in total, but the liability was recorded for 20-year limitation liability of \$17,863,052 as of December 31, 2021, in accordance with Section 4219 (c) of the Employee Retirement Income Security Act (ERISA), 20 U.S.C. 1399(c). Each operating division recorded the respective liability based on its proportionate share of the 20-year limitation liability as of December 31, 2021. The initial \$337,619 payment was due on or before January 1, 2022 which was comprised of \$169,829 attributable to the partial withdrawal and \$167,790 attributable to the complete withdrawal. Subsequent payments are due quarterly. The partial withdrawal quarterly payment will continue until 80 quarterly payments are made for a total of \$13,586,320 while the last quarterly installment for the complete withdrawal will be due on April 1, 2028 for a total of \$4,276,732, the last payment amount will be \$81,982. The payments of \$1.7 million and \$1.0 million were made by the City during 2023 and 2022, respectively.

As of December 31, 2023, the Division reported a liability of \$3,424,454 for its proportionate share of the City's collective total withdrawal liability of \$14,824,481 compared to \$3,814,404 at December 31, 2022. The current portion of the withdrawal liability is \$311,960 as of December 31, 2023 compared to \$389,949 as of December 31, 2022. At December 31, 2023 and 2022, the Division's proportion was 23.1%. There was no withdrawal expense for the year ended December 31, 2023 and 2022.

On January 26, 2022, the City submitted an appeal over the liability calculation subject to the Employee Retirement Income Security Act of 1974 (ERISA). On April 12, 2023, the City submitted a Demand and Notice of Initiation Arbitration to American Arbitration Association. On January 2, 2024, the City received the ruling on motions for summary judgement and award regarding the interest rate used to calculate the withdrawal liability from American Arbitration Association. On January 23, 2024, the City filed a complaint to enforce arbitration award to United States District Court Western District of Washington in Seattle. The outcome of the complaint is uncertain at the time of the report issuance and may affect the estimated liability amount.

NOTE 10 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

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

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

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

Administration of The System - 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, 2022 and 2021 (measurement dates) is as follows:

	Measurement date as of	
	December 31,	
	2022	2021
Retirees and beneficiaries currently receiving benefits	2,765	2,695
Terminated vested and other terminated participants	918	842
Active members:		
City of Tacoma	2,877	2,790
Pierce Transit	17	12
South Sound 911	2	2
Tacoma-Pierce County Health Department	305	292
Total active members	3,201	3,096
Total membership	6,884	6,633

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

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

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

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

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

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

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

Measurement Date	December 31, 2022
Valuation Date	January 1, 2023
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution (ADC). The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.25% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration Data 1957-2017.

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

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2023, valuation date and December 31, 2022, the measurement date. Therefore, no adjustments were needed from the January 1, 2023, actuarial valuation date to the calculated liabilities as of December 31, 2022, measurement date for reporting date of December 31, 2023. There were no changes between the January 1, 2022, and January 1, 2023, valuation dates.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2022 and 2021 for reporting date December 31, 2023 and 2022, respectively. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated November 2022 and November 2021 for reporting date December 31, 2023 and 2022, respectively.

Asset Class	Reporting date			
	December 31, 2023		December 31, 2022	
	Target Allocation	Long-term Expected Arithmetic Real Rate of Return	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	2.35%	19.5%	2.00%
US Bank/ Leveraged Loans	3.0%	3.75%	3.0%	3.14%
US Long Government Bonds	3.0%	2.38%	3.0%	2.30%
High Yield Bonds	6.0%	4.28%	6.0%	3.60%
Emerging Market Debt	5.0%	4.04%	5.0%	3.20%
Global Equity	34.5%	5.08%	34.5%	5.15%
Private Real Estate	10.0%	3.35%	10.0%	5.90%
Private Equity	10.0%	7.78%	10.0%	8.10%
Master Limited Partnerships	4.0%	5.73%	4.0%	6.60%
Timber	-	-	1.5%	3.88%
Infrastructure	5.0%	4.12%	2.0%	7.55%
Agriculture	-	-	1.5%	4.23%
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.41%		1.23%
Portfolio 30 year Arithmetic Rate of Return		-		7.26%
Portfolio 30 year Geometric Rate of Return		-		6.71%
Portfolio 10 year Geometric Rate of Return		7.04%		
Portfolio Standard Deviation		11.04%		10.97%
Long-Term Expected Rate of Return, net of investment expenses		6.75%		6.75%

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 6.75% as of December 31, 2023 and 2022, as well as what the System's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower, 5.75%, or 1 percentage point higher, 7.75%, than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2023	5.75%	6.75%	7.75%
Net pension liability (asset)	\$ 39,120,145	\$ 13,761,228	\$ (7,370,956)
	1% Decrease	Current Discount Rate	1% Increase
As of December 31, 2022	5.75%	6.75%	7.75%
Net pension liability (asset)	\$ 10,020,125	\$ (15,099,387)	\$ (36,032,557)

Notes to Financial Statements (continued)

As of December 31, 2023 and 2022, the deferred inflows and outflows of resources are as follows:

	December 31, 2023		December 31, 2022	
	Deferred Inflows of Resources	Deferred of Outflows Resources	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (310,216)	\$ 952,332	\$ (545,960)	\$ 1,223,589
Changes of assumptions	-	2,704,585	-	3,860,034
Net Difference Between Projected and Actual Earnings	-	10,710,801	(16,713,789)	-
Changes in Employer Proportion	(15,566)	42	(12,452)	70
Contributions Made Subsequent to the Measurement Date	-	3,394,242	-	3,219,058
Total	<u>\$ (325,782)</u>	<u>\$ 17,762,002</u>	<u>\$(17,272,201)</u>	<u>\$ 8,302,751</u>

The Division reported \$3.4 million as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total pension liability in the fiscal year ending December 31, 2024.

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

Amounts will be recognized in pension expense as follows:

2024	\$ 1,262,267
2025	4,070,658
2026	2,604,246
2027	6,086,888
2028	17,919
	<u>\$ 14,041,978</u>

At December 31, 2023, the Division reported a pension liability of \$13,761,228 for its proportionate share of the total System, compared to a pension asset of \$15,099,387 at December 31, 2022. The proportionate share of the Sewer Division is 9.96% of total System's pension liability as of December 31, 2023, and 10.30% as of December 31, 2022. The proportionate share was based on the actual contributions for the year as of December 31, 2023 and 2022.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2023 for non-LEOFF 1 members includes 3,819 active participants, 584 vested terminated participants, 176 retirees and surviving spouses, and 115 spouses of current retirees. The membership as of January 1, 2023 for LEOFF 1 members includes 1 active participant and 348 retirees.

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

Actuarial Assumptions and Other Inputs - The valuation date is January 1, 2022 for both non-LEOFF 1 and LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2022. This is the date as of which the total OPEB liability is determined. Note that GASB 75 allows a lag up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2023 and 2022.

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

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

Actuarial Assumptions:

Discount Rate:	2.00% for pay-as-you-go funding
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Medical Cost Trend:	2023	6.50%
	2024	6.90%
	2030	4.60%
	2040	4.30%
	2050	4.30%
	2060	4.40%
	2070	4.10%
	2080	3.90%

Note that the trend for year 2023 reflects the percent by which 2024 medical costs are expected to exceed 2023 medical costs. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

Economic Assumptions -

Discount Rate (Liabilities):	3.75%
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Demographic Assumptions:	Eligibility:
	Disability - Five years of service are required for non-service connected disability.

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

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

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

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

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

Changes of Assumptions: The discount rate was updated to 3.75% in 2023 from 2.00% in 2022. The medical cost discount rate was updated to 6.5% in 2023 from 5.5% in 2022. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

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

At December 31, 2023 the Division reported a total liability of \$3,193,545 for its proportionate share of the collective total OPEB liability of \$192.1 million compared to \$3,940,756 at December 31, 2022. At December 31, 2023 the Division reported a current liability of \$89,095 compared to \$175,428 at December 31, 2022. At December 31, 2023, the participating Division's proportion was 1.66271% as compared to 1.73280% at December 31, 2022. For the year ended December 31, 2023, the participating Division recognized a credit OPEB expense of \$114,841 compared to an expense of \$37,905 in 2022.

At December 31, 2023 and 2022, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	December 31, 2023		December 31, 2022	
	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (20,893)	\$ 35,429	\$ (32,140)	\$ 45,097
Changes of assumptions	(583,869)	234,641	(160,434)	344,034
Changes in Employer Proportion	(526,053)	744,505	(757,484)	1,062,589
Differences in Contributions	(125,423)	43,198	(92,869)	58,870
Contributions Made Subsequent to the Measurement Date	-	113,522	-	79,764
Total	\$ (1,256,238)	\$ 1,171,295	\$ (1,042,927)	\$ 1,590,354

The Division reported \$113,522 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2024.

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

2024	\$	(164,992)
2025		71,087
2026		82,227
2027		25,040
2028		(107,767)
Thereafter		(104,060)
	\$	(198,465)

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

As of December 31, 2023, the following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.75%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 2.75%, or one percentage point higher, 4.75%, than the current rate.

	1% Decrease 2.75%	Current Discount Rate 3.75%	1% Increase 4.75%
As of December 31, 2023			
Net OPEB liability	\$ 3,542,856	\$ 3,193,545	\$ 2,894,279

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

	1% Decrease 1.00%	Current Discount Rate 2.00%	1% Increase 3.00%
As of December 31, 2022			
Net OPEB liability	\$ 4,442,982	\$ 3,940,756	\$ 3,519,694

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

As of December 31, 2023, the following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 5.50%	Current Trend Rates 6.50%	1% Increase 7.50%
As of December 31, 2023			
Net OPEB liability	\$ 2,850,022	\$ 3,193,545	\$ 3,595,973

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

	1% Decrease 4.50%	Current Trend Rates 5.50%	1% Increase 6.50%
As of December 31, 2022			
Net OPEB liability	\$ 3,501,416	\$ 3,940,756	\$ 4,460,343

NOTE 12 ENVIRONMENTAL LIABILITIES

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 designed and subsequently implemented in 2020 under EPA oversight. Because contaminated material was left in place under a cap at the site, long-term monitoring is expected to continue a periodic basis in perpetuity. The first long-term monitoring event is scheduled to occur in 2023. The results of this monitoring through the years may result in additional limited maintenance efforts in the future. Included in the estimated liabilities as of December 31, 2023 are estimated costs of \$10,000 and \$10,000 that will be incurred in the year 2024 and 2025, respectively.

FOSS CONSENT DECREE – Under the current long-term Monitoring Plan developed in accordance with the Foss Consent Decree, the City has an obligation for continued monitoring through 2028. Regularly scheduled monitoring is planned for 2023 and 2028. It is expected that another long-term Monitoring Plan will be developed following completion of monitoring under the current plan. Because contaminated material is left in place under caps in the waterway, some level of periodic monitoring will continue in perpetuity. Erosion in two areas was identified and requires maintenance to protect the integrity of the remedy. The basis of design evaluation began in 2021, design is currently being completed, and construction of the maintenance project is planned for 2023/2024. Ongoing monitoring may result in additional limited maintenance efforts in the future. Included in the estimated liabilities as of December 31, 2023 are estimated costs of \$600,000 and \$50,000 that will be incurred in the year 2024 and 2025, 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, through the Environmental Services Department, became a party to an agreed order with the State Department of Ecology under MTCA (RCW 70.105D.050(1)) for the initial steps of 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 2018, the City and other potentially liable parties entered a new Agreed Order with Ecology which will 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. Other parties are performing the work under the Agreed Order, and the City's role and cost obligation should be limited. Work under this order has commenced.

NOTE 13 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.

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Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	9.96%	10.30%	10.41%	9.93%	11.14%	11.21%	11.38%	11.66%	11.65%
Employer's proportion share of net pension liability (asset)	\$13,761,228	(\$15,099,387)	\$7,218,043	(\$1,847,284)	\$13,029,876	(\$4,409,368)	\$10,569,592	\$10,094,045	(\$1,119,219)
Employer's covered payroll **	\$28,980,473	\$28,721,956	\$28,273,875	\$26,635,524	\$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	47.48%	-52.57%	25.53%	-6.94%	47.36%	-16.63%	40.72%	37.44%	-4.46%
Plan fiduciary net position as a percentage the total pension liability	93.02%	107.74%	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$3,394,242	\$3,219,058	\$3,086,807	\$2,842,985	\$3,111,579	\$2,961,878	\$2,745,272	\$2,753,194	\$2,650,121
Contributions in relation to the contractually required employer contribution	(3,394,242)	(3,219,058)	(3,086,807)	(2,842,985)	(3,111,579)	(2,961,878)	(2,745,272)	(2,753,194)	(2,650,121)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Employer's covered employee payroll	\$30,635,187	\$28,980,473	\$28,721,956	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556
Employer contribution as a percentage of covered-employee payroll	11.08%	11.11%	10.75%	10.06%	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,						
	2022	2021	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	1.66%	1.73%	1.68%	1.26%	1.25%	1.86%	1.81%
Employer's proportion share of collective OPEB liability	\$3,193,545	\$3,940,756	\$3,856,262	\$2,635,160	\$2,555,057	\$4,101,053	\$3,793,836
Employer's covered-employee payroll**	\$28,980,473	\$28,721,956	\$28,273,875	\$26,635,524	\$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	11.02%	13.72%	13.64%	9.89%	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, 2023

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

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

Changes of Assumptions: The discount rate was updated to 3.75% from 2.00%. 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 Stormwater 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 Bonds, Series 2018
City of Tacoma, Washington Sewer Revenue Bonds, Series 2022

The following continuing disclosure information for 2023 is provided in accordance with SEC Rule 15c2-12(b)(5)

Wastewater and Stormwater Management Audited Financial Statements
 Reference Financial Statements Section

Outstanding Sewer Bonds
 Reference Note 7 in Notes to Financial Statements

Debt Service Coverage

	<u>2022</u>	<u>2023</u>
Parity Bond Debt Service Coverage Ratio	3.02	3.02
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.34	2.36

Number of Customers by Type of Service

Year	Wastewater				Stormwater		
	Residential	Commercial/ Industrial	Contract ⁽¹⁾	Total	Residential	Commercial/ Industrial	Total
2022	59,869	3,784	14,493	78,146	59,989	11,617	71,606
2023	59,968	3,702	15,276	78,946	60,078	11,403	71,481

⁽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

	<u>2022</u>	<u>2023</u>
Wastewater:		
Residential	\$ 57,147,208	\$ 61,758,570
Commercial and wholesale	27,276,372	29,109,004
Other revenues	3,964,260	2,104,882
Lease revenues	313,102	228,013
Stormwater:		
Residential	19,993,574	21,062,586
Commercial	20,676,172	21,878,308
Other revenues	114,891	190,660
Total operating revenues	<u>\$ 129,485,579</u>	<u>\$ 136,332,023</u>

Top Ten Customers

Customer Name	Amount	Percent of 2023
		Operating Revenues ⁽¹⁾
Port of Tacoma	2,929,625	2.15%
Tacoma School District	1,924,184	1.41%
City of Tacoma	1,775,317	1.30%
Puyallup Tribe	1,170,520	0.86%
Metro Parks	1,003,142	0.74%
Pierce County Facilities	669,371	0.49%
Multicare	647,795	0.48%
Salishan	580,583	0.43%
Westridges Apartments	575,015	0.42%
Aladdin Camelot Apartments	570,852	0.42%
Total	<u>\$ 11,846,404</u>	<u>8.70%</u>

⁽¹⁾ Total system revenue \$ 136,332,023

Wastewater and Stormwater Rates

Wastewater Rates

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

	2022 ⁽¹⁾	2023 ⁽¹⁾
Residential		
Monthly fixed charge	\$ 27.73	\$ 30.09
Flow charge ⁽²⁾	5.23	5.65
Commercial		
Monthly fixed charge	\$ 13.80	\$ 15.46
Flow charge ⁽³⁾	\$7.46-\$15.61	\$7.84-\$17.02

⁽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.

Stormwater Rates

Stormwater 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 stormwater service, as adopted by the Council, are shown in the following table.

Category of Development	2022 ⁽¹⁾		2023 ⁽¹⁾	
	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 9.00	\$ 0.1524	\$ 10.67	\$ 0.1570
Undeveloped-area in excess of one acre	9.00	0.0628	10.67	0.0635
Light development	9.00	0.4876	10.67	0.5160
Moderate development	9.00	0.6828	10.67	0.7102
Heavy development	9.00	0.9768	10.67	1.0449
Very Heavy development	9.00	1.3078	10.67	1.4125
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 9.00	\$ 0.2981	\$ 10.67	\$ 0.3011
Undeveloped area in excess of one acre	9.00	0.0628	10.67	0.0666
Light development	9.00	0.9513	10.67	0.9704
Moderate development	9.00	1.3146	10.67	1.3278
Heavy development	9.00	1.9204	10.67	1.9589
Very Heavy development	9.00	2.5724	10.67	2.6496

⁽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.

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

	Wastewater As of December 31,		Stormwater As of December 31,	
	2023	2022	2023	2022
ASSETS				
Current assets:				
Cash and equity in pooled investments	\$ 123,256,287	\$ 106,622,061	\$ 65,293,934	\$ 52,869,658
Accounts receivable, net	6,419,047	6,828,914	2,243,989	2,153,346
Unbilled revenues	5,230,787	5,170,787	2,917,000	2,626,000
Conservation loan fund receivables	318,163	199,262	-	-
Current lease receivables	231,680	315,487	-	-
Due from other governments	-	-	3,861,086	1,184,113
Inventory	2,791,556	2,588,147	-	-
Prepayments	454,701	313,706	-	-
Restricted cash and equity in pooled investments:				
Debt service funds	987,781	987,973	744,773	745,064
Construction funds	31,664,962	42,080,801	2,098,804	17,652,707
Total restricted cash and equity in pooled investments	32,652,743	43,068,774	2,843,577	18,397,771
Total current assets	171,354,964	165,107,138	77,159,586	77,230,888
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	-	11,042,004	-	4,057,383
Conservation loan fund receivables	413,628	446,508	-	-
Long-term lease receivable	3,501,430	4,126,089	-	-
Capital assets:				
Land and easements	13,363,172	13,328,548	12,128,820	12,002,996
Buildings	238,751,704	238,266,453	1,864,545	1,864,545
Machinery and equipment	198,165,640	196,019,884	21,543,559	21,149,177
Transmission lines and other improvements	295,657,977	285,416,399	287,253,470	260,519,200
Computer software	6,104,004	5,935,499	4,393,169	4,287,303
Less: accumulated depreciation	(296,740,601)	(281,553,324)	(74,135,278)	(69,709,925)
Right to use lease and subscription assets	543,116	266,669	-	-
Less: accumulated amortization	(241,836)	(114,286)	-	-
Construction work in progress	10,178,684	9,130,540	5,637,131	10,846,941
Total capital assets, net	465,781,860	466,696,382	258,685,416	240,960,237
Total non-current assets	474,336,918	486,950,983	258,717,450	245,049,654
TOTAL ASSETS	645,691,882	652,058,121	335,877,036	322,280,542
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - loss on refunding bonds	1,771,679	1,896,807	1,036,292	1,116,521
Deferred outflows - OPEB	579,864	742,696	591,431	847,658
Deferred outflows - pensions	13,092,644	6,071,704	4,669,358	2,231,047
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,444,187	8,711,207	6,297,081	4,195,226
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 661,136,069	\$ 660,769,328	\$ 342,174,117	\$ 326,475,768

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

	Wastewater As of December 31,		Stormwater As of December 31,	
	2023	2022	2023	2022
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 3,256,905	\$ 3,518,628	\$ 2,058,686	\$ 4,932,292
Accrued wages payable and compensated absences payable	1,040,347	1,166,630	401,328	389,307
Accrued taxes payable	118,709	137,177	62,041	64,281
Due to other governments	840,000	810,000	-	-
Accrued environmental liability	-	-	590,000	1,780,679
Accrued State loan interest payable	175,301	136,610	-	-
Current portion of Capital COP loan	575,000	570,000	-	-
Current portion of State Revolving Fund loan	4,703,982	4,330,549	26,345	25,593
Current portion of revenue bonds payable	3,970,605	3,816,835	3,779,811	3,617,302
Current portion of pension withdrawal liability	305,208	381,509	6,752	8,440
Unearned revenues	512,408	480,858	214,259	235,864
Current lease and subscription liability	97,800	61,622	-	-
Net current OPEB liability	47,084	93,990	42,011	81,438
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	360,965	346,985	343,619	328,878
Accrued revenue bonds interest payable	626,816	640,988	401,154	416,186
Deposit in lieu of bond	-	4,200	-	-
Total current liabilities	16,631,130	16,496,581	7,926,006	11,880,260
Non-current liabilities:				
Long-term debt - revenue bonds, net	189,867,855	194,856,631	115,042,921	119,702,078
Long-term debt - Capital COP loan	10,560,000	11,135,000	-	-
Long-term State Revolving Fund loan	28,558,414	32,465,095	1,991,220	385,434
Long-term WIFIA loan	19,254,334	16,372,397	-	-
Long-term accrued compensated absences	2,681,124	2,642,205	783,003	704,690
Long-term accrued environmental liability	-	-	736,000	901,000
Long-term lease and subscription liability	127,274	95,005	-	-
Net pension liability	10,143,612	-	3,617,616	-
Net OPEB liability	1,640,613	2,017,371	1,463,837	1,747,957
Pension withdrawal liability	3,045,125	3,350,333	67,370	74,122
Total noncurrent liabilities	265,878,351	262,934,037	123,701,967	123,515,281
TOTAL LIABILITIES	282,509,481	279,430,618	131,627,973	135,395,541
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - OPEB	835,086	873,412	421,152	169,515
Deferred inflows - pensions	240,139	12,630,957	85,643	4,641,244
Deferred inflows - leases	3,570,720	4,279,061	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	21,645,945	34,783,430	8,506,795	12,810,759
NET POSITION				
Net investment in capital assets	241,503,237	246,970,856	148,850,084	143,995,387
Restricted for:				
Bond reserves	4,640,000	4,640,000	32,034	32,034
Net pension asset	-	11,042,004	-	4,057,383
Unrestricted	110,837,406	83,902,420	53,157,231	30,184,664
TOTAL NET POSITION	356,980,643	346,555,280	202,039,349	178,269,468
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 661,136,069	\$ 660,769,328	\$ 342,174,117	\$ 326,475,768

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

	Wastewater		Stormwater	
	December Year-to-Date		December Year-to-Date	
	2023	2022	2023	2022
OPERATING REVENUES				
Wastewater residential	\$ 61,758,570	\$ 57,147,208	\$ -	\$ -
Wastewater commercial and public authorities	29,109,004	27,276,372	-	-
Stormwater residential	-	-	21,062,586	19,993,574
Stormwater commercial	-	-	21,878,308	20,676,172
Other revenues	2,104,882	3,964,260	190,660	114,891
Lease revenues	228,013	313,102	-	-
Total operating revenues	93,200,469	88,700,942	43,131,554	40,784,637
OPERATING EXPENSES				
Business operations	23,067,405	16,508,311	11,143,883	7,217,202
Operations and maintenance	27,107,068	25,749,276	5,197,840	4,219,982
Science and engineering	10,728,764	8,384,569	8,604,540	7,789,248
Depreciation	16,649,446	14,785,286	5,330,561	4,482,004
Total operating expenses	77,552,683	65,427,442	30,276,824	23,708,436
Net operating income	15,647,786	23,273,500	12,854,730	17,076,201
NONOPERATING REVENUES (EXPENSES)				
Interest income	4,617,266	1,775,320	2,074,664	997,929
Unrealized net gain/(loss) on fair value investment	2,629,053	(4,136,246)	1,336,267	(1,998,266)
Interest expenses and other related costs	(8,723,182)	(8,576,767)	(4,987,013)	(5,039,902)
Interest income on lease activities	87,349	103,080	-	-
Amortization of bond premium and gain/loss on refunding	532,078	479,288	455,498	432,353
Other nonoperating revenues	1,750,843	1,409,610	1,529,054	553,939
Other nonoperating expenses	(352,136)	(1,805,330)	(150,059)	(751,204)
Gain or (loss) on sale/disposal of capital assets	(96,780)	(63,199)	146,435	(26,548)
Total nonoperating revenues (expenses)	444,491	(10,814,244)	404,846	(5,831,699)
Net income before contributions and transfers	16,092,277	12,459,256	13,259,576	11,244,502
Capital contributions and grants	2,214,233	240,439	15,184,009	7,661,541
Transfer in from other funds	341,781	1,801,098	150,059	767,451
Transfer out to other funds	(418,750)	(197,670)	(1,256,250)	(1,283,027)
Gross earnings tax	(7,804,178)	(7,414,880)	(3,567,513)	(3,281,126)
Total contributions and transfers	(5,666,914)	(5,571,013)	10,510,305	3,864,839
CHANGE IN NET POSITION	10,425,363	6,888,243	23,769,881	15,109,341
NET POSITION - JANUARY 1	346,555,280	339,667,037	178,269,468	163,160,127
NET POSITION - DECEMBER 31	\$ 356,980,643	\$ 346,555,280	\$ 202,039,349	\$ 178,269,468

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

	Wastewater		Stormwater	
	December Year-to-Date		December Year-to-Date	
	2023	2022	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 93,291,468	\$ 90,376,420	\$ 42,666,438	\$ 41,328,489
Payments to suppliers	(30,228,556)	(29,036,679)	(15,765,382)	(10,328,187)
Payments to employees	(28,350,879)	(27,919,892)	(11,606,693)	(10,483,646)
Payments for taxes	(1,608,051)	(1,547,037)	(734,086)	(682,693)
Cash from other non-operating revenues (expenses)	1,372,181	(142,394)	186,893	(748,622)
Net cash from operating activities	34,476,163	31,730,418	14,747,170	19,085,341
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer in from other funds	341,781	1,801,098	150,059	767,451
Transfer out to other funds	(8,222,928)	(7,612,550)	(4,823,763)	(4,564,153)
Operating grants received	34,931	52,139	1,290,995	453,095
Principal paid on noncapital debt	-	-	(117,450)	(110,925)
Interest paid on noncapital debt	-	-	(334,749)	(340,295)
Contributions and donations	1,951	-	1,951	15,000
Net cash from noncapital financing activities	(7,844,265)	(5,759,313)	(3,832,957)	(3,779,827)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(13,885,080)	(25,324,982)	(16,205,121)	(35,955,052)
Principal payments on leases	(116,157)	(60,415)	-	-
Principal payments on capital debt	(9,251,101)	(8,848,821)	(3,854,324)	(3,563,043)
Bond premium and issuance costs	-	6,387,486	-	2,918,410
Interest and issuance costs paid on capital debt	(8,423,005)	(8,219,848)	(4,667,297)	(4,613,753)
Proceeds from debt borrowing	3,590,313	70,458,527	1,632,132	27,380,631
Contributions and donations	243,478	(54,937)	5,481,672	3,182,165
Cash proceeds from sale of capital assets	181,530	11,000	157,400	-
Insurance recoveries	-	5,065	476	1,062
Net cash from capital financing activities	(27,660,022)	34,353,075	(17,455,062)	(10,649,580)
CASH FLOWS FROM INVESTING ACTIVITIES ^a:				
Investment income/(loss)	7,246,319	(2,360,926)	3,410,931	(1,000,337)
Net cash from investing activities	7,246,319	(2,360,926)	3,410,931	(1,000,337)
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	6,218,195	57,963,254	(3,129,918)	3,655,597
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	154,330,835	96,367,581	71,299,463	67,643,866
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 160,549,030</u>	<u>\$ 154,330,835</u>	<u>\$ 68,169,545</u>	<u>\$ 71,299,463</u>

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

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

	Wastewater		Surface Water	
	December Year-to-Date		December Year-to-Date	
	2023	2022	2023	2022
RECONCILIATION OF OPERATING INCOME				
TO NET CASH FROM OPERATING ACTIVITIES:				
Net operating income	\$ 15,647,786	\$ 23,273,500	\$ 12,854,730	\$ 17,076,201
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization expense	16,649,446	14,785,286	5,330,561	4,482,004
Other non-operating revenues (expenses)	1,372,181	(142,394)	186,893	(748,622)
Lease revenue net	87,473	(6,805)	-	-
Expense capital project costs	16,849	330,471	62,461	-
Pension expense (credits)	1,773,858	(3,750,266)	681,087	(1,381,184)
Net OPEB expense (credits)	(299,158)	(213,010)	184,317	250,915
Cash from changes in operating assets and liabilities:				
Accounts receivable, net of allowance	409,867	266,559	(90,643)	315,984
Accrued unbilled revenue	(60,000)	519,000	(291,000)	(60,000)
Inventory	(203,409)	(226,177)	-	-
Prepayments	(140,995)	(45,516)	-	-
Accounts payable	(261,723)	(3,063,794)	(2,873,606)	(1,132,761)
Conservation loan fund receivables	(86,021)	37,348	-	-
Accrued wages and compensated absences payable	(126,283)	48,425	12,021	17,973
Accrued taxes payable	(18,468)	(7,821)	(2,240)	8,556
Deposit in lieu of bonds	(4,200)	4,200	-	-
Due to other governments	30,000	30,000	-	-
Accrued environmental liability	-	-	(1,190,679)	1,565,679
Unearned revenues	31,550	147,603	(21,605)	57,441
Pension withdrawal liability	(381,509)	(228,906)	(8,440)	(5,065)
Long-term accrued environmental liability	-	-	(165,000)	(1,420,000)
Long-term accrued compensated absences	38,919	(27,285)	78,313	58,220
Total adjustments	18,828,377	8,456,918	1,892,440	2,009,140
NET CASH FROM OPERATING ACTIVITIES	\$ 34,476,163	\$ 31,730,418	\$ 14,747,170	\$ 19,085,341
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 1,936,131	\$ 280,311	\$ 6,798,222	\$ 3,540,074
Interest expense accrued as debt principal	\$ 275,657	\$ 181,135	\$ -	\$ -
Unrealized net gain/(loss) on fair value investment	\$ 2,629,053	\$ (4,136,246)	\$ 1,336,267	\$ (1,998,266)



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.