

OFFICIAL STATEMENT

New Issue Book-Entry Only

Ratings: Moody's: A1
Fitch: AA-
Standard & Poor's: AA
(See "Other Bond Information—Ratings.")

In the opinion of K&L Gates LLP, Bond Counsel, assuming compliance with certain covenants of the City, interest on the Series E Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Series E Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Series E Bonds is not included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on certain corporations. See "Tax Matters—Tax-Exempt Bonds" herein for a discussion of the opinion of Bond Counsel.

In the opinion of Bond Counsel, interest on the Series F Bonds is not excludable from gross income for federal income tax purposes. See "Tax Matters—Taxable Bonds."

CITY OF TACOMA, WASHINGTON

\$13,526,023.10 Initial Amount

(\$43,955,000 Compound Accreted Value at Maturity)

Limited Tax General Obligation Bonds, Series 2009E

\$6,680,899.90 Initial Amount

(\$19,510,000 Compound Accreted Value at Maturity)

Limited Tax General Obligation Bonds, Series 2009F (Taxable)

DATED: Date of Initial Delivery

DUE: December 1, as shown on inside cover

The above referenced bonds (collectively, the "Bonds") are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as bond owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as initial securities depository for the Bonds. The Bonds will be issued initially in book-entry form only in the Compound Accreted Value at maturity of \$5,000 each or any integral multiple thereof with a series and a maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds accrues from the date of their initial delivery, compounds semiannually on each June 1 and December 1, beginning June 1, 2010, and is payable only at maturity. The principal of and interest on the Bonds are payable at maturity by the fiscal agent of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar will make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to the DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds as described herein under Appendix E—Book-Entry System. See "The Bonds."

The Bonds are not subject to redemption prior to their stated maturities.

MATURITY SCHEDULES LOCATED ON INSIDE COVER

The Bonds are being issued to provide financing for various capital improvement projects of the City of Tacoma (the "City"), and to pay the costs of issuing the Bonds. See "Use of Proceeds."

The Bonds are general obligations of the City. The City has irrevocably covenanted for as long as any of the Bonds are outstanding and unpaid that each year it will include in its budget and levy an *ad valorem* tax, within and as a part of the levy permitted to cities without a vote of the people, upon all the property within the City subject to taxation in an amount which will be sufficient, together with other legally available money, to pay the principal of and interest on the Bonds when due. The City has irrevocably pledged that a sufficient portion of each annual levy to be levied and collected by the City prior to the full payment of the principal of and interest on the Bonds will be irrevocably set aside, pledged and appropriated for the payment of the principal of and interest on the Bonds. The full faith, credit and resources of the City are irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the Bonds when due. The Bonds do not constitute a debt or indebtedness of the State of Washington or any political subdivision thereof other than the City. See "Taxing Powers and Debt Capacity" and "Taxing Authority."

The Bonds are offered when, as and if issued, subject to receipt of the approving legal opinion of K&L Gates LLP, Seattle, Washington, Bond Counsel. It is expected that delivery of the Bonds will be made by *Fast Automated Securities Transfer* through DTC in New York, New York, on or about December 18, 2009.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

PiperJaffray.

Dated: December 8, 2009

MATURITY SCHEDULES

\$13,526,023.10 Initial Amount
(\$43,955,000 Compound Accreted Value at Maturity)
Limited Tax General Obligation Bonds, Series 2009E

Due December 1	Compound Accreted Value at Maturity	Initial Principal Amount	Approximate Reoffering Yield to Maturity	CUSIP Numbers*
2026	\$ 2,495,000	\$ 1,012,695.55	5.39%	873465VN5
2027	5,500,000	2,087,360.00	5.47	873465VP0
2028	5,500,000	1,948,760.00	5.55	873465VQ8
2029	5,505,000	1,818,136.35	5.63	873465VR6
2030	5,500,000	1,687,180.00	5.72	873465VS4
2031	5,500,000	1,561,010.00	5.82	873465VT2
2032	5,505,000	1,442,750.40	5.92	873465VU9
2033	5,505,000	1,339,036.20	5.99	873465VV7
2034	530,000	120,060.90	6.04	873465VW5
2035	2,415,000	509,033.70	6.09	873465VX3

\$6,680,899.90 Initial Amount
(\$19,510,000 Compound Accreted Value at Maturity)
Limited Tax General Obligation Bonds, Series 2009F (Taxable)

Due December 1	Compound Accreted Value at Maturity	Initial Principal Amount	Approximate Reoffering Yield to Maturity	CUSIP Numbers*
2023	\$ 5,500,000	\$ 2,077,735.00	7.10%	873465VY1
2024	5,500,000	1,923,735.00	7.15	873465VZ8
2025	5,500,000	1,779,470.00	7.20	873465WA2
2026	3,010,000	899,959.90	7.25	873465WB0

* Copyright 2009, American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's, CUSIP Global Services, a division of The McGraw-Hill Companies, Inc. These numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The City takes no responsibility for the accuracy of such CUSIP numbers.

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No dealer, broker, sales representative or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained by the City from City records and from other sources that the City believes to be reliable, but the City does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The City makes no representation regarding the accuracy or completeness of the information provided in Appendix E—Book-Entry System, which has been furnished by DTC.

This Official Statement is not to be construed as a contract or agreement between the City and purchasers or owners of any of the Bonds.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

The initial public offering price or yield set forth on the inside cover pages hereof may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering price stated on the inside cover pages hereof.

In connection with this offering, the Underwriter may overallocate or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

CITY OF TACOMA, WASHINGTON
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251-591-5800

MAYOR AND CITY COUNCIL

William H. Baarsma	Mayor
Marilyn Strickland	Deputy Mayor
Jake Fey	Councilmember
Connie Ladenburg	Councilmember
Mike Lonergan	Councilmember
Spiro Manthou	Councilmember
Marilyn Strickland	Councilmember
Rick Talbert	Councilmember
Lauren Walker	Councilmember

CERTAIN CITY ADMINISTRATIVE STAFF

Eric A. Anderson	City Manager
Robert K. Biles	Finance Director
Elizabeth A. Pauli	City Attorney
Morgan D. Jacobson	City Treasurer
Doris Sorum	City Clerk

BOND COUNSEL

K&L Gates LLP
Seattle, Washington

FINANCIAL ADVISOR TO THE CITY

Seattle-Northwest Securities Corporation
Seattle, Washington

BOND REGISTRAR

Fiscal Agency of the State of Washington
Currently, The Bank of New York Mellon
New York, New York

* This inactive textual reference to the City's website is not a hyperlink and the City's website, by such reference, is not incorporated herein.

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OFFICIAL STATEMENT

CITY OF TACOMA, WASHINGTON

\$13,526,023.10 Initial Amount (Capital Appreciation)
(\$43,955,000 Compound Accreted Value at Maturity)
Limited Tax General Obligation Bonds, Series 2009E

\$6,680,899.90 Initial Amount (Capital Appreciation)
(\$19,510,000 Compound Accreted Value at Maturity)
Limited Tax General Obligation Bonds, Series 2009F (Taxable)

INTRODUCTION

This Official Statement contains certain information concerning the issuance by the City of Tacoma, Washington (the “City”) of \$13,526,023.10 Initial Amount (Capital Appreciation) (\$43,955,000 Compound Accreted Value at Maturity) Limited Tax General Obligation Bonds, Series 2009E (the “Series E Bonds”), and \$6,680,899.90 Initial Amount (Capital Appreciation) (\$19,510,000 Compound Accreted Value at Maturity) Limited Tax General Obligation Bonds, Series 2009F (Taxable) (the “Series F Bonds”). Together, the Series E Bonds and the Series F Bonds are referred to herein as the “Bonds.”

The Bonds are issued under and in accordance with the provisions of Section 39.36.020 and chapter 39.46 of the Revised Code of Washington (“RCW”) and the City’s Charter, and are authorized under the provisions of Ordinance 27852, adopted by the City Council on November 24, 2009 (the “Bond Ordinance”), and Substitute Resolution No. 37945, adopted by the City Council on December 8, 2009 (the “Sale Resolution”). Simultaneously with the issuance of the Bonds and pursuant to the terms of the Bond Ordinance and the Sale Resolution, the City is issuing its Limited Tax General Obligation Bonds, Series 2009A (Taxable), in the aggregate principal amount of \$15,380,000 (the “Series A Bonds”), its Limited Tax General Obligation Bonds, Series 2009B (Taxable Recovery Zone Economic Development Bonds—Direct Payment), in the aggregate principal amount of \$3,320,000 (the “Series B Bonds”), its Limited Tax General Obligation Bonds, Series 2009C (Recovery Zone Facility Bonds), in the aggregate principal amount of \$4,975,000 (the “Series C Bonds”), and its Limited Tax General Obligation Bonds, Series 2009D, in the aggregate principal amount of \$5,000,000 (the “Series D Bonds”). Capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as set forth in the Bond Ordinance and the Sale Resolution.

Information contained herein has been obtained from City officers, employees, records, and other sources the City believes to be reliable. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds.

Brief descriptions of the Bonds, the City, and certain statutes and agreements are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references to the statutes, agreements, or other instruments described herein are qualified in their entirety by reference to each such document, statute, or other instrument. The information in this Official Statement is subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the City since the date of this Official Statement.

THE BONDS

Description

The Bonds will be dated and bear interest from the date of their initial issuance and delivery. The Bonds will be issued as fully registered, book-entry only bonds in the compound accreted value at maturity of \$5,000 or any

integral multiple thereof within a series and maturity. When issued, the Bonds will be registered in the name of Cede & Co. as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”).

Interest on the Bonds will accrue from the date of their initial delivery, will compound semiannually on each June 1 and December 1, beginning June 1, 2010, and is payable only at maturity. See “Investment Suitability and Market Risk—Compound Accreted Value.” Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Compound Accreted Value of the Bonds is payable on December 1 in the years and amounts set forth on the inside cover of this Official Statement.

DTC will act as initial securities depository for the Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners or Bond owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” will mean the person for which a DTC participant acquires an interest in the Bonds.

The principal of and interest on the Bonds are payable at maturity by the fiscal agent of the State of Washington (the “State”), in New York, New York, currently The Bank of New York Mellon (the “Bond Registrar”). For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar is required to make such payments to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix E—Book-Entry System.

Redemption

The Bonds are not subject to redemption prior to maturity.

Book-Entry System

Book-Entry Bonds. The Bonds initially issued will be held in fully immobilized form by DTC acting as depository. Bonds will be registered initially in the name of Cede & Co., as nominee of DTC, with one Bond maturing on each of the maturity dates for the Bonds within a series in a denomination corresponding to the total principal designated to mature on such date. Neither the City nor the Bond Registrar has any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds in respect of the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on the Bonds, any notice which is permitted or required to be given to registered owners under the Bond Ordinance (except such notices as are required to be given by the City to the Bond Registrar or to DTC), or any consent given or other action taken by DTC as the registered owner. See Appendix E for additional information.

The City makes no representation as to the accuracy or completeness of information in Appendix E provided by DTC. Purchasers of the Bonds should confirm its contents with DTC or its participants.

Termination of Book-Entry System. If DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or if the City determines that it is in the best interest of the Beneficial Owners of any series of the Bonds that they be able to obtain such Bonds in the form of bond certificates, the ownership of Bonds may then be transferred to any person or entity as provided in the Bond Ordinance, and the Bonds will no longer be held in fully immobilized form. In that event, interest on the Bonds will be paid by check or draft mailed to the registered owners at the addresses for such registered owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date (at maturity). If so requested in writing by the registered owner of at least \$1,000,000 principal amount of Bonds of a series, interest will be paid by wire transfer on the interest payment date (at maturity) to an account with a bank located in the United States. Principal of the Bonds will be payable upon presentation and surrender of such Bonds by the registered owners at the principal office of the Bond Registrar.

Transfer or Exchange

The registered ownership of any Bond may be transferred or exchanged if it is surrendered to the Bond Registrar in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar will cancel the surrendered

Bond and authenticate and deliver, without charge to the Registered Owner or transferee, a new Bond (or Bonds at the option of the new Registered Owner) of the same series, date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and canceled Bond.

Purchase for Cancellation

The City reserves the right to purchase any of the Bonds for cancellation at any time.

Defeasance

In the event that money and/or direct obligations, as such Government Obligations are defined in chapter 39.53 RCW, as now or hereafter amended, maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to redeem and retire part or all of the Bonds in accordance with their terms, are set aside in a special account of the City to effect such redemption and retirement, and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the bond redemption fund of the City for the payment of the principal of and interest on the Bonds so provided for, and such Bonds will cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive the moneys so set aside and pledged, and such Bonds will be deemed not to be outstanding.

As defined in chapter 39.53 RCW, "Government Obligations" means (i) direct obligations of or obligations, the principal and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-import Bank of the United States, federal land banks or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the federal savings and loan insurance corporation, to the extent insured or guaranteed as permitted under any other provision of State law.

The definition of "Government Obligations" in the Bond Ordinance incorporates any future statutory revision.

The defeasance of any Series F Bond may result in a deemed sale or exchange of such Bond under certain circumstances; owners of such Series F Bonds should consult their tax advisors as to the federal income tax consequences of such event. See "Tax Matters—Taxable Bonds—Disposition or Retirement."

USE OF PROCEEDS

Subject to the restrictions contained in the Internal Revenue Code of 1986, as amended (the "Code") and in the Bond Ordinance, proceeds of the Series E Bonds will be used to finance the following improvements:

- (i) a portion of the rehabilitation, improvement, construction, and expansion of Cheney Stadium;
- (ii) improvements to the Seaport Museum and a portion of the improvements to the Old Town dock;
- (iii) land and equipment acquisition for and/or improvements to a public library in the Salishan neighborhood;
- (iv) a portion of the public infrastructure in the Salishan neighborhood;
- (v) improvements to the City parking system;
- (vi) improvements to People's Pool;
- (vii) improvements to Fire Station No. 5;
- (viii) contribution to the City Arts Fund;

and to pay the costs of issuing the Series E Bonds.

Subject to the restrictions contained in the Code and in the Bond Ordinance, proceeds of the Series F Bonds will be used to finance the following improvements:

- (i) a portion of the rehabilitation, improvement, construction, and expansion of Cheney Stadium;
- (ii) land acquisition for environmental remediation purposes;

and to pay the costs of issuing the Series F Bonds.

The proceeds of the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds, issued simultaneously with the Bonds, will be used to pay costs of a portion of the rehabilitation, improvement, construction, and expansion of Cheney Stadium, a portion of the improvements to the Old Town dock, a portion of the public infrastructure in the Salishan neighborhood and costs of issuance.

Sources and Uses of Funds

The proceeds from the Bonds will be applied as follows:

	Series E Bonds	Series F Bonds
SOURCES OF FUNDS		
Par Amount of Bonds	\$ 13,526,023	\$ 6,680,900
Total Sources of Funds	\$ 13,526,023	\$ 6,680,900
USES OF FUNDS		
Deposit to Project Account	\$ 13,408,857	\$ 6,623,029
Costs of Issuance*	117,166	57,871
Total Uses of Funds	\$ 13,526,023	\$ 6,680,900

* Includes rating agency fees, financial advisory fees, Underwriter’s discount, legal fees, printing costs, and other costs of issuing the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Full Faith and Credit of the City

The Bonds are general obligations of the City. The City has irrevocably covenanted for as long as any of the Bonds are outstanding and unpaid that each year it will include in its budget and levy an *ad valorem* tax, within and as a part of the levy permitted to cities without a vote of the people, upon all the property within the City subject to taxation in an amount which will be sufficient, together with other legally available money, to pay the principal of and interest on the Bonds when due. The City has irrevocably pledged that a sufficient portion of each annual levy to be levied and collected by the City prior to the full payment of the principal of and interest on the Bonds will be irrevocably set aside, pledged and appropriated for the payment of the principal of and interest on the Bonds. The full faith, credit and resources of the City are irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of the principal of and interest on the Bonds when due. Any such tax levy is subject to certain limitations. See “Taxing Powers and Debt Capacity” and “Taxing Authority.”

The City may, subject to applicable laws, apply other funds available to make payments with respect to the Bonds and thereby reduce the amount of future tax levies for such purpose. See “Taxing Authority.”

The Bonds do not constitute a debt or indebtedness of the State, Pierce County (the “County”) or any political subdivision thereof other than the City.

The rights and remedies of anyone seeking enforcement of the Bonds are subject to laws of bankruptcy and insolvency and to other laws affecting the rights and remedies of creditors and to the exercise of judicial discretion.

No Acceleration

Upon the occurrence and continuance of a default under the Bond Ordinance, payment of the principal of and accrued interest on the Bonds is not subject to acceleration. Payments of debt service on Bonds are required to be made only as they become due. In the event of multiple defaults in payment of principal or interest on the Bonds, the Bond owners would be required to bring a separate action for each such payment not made. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies.

TAXING POWERS AND DEBT CAPACITY

The power of the City to contract debt of any kind is controlled and limited by State law. All debt must be incurred in accordance with detailed budget procedures and paid for out of identifiable receipts and revenues. The budget must be balanced for each fiscal year. It is unlawful for an officer or employee of the City to incur liabilities in excess of budgetary appropriations.

In an emergency, the City Council may put a plan into effect and authorize indebtedness outside the current budget. All expenditures for emergency purposes must be paid by checks from any available money in the fund properly chargeable with such expenditures.

General Obligation Debt Capacity and Taxing Powers

Voter-Approved Debt. As prescribed by State statutes, the unlimited tax general obligation indebtedness permitted for cities, *subject to a 60 percent majority vote of registered voters*, is limited to 2.5 percent of assessed value for general purposes, 2.5 percent for utilities and 2.5 percent for open space/park facilities.

Non-Voted Debt. Within the 2.5 percent of assessed value for general purposes, the City may, *without a vote of the electors*, incur general obligation indebtedness in an amount not to exceed 1.5 percent of assessed value. Additionally, within the 2.5 percent of assessed value for general purposes, the City may, also without a vote of the electors, enter into leases if the total principal component of the lease payments, together with the other non-voted general obligation indebtedness of the City, does not exceed 1.5 percent of assessed value. The combination of unlimited tax and limited tax general obligation debt for general purposes, including leases, cannot exceed 2.5 percent of assessed value and for all purposes cannot exceed 7.5 percent of assessed value. The Bonds are issued without a vote.

The City may, *without a vote of the electorate*, issue debt as follows:

- (i) Pursuant to an ordinance specifying the amount and object of the expenditure of the proceeds, the City Council may borrow money for corporate purposes and issue bonds and notes within the constitutional and statutory limitations on indebtedness.
- (ii) The City may execute conditional sales contracts for the purchase of real or personal property.
- (iii) The City may execute leases with or without an option to purchase.

Outstanding Debt. The following table summarizes the outstanding voted and non-voted general obligation debt of the City as of December 1, 2009.

**OUTSTANDING DEBT
LONG TERM BORROWING
(As of December 1, 2009)**

GENERAL OBLIGATIONS: NON-VOTED

Limited Tax General Obligations (“LTGO”)	Date of <u>Issue</u>	Date of <u>Maturity</u>	Amount <u>Issued</u>	Amount <u>Outstanding</u>
LTGO Bonds, Series 1997B	06/15/01	12/01/18	\$ 16,100,000	\$ 15,380,000
LTGO Refunding Bonds, 2001	06/15/01	12/01/14	17,390,000	7,100,000
LTGO Bonds, 2004	08/05/04	12/01/34	51,900,000	47,885,000
LTGO Bonds, Series 2006A	09/28/06	12/01/36	16,475,000	15,880,000
LTGO Refunding Bonds, Series 2006B	11/02/06	12/01/22	12,885,000	12,885,000
LTGO Bonds, 2007 (Taxable)	12/21/07	12/01/27	9,610,000	9,010,000
LTGO Parking Facility Bonds, 2009	06/22/09	12/01/12	1,855,000	1,855,000
LTGO Note, 2009	09/01/09	09/01/13	1,739,444	1,637,082
The Bonds ⁽¹⁾	12/18/09	12/01/35	<u>48,881,923</u>	<u>48,881,923</u>
LTGO Bond Total ⁽¹⁾			<u>\$ 176,836,367</u>	<u>\$ 160,514,005</u>
Public Works Trust Fund (“PWTF”) Loans ⁽²⁾				
CTED ⁽³⁾ PWTF Loan	04/08/98	07/01/18	\$ 10,000,000	\$ 4,863,158
CTED PWTF Loan	01/01/04	07/01/24	<u>7,647,500</u>	<u>6,423,671</u>
PWTF Loan Total			<u>\$ 17,647,500</u>	<u>\$ 11,286,829</u>
Total Non-voted General Obligations ⁽¹⁾			<u>\$ 194,483,867</u>	<u>\$ 171,800,834</u>

GENERAL OBLIGATIONS: VOTER APPROVED

Unlimited Tax General Obligation Bonds

UTGO Bonds, 2002	<u>\$ 34,300,000</u>	<u>\$ 26,400,000</u>
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(1) Includes the initial amount of the Series E and Series F Bonds only (does not include the compounded accreted value at maturity for each series), and the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds.

(2) The public works trust fund loans listed are obligations of the General Fund.

(3) Community Trade and Economic Development.

Computation of Debt Capacity

The following information is based on the 2008 assessed value of property within the City for collection of taxes in 2009 and the general obligation of the debt of the City outstanding as of December 1, 2009, with adjustments for the issuance of the Bonds.

COMPUTATION OF DEBT CAPACITY (As of December 1, 2009)

2009 Collection Year Assessed Value	\$ 21,625,087,509
Non-voted Debt Capacity	
1.5% of Assessed Value	\$ 324,376,312
Less: Outstanding Non-voted Debt ⁽¹⁾	(122,918,911)
Less: The Bonds ⁽²⁾	<u>(92,140,000)</u>
Remaining Non-voted Debt Capacity	<u>\$ 109,317,401</u>
Voted and Non-voted Debt Capacity	
2.5% of Assessed Value	\$ 540,627,187
Less: Outstanding Non-voted Debt ⁽¹⁾	(122,918,911)
Less: The Bonds ⁽²⁾	(92,140,000)
Less: Outstanding Voted Debt	<u>(26,400,000)</u>
Total Remaining Voted and Non-voted Debt Capacity	<u>\$ 299,168,276</u>
Voted Utility Debt Capacity	
2.5% of Assessed Value	\$ 540,627,187
Less: Outstanding Utility Obligations	<u>0</u>
Total Remaining Utility Debt Capacity	<u>\$ 540,627,187</u>
Voted Open Space/Park Debt Capacity	
2.5% of Assessed Value	\$ 540,627,187
Less: Outstanding Open Space/Park Obligations	<u>0</u>
Total Remaining Open Space/Park Debt Capacity	<u>\$ 540,627,187</u>

(1) Includes limited tax general obligation debt and public works trust fund loans.

(2) Includes the compound accreted value at maturity of the Series E Bonds and the Series F Bonds, and the principal component of the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds.

Source: City of Tacoma.

Due to decreasing property values as a result of the current recession, the City expects that the assessed value in the City for collection of taxes in 2010 will decline approximately 5.6 percent (excluding new construction), based on preliminary assessed value information from the County Assessor. At the time debt is issued, the City must have sufficient debt capacity to issue such general obligation debt. After the debt has been issued, however, declines in assessed value do not affect the City's authority to have issued the debt. Decreases can affect the City's debt capacity with respect to the issuance of additional general obligation debt.

Debt Service Schedules

The following pages provide debt service schedules for the Bonds, the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds, and are followed by a table that summarizes the debt service on all of the City's outstanding limited tax general obligation bonds.

DEBT SERVICE REQUIREMENTS: SERIES A BONDS, SERIES B BONDS AND SERIES C BONDS⁽¹⁾

Cal. Years	Series A Bonds ⁽²⁾		Series B Bonds ⁽²⁾		Series C Bonds ⁽²⁾	
	Principal	Interest	Principal	Interest ⁽³⁾	Principal	Interest
2010	-	829,357	-	\$ 201,814	-	\$ 219,228
2011	\$ 85,000	\$ 870,463	-	211,816	-	230,094
2012	110,000	869,213	-	211,816	-	230,094
2013	135,000	867,101	-	211,816	-	230,094
2014	160,000	863,524	-	211,816	-	230,094
2015	185,000	858,884	-	211,816	-	230,094
2016	220,000	850,300	-	211,816	-	230,094
2017	250,000	840,092	-	211,816	-	230,094
2018	285,000	828,492	-	211,816	-	230,094
2019	325,000	815,268	-	211,816	-	230,094
2020	365,000	800,188	-	211,816	-	230,094
2021	410,000	780,514	-	211,816	-	230,094
2022	460,000	758,415	-	211,816	-	230,094
2023	510,000	733,621	-	211,816	-	230,094
2024	565,000	706,132	-	211,816	-	230,094
2025	625,000	675,679	-	211,816	-	230,094
2026	690,000	641,991	-	211,816	-	230,094
2027	760,000	601,350	-	211,816	-	230,094
2028	835,000	556,586	-	211,816	-	230,094
2029	910,000	507,405	-	211,816	-	230,094
2030	995,000	453,806	-	211,816	-	230,094
2031	1,090,000	395,200	-	211,816	-	230,094
2032	1,185,000	328,928	-	211,816	-	230,094
2033	1,295,000	256,880	-	211,816	-	230,094
2034	1,405,000	178,144	-	211,816	\$ 4,975,000	230,094
2035	1,525,000	92,720	\$ 3,320,000	211,816	-	-
Total	\$ 15,380,000	\$ 16,960,248	\$ 3,320,000	\$ 5,497,214	\$ 4,975,000	\$ 5,741,478

(1) Totals may not foot due to rounding.

(2) Issued simultaneously with the issuance of the Bonds.

(3) Debt service schedule shows the total amount of interest due and payable for the Series B Bonds. The City intends to use the 45% subsidy payment received from the federal government to pay a portion of the interest payment due on the Series B Bonds.

DEBT SERVICE REQUIREMENTS: SERIES D BONDS, SERIES E BONDS AND SERIES F BONDS ⁽¹⁾

Cal. Years	Series D Bonds ⁽²⁾		Series E Bonds		Series F Bonds	
	Principal	Interest	Principal ⁽³⁾	Interest ⁽⁴⁾	Principal ⁽³⁾	Interest ⁽⁴⁾
2010	\$ 1,000,000	\$ 148,872	-	-	-	-
2011	1,000,000	126,250	-	-	-	-
2012	1,000,000	96,250	-	-	-	-
2013	1,000,000	66,250	-	-	-	-
2014	1,000,000	30,000	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	\$2,077,735	\$ 3,422,265
2024	-	-	-	-	1,923,735	3,576,265
2025	-	-	-	-	1,779,470	3,720,530
2026	-	-	\$ 1,012,696	\$ 1,482,304	899,960	2,110,040
2027	-	-	2,087,360	3,412,640	-	-
2028	-	-	1,948,760	3,551,240	-	-
2029	-	-	1,818,136	3,686,864	-	-
2030	-	-	1,687,180	3,812,820	-	-
2031	-	-	1,561,010	3,938,990	-	-
2032	-	-	1,442,750	4,062,250	-	-
2033	-	-	1,339,036	4,165,964	-	-
2034	-	-	120,061	409,939	-	-
2035	-	-	509,034	1,905,966	-	-
Total	\$ 5,000,000	\$ 467,622	\$13,526,023	\$ 30,428,977	\$6,680,900	\$ 12,829,100

- (1) Totals may not foot due to rounding.
- (2) Issued simultaneously with the issuance of the Bonds.
- (3) Reflects initial principal amounts.
- (4) Compounded interest.

SUMMARY OF LIMITED TAX GENERAL OBLIGATION BOND DEBT SERVICE REQUIREMENTS ⁽¹⁾

Cal. Years	Outstanding LTGO Bonds ⁽²⁾	Series						Total Debt Service
		A Bonds	B Bonds	C Bonds	D Bonds	E Bonds	F Bonds	
2010	\$ 9,995,180	\$ 829,357	\$ 201,814	\$ 219,228	\$ 1,148,872	-	-	\$ 12,394,451
2011	9,962,392	955,463	211,816	230,094	1,126,250	-	-	12,486,014
2012	9,927,118	979,213	211,816	230,094	1,096,250	-	-	12,444,491
2013	9,232,510	1,002,101	211,816	230,094	1,066,250	-	-	11,742,771
2014	9,106,454	1,023,524	211,816	230,094	1,030,000	-	-	11,601,887
2015	8,989,936	1,043,884	211,816	230,094	-	-	-	10,475,730
2016	8,837,299	1,070,300	211,816	230,094	-	-	-	10,349,508
2017	8,689,183	1,090,092	211,816	230,094	-	-	-	10,221,184
2018	8,479,160	1,113,492	211,816	230,094	-	-	-	10,034,561
2019	8,806,374	1,140,268	211,816	230,094	-	-	-	10,388,551
2020	8,800,939	1,165,188	211,816	230,094	-	-	-	10,408,036
2021	8,827,656	1,190,514	211,816	230,094	-	-	-	10,460,080
2022	8,821,431	1,218,415	211,816	230,094	-	-	-	10,481,756
2023	5,190,344	1,243,621	211,816	230,094	-	-	\$ 5,500,000	12,375,875
2024	5,184,513	1,271,132	211,816	230,094	-	-	5,500,000	12,397,554
2025	5,180,875	1,300,679	211,816	230,094	-	-	5,500,000	12,423,463
2026	5,188,200	1,331,991	211,816	230,094	-	\$ 2,495,000	3,010,000	12,467,101
2027	5,195,844	1,361,350	211,816	230,094	-	5,500,000	-	12,499,104
2028	4,379,125	1,391,586	211,816	230,094	-	5,500,000	-	11,712,621
2029	4,384,906	1,417,405	211,816	230,094	-	5,505,000	-	11,749,221
2030	4,393,125	1,448,806	211,816	230,094	-	5,500,000	-	11,783,840
2031	4,397,350	1,485,200	211,816	230,094	-	5,500,000	-	11,824,460
2032	4,408,250	1,513,928	211,816	230,094	-	5,505,000	-	11,869,088
2033	4,415,075	1,551,880	211,816	230,094	-	5,505,000	-	11,913,865
2034	4,422,575	1,583,144	211,816	5,205,094	-	530,000	-	11,952,629
2035	1,010,275	1,617,720	3,531,816	-	-	2,415,000	-	8,574,811
2036	1,013,650	-	-	-	-	-	-	1,013,650
Total	\$ 177,239,737	\$ 32,340,248	\$ 8,817,214	\$ 10,716,478	\$ 5,467,622	\$ 43,955,000	\$ 19,510,000	\$ 298,046,298

Notes to table are on following page.

NOTES TO TABLE:

- (1) Totals may not foot due to rounding.
- (2) Any principal and/or interest payments made prior to December 1, 2009, have been excluded; does not include the Limited Tax General Obligation Note, 2009, issued in the principal amount of \$1,739,444.

Net Direct and Overlapping Debt

The following tables set forth the outstanding principal amount of general obligation bonds issued by the City (“Direct Debt”), and the outstanding principal amount of general obligation bonds issued by other governmental entities whose taxing jurisdiction includes a part or all of the City and the estimated portion of that debt which is applicable to the property within the City (“Overlapping Debt”), with adjustments for the Bonds. The estimate of the percentage of a governmental entity’s debt which is applicable to property within the City is based on a ratio of the City’s and a governmental entity’s assessed values.

**SUMMARY OF OVERLAPPING DEBT
(As of August 31, 2009)**

Overlapping Taxing District	2009 Assessed Value	Percent Overlap	Outstanding GO Debt	Estimated Overlapping Debt
Metro Parks Tacoma	\$ 22,112,550,392	97.80%	\$ 73,890,000	\$ 72,261,123
Tacoma SD No. 10	22,966,978,151	92.76	302,755,000	280,830,916
Port of Tacoma	92,604,618,893	23.35	204,505,000	47,756,133
Pierce County	92,604,618,893	23.35	119,308,384	27,860,967
University Place SD No. 83	3,218,625,598	2.80	91,625,000	2,566,672
Fife SD No. 417	3,452,566,379	2.80	32,655,000	913,907
Fire Protection District No. 13	487,462,883	2.39	315,758	7,535
Clover Park SD No. 400	6,402,058,891	1.73	64,690,000	1,118,062
Franklin-Pierce SD No. 402	3,919,270,627	0.61	22,670,000	<u>137,845</u>
Total				<u>\$ 433,453,160</u>

Source: Pierce County Assessor and Treasurer and individual taxing districts.

NET DIRECT AND OVERLAPPING DEBT

Regular Assessed Value (2009 Collection Year)	\$ 21,625,087,509
Estimated 2009 Population	203,400
Net Direct Debt ⁽¹⁾	\$ 241,458,911
Estimated Net Overlapping Debt (as previously detailed herein)	<u>433,453,160</u>
Total Net Direct and Overlapping Debt ⁽¹⁾	<u>\$ 674,912,071</u>

- (1) Includes the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds, and the Compound Accreted Value at maturity of the Series E Bonds and the Series F Bonds, plus limited and unlimited tax general obligation debt and public works trust fund loans.

BONDED DEBT RATIOS*

Net Direct Debt to Assessed Value	1.12%
Net Direct and Overlapping Debt to Assessed Value	3.12%
Per Capita Assessed Value	\$ 106,318
Per Capita Net Direct Debt	\$ 1,187
Per Capita Total Net Direct and Net Overlapping Debt	\$ 3,318

- * Ratios are calculated based on the Compound Accreted Value at maturity of the Series E Bonds and the Series F Bonds.

Debt Payment Record

The City has promptly met all debt service payments on outstanding obligations. No refunding bonds have been issued to prevent an impending default.

Future Financings

Other than the Bonds and the Series A Bonds, the Series B Bonds, the Series C Bonds, and the Series D Bonds, issued simultaneously with the issuance of the Bonds, the City has no authorized but unissued general obligation bonds outstanding, nor does it anticipate issuing additional long-term general obligation debt within the next 12 months. The City expects to issue local improvement district bonds in 2010.

TAXING AUTHORITY

Authorized Property Tax Levies

The City is authorized to impose (i) a regular property tax levy (up to \$3.60/\$1,000), and (ii) excess property tax levies (unlimited as to rate or amount). The City's regular levy for the 2009 collection year is \$2.21645/\$1,000. The regular levy is imposed without a vote of the people for general purposes, including payment of debt service on the Bonds, and is subject to limitations. See "General Property Taxes—Regular Property Tax Limitations" herein. Excess levies are imposed, upon voter approval, to pay debt service on unlimited tax general obligation bonds. An excess levy also may be imposed without a vote to prevent the impairment of a contract (RCW 84.52.052).

The City's Property Tax Levies

The following table shows the City's levy rates and dollar amounts levied since 2005.

AD VALOREM TAX LEVIES (Dollars per \$1,000 of Assessed Value)

Collection Year	Levy Rate (Dollars per \$1,000 of Assessed Value)			
	Regular	Bond	EMS	Total
2009	\$ 2.21645	\$ 0.13527	\$ 0.45894	\$ 2.81066
2008	2.23500	0.14077	0.46385	2.83962
2007	2.42183	0.15790	0.50000	3.07973
2006	2.79256	0.18624	0.40409	3.38290
2005	3.23939	0.42624	0.46877	4.13440

Collection Year	Levy Amounts			
	Regular	Bond	EMS	Total
2009	\$ 47,930,876	\$ 2,896,649	\$ 9,924,527	\$ 60,752,051
2008	46,476,865	2,898,471	9,645,780	59,021,116
2007	45,365,016	2,930,107	9,365,856	57,660,979
2006	43,854,603	2,902,205	6,360,363	53,217,172
2005	42,799,961	5,575,987	6,193,596	54,569,543

Sources: Pierce County Assessor's and Treasurer's Offices

Overlapping Taxing Districts

The overlapping taxing districts within the City have the statutory power to levy regular property taxes at the following rates, subject to the limitations provided by chapter 84.55 RCW, and levy excess voter approved property taxes. For purposes of demonstration, representative levy rates for “levy code 005,” as well as the statutory levy authority of each type of potential overlapping district, are listed below.

	Representative Levy Rates Per \$1,000 of Assessed Value	Statutory Levy Authority Per \$1,000 of Assessed Value
Pierce County	\$1.0815 ⁽¹⁾	\$1.800 ⁽²⁾
County (Road Levy)	n/a ⁽³⁾	2.250
Rural Library District	n/a ⁽³⁾	0.500
Fire Protection District	n/a ⁽³⁾	1.500
Port of Tacoma	0.1829	0.450
The City	2.8107 ⁽⁴⁾	3.375
Cities and Towns	n/a	0.225 ⁽⁵⁾
Hospital Districts	n/a ⁽³⁾	0.750
State Schools	2.0234	3.600 ⁽⁶⁾
Metro Parks Tacoma	0.7203 ⁽⁷⁾	0.750
Tacoma School District No. 10	4.8019	n/a ⁽⁸⁾
Total rate for Pierce County levy code 005:	\$11.6205	

- (1) Includes Conservation Futures of \$0.0390 per \$1,000.
- (2) Pursuant to RCW 84.52.043(1), a county may increase its levy from \$1.80 per \$1,000 to a rate not to exceed \$2.475 per \$1,000 for general county purposes if (i) the total levies for both the county and any road district within the county do not exceed \$4.05 per \$1,000 and (ii) no other taxing district has its levy reduced as a result of the increased county levy.
- (3) Pierce County levy code 005 is included within the incorporated portion of Pierce County and therefore does not have a road levy. Likewise, it does not contain either a rural library district, fire protection district or a hospital district.
- (4) Includes voted bond levy of \$0.1353 per \$1,000 and emergency medical service levy of \$0.4589 per \$1,000.
- (5) RCW 41.16.060. To be used for pension funding purposes, if required; otherwise, this tax may be levied and used for any other municipal purpose (used by the City).
- (6) RCW 84.52.043(1). The levy by the State shall not exceed \$3.60 per \$1,000 assessed value adjusted to the State equalized value in accordance with the indicated ratio fixed by the State Department of Revenue to be used exclusively for the support of the common schools.
- (7) Includes a voter-approved levy of \$0.2637 per \$1,000.
- (8) Washington school districts do not have non-voted regular levy authority.

Source: *Pierce County Assessor's Office*

General Property Taxes

The following provides a general description of the City’s taxing authority and limitations thereon, the method of determining the assessed value of real and personal property, tax collection procedures, and tax collection information.

Authorized Property Taxes. The City is authorized to levy both “regular” property taxes and “excess” property taxes.

- (i) *Regular Property Taxes.* Regular property taxes are subject to constitutional and statutory limitations as to rates and amounts and commonly are imposed by taxing districts for general municipal purposes, including the payment of debt service on limited tax general obligation indebtedness, such as the Bonds. Regular property taxes do not require voter approval except as described below.
- (ii) *Excess Property Taxes.* Excess property taxes are not subject to limitation as to rates or amounts but must be authorized by a 60 percent approving popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last City general election, except that one-year excess tax levies also are valid if the turnout is less than 40 percent and the measure receives a number of affirmative votes

equal to or greater than 24 percent of the number who voted at the last City general election. Excess levies may be imposed without a popular vote when necessary to prevent impairment of the obligations of contracts.

Regular Property Tax Limitations

The authority of a city to levy taxes without a vote of the people for general city purposes, including the payment of debt service on limited tax general obligation indebtedness, such as the Bonds, is subject to the limitations described below. Information relating to regular property tax limitations is based on existing statutes and constitutional provisions. Changes in such laws could alter the impact of other interrelated tax limitations on the City.

Regular property tax levies are subject to rate limitations and amount limitations and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district.

Maximum Rate Limitation. Title 84 RCW authorizes the imposition of regular tax levies to various statutory maximums (see “Overlapping Taxing Districts” herein).

The One Percent Aggregate Regular Levy Limitation. Article VII, Section 2 of the Washington Constitution, as amended in 1973, limits aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to one percent of the true and fair value of property. RCW 84.52.050 provides the same limitation by statute.

\$5.90/\$1,000 Aggregate Regular Levy Limitation. Within the one percent limitation described above, RCW 84.52.043(2) imposes an aggregate limitation on regular tax levies by all taxing districts, other than the State, of \$5.90/\$1,000 of assessed value, except levies for any port or public utility district; excess levies authorized in Article VII, Section 2 of the State Constitution; and certain levies for acquiring conservation futures, for emergency medical services or care, and to finance affordable housing.

Uniformity Requirement. Article VII, Section 1 of the Washington Constitution requires that property taxes be levied at a uniform rate upon the same class of property within the territorial limits of a taxing district levying such taxes. It is possible because of different overlapping taxing districts in different areas of the City that the maximum permissible levy might vary within the City. In that event, to comply with the constitutional requirement for uniformity of taxation, the lowest permissible rate for any part of the City would be applied to the entire City.

Prioritization of Levies. RCW 84.52.010 provides that if aggregate levies certified by all taxing districts exceed the aggregate levy limitations described above, levies certified by junior taxing districts are reduced or eliminated in order to bring the aggregate levy into compliance with the statutory maximum prescribed by RCW 84.52.050 and 84.52.043. RCW 84.52.043 defines “junior taxing districts” as all taxing districts other than the state, counties, road districts, cities, towns, port districts, and public utility districts.

The tax levy for unlimited tax general obligation bonds is a special excess levy approved by the voters, and as such, is not subject to the limitations on regular levies described above.

The Levy Limitation. The regular property tax increase limitation (chapter 84.55 RCW) limits the total dollar amount of regular property taxes levied by an individual local taxing district such as the City to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, annexations, improvements and State-assessed property at the previous year's rate. The limit factor is the lesser of 101 percent of the highest levy in the three previous years (excluding new construction, improvements, and State-assessed property) or 100 percent plus inflation, unless a greater amount is approved by a simple majority of the voters. With a supermajority vote of the Council, the limit factor is a flat 101 percent.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as “banked” levy capacity. The City does not have any banked levy capacity.

With a majority vote of its electors, a taxing district may levy, within the rate limitations described above, more than what otherwise would be allowed by the tax increase limitation indefinitely or for a limited period or to satisfy a limited purpose, as allowed by RCW 84.55.050. This is known as a “levy lid lift.” A newly created taxing district can initiate its levy at the maximum permitted statutory levy rate, unless that rate would exceed any of the limitations described above.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction, improvements and State-assessed property) which exceed the rate of growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy or the taxing district uses banked levy capacity. Decreases in the assessed value of all property in the taxing district (including new construction, improvements and State-assessed property) or increases in such assessed value that are less than the rate of growth in taxes imposed, among other events, may result in increased regular tax levy rates.

Special excess levies approved by a 60 percent majority of the voters and meeting minimum voter turnout requirements are not subject to the rate or amount limitations on regular levies described above.

Assessed Value

The County Assessor, or equivalent thereof (“Assessor”), determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, except certain utility properties which are valued by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its market value. Three approaches may be used to determine real property value: market data, replacement cost and income generating capacity. In the County, all property is subject to an annual property valuation and an on-site revaluation at least once every six years. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor’s office. The Assessor’s determinations are subject to revisions by the County Board of Equalization and, for certain property, subject to further revisions by the State Board of Tax Appeals.

Tax Collection Procedure

Property taxes are levied in specific amounts and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the Assessor based upon the assessed value of the property within the various taxing districts. The Assessor extends the taxes to be levied within each taxing district on a tax roll that contains the total amount of taxes to be so levied and collected. By January 15 of each year, the tax roll is delivered to the County Treasurer, or equivalent thereof, who creates a tax account for each taxpayer and is responsible for the collection of taxes due to each account. All such taxes are due and payable on April 30 of each year, but if the amount due from a taxpayer exceeds \$50, one-half may be paid then and the balance no later than October 31 of that year. Delinquent taxes are subject to interest at the rate of 12 percent per year computed on a monthly basis from the date of delinquency until paid. In addition, a penalty of three percent is assessed on June 1st of the year in which the tax was due and eight percent on December 1st of the year due. All collections of interest on delinquent taxes are credited to the County’s current expense fund.

The method of giving notice of payment of taxes due, the accounting for the money collected, the division of the taxes among the various taxing districts, notices of delinquency, and collection procedures are all covered by detailed statutes. The lien on property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law the Treasurer may not commence foreclosure of a tax lien on real property until three years have passed since the first delinquency. The State’s courts have not decided whether the Homestead Law (chapter 6.13 RCW) may give the occupying homeowner a right to retain the first \$125,000 (effective July 22, 2007) of proceeds of the forced sale of the family residence or other “homestead” property for delinquent general property taxes. (See *Algona v. Sharp*, 30 Wn. App. 837, 638 P.2d 627 (1982), holding the homestead right superior to the improvement district assessments). The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

TAX COLLECTION RECORD
As of August 31, 2009

Collection Year	Regular Assessed Value ⁽¹⁾	Ad Valorem Tax Levy	Tax Collection	
			Year of Levy	As of 08/31/09
2009	\$ 21,625,087,509	\$ 60,752,051	(2)	(2)
2008	20,795,031,550	59,021,116	96.6%	98.3%
2007	18,731,712,628	57,660,979	96.8	99.4
2006	15,739,885,099	53,217,172	97.2	99.9
2005	13,212,370,610	54,569,543	97.3	100.0
2004	12,455,912,515	53,327,334	96.9	100.0

(1) Assessed value is based upon 100 percent of actual value. The preliminary regular assessed value for the City for the 2010 collection year is \$20,420,733,999. See “Taxing Powers and Debt Capacity—Computation of Debt Capacity.”

(2) In process of collection.

NOTE: Taxes are due and payable on April 30 of each year of the levy. The entire tax or first half must be paid on or before April 30, otherwise the total amount becomes delinquent on May 1. The second half of the tax is payable on or before October 31, becoming delinquent November 1.

Source: *Pierce County Assessor’s and Treasurer’s Offices.*

MAJOR PROPERTY TAXPAYERS

Taxpayer	Type of Business	2009 Collection Year Assessed Value	Percent of City’s Total A.V.
Tacoma Mall Partnership	Retail	\$ 231,151,284	1.07%
Simpson Tacoma Kraft Co.	Lumber manufacturing	133,083,027	0.62
U.S. Oil & Refining Co.	Petroleum refinery	85,602,200	0.40
Qwest Corporation	Telecommunications	69,018,322	0.32
Puget Sound Energy/Gas	Utility	66,809,509	0.31
Simpson Lumber Company LLC	Lumber manufacturing	66,264,600	0.31
AT&T Mobility LLC	Cellular	60,089,334	0.28
CSC of Tacoma LLC	Detention center	54,111,000	0.25
Fred Meyer Stores Inc.	Retail	52,786,825	0.24
NGP Centennial Tacoma LLC	Real estate	<u>52,496,000</u>	<u>0.24</u>
Subtotal – City’s Ten Largest Taxpayers		871,412,101	4.03
All Other City Taxpayers		<u>20,753,675,408</u>	<u>95.97</u>
Total City Taxpayers		<u>\$ 21,625,087,509</u>	<u>100.00%</u>

Source: *Pierce County Treasurer’s Office*

Collection of Other Taxes and Revenues Available to Pay Debt Service on the Bonds

In addition to its regular property tax levy, the City also collects various other taxes, including a retail sales tax (also known as a “local sales and use tax”), business and occupation tax, real estate excise tax and utility taxes, among others. A table showing historical revenue from these sources is included at the end of this section.

Local Sales and Use Tax. In addition to the State, the City imposes a sales and use tax on the selling price for value on any retail sale or use of tangible personal property within the City. The City’s sales and use tax is collected by the State Department of Revenue (the “Department”) under a contract with the City that provides for a deduction by the Department of one percent of the tax collected for the Department’s administration costs. The general sales and use tax rate within the City as of October 1, 2009, is 9.300 percent. The sales tax rate is distributed as follows: 6.5100 percent to the State; 0.3385 percent to the County; 0.9000 percent to the Rapid Transit Authority, 0.6000 percent to Pierce Transit, 0.1000 percent to Metro Parks, and 0.8515 percent to the City. The amount of

revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

Streamlined Sales and Use Tax Agreement. In 2003, the State Legislature approved legislation authorizing the State's membership in the Streamlined Sales and Use Tax Agreement (the "SSUTA"), in an effort to make sales and use taxes in the State more uniform with other states. Congress has required that state sales taxes be more uniform before Congress will permit taxation of interstate catalogue and Internet sales. In 2007, the State Legislature adopted legislation fully conforming to the SSUTA. Effective July 1, 2008, the sales tax system changed in the State from an origin-based system to a destination-based system. Under destination sourcing, sales taxes on goods delivered to customers in the State are credited to the taxing jurisdiction where the goods are delivered (as opposed to the point of sale) and the rate of the tax is determined by the local rate in the destination taxing jurisdiction.

The State Legislature enacted certain provisions to mitigate net losses in sales and use tax collections of local taxing jurisdictions resulting from the change to a destination-based system. To qualify, the local taxing jurisdiction must be negatively impacted by the legislation and the local sales tax must be in effect before July 1, 2008, among other requirements. Money for mitigation is subject to appropriation by the State Legislature. Under the mitigation legislation, on each July 1, the State Treasurer is required to transfer an amount determined by the Department to fully mitigate negatively impacted local jurisdictions. Mitigation for the first year is determined by the Department from tax reporting data to determine actual losses less gains from voluntarily registered sellers. Beginning December 31, 2008, distributions from the account are required to be made quarterly. After the first year, the Department is required to determine each local jurisdiction's annual losses, and distributions are required to be made quarterly representing one-fourth of a jurisdiction's annual loss less voluntary compliance revenue from the previous quarter. Losses in sales tax revenues are based on a business by business comparison of sales patterns in each jurisdiction before and after the change to destination-based sales tax. "Voluntary compliance revenue" is the local sales tax revenue gain to each local taxing jurisdiction reported to the Department by sellers in other states voluntarily registered through the SSUTA.

As a result of this legislation, the City received \$37,359 from the State in the third quarter of 2008, and nothing in the fourth quarter of 2008, the first quarter of 2009, or the second quarter of 2009. Although the City cannot predict its future sales tax receipts, if the City is negatively impacted by the legislation in the future, it intends to seek mitigation payments to offset any losses so long as it is eligible.

Business and Occupation Tax. The City's Business and Occupation ("B&O") tax is a gross receipts tax, measured on the value of products, gross proceeds of sale, or gross income of the business. The City charges B&O tax for work conducted within the City limits by the following industries during any tax year.

<u>TYPE OF BUSINESS</u>	<u>TAX RATE</u>
Service and Other/Retail Services	0.400%
International Investment Services	0.220
Retailing	0.153
Public Road Construction	0.110
Manufacturing/Extraction	0.110
Wholesaling	0.102

Real Estate Excise Tax. Real estate excise tax ("REET") is split into two parts, REET 1 and REET 2, both at ¼ of one percent of the gross amount of real estate transfers made in the City for a total of ½ of one percent.

Utility Taxes. Utility taxes are taxes applied to utilities providing services in the City including City-owned and privately-owned utilities. The City levies a tax of six percent on telephone, electric and natural gas utilities. In addition, the City levies a tax of eight percent on solid waste disposal and cable television services.

Historical Tax Collections

The following table shows the historical revenues from these taxes.

	HISTORICAL TAX COLLECTIONS					
	Budgeted 2009 ⁽¹⁾	2008	2007	Actual 2006	2005	2004
General Fund⁽²⁾						
Property	\$ 47,930,876	\$ 46,003,012	\$ 44,782,600	\$ 39,795,499	\$ 39,123,951	\$ 35,190,124
Sales	38,516,000	43,309,045	45,780,364	44,594,892	40,524,509	37,033,175
Utility	37,982,570	41,565,551	41,325,305	39,333,367	35,837,899	34,773,037
B&O Taxes	40,582,291	44,716,740	42,753,899	40,843,343	38,642,290	37,878,572
Subtotal	\$ 165,011,737	\$ 175,594,348	\$ 174,642,168	\$ 164,567,101	\$ 154,128,649	\$ 144,874,908
Other Funds						
Property ⁽³⁾	\$ 2,896,649	\$ 2,880,458	\$ 2,911,617	\$ 2,973,970	\$ 5,594,603	\$ 5,521,538
Real Estate Excise	3,500,000	4,372,230	8,728,457	9,475,839	8,747,242	6,808,337
Subtotal	\$ 6,396,649	\$ 7,252,688	\$ 11,640,074	\$ 12,449,809	\$ 14,341,845	\$ 12,329,875
Total Taxes	\$ 171,408,386	\$ 182,847,036	\$ 186,282,242	\$ 177,016,910	\$ 168,470,494	\$ 157,204,783

- (1) See “Financial Results—General Fund 2009-10 Biennial Budget” for updated information on the City’s budget.
- (2) Total tax revenue in the General Fund differs from the amount reported on the City’s financial statements due to a restatement of utility taxes to interfund transfer revenues and to the inclusion of penalties and interest on business taxes in tax revenue in the financial statements. The amounts listed above represent the receipts before the restatement.
- (3) Property taxes levied for debt service payments on a voter-approved levy.

Source: City of Tacoma

Other Revenue Sources. The City has approved a 30-year lease with the Tacoma Rainiers (the “Team”) for its use of Cheney Stadium subject to the terms of the lease. Under the terms of the new lease, the Team will make certain lease payments and pay certain facility fees and taxes for the use of the stadium. The stadium also is the venue for concerts and other events hosted by the City, which provide additional revenues. The revenues to be received by the City from these sources are estimated to be approximately \$920,000 in 2011 and to increase to approximately \$1.6 million in 2035. Furthermore, a private foundation has pledged \$1 million per year from 2010 to 2014 to pay for a portion of the costs of the improvements to Cheney Stadium. Revenues received from these two sources have not been specifically pledged by the City in the Bond Ordinance toward the payment of debt service on the portion of the Bonds issued to finance the improvement, rehabilitation and construction of Cheney Stadium. The lease requires the City to use these revenues for debt service and maintenance of the stadium and the foundation’s pledge is restricted to stadium purposes.

AUTHORIZED INVESTMENTS

Chapter 35.39 RCW limits the investment by cities and towns of its inactive funds or other funds in excess of current needs to the following authorized investments: United States bonds; United States certificates of indebtedness; bonds or warrants of the State and any local government in the State; its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district or the State Treasurer. Under chapter 43.84 RCW, the State Treasurer may invest in non-negotiable certificates of deposit in designated qualified public depositories; in obligations of the U.S. government, its agencies and wholly owned corporations; in bankers’ acceptances; in commercial paper; in the obligations of the federal home loan bank, federal national mortgage association and other government corporations subject to statutory provisions and may enter into repurchase agreements. Utility revenue bonds and warrants of any city and bonds or warrants of a local improvement district are also eligible investments (RCW 35.39.030).

Chapter 39.59 RCW provides that, in addition to any other investment authority granted by law, the City is authorized to invest in bonds of the State of Washington and any local government in the State of Washington that have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency; and general obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington that have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or for the benefit of the general government in accordance with city ordinances or resolutions. Funds derived from the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the authorizing ordinances, resolutions or bond covenants may lawfully prescribe.

Local Government Investment Pool

The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), which invests money on behalf of more than 640 cities, counties and special taxing districts. In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. The LGIP is restricted to investments with maturities of one year or less, and the average life typically is less than 90 days. Investments permitted under the LGIP's guidelines include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified Washington State depositories. See "The City—Investment Practices" for a summary of the City's current investment portfolio.

Authorized Investments for Bond Proceeds

In addition to the eligible investments discussed above, bond proceeds may also be invested in mutual funds with portfolios consisting of U.S. government and guaranteed agency securities with average maturities of less than four years; municipal securities rated in one of the four highest categories; and money market funds consisting of the same, so long as municipal securities held in the fund(s) are in one of the two highest rating categories of a nationally recognized rating agency. Bond proceeds may also be invested in shares of money market funds with portfolios of securities otherwise authorized by law for investment by local governments (RCW 39.59.030). See "The City—Investment Practices" herein for a discussion of the City's investment portfolio.

FINANCIAL RESULTS

The following tables provide a comparative balance sheet and comparative statement of revenues, expenditures and changes in fund balance for the City's General Fund and the General Fund 2009-10 biennial budget.

**GENERAL FUND
BALANCE SHEET
Years Ending December 31
(amounts expressed in thousands)**

	Actual				
	2008	2007	2006	2005	2004
Assets					
Cash and Cash Equivalents	\$ 30,517	\$ 44,237	\$ 46,614	\$ 32,457	\$ 28,215
Accounts Receivable	12,915	14,877	13,918	15,517	13,644
Due from Other Funds	604	356	2,312	504	311
Due from Other Governments	4,275	197	213	230	250
Prepaid Expenditures	214	103	116	98	104
Inventory	1,809	1,216	654	525	660
Recoverable Deposits	0	1	1	1	1
Other Current Assets	3	3	0	3	3
Advances to Other Funds	15,630	14,757	7,499	3,890	4,199
Total Assets	\$ 65,967	\$ 75,747	\$ 71,327	\$ 53,225	\$ 47,387
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 3,641	\$ 2,241	\$ 2,878	\$ 861	\$ 2,677
Accrued Wages and Benefits Payable	3,354	2,379	1,829	1,689	1,503
Notes, Leases and Contracts Payable	2	0	0	0	37
Deposits Payable	21	292	409	306	71
Accrued Taxes Payable	21	60	44	56	33
Due to Other Funds	771	914	4,051	170	361
Due to Other Governments	592	37	84	23	177
Deferred Revenue	4,986	3,865	5,336	6,573	5,892
Other Current Liabilities	174	125	188	120	144
Total Liabilities	\$ 13,562	\$ 9,913	\$ 14,819	\$ 9,798	\$ 10,895
Fund Balances:					
Reserved for:					
Encumbrances	3,333	3,553	1,400	2,342	3,228
Advances to Other Funds	15,630	14,757	7,499	3,890	4,199
Other Purposes	5,908	1,216	654	623	691
Unreserved, Reported in General Fund	27,534	46,308	46,955	36,572	28,374
Total Liabilities and Fund Balance	\$ 65,967	\$ 75,747	\$ 71,327	\$ 53,225	\$ 47,387

Source: City of Tacoma Audited Financial Statements

GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Years Ending December 31
(amounts expressed in thousands)

	Actual				
	2008	2007	2006	2005	2004
Revenues					
Taxes	\$ 135,832	\$ 135,319	\$ 128,458	\$ 123,820	\$ 113,947
Licenses and Permits	5,108	8,483	8,121	2,559	4,427
Intergovernmental	10,691	9,137	11,959	9,001	8,725
Charges for Services	3,830	3,419	4,012	3,436	2,349
Fines and Forfeitures	4,070	3,104	2,312	2,448	2,331
Interest	2,840	4,331	3,420	1,626	2,110
Miscellaneous	1,478	295	375	497	501
Total Revenues	163,849	164,088	158,657	143,387	134,390
Expenditures					
Current					
General Government	21,186	15,613	18,092	17,019	24,041
Security of Persons and Property	129,466	121,630	110,057	109,314	102,514
Physical Environment	541	532	488	471	485
Transportation	17,040	16,654	16,014	15,579	14,261
Economic Environment	20,543	17,852	16,942	14,898	15,945
Mental and Physical Health	1,354	1,328	1,318	1,216	1,294
Culture and Recreation	16,157	12,919	13,412	12,155	13,632
Capital Outlay	2,838	1,654	2,750	1,840	3,208
Debt Service ⁽¹⁾	117	181	388	120	143
Total Expenditures	209,242	188,363	179,461	172,612	175,523
Excess (deficiency) of Revenues Over (Under) Expenditures	(45,393)	(24,275)	(20,804)	(29,225)	(41,133)
Other Financing Sources (Uses)					
Sale of Capital Asset	3	43	22	1,496	-
Transfers in	41,978	42,078	40,273	35,793	34,493
Transfers out	(7,762)	(8,570)	(5,327)	(1,129)	(1,667)
Total Other Financing Sources and Uses	34,219	33,551	34,968	36,160	32,826
Net Change in Fund Balance	(11,174)	9,326	13,081	6,935	36,492
Fund Balances-Begining	65,834	56,508	43,427	36,492	44,473
Prior Period Adjustments	-	50	(1,083)	-	326
Fund Balances-Ending⁽²⁾	\$ 54,660	\$ 65,834	\$ 56,508	\$ 43,427	\$ 36,492
Ending Fund Balance as % of Expenditures	26.1%	35.0%	31.5%	25.2%	20.8%

(1) Debt service on some limited tax general obligation bonds is paid from revenue sources other than General Fund taxes.

(2) Projected ending General Fund balance for 2009 is \$44.362 million.

Source: City of Tacoma Audited Financial Statements

**GENERAL FUND
2009-10 BIENNIAL BUDGET***

	2009-10
	Budget
Revenues	
Utilities/Other Tax	\$ 98,468,674
Property Tax	96,768,512
Sales and Use Tax	86,790,206
Business Tax	81,633,626
Intergovernmental Revenue	21,921,378
Cash Balance	13,886,950
Misc. Revenue	13,368,369
License and Permit	11,343,025
Fines and Forfeits	8,975,500
Charges for Services	7,636,860
	\$ 440,793,100
Total Revenues	
Expenditures	
Police	144,986,227
Fire	96,845,399
City Non-Departmental	59,671,895
Public Works	58,879,094
Library	24,736,135
Human Rights and Services	13,079,757
Community Economic Development	12,035,522
Municipal Court	8,169,878
Legal	7,307,173
Finance	6,722,885
Human Resources	3,005,990
City Manager	2,513,344
Legislative	1,372,627
Hearings Examiner	846,438
Government Relations	620,736
	\$ 440,793,100
Total Expenditures	

* As of September 30, 2009, General Fund revenues were \$135,835,521 and expenditures were \$157,016,165.

Source: City of Tacoma

Update on Biennial Budget

The City has determined a need to cut approximately \$39 million from its budget and is currently in the process of making a mid-biennium budget adjustment. The City has identified \$30 million of adjustments including expenditure reductions, revenue enhancements and one-time transfers to the General Fund. The City continues to examine its options related to the remaining \$9 million. Actions taken to date have focused on retaining organizational capacity and minimizing impacts to service levels and employees. As of September 30, 2009, General Fund revenues were \$135.835 million and expenditures were \$157.016 million. The projected 2009 ending General Fund balance is \$44.362 million.

THE CITY

Administration

The City was incorporated in 1884 and utilizes the Council-Manager form of government, which is administered by a City Council (“Council”) under the Constitution and laws of the State and the City Charter. The Council is composed of a Mayor and eight members, five of whom are elected from districts which have been apportioned according to population. The three remaining positions are “at-large” positions, nominated and elected City-wide. The Councilmember positions are four-year terms with overlapping terms to allow for the election of at least four new Council members every two years. The Mayor is elected City-wide for a four-year term and is the presiding officer of the Council. Council members, including the Mayor, can serve no more than ten consecutive years as a member of the Council, Mayor or combination thereof.

The Council appoints a City Manager who is the chief executive officer of the City and who serves at the pleasure of the Council. The City Manager is responsible to the Council for the administration of all departments of the City with the exception of the Department of Public Utilities. The City Manager has the power to appoint department heads.

The City Manager appoints a Finance Director who supervises the financial and purchasing functions of the City, including the City’s accounting system. The Finance Director is responsible for preparing the Comprehensive Annual Financial Report (“CAFR”) in accordance with generally accepted accounting principles and the instructions of the State Auditor’s Office. The Finance Director is responsible for the payment of principal and interest on all bonds issued by the City. The Director of Budget and Research is responsible for the preparation and monitoring of the biennial budget, which provides for the servicing of debt and provides for anticipated revenues to meet the estimated costs of expenditures. The budget is presented to the Council for its review and approval and final adoption.

The City Treasurer is responsible for the receipt, custody and disbursement of City funds. The City Treasurer receives all money due and belonging to the City, and keeps a detailed account of the same in the manner prescribed by the Director of Finance. A Finance Committee composed of the Mayor, Director of Finance and City Treasurer controls the investment of City funds.

Eric Anderson, City Manager. Mr. Anderson has been the City Manager for the City since 2005. As City Manager, Mr. Anderson is the chief administrator of the City and manages the administrative affairs, gives general direction to the programs and departments and is responsible for the proper execution of the policies set by the City Council. He is responsible for over 2,000 employees, over 400 programs, and a biennial budget of more than \$1.2 billion. Mr. Anderson previously served as city manager and town manager in a variety of cities and towns. He is currently on the International City Manager’s Retirement Corporation and the Vantage Trust Company Boards of Directors. Mr. Anderson received a Bachelor’s Degree from Syracuse University, a Master’s of Public Administration from the Graduate School of Public Affairs, State University of New York at Albany; and a Master of Arts from Maxwell School, Syracuse University.

Robert K. “Bob” Biles, Finance Director. Mr. Biles has been the City’s Finance Director since 2008. His primary duties include accounting, budget preparation and monitoring, revenue collections, investments, bond issuance, procurement administration, and payroll administration. Prior to joining the City, Mr. Biles served as the head of finance to various cities. Mr. Biles earned a Bachelor’s Degree in Business Administration from Pittsburg State University.

Pension Plans and Other Post-Employment Benefits

City employees other than law enforcement officers, fire fighters and railroad employees are covered by the Tacoma Employees’ Retirement System (“TERS”), an actuarially funded system administered by the City. Law enforcement officers and firefighters are covered by the Law Enforcement Officer and Firefighter Retirement System (“LEOFF”), which is operated by the State for law enforcement officers and firefighters throughout the State. Additionally, the City administers two single-employer pension funds as required by State Statute: a Police Relief and Pension Fund and a Firemen’s Relief and Pension Fund.

TERS is a local single employer defined benefit pension retirement plan covering City of Tacoma employees. The Board of Administration of TERS administers the plan, and benefit provisions are established in accordance with chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code. As of December 31, 2008, there were 1,820 retirees and beneficiaries receiving benefits, 367 vested terminated employees entitled to future benefits, and 3,124 active members in TERS.

Employees covered by TERS are required by Chapter 1.30 of the Tacoma City Code to contribute based on the rates provided in the following table:

<u>Applicable Period</u>	<u>City Rate</u>	<u>Member Rate</u>	<u>Total Rate</u>
1/1/1980 to 12/31/1996	10.44%	8.89%	19.33%
1/1/1997 to 12/31/2000	9.02%	7.68%	16.70%
1/1/2001 to 2/1/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64%	7.36%	16.00%
1/1/2010 Forward	9.72%	8.28%	18.00%

Milliman, Inc. consultants provided an actuarial valuation of TERS as of January 1, 2009, which found that, due to the rapid decline of the investment markets in 2008, based on the actuarial value of assets, the contribution rates in effect for 2009 and approved for 2010 are sufficient to meet the actuarial costs of TERS. However, based on the market value of the assets as of January 1, 2009, and the assumptions in actuarial valuation, additional contribution rate increases may be needed in future years. The City will be actively monitoring TERS.

LEOFF contains two plans. Participants who joined the LEOFF system by September 30, 1970, are Plan I members (“LEOFF I”), and those who joined thereafter are Plan II members “LEOFF II”). Contribution rates for LEOFF I are developed by the Office of State Actuary to fully fund the system. LEOFF I members are required to contribute none of their annual covered salary, and the City is required to contribute 16 percent in 2009 and 18 percent in 2010. The State is responsible for the balance of the funding.

LEOFF II employers and employees are required to pay at the level established by the Legislature. As of July 1, 2009, LEOFF II members are required to contribute 8.45 percent of their covered salary and the City is required to contribute 5.23 percent. For the period 2010 through 2012, employee rates will increase to 8.46 percent and the City’s contribution will increase to 5.24 percent.

The Governmental Accounting Standards Board (“GASB”) issued a standard concerning Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (GASB 45). In addition to pensions, many state and local governmental employers provide other post-employment benefits (“OPEB”) as part of total compensation to attract and retain the services of qualified employees. OPEB includes post employment health care as well as other forms of post-employment benefits that are provided separately from pension plan benefits. The new standard provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports. This pronouncement became effective for the City for the fiscal year ended December 31, 2007.

Information about the City’s OPEB obligation for the year ended December 31, 2008, is provided below:

	<u>Annual</u>	<u>Percentage of</u>	<u>Net OPEB</u>
	<u>OPEB Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
TERS	\$ 4,081,060	45.8 %	\$ 4,707,159
LEOFF I	8,191,462	88.4	2,437,492
LEOFF II	1,728,600	2.9	3,422,577
Rail	64,647	161.6	(136,951)

Insurance Coverage

The City self-insures for all general liability claims. Funds are appropriated from the various cost centers based on prior claims history, and each cost center is assessed a proportionate share of administrative costs. The Self Insurance Program Claim Fund (the “Self Insurance Fund”) is maintained in conformity with all laws, rules and

regulations pertaining thereto and in accordance with State law. The Self Insurance Fund is dedicated and requires a unanimous vote of the Council before its assets can be used for any purpose except insurance or casualty losses. Additionally, the City maintains a supplemental general liability policy with limits of \$15 million, subject to a self-insured retention of \$3 million.

The City has a policy to cover extraordinary workers' compensation claims with a limit of \$25 million (\$1 million retention), and a property coverage policy with a limit of \$500 million replacement cost (\$100,000 deductible per occurrence, with exceptions). Earthquake coverage has a per building deductible of the greater of five percent or \$250,000.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for as a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, other financing sources, expenditures or expenses, as appropriate, and other financing uses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and RCW 43.09.230. State statutes require audits for cities to be conducted by the Office of the State Auditor. The City complies with the systems and controls prescribed by the Office of the State Auditor and establishes procedures and records which reasonably assure safeguarding of assets and the reliability of financial reporting.

The State Auditor is required to examine the affairs of all local governments at least once every three years. The City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the finance department of the City. Excerpts from the City's 2008 Comprehensive Annual Financial Report is attached as Appendix B.

Budget Process

The expenditure budget is as adopted by appropriation ordinance of the City Council and may be amended by subsequent ordinances. Budgets are legally adopted for all governmental fund types, with the exception of the capital projects funds. While not required by law, the City adopts budgets for proprietary funds and some selected trust funds. These budgets are "management budgets" and, as such, are not reported in the City's Comprehensive Annual Financial Reports. All budgets are controlled at the fund level; the expenditures of a given fund may not legally exceed its appropriations. Any amendments to increase a fund's budget must be approved by the City Council. Budgets may be administratively revised within all funds except the General Fund and within departments in the General Fund as long as the total appropriation is not changed.

Governmental fund type budgets are on the modified accrual basis of accounting. All budgets are adopted on a basis consistent with generally accepted accounting principles.

The budget process begins with the City Council making appropriate revisions to the City's long-term strategic plan, identifying goals, and setting priorities. City departments and agencies begin budget preparation in early June, while agency budget requests are due in late July. August is the month devoted to budget review and revision by the Budget and Research Division.

Investment Practices

City's Investments. The City's Investment Committee (composed of the Mayor, the Finance Director and the City Treasurer) has recommended the following portfolio mix guidelines. These guidelines are intended to limit risk and generate a competitive return on investments. The Committee is committed to complying with the guidelines and recognizes that daily transactions may misalign this mix.

- (i) *Banker's Acceptances.* City investment policy allows for purchase of Banker's Acceptances of the top 50 world banks as published by American Banker. Portfolio mix guidelines suggest a maximum of 40 percent of the total portfolio with no more than ten percent of the total portfolio in any one bank.
- (ii) *U.S. Treasury Bills, Certificates, Notes and Bonds.* Portfolio mix guidelines allow for a maximum of 100 percent of the total portfolio to be invested in these securities.
- (iii) *U.S. Government Agency Securities.* Portfolio mix guidelines suggest a maximum of 90 percent of the total portfolio with no more than 50 percent of the total portfolio per agency.
- (iv) *Commercial Paper.* Portfolio mix guidelines require the highest rating by at least two nationally recognized rating agencies for purchase with no more than ten percent of the portfolio invested in commercial paper with an additional limit of no more than three percent in any one issuer.
- (v) *Repurchase Agreements.* Portfolio mix guidelines suggest repurchase agreements be limited to a maximum of 15 percent of the total portfolio. The market value of collateral must exceed the dollar amount of the repurchase agreement by two percent over the term of the agreement. The collateral must be an investment instrument that the City is authorized to purchase.
- (vi) *Reverse Repurchase Agreements.* The City is allowed to participate in reverse repurchase agreements, but did not in 2009.
- (vii) *U. S. Municipal Securities.* Portfolio mix guidelines suggest a maximum of 25 percent. These must meet the credit requirement set forth in chapters 35.39 and 39.59 RCW of the three highest credit ratings of a national recognized rating agency.

As of December 31, 2008, the City's total deposits and investments consisted of the following:

SCHEDULE OF DEPOSITS AND INVESTMENTS

December 31, 2008

(000's)

POOLED INVESTMENTS

Financial Institutions

State Local Government Investment Pool	\$ 94,130
US Treasury Securities	3,275
Government Agencies (various)	672,403
Commercial Paper	10,572
Electric System Revenue Bonds Investments	8,761
Equity in Pool Transferred to Component Units	(3,563)
Total Investments with Financial Institutions	\$ 785,579
Component Units	\$ 3,563

Pension Investments. TERS investments are made by the TERS Board in consultation with Wilshire Consulting and in accordance with its investment allocation strategy. The allocation strategy is determined after consultation with Wilshire Consulting and was most recently revised in 2008. Investment managers for each investment allocation tier are selected by the TERS Board after a thorough evaluation process. The TERS Board reviews investment manager performance in detail at its quarterly meeting.

As of December 31, 2008, the City's TERS investments consisted of the following:

SCHEDULE OF DEPOSITS AND INVESTMENTS

December 31, 2008

(000's)

PENSION TRUST

Other Assets Not Allowable for City Investments

U.S. Government Obligations	\$	7,786
Domestic Corporate Bonds		271,545
Domestic Stocks		296,658
International Stocks		99,065
International Bonds		12,607
Real Estate Investment Trusts		69,987
Securities Lending Collateral		79,528
Short-Term Investments/Mutual Funds		22,559
Total Other Investments-Pension Trust	\$	859,736

Labor Relations

As of September 1, 2009, the City employed approximately 3,708 people, including 2,319 general government and 1,389 Tacoma Public Utilities employees. As of such date, approximately 75 percent of those employees who are eligible under State law to be represented by a labor organization are members of one of the labor unions representing City employees. The following table shows the current union contracts and their respective expiration dates.

LABOR UNIONS

<u>Labor Union</u>	<u>Contract Expiration Date</u>
Tacoma Joint Labor Committee	12/31/2010
Local 17 International Federation of Professional and Technical Engineers	12/31/2010
Local 26 IUPA Tacoma Police Management Association (Captains and Lieutenants)	12/31/2011
Local 31 Tacoma Fire Fighters Union	12/31/2011
Local 117 Teamsters (General Unit)	12/31/2010
Local 117 Teamsters (Public Assembly Facilities (PAF) Unit)	12/31/2007 ⁽¹⁾
Local 117 Teamsters (LESA Unit)	12/31/2009
Local 117 Teamsters (Library Unit)	12/31/2010
Local 120 Washington State Council of County and City Employees	12/31/2010
Local 120 Washington State Council of County and City Employees (Library Unit)	12/31/2010
Local 160 IAM and AW International Association of Machinist and Aerospace Workers (General Unit)	12/31/2008 ⁽²⁾
Local 160 IAM and AW (WWTP Supervisors Unit)	12/31/2010
Local 160 IAM & AW (Yard Clerk Unit)	12/31/2011*
Local 160 IAM & AW (Rail Mechanics Unit)	12/31/2012*
Local 160 IAM and AW (Track Workers Unit)	12/31/2012*
Local 313 Teamsters	12/31/2010
Local 483 IBEW (Click! Unit)	12/31/2010
Local 483 IBEW (Custodial and Building Maintenance Unit)	12/31/2011
Local 483 IBEW (Customer and Field Services)	12/31/2010
Local 483 IBEW (Supervisors Unit)	12/31/2010
Local 483 IBEW (Tacoma Power)	3/31/2010
Local 483 IBEW (Water Division)	12/31/2010
Local 483 IBE (Water Pollution Control Unit)	12/31/2010
Local 483 IBEW (Clerical Unit)	12/31/2010
Local 6 IUPA Tacoma Police Union	12/31/2011
Professional Public Safety Managers Association	12/31/2011
Brotherhood of Locomotive Engineers	12/31/2001*
United Transportation Union (Switch Crews Unit)	12/31/2010*
United Transportation Union (Yardmasters)	12/31/2011*

(1) This Local 117 group is continuing to operate under the terms and conditions of the expired contract, pending the negotiations, ratification and approval of a successor contract.

(2) A successor contract with Local 160 Machinists is pending approval through the City Council. Once the contract is approved, the expiration date will become December 31, 2011. Approval is expected by early February 2010.

* Under the terms of the National Railway Labor Act (45 USC Section 8), the contract does not expire but is only amendable.

As provided by State law, matters that are delegated by the City Charter to the City's Civil Service Board are not negotiated at the bargaining table. Such matters include issues relating to tenure of employment, hiring, recruitment and termination.

INVESTMENT SUITABILITY AND MARKET RISK

Liquidity Considerations and Market Risks

The Bonds are Capital Appreciation Bonds, and may be subject to greater market volatility than bonds that pay interest currently. The Bonds are intended as a long-term investment and may have certain tax consequences. The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of the Bonds

that are not purchased in the initial public offering at the initial offering price may be determined according to rules that differ from those described below. See “Tax Matters”.

An investor who purchases a compound interest or capital appreciation bond and holds it until maturity receives an amount equal to the initial investment plus the interest that has accrued over the life of the bond at a semiannual compounded rate. The investor receives this amount at maturity of the bonds and, therefore, receives no current income.

These factors may also limit the market for reselling the Bonds. A secondary market may not exist for the Bonds. Therefore, it may be difficult for purchasers of the Bonds to liquidate their investments prior to maturity. The City will not provide a secondary market for investors who wish to sell their Bonds. An investor who sells a Bond prior to maturity may realize a loss on the investment.

The market value of a Bond prior to maturity will not necessarily be equal to the Compound Accreted Value of such Bond as shown on the Compound Accreted Value table set forth below. The market value of a Bond is determined by a number of factors, including but not limited to the yield on such Bond, the creditworthiness of the City at the time in question, yields available on other investments, and general market conditions.

Compound Accreted Values

The Accreted Value per \$5,000 Compound Accreted Value at maturity for the Series E Bonds and the Series F Bonds is as set forth below.

SERIES E BONDS
ACCRETED VALUE PER \$5,000
COMPOUND ACCRETED VALUE AT MATURITY

	12/01/2026	12/01/2027	12/01/2028	12/01/2029	12/01/2030	12/01/2031	12/01/2032	12/01/2033	12/01/2034	12/01/2035
Date	5.39%	5.47%	5.55%	5.63%	5.72%	5.82%	5.92%	5.99%	6.04%	6.09%
12/18/2009	2,029	1,898	1,772	1,651	1,534	1,419	1,310	1,216	1,133	1,054
6/1/2010	2,079	1,945	1,816	1,693	1,573	1,456	1,346	1,249	1,164	1,083
12/1/2010	2,135	1,998	1,866	1,741	1,618	1,499	1,385	1,287	1,199	1,116
6/1/2011	2,193	2,052	1,918	1,790	1,665	1,542	1,426	1,325	1,235	1,150
12/1/2011	2,252	2,109	1,971	1,841	1,712	1,587	1,469	1,365	1,272	1,185
6/1/2012	2,312	2,166	2,026	1,892	1,761	1,634	1,512	1,406	1,311	1,221
12/1/2012	2,375	2,225	2,082	1,946	1,812	1,681	1,557	1,448	1,350	1,258
6/1/2013	2,439	2,286	2,140	2,000	1,864	1,730	1,603	1,491	1,391	1,296
12/1/2013	2,504	2,349	2,200	2,057	1,917	1,780	1,650	1,536	1,433	1,336
6/1/2014	2,572	2,413	2,261	2,115	1,972	1,832	1,699	1,582	1,476	1,377
12/1/2014	2,641	2,479	2,323	2,174	2,028	1,885	1,749	1,629	1,521	1,419
6/1/2015	2,712	2,547	2,388	2,235	2,086	1,940	1,801	1,678	1,567	1,462
12/1/2015	2,785	2,617	2,454	2,298	2,146	1,997	1,855	1,728	1,614	1,506
6/1/2016	2,860	2,688	2,522	2,363	2,207	2,055	1,909	1,780	1,663	1,552
12/1/2016	2,938	2,762	2,592	2,429	2,270	2,115	1,966	1,833	1,713	1,599
6/1/2017	3,017	2,837	2,664	2,498	2,335	2,176	2,024	1,888	1,765	1,648
12/1/2017	3,098	2,915	2,738	2,568	2,402	2,240	2,084	1,945	1,818	1,698
6/1/2018	3,181	2,994	2,814	2,640	2,471	2,305	2,146	2,003	1,873	1,750
12/1/2018	3,267	3,076	2,892	2,715	2,541	2,372	2,209	2,063	1,930	1,803
6/1/2019	3,355	3,161	2,972	2,791	2,614	2,441	2,275	2,125	1,988	1,858
12/1/2019	3,446	3,247	3,055	2,870	2,689	2,512	2,342	2,188	2,048	1,915
6/1/2020	3,539	3,336	3,140	2,951	2,766	2,585	2,411	2,254	2,110	1,973
12/1/2020	3,634	3,427	3,227	3,034	2,845	2,660	2,483	2,321	2,174	2,033
6/1/2021	3,732	3,521	3,316	3,119	2,926	2,738	2,556	2,391	2,239	2,095
12/1/2021	3,832	3,617	3,408	3,207	3,010	2,817	2,632	2,463	2,307	2,159
6/1/2022	3,936	3,716	3,503	3,297	3,096	2,899	2,710	2,536	2,376	2,225
12/1/2022	4,042	3,818	3,600	3,390	3,184	2,984	2,790	2,612	2,448	2,292
6/1/2023	4,151	3,922	3,700	3,485	3,275	3,070	2,873	2,690	2,522	2,362
12/1/2023	4,263	4,029	3,803	3,583	3,369	3,160	2,958	2,771	2,598	2,434
6/1/2024	4,377	4,139	3,908	3,684	3,465	3,252	3,045	2,854	2,677	2,508
12/1/2024	4,495	4,253	4,017	3,788	3,565	3,346	3,135	2,940	2,758	2,585
6/1/2025	4,617	4,369	4,128	3,895	3,667	3,444	3,228	3,028	2,841	2,663
12/1/2025	4,741	4,488	4,243	4,004	3,771	3,544	3,324	3,118	2,927	2,744
6/1/2026	4,869	4,611	4,360	4,117	3,879	3,647	3,422	3,212	3,015	2,828
12/1/2026	5,000	4,737	4,481	4,233	3,990	3,753	3,523	3,308	3,106	2,914
6/1/2027	-	4,867	4,606	4,352	4,104	3,862	3,628	3,407	3,200	3,003
12/1/2027	-	5,000	4,734	4,474	4,222	3,975	3,735	3,509	3,297	3,094
6/1/2028	-	-	4,865	4,600	4,342	4,090	3,846	3,614	3,396	3,188
12/1/2028	-	-	5,000	4,730	4,467	4,209	3,959	3,722	3,499	3,285
6/1/2029	-	-	-	4,863	4,594	4,332	4,077	3,834	3,604	3,385
12/1/2029	-	-	-	5,000	4,726	4,458	4,197	3,949	3,713	3,489
6/1/2030	-	-	-	-	4,861	4,588	4,321	4,067	3,825	3,595
12/1/2030	-	-	-	-	5,000	4,721	4,449	4,189	3,941	3,704
6/1/2031	-	-	-	-	-	4,859	4,581	4,314	4,060	3,817
12/1/2031	-	-	-	-	-	5,000	4,717	4,443	4,183	3,933
6/1/2032	-	-	-	-	-	-	4,856	4,576	4,309	4,053
12/1/2032	-	-	-	-	-	-	5,000	4,713	4,439	4,176
6/1/2033	-	-	-	-	-	-	-	4,855	4,573	4,304
12/1/2033	-	-	-	-	-	-	-	5,000	4,711	4,435
6/1/2034	-	-	-	-	-	-	-	-	4,853	4,570
12/1/2034	-	-	-	-	-	-	-	-	5,000	4,709
6/1/2035	-	-	-	-	-	-	-	-	-	4,852
12/1/2035	-	-	-	-	-	-	-	-	-	5,000

SERIES F BONDS
ACCREDITED VALUE PER \$5,000
COMPOUND ACCREDITED VALUE AT MATURITY

	12/01/2023	12/1/2024	12/01/2025	12/01/2026
Date	7.10%	7.15%	7.20%	7.25%
12/18/2009	1,889	1,749	1,618	1,495
6/1/2010	1,949	1,805	1,670	1,544
12/1/2010	2,019	1,870	1,731	1,600
6/1/2011	2,090	1,937	1,793	1,658
12/1/2011	2,165	2,006	1,857	1,718
6/1/2012	2,241	2,078	1,924	1,780
12/1/2012	2,321	2,152	1,994	1,845
6/1/2013	2,403	2,229	2,065	1,912
12/1/2013	2,489	2,309	2,140	1,981
6/1/2014	2,577	2,391	2,217	2,053
12/1/2014	2,669	2,477	2,296	2,127
6/1/2015	2,763	2,565	2,379	2,204
12/1/2015	2,861	2,657	2,465	2,284
6/1/2016	2,963	2,752	2,553	2,367
12/1/2016	3,068	2,850	2,645	2,453
6/1/2017	3,177	2,952	2,741	2,542
12/1/2017	3,290	3,058	2,839	2,634
6/1/2018	3,407	3,167	2,942	2,729
12/1/2018	3,528	3,280	3,047	2,828
6/1/2019	3,653	3,398	3,157	2,931
12/1/2019	3,782	3,519	3,271	3,037
6/1/2020	3,917	3,645	3,389	3,147
12/1/2020	4,056	3,775	3,511	3,261
6/1/2021	4,200	3,910	3,637	3,380
12/1/2021	4,349	4,050	3,768	3,502
6/1/2022	4,503	4,195	3,903	3,629
12/1/2022	4,663	4,345	4,044	3,761
6/1/2023	4,829	4,500	4,190	3,897
12/1/2023	5,000	4,661	4,340	4,038
6/1/2024	-	4,827	4,497	4,185
12/1/2024	-	5,000	4,659	4,336
6/1/2025	-	-	4,826	4,493
12/1/2025	-	-	5,000	4,656
6/1/2026	-	-	-	4,825
12/1/2026	-	-	-	5,000

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation (either directly to the voters, or to the Legislature and then, if not enacted, to the voters) and require the Legislature to refer legislation to the voters through the power of referendum. Any law approved through the power of initiative by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws. The Washington State Constitution may not be amended by initiative.

Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election.

In recent years, several state-wide initiative petitions to repeal or reduce the growth of taxes and fees, including City taxes, have garnered sufficient signatures to reach the ballot. Some of those tax and fee initiative measures have been approved by the voters and, of those, some remain in effect while others have been invalidated by the courts. Tax and

fee initiative measures continue to be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would become law.

City Initiatives and Referenda

Under the City Charter, Tacoma voters may initiate local legislation and City Charter amendments and modify existing legislation through the powers of initiative and referendum.

Future Initiatives and Legislative Action

Additional initiative petitions may be filed in the future. The City cannot predict whether any such initiatives will qualify to be submitted to the voters or, if submitted, will be approved. Likewise, the City cannot predict what actions the Legislature might take, if any, regarding any future initiatives approved by the voters.

LEGAL INFORMATION

Litigation

There is no litigation pending or, to the actual knowledge of the City, threatened questioning the validity of the Bonds or the power and authority of the City to issue the Bonds or seeking to enjoin the issuance of the Bonds.

Other Litigation Regarding the City

The City is a defendant in various legal actions and claims that arise during the normal course of business, some of which are covered by insurance. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable and, in the opinion of City management, the final outcome of these matters, taken individually or in the aggregate, will not have a material adverse effect on the governmental operations or financial position of the City or its ability to pay debt service on the Bonds. In most cases, the City has provided reserves for these matters which, in the opinion of City management, are adequate.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of Bonds by the City are subject to the approving legal opinions of K&L Gates LLP, Seattle, Washington, Bond Counsel. Forms of the opinions of Bond Counsel are attached hereto as Appendix C.

Conflicts of Interest

The fees of Bond Counsel, the Underwriter and the Financial Advisor are contingent upon the sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Underwriter or to the Financial Advisor in connection with transactions other than the issuance of the Bonds. Foster Pepper PLLC has advised the Underwriter in connection with the issuance of the Bonds. From time to time Foster Pepper PLLC serves as bond or other counsel to the City or as counsel to the Financial Advisor in connection with transactions other than the issuance of the Bonds.

ERISA CONSIDERATIONS—SERIES F BONDS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on employee plans subject to Title I of ERISA (“ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements under Title I, Part 4 of ERISA, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such

as individual retirement accounts (together with ERISA Plans, “Plans’’) and certain persons (referred to as “parties in interest” or “disqualified persons” (each a “Party in Interest’’) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any Series F Bonds should consider, among other things, whether such purchase and holding may involve (a) the direct or indirect extension of credit to a Party in Interest, (b) the sale or exchange of any property between a Plan and a Party in Interest and (c) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets within the meaning of 29 CFR Sec. 2510.3-102 as modified by ERISA Section 3(42). Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2009A Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption (“PTCE”) 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by independent “qualified professional asset managers”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain “in-house asset managers”) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a Series F Bond, each Beneficial Owner will be deemed to have represented and warranted that either (i) no “plan assets” of any Plan have been used to purchase such Series F Bond, as applicable, or (ii) the Underwriter is not a Party in Interest with respect to the “plan assets” of any Plan used to purchase such Series F Bond, or (iii) the purchase and holding of such Series F Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the Series F Bonds.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Bond Counsel, interest on the Series E Bonds, defined in this section as the “Tax-Exempt Bonds,” is excludable from gross income for federal income tax purposes under existing law. Interest on the Tax-Exempt Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax and is not included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on certain corporations. Interest includes the appropriate portion of the original issue discount described below that is allocable to the original and each subsequent holder of a Tax-Exempt Bond.

The issue price of the Tax-Exempt Bonds is less than the stated redemption price at maturity of such Tax-Exempt Bonds and such Tax-Exempt Bonds are original issue discount obligations. Accordingly, as provided in the Code and the tax regulations, the excess of the “stated redemption price at maturity” of each Tax-Exempt Bond over its “issue price” (defined as the initial offering price to the public, excluding bond houses and brokers, at which a substantial amount of the Tax-Exempt Bonds have been sold) will be original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a tax-exempt bond owner before receipt of cash attributable to such excluded income. The amount of original issue discount deemed to be received by an owner of a Tax-Exempt Bond will increase that Tax-Exempt Bond owner’s basis in the Tax-Exempt Bond.

Federal income tax law contains a number of requirements that apply to the Tax-Exempt Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of

proceeds of the Tax-Exempt Bonds and the facilities financed or refinanced with proceeds of the Tax-Exempt Bonds and certain other matters. The City has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the City comply with the above-referenced covenants and, in addition, will rely on representations by the City and its advisors with respect to matters solely within the knowledge of the City and its advisors, respectively, which Bond Counsel has not independently verified. If the City fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Tax-Exempt Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Tax-Exempt Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Tax-Exempt Bonds. Registered Owners of the Tax-Exempt Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Tax-Exempt Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Tax-Exempt Bonds should be aware that ownership of the Tax-Exempt Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Tax-Exempt Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Tax-Exempt Bonds are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the City's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Tax-Exempt Bonds. Registered Owners of the Tax-Exempt Bonds are advised that, if the IRS does audit the Tax-Exempt Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the City as the taxpayer, and the Registered Owners of the Tax-Exempt Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Tax-Exempt Bonds until the audit is concluded, regardless of the ultimate outcome.

Taxable Bonds

This advice was written to support the promotion or marketing of the Series F Bonds, defined in this section as the "Taxable Bonds." This advice is not intended or written by K&L Gates LLP to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the Code. Prospective purchasers of the Taxable Bonds should seek advice based on their particular circumstances from an independent tax advisor.

The following discussion describes aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of Taxable Bonds. This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect).

This summary discusses only Taxable Bonds held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, Owners holding the Taxable Bonds as part of a hedging transaction, “straddle,” conversion transaction, or other integrated transaction, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of, interest on, or disposition of, the Taxable Bonds. ACCORDINGLY, INVESTORS WHO ARE OR MAY BE DESCRIBED IN THIS PARAGRAPH SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO SUCH INVESTORS, AS WELL AS TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

For purposes of this discussion, a “U.S. person” means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either: (a) a United States court is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) a trust has a valid election in effect to be treated as a United States person under the applicable Treasury regulations. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts (“Foreign Owners”) to the extent that their ownership of the Taxable Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they are citizens or residents. It should also be noted that certain “single member entities” are disregarded for U.S. federal income tax purposes. Such Foreign Owners and Owners that are single member non-corporate entities should consult with their own tax advisors to determine the U.S. federal, state, local, and other tax consequences that may be relevant to them.

In General. Interest derived from a Taxable Bond by an Owner is subject to U.S. federal income taxation. In addition, a Taxable Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Original Issue Discount. The following summary is based on the assumptions that (i) the Underwriter has purchased the Taxable Bonds for contemporaneous sale to the general public and not for investment purposes, (ii) all of the Taxable Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm’s-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the inside cover page of this Official Statement, and (iii) the respective initial offering prices of the Taxable Bonds to the general public are equal to the fair market value thereof. **Neither the City nor K&L Gates LLP warrants that the Taxable Bonds will be offered and sold in accordance with such assumptions.**

The issue price of the Taxable Bonds is less than the stated redemption price at maturity of such Taxable Bonds and such Taxable Bonds are original issue discount obligations. Accordingly, as provided in the Code and the tax regulations, the excess of the “stated redemption price at maturity” of each Taxable Bond over its “issue price” (defined as the initial offering price to the public, excluding bond houses and brokers, at which a substantial amount of the Taxable Bonds have been sold) will be original issue discount. Except as described below, Owners of the Taxable Bonds will have to include in gross income (irrespective of their method of accounting) a portion of such original issue discount for each year during which such Taxable Bonds are held, without regard to the time at which the cash to which such income is attributable is received. The amount of original issue discount included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the term of such Taxable Bonds and more original issue discount to the later years.

Acquisition Premium. In the event that an Owner purchases a Taxable Bond at an acquisition premium (*i.e.*, at a price in excess of its “adjusted issue price” but less than its stated redemption price at maturity), the amount includable in income in each taxable year as original issue discount is reduced by that portion of the acquisition

premium properly allocable to such year. The adjusted issue price is defined as the sum of the issue price of the Taxable Bond and the aggregate amount of previously accrued original issue discount, less any prior payments of amounts included in its stated redemption price at maturity. Unless an Owner makes the accrual method election described below, acquisition premium is allocated on a *pro rata* basis to each accrual of original issue discount (*i.e.*, to each six-month accrual period), so that the Owner is allowed to reduce each accrual of original issue discount by a constant fraction.

Disposition or Retirement. Upon the sale, exchange or other disposition of a Taxable Bond, or upon the retirement of a Taxable Bond (including by defeasance), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (reduced by any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Taxable Bonds. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. The Taxable Bonds are subject to defeasance at any time prior to their stated maturities. See "The Bonds—Defeasance." If the City defeases any Taxable Bonds, such Taxable Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Taxable Bond would recognize a gain or loss on the Taxable Bond at the time of defeasance.

An Owner's tax basis for determining gain or loss on the disposition or retirement of a Taxable Bond will be the cost of such Taxable Bond to such Owner, increased by the amount of original issue discount and any market discount includable in such Owner's gross income with respect to such Taxable Bond, if any, and decreased by the amount of any payments under the Taxable Bond that are part of its stated redemption price at maturity (*i.e.*, all stated interest payments with respect to the Taxable Bonds previously paid) and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss (except to the extent the gain represents accrued original issue discount or market discount on the Taxable Bond not previously included in gross income, to which extent such gain would be treated as ordinary income). Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Taxable Bond has been held for more than one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. Accruals of original issue discount on Taxable Bonds held of record by U.S. persons other than corporations and other exempt Owners must be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address, and taxpayer identification number of the Owner. A copy of Form 1099 will be sent to each Owner of a Taxable Bond for federal income tax reporting purposes. **The amount of original issue discount required to be reported may not be equal to the amount required to be reported as taxable income by an Owner of a Discount Certificate that acquired such Taxable Bond subsequent to its original issuance.**

Interest paid to an Owner of a Taxable Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax at a rate of 28 percent (2009) may apply, however, to payments made in respect of the Taxable Bonds, as well as payments of proceeds from the sale of Taxable Bonds to Owners who are not "exempt recipients" and who fail to provide certain identifying information. This withholding generally applies if the Owner of a Taxable Bond (who is not an exempt recipient) (i) fails to furnish such Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective Owner will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on an Owner who is required to supply information but who does not do so in the proper manner.

The federal tax discussion set forth above is included for general information only and may not be applicable depending upon an owner's particular situation. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Taxable Bonds under applicable state or local laws.

Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not U.S. persons.

CONTINUING DISCLOSURE UNDERTAKING

The City is covenanting for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data (the “Annual Disclosure Report”) by not later than nine months following the end of the City’s fiscal year (which currently would be September 2010, for the report for the 2009 fiscal year), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Disclosure Report is to be filed with the Municipal Securities Rulemaking Board as the sole NRMSIR in accordance with the Commission’s amendments to the Rule. The nature of the information to be contained in the Annual Disclosure Report and in notices of material events is set forth in Appendix C. These covenants are made by the City to assist the purchaser of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with its previous undertakings under the Rule.

OTHER BOND INFORMATION

Ratings

The Bonds have been rated “A1,” “AA-” and “AA” by Moody’s Investors Service, Fitch Ratings and Standard & Poor’s Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc, respectively. The ratings reflect only the views of the rating agencies, and an explanation of the significance of the ratings may be obtained from each rating agency. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds.

Financial Advisor

The City has retained Seattle-Northwest Securities Corporation, Seattle, Washington, as financial advisor (the “Financial Advisor”) in connection with the preparation of the City’s financing plans and with respect to the authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make any independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. Seattle-Northwest Securities Corporation is a full service investment banking firm which provides financial advisory and underwriting services to state and local governmental entities in the Pacific Northwest. While under contract to the City, the Financial Advisor may not participate in the underwriting of any City debt.

Underwriter of the Bonds

The Bonds are being purchased by Piper Jaffray & Co. (the “Underwriter”). The Series E Bonds are being purchased at a price of \$13,453,357.30, and will be reoffered at a price of \$13,526,023.10. The Series F Bonds are being purchased at a price of \$6,645,008.16, and will be reoffered at a price of \$6,680,899.90.

The Underwriter has entered into an agreement (the “Distribution Agreement”) with Advisors Asset Management, Inc. (“AAM”) for the distribution of certain municipal securities offerings allocated to the Underwriter at the original offering prices. Under the Distribution Agreement, if applicable to the Bonds, the Underwriter will share with AAM a portion of the fee or commission, exclusive of management fees, paid to the Underwriter.

The applicable prices or yields are set forth on the inside cover of this Official Statement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering price set forth on the inside cover hereof, and such initial offering price may be changed from time to time, by the Underwriter. After the initial public offering, the public offering price may be varied from time to time.

APPENDIX A
FORMS OF BOND COUNSEL OPINIONS

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December 18, 2009

City of Tacoma
Tacoma, Washington

Piper Jaffray & Co.
Seattle, Washington

Re: City of Tacoma, Washington
 Limited Tax General Obligation Bonds, Series 2009E —
 \$13,526,023.10 Initial Amount (Capital Appreciation)
 (\$43,955,000 Compound Accreted Value at Maturity)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Tacoma, Washington (the “City”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Limited Tax General Obligation Bonds, Series 2009E, in the aggregate initial principal amount of \$13,526,023.10 (the “Series E Bonds”). The Series E Bonds are issued pursuant to Ordinance No. 27852 of the City Council, passed on November 24, 2009 and Substitute Resolution No. 37945 of the City Council adopted on December 8, 2009 (together, the “Bond Ordinance”), to finance a portion of the rehabilitation, improvement, construction, and expansion of Cheney Stadium, improvements to the Seaport Museum and a portion of the improvements to the Old Town dock, land and equipment acquisition for and/or improvements to a public library in the Salishan neighborhood, a portion of the public infrastructure in the Salishan neighborhood, improvements to the City parking system, improvements to People’s Pool, improvements to Fire Station No. 5, a contribution to the City Arts Fund, and to pay costs of issuance of the Series E Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Ordinance. Simultaneously with the issuance of the Series E Bonds, the City is issuing its Limited Tax General Obligation Bonds, Series 2009A (Taxable), Limited Tax General Obligation Bonds, Series 2009B (Taxable Recovery Zone Economic Development Bonds — Direct Payment), Limited Tax General Obligation Bonds, Series 2009C (Recovery Zone Facility Bonds), Limited Tax General Obligation Bonds, Series 2009D, and Limited Tax General Obligation Bonds, Series 2009F (Taxable).

The Series E Bonds are not subject to redemption prior to their stated maturities as provided in the Bond Ordinance.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Series E Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation. We have also examined such other documents, rules, regulations or other matters as we have deemed relevant in arriving at the opinions stated below.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Series E Bonds have been legally issued and constitute valid and binding general obligations of the City, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Series E Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and the exercise of judicial discretion.

2. The Bond Ordinance is a legal, valid and binding obligation of the City, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and the exercise of judicial discretion.

3. Both principal of and interest on the Series E Bonds are payable out of annual levies of *ad valorem* taxes to be made upon all of the taxable property within the City permitted to be levied without a vote of the electorate in amounts that, together with all other legally available funds, will be sufficient to pay such principal and interest as the same shall become due.

4. Interest on the Series E Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Series E Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax and is not included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the

Series E Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Series E Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series E Bonds.

The City has not designated the Series E Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series E Bonds. Owners of the Series E Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series E Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

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December 18, 2009

City of Tacoma
Tacoma, Washington

Piper Jaffray & Co.
Seattle, Washington

Re: City of Tacoma, Washington
Limited Tax General Obligation Bonds, Series 2009F (Taxable) —
\$6,680,899.90 Initial Amount (Capital Appreciation)
(\$19,510,000 Compound Accreted Value at Maturity)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Tacoma, Washington (the “City”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Limited Tax General Obligation Bonds, Series 2009F (Taxable – Capital Appreciation Bonds), in the aggregate initial principal amount of \$6,680,899.90 (the “Series F Bonds”). The Series F Bonds are issued pursuant to Ordinance No. 27852 of the City Council, passed on November 24, 2009 and Substitute Resolution No. 37945 of the City Council adopted on December 8, 2009 (together, the “Bond Ordinance”), to finance all or a portion of the rehabilitation, improvement, construction, and expansion of Cheney Stadium, to finance land acquisition for environmental remediation purposes, and to pay costs of issuance of the Series F Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Ordinance. Simultaneously with the issuance of the Series F Bonds, the City is issuing its Limited Tax General Obligation Bonds, Series 2009A (Taxable), Limited Tax General Obligation Bonds, Series 2009B (Taxable Recovery Zone Economic Development Bonds — Direct Payment), Limited Tax General Obligation Bonds, Series 2009C (Recovery Zone Facility Bonds), Limited Tax General Obligation Bonds, Series 2009D, and Limited Tax General Obligation Bonds, Series 2009E.

The Series F Bonds are not subject to redemption prior to their stated maturities as provided in the Bond Ordinance.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Series F Bonds (except to the extent, if any, stated in the official statement), and we express

no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation. We have also examined such other documents, rules, regulations or other matters as we have deemed relevant in arriving at the opinions stated below.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Series F Bonds have been legally issued and constitute valid and binding general obligations of the City, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Series F Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and the exercise of judicial discretion.

2. The Bond Ordinance is a legal, valid and binding obligation of the City, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles, and the exercise of judicial discretion.

3. Both principal of and interest on the Series F Bonds are payable out of annual levies of *ad valorem* taxes to be made upon all of the taxable property within the City permitted to be levied without a vote of the electorate in amounts that, together with all other legally available funds, will be sufficient to pay such principal and interest as the same shall become due.

4. The City has taken no action to cause interest on the Series F Bonds to be excluded from gross income for purposes of federal income taxation.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series F Bonds. Owners of the Series F Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series F Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, redemption or other disposition, and various withholding requirements.

City of Tacoma
Piper Jaffray & Co.
December 8, 2009
Page 3

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

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APPENDIX B

EXCERPTS FROM THE CITY'S 2008 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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2008

Comprehensive
Annual
Financial
Report

Of the City of Tacoma, Washington
For the Year Ending December 31, 2008

Prepared by Department of Finance
Robert K. Biles, Finance Director

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Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

July 27, 2009

The Honorable Mayor and City Council
City of Tacoma
Tacoma, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tacoma, Pierce County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Power, Sewer and Water Funds, which are presented as major funds and also represents 86 percent, 93 percent, and 85 percent, respectively, of all the assets, net assets and revenues of the business type activities. We also did not audit the financial statements of the Solid Waste fund, which represents 5 percent, 4 percent, and 8 percent, respectively, of the assets, net assets and revenues of the business-type activities, and 9 percent, .6 percent, and 18 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it related to the amounts included for the Power, Sewer, and Water and Solid Waste Funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statement of the Power, Water, Sewer and Solid Waste funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the

governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tacoma, Pierce County, Washington, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated July 29, 2009, on our consideration of the City'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. That report will be issued under separate cover in the City's Single Audit Report. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages iii through xii, budgetary comparison information on page 75, and pension trust fund information and information on postemployment benefits other than pensions on pages 71 through 73 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as Combining Statements - Non-major Funds on pages 77 through 177 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections and Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Tacoma, we offer readers of the City of Tacoma's financial statements this narrative overview and analysis of the financial activities of the City of Tacoma for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages I-V of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets exceeded the City's liabilities by \$ 2.4 billion. Of this amount, \$ 389 million were reported as unrestricted net assets, amounts which are available for use to meet the City's on-going obligations to citizens and creditors.
- The City's net assets increased by \$ 94.1 million. This increase is due to an increase in the capital assets in the Business Activities.
- Sewer completed the Central Treatment Plan Upgrade project. Costs for this project were in excess of \$ 94 million in plant and capacity improvements.
- Tacoma Power reported a change in net assets of \$ 73.5 million, down \$ 11 million from 2007.
- Tacoma Water reported change in net assets of \$ 12.2 million, down \$ 4.7 million from 2007.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Tacoma's basic financial statements. The City of Tacoma's basic financial statements consist of three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

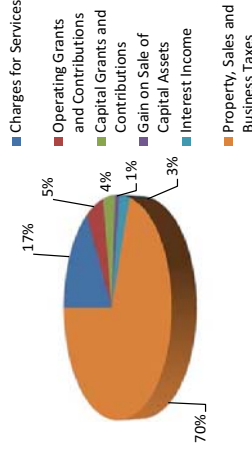
Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Tacoma's finances, and are similar to private sector financial statements. The statements also include the discretely presented component units Tacoma Community Redevelopment Authority (TCRA), the Greater Tacoma Regional Convention Center Public Facilities District (GTRCCFPD), and the Foss Waterway Development Authority (FWDA).

The Statement of Net Assets includes information on all the assets and liabilities of the City of Tacoma's general government as well as its business-type activities. The difference between the assets and liabilities is reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City of Tacoma is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Governmental Activities



Business Activities

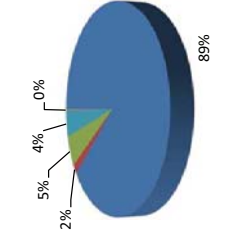


Figure 1. Comparison of Governmental and Business Activity Revenues

Both the Statement of Net Assets and the Statement of Activities differentiate the functions of general government from the functions of business-type activities. Governmental activities reflect the City's basic functions such as general government, public safety, public works, economic environment/development, and culture and recreation and are primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover most if not all of their costs through user fees and charges for services. The government-wide financial statements can be found on pages 2-5 of this report.

Governmental Activities Expenses

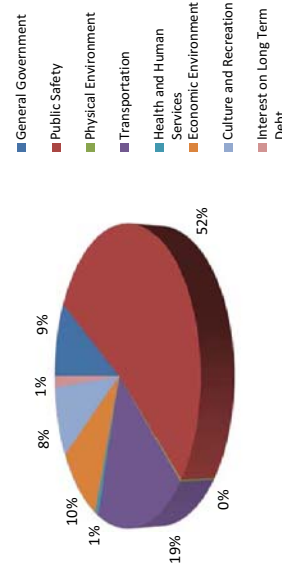


Figure 2. Governmental Activities Expenses

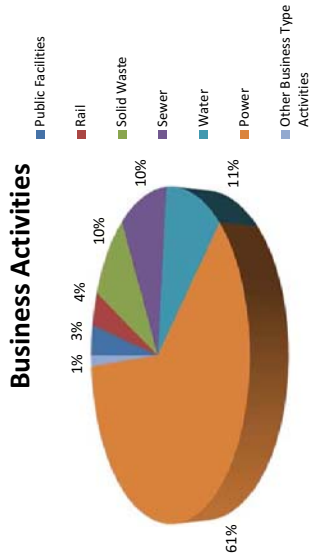


Figure 3. Business Activities Expenses

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Tacoma, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City of Tacoma can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

The focus of the governmental fund statements is on major funds. A fund is considered major if it represents at least 10% of the assets, liabilities, revenues or expenditures of its fund category and at least 5% of the corresponding totals for the governmental and business-type activities combined. All other governmental funds are combined and presented as a single column in the respective governmental fund statements. Individual fund data for each of these combined non-major funds is provided in the form of combining statements elsewhere in this report.

The City of Tacoma adopts a biennial budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 6-9 of this report.

Proprietary Funds

There are two types of proprietary funds – internal service and enterprise – both of which the City of Tacoma uses. Internal service funds are used to accumulate and allocate costs internally among the City of Tacoma's various functions. Because these services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Enterprise funds account for various utilities which provide services such as power, water, sewer, and solid waste collection to the citizens of Tacoma. The activities in these funds are primarily supported by user fees and are presented as business-type activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 10-19 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Tacoma's programs. The accounting used by the fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund statements can be found on pages 20-21 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-69 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information (RSI) concerning the City of Tacoma's budget. Required supplementary information can be found on pages 71-75 of this report.

Combining Statements – Non-Major Funds

The combining statements referred to earlier in connection with Non-Major governmental funds, internal service funds, and fiduciary funds can be found on pages 77-174 of this report.

Statistical Section

This section provides financial trends, revenue and debt capacity, and demographic and economic information about the City's operations. The Statistical Section can be found on pages 179-204 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. The City's total assets exceeded liabilities by \$2.4 billion at December 31, 2008. Eighty percent of the total net assets reflect the City's investment in capital, less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; thus, they do not represent resources available for future spending. Sixteen percent of the City's net assets are unrestricted, meaning they are available for meeting the City's ongoing obligations. The remaining four percent of the net assets are restricted for other purposes such as debt redemption and new capital construction. General government net assets represent 36% of the total and business-type net assets represent 64% of the total.

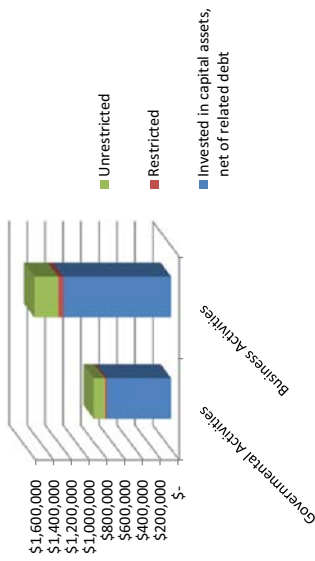


Figure 3. Comparison of Net Assets, By Activity Type (Amounts expressed in thousands)

Statement of Net Assets For the Year Ended December 31, 2008

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 258,246	\$ 269,093	\$ 859,120	\$ 866,090	\$ 1,115,366	\$ 1,135,183
Capital assets	\$ 803,036	\$ 801,767	\$ 2,081,181	\$ 1,977,873	\$ 2,884,217	\$ 2,779,640
Total assets	\$ 1,059,282	\$ 1,070,860	\$ 2,940,301	\$ 2,843,963	\$ 3,999,583	\$ 3,914,823
Current and other liabilities	\$ 87,332	\$ 88,662	\$ 254,163	\$ 235,836	\$ 341,495	\$ 324,498
Long-term liabilities outstanding	\$ 112,069	\$ 98,303	\$ 1,159,862	\$ 1,199,969	\$ 1,271,931	\$ 1,298,272
Total liabilities	\$ 199,401	\$ 186,965	\$ 1,414,025	\$ 1,435,805	\$ 1,613,426	\$ 1,622,770
Net Assets:						
Invested in capital assets, net of related debt	\$ 716,586	\$ 715,358	\$ 1,202,761	\$ 1,117,908	\$ 1,919,347	\$ 1,833,266
Restricted	\$ 23,144	\$ 22,297	\$ 54,137	\$ 61,950	\$ 77,281	\$ 84,247
Unrestricted	\$ 120,151	\$ 146,240	\$ 268,378	\$ 228,300	\$ 389,529	\$ 374,540
Total net assets	\$ 859,881	\$ 883,895	\$ 1,526,276	\$ 1,408,158	\$ 2,386,157	\$ 2,292,053
	36%		54%			

Table 1. Summary Statement of Net Assets

The City's net assets increased \$ 94.1 million. This increase is due to an increase in the capital assets in the Business Activities. See the accompanying notes to the financial statements for more information on changes in capital assets.

The governmental activities net assets decreased by \$24.0 million in 2008, which is due to reporting the Net OPEB obligation in the amount of \$7.8 million due to GASB 45 and accruing a \$30.2 million

outstanding claim liability for a legal challenge to the City's billboard regulations. Additionally, on-going construction project continue to be incurred for the construction for the D Street overpass bridge project, Cheney Stadium Renovation, Chinese Reconciliation project and various street and roadway improvements.

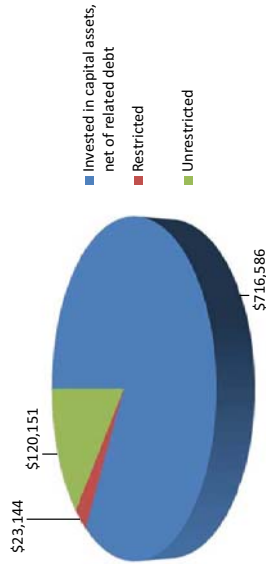


Figure 4. Composition of Net Assets--Governmental Activities (Amounts expressed in thousands)

A business activity, the Solid Waste Fund, sold Revenue Refunding Bonds series 2008 with a par value of \$12.1 million in 2008. The proceeds of these funds were used to refund \$13.1 million of 1997 Revenue Refunding Bonds. This was the only new issuance during the 2008 fiscal year.

City of Tacoma, Washington
Changes in Net Assets

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues	\$ 37,282	\$ 25,125	\$ 627,693	\$ 615,212	\$ 664,975	\$ 640,337
Charges for services	\$ 12,516	\$ 32,655	\$ 11,252	\$ 1,412	\$ 23,768	\$ 34,067
Operating grants and contributions	\$ 8,244	\$ 15,602	\$ 35,600	\$ 34,724	\$ 43,844	\$ 50,326
Capital grants and contributions						
General revenues	\$ 58,468	\$ 57,410	\$ -	\$ -	\$ 58,468	\$ 57,410
Property taxes	\$ 96,720	\$ 101,463	\$ 1,715	\$ 605	\$ 98,435	\$ 102,068
Other taxes	\$ 9,271	\$ 9,019	\$ 22,375	\$ 41,757	\$ 31,646	\$ 50,776
Other	\$ 222,331	\$ 241,274	\$ 668,635	\$ 693,770	\$ 921,566	\$ 934,954
Total revenue	\$ 24,594	\$ 19,992	\$ -	\$ -	\$ 24,594	\$ 19,992
Expenditures:						
General government	\$ 143,922	\$ 146,328	\$ -	\$ -	\$ 143,922	\$ 146,328
Public safety	\$ 622	\$ 653	\$ -	\$ -	\$ 622	\$ 653
Physical environment	\$ 53,007	\$ 52,706	\$ -	\$ -	\$ 53,007	\$ 52,706
Transportation	\$ 2,051	\$ 2,121	\$ -	\$ -	\$ 2,051	\$ 2,121
Health and human services	\$ 26,947	\$ 29,253	\$ -	\$ -	\$ 26,947	\$ 29,253
Economic development	\$ 22,815	\$ 17,643	\$ -	\$ -	\$ 22,815	\$ 17,643
Culture and recreation	\$ 3,905	\$ 3,157	\$ -	\$ -	\$ 3,905	\$ 3,157
Interest on long-term debt	\$ -	\$ -	\$ 18,562	\$ 18,465	\$ 18,562	\$ 18,465
Public assembly facilities	\$ -	\$ -	\$ 20,286	\$ 18,992	\$ 20,286	\$ 18,992
Rail	\$ -	\$ -	\$ 52,530	\$ 51,250	\$ 52,530	\$ 51,250
Solid waste	\$ -	\$ -	\$ 55,121	\$ 54,008	\$ 55,121	\$ 54,008
Sewer	\$ -	\$ -	\$ 56,685	\$ 55,310	\$ 56,685	\$ 55,310
Water	\$ -	\$ -	\$ 334,180	\$ 319,777	\$ 334,180	\$ 319,777
Power	\$ -	\$ -	\$ 6,922	\$ 7,427	\$ 6,922	\$ 7,427
Other business-type funds	\$ 277,773	\$ 271,853	\$ 546,286	\$ 525,229	\$ 824,059	\$ 797,082
Total expenses	\$ (55,242)	\$ (30,579)	\$ 152,549	\$ 168,481	\$ 97,307	\$ 137,902
Increase/(Decrease) in net assets before transfers	\$ 35,212	\$ 38,600	\$ (35,212)	\$ (38,600)	\$ -	\$ -
Transfers	\$ (20,659)	\$ 8,021	\$ 177,337	\$ 129,861	\$ 97,307	\$ 137,902
Increase/(Decrease) in net assets	\$ 863,865	\$ 896,696	\$ 1,408,195	\$ 1,277,982	\$ 2,282,053	\$ 2,174,806
Net assets—January 1, 2008	\$ (3,361)	\$ (21,622)	\$ 1,408,195	\$ 1,278,275	\$ 2,816,365	\$ 2,627,477
Net assets—January 1, 2008 (restated)	\$ 87,911	\$ 83,895	\$ 1,408,195	\$ 1,278,275	\$ 2,286,157	\$ 2,174,806
Net assets—December 31, 2008	\$ 859,881	\$ 883,895	\$ 1,526,276	\$ 1,408,158	\$ 2,286,157	\$ 2,282,053

Table 2. Changes in Net Assets

Governmental activities' net assets decreased by \$ 24.0 million in 2008. This was caused by a decrease in revenues of \$ 18.7 million and an increase in expenses of \$ 5.9 million, as compared to 2007, resulting in a total shortage of \$ 55.2 million. This was partially offset by a decrease in transfers of \$ 3.4 million from the Business Activities, resulting in a decrease in net assets of \$ 24.0 million for the year.

Business activities' net assets increased by \$ 118.1 million in 2008, which is \$ 12.1 million lower than 2007. This is a result of a \$ 5.1 increase in revenues and an increase in expenses of \$ 21.0 million. There was also a \$ 35.2 million transfer to the governmental activities.

Information on significant outstanding claims can be found in Note 9.

Financial Analysis of the City's Fund Statements

The City prepares fund statements for governmental funds and for proprietary funds.

Governmental Fund Statements

Fund balance for the City's General Fund decreased by \$13.4 million in 2008. The fund balance for the Non-Major governmental funds, which includes debt service funds, capital projects funds, and special revenue funds, decreased by \$10.0 million. The General Fund fund balance decreased due to lower tax revenues and increased expenditures, resulting in a lower cash position than in the prior year. The Non-Major governmental funds fund balance decreased due to a decrease in receivables due from other governments and decreased advances to other funds.

Proprietary Fund Statements

The total net assets for enterprise funds increased \$118.1 million in 2008. The Power, Water, Solid Waste and Sewer utilities make up the majority of the proprietary funds. Activity in these utilities was the primary driver for the change in the net assets. All four of these utilities had a significant increase in their net assets due to upgrades to existing utility plants or capital contributions.

The internal service fund's net assets increased by \$8.1 million. This is the result of increased investments in plant, property and equipment assets and a \$4.4 million increase in the cash position.

General Fund Budgetary Highlights

In 2008, the City made significant budgetary adjustments as part of the 2007-2008 Biennium End Budget Amendment. Major budget revisions included:

- ❖ Increasing estimated revenues by \$8.9 million. Most of this was due to intergovernmental revenues and transfers into the City's general fund.
- ❖ Retiring \$8.4 million in long term debt.
- ❖ Increasing appropriations by \$403,000 for right of way cleanup efforts.
- ❖ Increasing appropriations by \$77,000 for technical, search and rescue and other specialized training by the Fire department.

There were no significant differences between the revised budgeted expenditures of \$408 million and the actual expenditures of \$188 million based on the 50% biennium elapsed. The City's budget is a two year biennium budget which begins every odd year.

Capital Assets, Infrastructure, Bond Debt Administration

Capital Assets

The City of Tacoma's investment in capital assets, net of accumulated depreciation, for its governmental and business type activities as of December 31, 2008, is \$2.9 billion. This investment in capital assets includes land, construction in process, property, plant and equipment, infrastructure, museum and historical collections, as well as library materials. The vast majority of this amount represents assets held by the City's various utilities and infrastructure.

The following table summarizes the City's investment in capital assets.

**City of Tacoma, Washington
Schedule of Capital Assets**

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 25,410	\$ 24,000	\$ 133,903	\$ 132,988	\$ 159,313	\$ 156,988
Buildings	\$ 2,245	\$ -	\$ -	\$ 6,245	\$ 2,245	\$ -
Construction in progress	\$ 17,461	\$ 43,773	\$ 492,239	\$ 258,043	\$ 209,700	\$ 301,816
Property, plant, and equipment	\$ 242,236	\$ 214,988	\$ 2,765,389	\$ 2,352,444	\$ 3,007,613	\$ 2,744,432
Infrastructure	\$ 1,131,836	\$ 1,096,730	-	-	\$ 1,131,836	\$ 1,096,730
Works of art	\$ 19,384	\$ 19,414	-	-	\$ 19,384	\$ 19,414
Library materials	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less accumulated depreciation	\$ (659,471)	\$ (697,756)	\$ (1,018,778)	\$ (953,365)	\$ (1,658,249)	\$ (1,551,121)
Other Non Current Assets	\$ -	\$ -	\$ 8,443	\$ 7,705	\$ 8,443	\$ 7,705
	\$ 303,036	\$ 801,767	\$ 2,081,181	\$ 1,937,873	\$ 2,884,217	\$ 2,779,640

Table 3. Schedule of Capital Assets

Additional information on the City's capital assets can be found in Notes 1-5 and 4-C of the Notes to the Financial Statements.

Outstanding Debt

The City's debt at December 31, 2008 was \$1.4 billion. Approximately 90% of the bonded debt is related to utilities with repayment pledged by specific revenue sources generated by the utilities. Of the remaining 10% representing general government bonded debt, debt is either secured by voter approved special levies or the councilmatic, which means that general government resources are used to pay for the debt. Additional information on the City of Tacoma's long-term debt can be found in Note 4-F and Note 12 of the Notes to the Financial Statements.

**City of Tacoma, Washington
Schedule of Long Term Debt**

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2008	2007	2008	2007	2008	2007
Bonded debt and loans	\$ 82,982	\$ 83,098	\$ 1,150,767	\$ 1,191,639	\$ 1,233,749	\$ 1,274,737
Capital leases	\$ 3,401	\$ -	\$ 220	\$ 256	\$ 3,621	\$ 256
Claims and judgments	\$ 54,342	\$ 55,508	\$ 2,501	\$ 3,762	\$ 56,843	\$ 59,270
Accrued landfill liability	\$ -	\$ -	\$ 39,833	\$ 36,561	\$ 39,833	\$ 36,561
Compensated absences	\$ 18,280	\$ 17,593	\$ 14,756	\$ 13,560	\$ 33,036	\$ 31,153
	\$ 158,005	\$ 156,199	\$ 1,208,077	\$ 1,245,778	\$ 1,367,082	\$ 1,401,977

Table 4. Schedule of Long Term Debt

The City's debt rating for 2008 is as follows:

	Moody's		S&P		Fitch	
	A1	AA	AA	AA	AA-	AA-
GO						
LITGO	A1	AA	AA	AA	AA-	AA-
Solid Waste	A2	AA	AA	AA	A+	A+
Sewer	Aa3	AA+	AA+	AA+	AAA	AAA
Water	Aaa	AAA	AAA	AAA		
RWSS	Aa3	AA-	AA-	AA-		
Power	Aa3	AA-	AA-	AA-	A+	A+
Convention Center Revenue	A3	A	A	A	A+	A+

Economic Factors

The economy in Tacoma has managed to survive the economic downturn better than many other areas, primarily due to the two main economic engines, military and health care, powering the local economy. The strong military and health care sectors provide a counter cyclical support which offsets negative forces. County-wide, economic growth exceeded expectations by more than a full point, gaining 2.8% for 2008. This gain resulted in more than 10,500 new workers in the county's labor force, although much of this gain was in the first half of the year.

As we moved closer to 2009, the economy suffered the worst downturn in many years, with significant drop off in tax receipts and a significant increase in the unemployment levels. This, in turn, has caused an increase in demand for City services, while we are underperforming in terms of revenues, challenges that the City anticipates facing head on until the fundamentals in the economy turn around and the economy starts to rebound.

Other Considerations

In response to the slowing economy, the City has taken steps to reduce the discretionary spending, but revenue growth is limited by several citizen initiatives that limit the growth of property tax collections, and a significant decrease in the sales of homes and new vehicles.

The City has adopted the Model Ordinance in accordance with Washington State House Bill 2030 to provide for municipal tax uniformity among the cities in Washington that impose a Business & Occupation (B&O) tax. The Model Ordinance adversely impacts the City's B&O tax revenues; the full impact is estimated at a minimum of \$1.5 million a year beginning in 2008.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Tacoma Finance Department, 747 Market Street Room 132, Tacoma, Washington 98402.

City of Tacoma, Washington
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Primary Government		Component Units			
	Governmental Activities	Business-type Activities	Total	TCRA	GTRCC PFD	FWDA
ASSETS						
Cash and cash equivalents	196,904	401,479	598,383	4,769	221	1,602
Investments	2,722	-	2,722	-	-	-
Receivables (net of allowance for uncollectibles)	25,580	88,419	113,999	1,854	204	183
Due from other governmental units	11,307	3,255	14,562	-	-	-
Internal balances	14,266	(14,266)	-	-	-	-
Inventories	2,918	11,587	14,505	-	-	-
Prepays	1,169	2,480	3,649	13	-	19
Recoverable deposits	-	-	-	-	-	-
Other current assets	1,380	3,750	5,130	-	-	-
Temporarily restricted assets:						
Cash and cash equivalents	-	301,652	301,652	-	-	-
Investments	-	3,275	3,275	-	-	-
Notes and contracts receivable	-	5,085	5,085	-	-	-
Customer deposits	-	-	-	-	-	-
Contracts, notes, leases--non-current	-	-	-	-	-	-
Capital assets (not being depreciated):						
Land	25,419	133,903	159,322	434	-	8,322
Parks	5,245	-	5,245	-	-	-
Construction in progress	17,461	192,239	209,700	-	-	2,561
Capital assets:						
Property, plant, and equipment	242,244	2,765,369	3,007,613	3,075	-	13,186
Infrastructure	1,131,836	-	1,131,836	-	-	-
Works of art	918	-	918	-	-	-
Library materials	19,384	-	19,384	-	-	-
Accumulated depreciation	(639,471)	(1,018,778)	(1,658,249)	-	-	(830)
Other non-current assets	-	8,448	8,448	-	-	-
TOTAL ASSETS	1,059,282	2,940,301	3,999,583	50,781	425	25,043

City of Tacoma, Washington
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Primary Government		Component Units			
	Governmental Activities	Business-type Activities	Total	TCRA	GTRCC PFD	FWDA
LIABILITIES						
Accounts payable and other current liabilities	19,452	80,621	100,073	2,758	-	41
Deposits payable	97	4,515	4,612	-	-	32
Due to other governments	654	893	1,547	5,024	425	-
Unearned revenue	12,365	92,046	104,431	-	-	25
Payable from restricted assets--current liabilities	-	1,881	1,881	-	-	-
Other liabilities	-	23,733	23,733	-	-	-
Special assessment debt with governmental commitment	375	-	375	-	-	-
Net OPEB obligation	7,808	2,758	10,566	-	-	-
Due within one year	54,369	50,474	104,843	-	-	10
Due in more than one year	104,261	1,157,104	1,261,365	-	-	4,191
Total liabilities	199,401	1,414,025	1,613,426	7,782	425	4,299
NET ASSETS						
Invested in capital assets, net of related debt	716,586	1,202,761	1,919,347	3,508	-	19,138
Restricted for:						
Restricted for capital purposes	23,144	-	23,144	-	-	-
Restricted debt service	-	34,511	34,511	-	-	-
Restricted for Housing Urban Development development	-	-	-	39,491	-	-
Restricted for water assurance & system development	-	11,098	11,098	-	-	-
Restricted for other purposes	-	8,528	8,528	-	-	-
Unrestricted	120,151	269,378	389,529	-	-	1,606
Total net assets	859,881	1,526,276	2,386,157	42,999	-	20,744

City of Tacoma, Washington
Statement of Activities
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Program Revenues		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:			
Governmental activities:			
General government	24,504	1,273	-
Public Safety	143,922	1,291	2,047
Physical environment	622	-	-
Transportation	53,007	1,713	5,554
Health and human services	2,051	17	-
Economic environment	26,947	4,712	-
Culture and recreation	22,815	3,510	643
Interest on long-term debt	3,905	-	-
Total governmental activities	277,773	12,516	8,244
Business-type activities:			
Public assembly facilities	18,562	-	35
Rail	20,286	1,424	-
Solid waste	52,530	543	-
Sewer	55,121	67,850	8,638
Water	58,685	57,086	14,137
Power	334,180	407,664	10,219
Other business-type funds	6,922	3,995	2,571
Total business-type activities	546,286	627,693	35,600
Total primary government	824,059	664,975	43,844
Component units:			
TORA	1,332	3	-
GRTCC PDF	3,042	-	-
FWDA	1,256	890	1,474
Total component units	5,630	893	1,474

General revenues:	
Property taxes	
Sales taxes	
Business taxes	
Unrestricted investment earnings	
Gain on sale of capital assets	
Transfers	
Total general revenues and transfers	
Change in net assets	
Net assets Beginning	
Prior Period Adjustment	
Net assets - Beginning (Restated)	
Net assets - ending	

City of Tacoma, Washington
Statement of Activities
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Changes in Net Assets				
	Governmental Activities	Primary Government Business-type Activities	Total	TCRA	Component Units GTRCC PFD FWDA
	(10,749)	-	(10,749)	-	-
	(132,382)	-	(132,382)	-	-
	(540)	-	(540)	-	-
	(36,314)	-	(36,314)	-	-
	(1,290)	-	(1,290)	-	-
	(16,336)	-	(16,336)	-	-
	(18,215)	-	(18,215)	-	-
	(3,905)	-	(3,905)	-	-
	(219,731)	-	(219,731)	-	-
	-	(4,117)	(4,117)	-	-
	-	1,750	1,750	-	-
	-	4,089	4,089	-	-
	-	21,371	21,371	-	-
	-	12,538	12,538	-	-
	-	83,703	83,703	-	-
	-	8,925	8,925	-	-
	-	128,259	128,259	-	-
	-	128,259	(91,472)	-	-
	-	-	-	1,506	-
	-	-	-	-	(3,042)
	-	-	-	-	-
	-	-	-	1,506	(3,042)
	58,498	-	58,498	-	-
	47,681	1,715	49,396	-	2,887
	49,039	-	49,039	-	-
	6,566	30,674	37,240	709	155
	2,705	(8,099)	(5,394)	-	162
	35,212	(35,212)	-	-	-
	199,701	(10,922)	188,779	709	3,042
	(20,030)	117,337	97,307	2,215	1,520
	883,895	1,408,158	2,292,053	36,555	19,127
	(3,984)	781	(3,203)	4,229	97
	879,911	1,408,939	2,288,850	40,784	19,224
	859,881	1,526,276	2,386,157	42,999	20,744

4 The notes to the financial statements are an integral part of this statement.

City of Tacoma, Washington
Governmental Funds
Balance Sheet
December 31, 2008
(amounts expressed in thousands)

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 30,517	\$ 77,435	\$ 107,952
Investments	-	2,722	2,722
Accounts receivable: net of uncollectible accts	12,915	11,059	23,974
Due from other funds	604	1,636	2,240
Due from other governmental units	4,275	7,032	11,307
Prepaid expenditures	214	2	216
Inventory	1,809	75	1,884
Other current assets	3	200	203
Advances to other funds	15,630	7,513	23,143
Total assets	\$ 65,967	\$ 107,674	\$ 173,641
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 3,641	\$ 4,667	\$ 8,308
Accrued wages and benefits payable	3,354	237	3,591
Notes, leases & contracts payable	2	-	2
Deposits payable	21	76	97
Accrued taxes payable	21	4	25
Due to other funds	771	770	1,541
Due to other governmental units	592	15	607
Deferred revenue	4,986	5,006	9,992
Advances from other funds	-	6,700	6,700
Other current liabilities	174	915	1,089
Total liabilities	13,562	18,390	31,952
FUND BALANCE			
Reserved for:			
Encumbrances	3,333	21,029	24,362
Advances to other funds	15,630	7,513	23,143
Other purposes	5,908	5,221	11,129
Unreserved fund balance:			
General Fund	27,534	-	27,534
Non-Major Special Revenue Funds	-	32,093	32,093
Non-Major Debt Service Funds	-	840	840
Non-Major Capital Projects Funds	-	22,588	22,588
Total unreserved	27,534	55,521	83,055
Total fund balances (deficits)	52,405	89,284	141,689
Total liabilities and fund balances	\$ 65,967	\$ 107,674	\$ 173,641

City of Tacoma, Washington
Reconciliation of Governmental Balance Sheet to the Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

Reconciliation of Governmental Balance Sheet to the Statement of Net Assets

Governmental Fund Balance at December 31, 2008 \$141,689

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet. 750,821

Internal service funds are used by management to charge the costs of various support service such as information systems, graphic services, communications, fleet and other activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 71,666

Certain taxes will be collected after year-end and will not be available after year-end to pay for current year expenditures and are reported as deferred revenue. 2,041

Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the funds. (107,382)

Negative Net Pension Obligation (NPO) is reported as an asset in the governmental activities and is not considered to represent a financial asset, therefore, are not reported in the governmental funds balance sheet. 1,046

\$859,887

Net assets of governmental activities.

City of Tacoma, Washington
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For The Year Ended December 31, 2008
(amounts expressed in thousands)

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 135,832	\$ 19,297	\$ 155,129
Licenses and permits	10,691	1,060	6,168
Intergovernmental revenue	3,830	20,770	31,461
Charges for services	4,070	6,833	10,663
Fines and forfeitures	2,840	296	4,366
Interest	1,478	3,726	6,566
Miscellaneous revenues	163,849	2,327	3,805
Total revenues	<u>163,849</u>	<u>54,309</u>	<u>218,158</u>
EXPENDITURES			
Current			
General government	21,186	2,542	23,728
Security of persons & property	129,466	13,501	142,967
Physical environment	541	87	628
Transportation	17,040	7,630	24,670
Economic environment	20,543	6,512	27,055
Mental and physical health	1,354	784	2,138
Culture and recreation	16,157	55	16,212
Capital outlay	2,838	31,975	34,813
Debt service:			
Principal retirement	-	4,934	4,934
Interest and fiscal charges	117	3,782	3,899
Total expenditures	<u>209,242</u>	<u>71,802</u>	<u>281,044</u>
Excess of revenues over (under) expenditures	<u>(45,393)</u>	<u>(17,493)</u>	<u>(62,886)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital asset	3	2,702	2,705
Transfers in	41,978	10,679	52,657
Transfers out	(7,762)	(10,026)	(17,788)
Contributions from property owners	-	11	11
Issuance of debt	-	4,468	4,468
Total other financing sources and (uses)	<u>34,219</u>	<u>7,834</u>	<u>42,053</u>
Net change in fund balances	<u>(11,174)</u>	<u>(9,659)</u>	<u>(20,833)</u>
Fund balance - beginning	<u>65,834</u>	<u>99,336</u>	<u>165,170</u>
Prior period adjustments	<u>(2,255)</u>	<u>(393)</u>	<u>(2,648)</u>
Fund balance - ending	<u>\$ 52,405</u>	<u>\$ 89,284</u>	<u>\$ 141,689</u>

City of Tacoma, Washington
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to
the Statement of Activities
For the Year Ended December 31, 2008
(amounts expressed in thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances--total governmental funds	(20,833)
Governmental funds report capital outlay as expenditures in the year purchased. The entity wide statement of activities reports capital outlay as depreciation expense over the life of the asset. This is amount by which capital outlays exceeded depreciation in the current period.	(2,252)
The net affect of a miscellaneous transaction involving a transfer of capital assets to governmental funds.	(2,762)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	89
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Net OPEB obligation	(3,525)
Compensated absences	(497)
Interest expense	(342)
Reversal of PY interest accrual	336
Net Pension Obligation	639
The net revenue of certain activities of internal service funds is reported with governmental activities:	
Profit/Loss reallocation that decreases expenditures	8,658
Debt proceeds provide current financial resources to governmental funds but issuing debt increases non-current liabilities in the statement of net assets	
Repayment of non-current debt is an expenditure in the governmental funds but on the statement of net assets it reduces the liability	
Bond Issuance Cost/Discount Amortization	(7)
Proceed from debt issuance	(4,468)
Principal repayment	4,934
Changes in net assets of governmental activities	<u>(\$20,030)</u>

City of Tacoma, Washington
Proprietary Funds
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Sewer Fund (4300/4301)	Water Fund (4600)	Power Fund (4700)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 104,339	\$ 9,036	\$ 246,836
Accounts receivable - net of allowance for uncollectibles	8,671	9,010	53,463
Due from other funds	47	456	2,197
Due from other governmental units	1,086	-	-
Inventory	697	2,617	7,591
Prepaid expenses	20	1,033	-
Other current assets	-	-	3,750
Restricted assets:			
Cash for construction	44,588	13,931	52,543
Cash for debt service	5,776	2,092	39,180
Cash for other special purposes	507	59,203	28,892
Investments for other special purposes	-	-	-
Notes and contracts receivable	-	5,085	-
Customer deposits	-	-	-
Total restricted assets	50,871	80,311	120,615
Total current assets	165,741	102,463	434,452
Non-current assets:			
Notes, contracts, leases receivable--non-current	510	-	-
Advances to other funds	946	3,319	1,992
Other non-current assets	-	-	-
Capital assets:			
Land	5,323	20,053	68,036
Property, plant, and equipment	418,541	686,067	1,325,450
Less: accumulated depreciation	(147,730)	(124,907)	(599,912)
Construction work in progress	103,369	9,928	61,981
Total capital assets net of depreciation	379,523	591,141	855,555
Total non-current assets	380,979	594,460	857,547
Total assets	546,720	696,923	1,291,999

City of Tacoma, Washington
Proprietary Funds
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Sewer Fund (4300/4301)	Water Fund (4600)	Power Fund (4700)
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,685	\$ 2,686	\$ 15,565
Accrued wages and benefits payable	529	573	2,225
Accrued taxes payable	555	1,222	31,683
Accrued interest payable	950	891	12,461
Deposits payable	-	247	3,120
Environmental liability--current	325	-	-
Notes, contracts & leases payable--current	2,695	2,722	-
Revenue bonds--current portion	2,356	5,080	26,590
Due to other funds	1,010	590	97
Due to other government units	363	-	-
Deferred revenue	22,759	57,258	4,442
Other current liabilities	-	-	-
Liabilities payable from restricted assets:			
Revenue bonds--current portion	214	-	-
Bonds interest payable	461	-	-
Deposits payable	507	-	-
Total current liabilities	35,409	71,269	96,183
Non-current liabilities:			
Environmental liability--noncurrent	2,176	-	-
Notes, contracts & leases payable--noncurrent	72,483	32,461	-
Revenue bonds--noncurrent	108,173	186,408	490,529
Accrued employee leave benefits	1,645	2,280	8,478
Advances from other funds	-	-	-
Incurred but not reported	-	-	-
Net OPEB obligation	438	495	1,505
Other non-current liabilities	-	-	-
Liabilities payable from restricted assets:			
Accrued landfill liability	-	-	-
Total non-current liabilities	184,915	221,644	500,512
Total liabilities	220,324	292,913	596,695
NET ASSETS			
Invested in capital assets net of related debt	281,332	383,507	435,599
Restricted:			
Restricted for capital purchases	-	-	-
Restricted for debt	5,099	1,202	26,719
Restricted for water assurance and systems development	-	11,098	-
Restricted for other purposes	-	-	2,276
Unrestricted	39,965	8,203	230,710
Total net assets	326,396	404,010	695,304

10 The notes to financial statements are an integral part of this statement.

The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington
Proprietary Funds
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Non-Major Enterprise Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 41,268	\$ 401,479	\$ 88,952
Accounts receivable - net of allowance for uncollectibles	17,275	88,419	1,606
Due from other funds	284	2,984	77
Due from other governmental units	2,159	3,255	-
Inventory	682	11,587	1,034
Prepaid expenses	1,427	2,480	953
Other current assets	-	3,750	-
Restricted assets:			
Cash for construction	42,277	153,339	-
Cash for debt service	6,973	54,021	-
Cash for other special purposes	5,690	94,292	-
Investments for other special purposes	3,275	3,275	-
Notes and contracts receivable	-	5,085	-
Customer deposits	-	-	-
Total restricted assets	58,215	310,012	-
Total current assets	121,310	823,966	92,622
Non-current assets:			
Notes, contracts, leases receivable--non-current	51,894	52,404	-
Advances to other funds	-	-	2,383
Other non-current assets	2,191	8,448	-
Capital assets:			
Land	40,491	133,903	357
Property, plant, and equipment	335,311	2,765,369	141,089
Less: accumulated depreciation	(146,229)	(1,018,778)	(89,918)
Construction work in progress	16,941	192,239	687
Total capital assets net of depreciation	246,514	2,072,733	52,215
Total non-current assets	300,599	2,133,585	54,598
Total assets	421,909	2,957,551	147,220

City of Tacoma, Washington
Proprietary Funds
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Non-Major Enterprise Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 6,146	\$ 27,082	\$ 5,587
Accrued wages and benefits payable	650	3,977	475
Accrued taxes payable	809	34,269	13
Accrued interest payable	990	15,292	29
Deposits payable	1,148	4,515	-
Environmental liability--current	-	325	-
Notes, contracts & leases payable--current	1,940	7,357	680
Revenue bonds--current portion	7,290	41,316	-
Due to other funds	545	2,242	1,516
Due to other government units	530	893	41
Deferred revenue	7,587	92,046	4,776
Other current liabilities	18	18	47,185
Liabilities payable from restricted assets:			
Revenue bonds--current portion	286	500	-
Bonds interest payable	354	815	-
Deposits payable	59	566	-
Total current liabilities	28,352	231,213	60,302
Non-current liabilities:			
Environmental liability--noncurrent	-	2,176	-
Notes, contracts & leases payable--noncurrent	65,041	169,985	2,721
Revenue bonds--noncurrent	146,721	931,831	-
Accrued employee leave benefits	2,353	14,756	1,557
Advances from other funds	15,009	15,009	3,817
Incurred but not reported	-	-	7,157
Net OPEB obligation	320	2,758	-
Other non-current liabilities	23,715	23,715	-
Liabilities payable from restricted assets:			
Accrued landfill liability	39,832	39,832	-
Total non-current liabilities	292,991	1,200,062	15,252
Total liabilities	321,343	1,431,275	75,554
NET ASSETS			
Invested in capital assets net of related debt	102,323	1,202,761	48,813
Restricted:			
Restricted for capital purchases	-	-	23,144
Restricted for debt	1,491	34,511	-
Restricted for water assurance and systems development	-	11,098	-
Restricted for other purposes	6,252	8,528	-
Unrestricted	(9,500)	269,378	(291)
Total net assets	100,566	1,526,276	71,666

12 The notes to financial statements are an integral part of this statement.

The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Sewer Fund (4300/4301)	Water Fund (4600)	Power Fund (4700)
OPERATING REVENUES			
Charges for services	66,985	57,025	404,408
Interdepartmental billings	-	-	-
Premiums/Contributions	-	-	-
Miscellaneous	827	-	-
Total operating revenues	67,812	57,025	404,408
OPERATING EXPENSES			
Personnel, salaries & wages	22,445	19,005	78,315
Supplies, services and charges	15,630	14,382	168,513
Health benefit payments	-	-	-
Depreciation	9,219	13,017	48,406
Taxes	1,083	2,882	16,075
Total operating expenses	48,377	49,286	311,309
Operating income (loss)	19,435	7,739	93,099

NON-OPERATING REVENUES (EXPENSES)

Interest revenue	6,492	4,723	12,539
Interest expense and fiscal charges	(6,542)	(9,429)	(22,791)
Amortization of bond discount & expense	(202)	30	370
Taxes (hotel/motel, admissions)	873	-	-
Contribution to project need	-	-	(450)
Operating grant	4	-	-
Gain (loss) on disposition of property	(248)	-	2,923
Miscellaneous	38	61	3,256
Total non-operating revenues (expenses)	415	(4,615)	(4,153)
Income before operating transfers	19,850	3,124	88,946
Capital contributions	8,638	14,137	10,219
Transfers in	-	-	-
Transfers (out)	(5,825)	(5,014)	(25,679)
Total contributions and transfers	2,813	9,123	(15,460)
Changes in net assets	22,663	12,247	73,486

NET ASSETS:

NET ASSETS--Beginning	303,733	391,763	621,818
Prior Period Adjustments	-	-	-
NET ASSETS--Ending	\$ 326,396	\$ 404,010	\$ 695,304

City of Tacoma, Washington

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Non-Major Enterprise Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES			
Charges for services	86,887	615,105	258
Interdepartmental billings	-	-	46,685
Premiums/Contributions	-	-	72,680
Miscellaneous	7,041	7,868	354
Total operating revenues	93,728	622,973	119,977
OPERATING EXPENSES			
Personnel, salaries & wages	31,381	151,146	19,752
Supplies, services and charges	40,701	239,226	20,041
Health benefit payments	-	-	67,229
Depreciation	11,666	82,308	9,223
Taxes	1,169	21,209	-
Total operating expenses	84,917	493,889	116,245
Operating income (loss)	8,811	129,084	3,732

NON-OPERATING REVENUES (EXPENSES)

Interest revenue	6,920	30,674	2,848
Interest expense and fiscal charges	(13,269)	(52,031)	(126)
Amortization of bond discount & expense	(114)	84	-
Taxes (hotel/motel, admissions)	842	1,715	-
Contribution to project need	-	(450)	-
Operating grant	11,248	11,252	-
Gain (loss) on disposition of property	(10,774)	(8,099)	109
Miscellaneous	1,365	4,720	(982)
Total non-operating revenues (expenses)	(3,782)	(12,135)	1,849
Income before operating transfers	5,029	116,949	5,581
Capital contributions	5,368	38,362	-
Transfers in	5,620	5,620	3,132
Transfers (out)	(7,076)	(43,594)	(65)
Total contributions and transfers	3,912	388	3,077
Changes in net assets	8,941	117,337	8,658

NET ASSETS:

NET ASSETS--Beginning	90,844	1,408,158	63,552
Prior Period Adjustments	781	781	(544)
NET ASSETS--Ending	\$ 100,566	\$ 1,526,276	\$ 71,666

14 The notes to financial statements are an integral part of this statement.

15 The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Sewer Fund (4300/4301)	Water Fund (4600)	Power Fund (4700)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	67,280	56,263	411,353
Receipts from interfund services provided	-	-	-
Contributions received - employee/employer	(18,477)	(14,694)	(152,292)
Payments to suppliers	(22,189)	(18,116)	(76,907)
Payments to employees	-	-	-
Payments to insurance carriers	2,389	-	-
Payments to environmental remediation	(1,108)	(2,585)	(17,014)
Payments for taxes	-	-	-
Payments for interfund services used	-	-	(144)
Other operating revenues (expenses)	-	-	-
Net cash provided by operating activities	27,895	20,868	164,986
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	(5,798)	(5,014)	(25,679)
Advances from (to) other funds	4	-	-
Grants received	(2,247)	-	-
Debt service related to environmental	873	-	(450)
Tax refunds and interest	-	-	(28,129)
Contributions and donations	(7,188)	(5,014)	-
Net cash provided (used) by noncapital and related financing activities	(14,252)	(10,028)	(53,259)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers from (to) other funds	(25)	-	-
Advances from (to) other funds	-	-	-
Acquisition and construction of capital assets	(33,697)	(27,516)	(106,965)
System development charges	-	7,729	-
Proceeds from capital debt	451	-	2,923
Proceeds from the sale of capital asset	17	-	-
Proceeds from leased property	-	-	-
Pantries lease and leaseback	-	-	-
Principal paid on capital debt	(1,790)	(8,440)	(25,275)
Interest paid on capital debt	(3,353)	(9,423)	(25,586)
Premium and net refunding from capital debt	-	-	19
Change in deferred credits	-	-	133
Contributions and Donations	8,637	-	10,219
Grants Received	-	-	-
Net cash provided (used) by capital and related financing activities	(29,760)	(37,650)	(144,532)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests and dividends received	6,492	3,730	12,541
Rental and other income	38	(1,307)	3,259
Other net non-operating revenues and deductions	-	-	-
Net cash provided (used) by investing activities	6,530	2,423	15,800
Net increase in cash and cash equivalents	(2,503)	(19,373)	10,135
Cash and cash equivalents, January 1	157,713	103,635	357,316
(including amounts reported in restricted accounts)			
Cash and cash equivalents, December 31	155,210	84,262	367,451
(including amounts reported in restricted accounts)			

16 The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Sewer Fund (4300/4301)	Water Fund (4600)	Power Fund (4700)
Reconciliation of Cash and Cash Equivalents in Pooled Investments To Balance Sheet			
Unrestricted Cash and Cash Equivalents	104,339	9,036	246,836
Restricted Cash and Cash Equivalents	50,871	75,226	120,615
Cash and Cash Equivalents in Pooled Investments at December 31, 2008	155,210	84,262	367,451
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	19,435	7,739	93,099
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation expense	9,219	13,017	48,406
(Increase) decrease in accounts receivable	(776)	(762)	6,800
(Increase) in intergovernmental receivable	34	-	-
(Increase) in due from other funds	(4)	(361)	(739)
(Increase) decrease in inventories	33	(266)	(691)
(Increase) in prepaid items	(1)	196	-
(Increase) decrease in other current assets	-	-	-
Increase (decrease) in deposits payable	234	20	(22)
Increase (decrease) in accounts payable	(47)	1,010	17,188
Increase (decrease) in accrued wages payable	58	183	672
Increase (decrease) in compensated absences	-	241	839
Increase (decrease) deferred credits	-	-	-
Increase (decrease) in intergov. payables	5	-	-
Increase (decrease) in due to other funds	688	(147)	(556)
Increase (decrease) in deferred revenue	81	-	-
Increase (decrease) in other current liabilities	-	-	-
Increase (decrease) in notes, contracts, and lease payable	-	-	-
Increase (decrease) in incurred but not reported	-	-	-
Increase (decrease) in other long-term liabilities	(1,064)	-	-
Increase (decrease) in prior year adjustments	-	-	-
Misc. non-operating revenue (expenditures)	-	-	-
Total adjustments	8,460	13,129	71,887
Net cash provided by operating activities	27,895	20,868	164,986
Noncash investing, capital, and financing activities:			
Capital asset transferred from other funds	-	-	-
Transfer of bond debt associated with the capital transfer	-	-	-

17 The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Non-Major Enterprise Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	88,500	623,396	2,397
Receipts from interfund services provided	6,988	6,988	47,180
Contributions received - employee/employer	-	-	72,680
Payments to suppliers	(44,626)	(230,089)	(20,307)
Payments to employees	(28,522)	(145,734)	(20,187)
Payments to insurance carriers	-	2,389	(54,565)
Payments to environmental remediation	-	(21,933)	-
Payments for taxes	(461)	(461)	(8,993)
Payments for interfund services used	-	(144)	(48)
Other operating revenues (expenses)	20,653	234,412	18,157
Net cash provided by operating activities	(4,608)	(41,098)	370
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	186	190	(728)
Grants received	-	(2,247)	-
Debt service related to environmental	-	873	-
Tax refunds and interest	-	(450)	-
Contributions and donations and related financing activities	(4,422)	(42,735)	(358)
Net cash provided (used) by noncapital and related financing activities	3,082	3,057	2,706
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers from (to) other funds	(17,621)	(185,798)	(2,736)
Advances from (to) other funds	-	7,729	(15,898)
Acquisition and construction of capital assets	600	1,051	-
System development charges	5,073	8,013	154
Proceeds from capital debt	-	1,183	-
Proceeds from the sale of capital asset	3,969	3,969	-
Proceeds from leased property	(10,242)	(45,747)	-
Pantries lease and leaseback	(13,202)	(51,564)	(143)
Principal paid on capital debt	-	19	-
Interest paid on capital debt	-	133	-
Premium and net refunding from capital debt	3,680	22,536	-
Change in deferred credits	9,588	9,588	-
Contributions and Donations	(13,890)	(225,832)	(15,917)
Grants Received	-	-	-
Net cash provided (used) by capital and related financing activities	3,899	26,662	3,102
CASH FLOWS FROM INVESTING ACTIVITIES			
Interests and dividends received	15	2,005	-
Rental and other income	-	-	-
Other net non-operating revenues and deductions	-	-	-
Net cash provided (used) by investing activities	3,914	28,667	3,102
Net increase in cash and cash equivalents	6,255	(5,486)	4,984
Cash and cash equivalents, January 1	89,953	708,817	83,968
Cash and cash equivalents, December 31	96,208	703,131	88,952
(Including amounts reported in restricted accounts)			
(Including amounts reported in restricted accounts)			

18 The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Non-Major Enterprise Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
Reconciliation of Cash and Cash Equivalents in Pooled Investments To Balance Sheet			
Unrestricted Cash and Cash Equivalents	41,268	401,479	88,952
Restricted Cash and Cash Equivalents in Pooled Investments	54,940	301,652	-
Cash and Cash Equivalents in Pooled Investments at December 31, 2008	96,208	703,131	88,952
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	8,811	129,084	3,732
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation expense	11,666	82,308	9,223
(Increase) decrease in accounts receivable	(3,911)	1,351	1,593
(Increase) in intergovernmental receivable	(785)	(751)	(1,655)
(Increase) in due from other funds	(233)	(1,337)	1,032
(Increase) decrease in inventories	113	(813)	201
(Increase) in prepaid items	(92)	103	(295)
(Increase) decrease in other current assets	(196)	(196)	-
Increase (decrease) in deposits payable	(129)	103	-
Increase (decrease) in accounts payable	(29)	18,122	1,580
Increase (decrease) in accrued wages payable	292	1,205	164
Increase (decrease) in compensated absences	87	1,167	152
Increase (decrease) deferred credits	1,070	1,070	-
Increase (decrease) in intergov. payables	(4)	1	-
Increase (decrease) in due to other funds	(252)	(267)	315
Increase (decrease) in deferred revenue	20	101	33
Increase (decrease) in other current liabilities	(6)	(6)	(3,088)
Increase (decrease) in notes, contracts, and lease payat	-	-	3,401
Increase (decrease) in incurred but not reported	-	-	1,930
Increase (decrease) in other long-term liabilities	3,418	2,354	-
Increase (decrease) in prior year adjustments	-	-	22
Misc. non-operating revenue (expenditures)	813	813	(183)
Total adjustments	11,842	105,328	14,425
Net cash provided by operating activities	20,653	234,412	18,157
Noncash investing, capital, and financing activities:			
Capital asset transferred from other funds	-	-	-
Transfer of bond debt associated with the capital transfer	-	-	-

19 The notes to financial statements are an integral part of this statement.

City of Tacoma, Washington
Fiduciary Funds
Statement of Net Assets
December 31, 2008
(amounts expressed in thousands)

	Pension and Employee Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 34,282	\$ 2,701
Investments, at fair value		
U.S. government obligations	116,207	-
Domestic corporate bonds	167,108	-
Domestic stocks	294,157	-
International stocks	97,411	-
International bonds	12,607	-
International REITs	1,655	-
REITs	72,489	-
Security lending collateral	79,528	-
Accounts receivable: net of uncollectible accts	21,731	145
Prepaid expenditures	-	34
Due from other governmental units	-	54
Capital assets (net of accumulated depreciation)	24	-
Total assets	<u>\$ 897,199</u>	<u>\$ 2,934</u>

LIABILITIES		
Current liabilities:		
Accounts payable	\$ 1,054	\$ 619
Accrued wages and benefits payable	702	719
Deposits payable	-	-
Due to other funds	2	-
Due to other governments units	-	1,596
Investments purchase payable	40,660	-
Securities lending collateral	79,528	-
Other current liabilities	5,506	-
Total current liabilities	<u>127,452</u>	<u>2,934</u>
Non-current liabilities:		
Accrued employee leave benefits	-	-
Total non-current liabilities:	-	-
Total liabilities	<u>127,452</u>	<u>2,934</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	769,747	-
Total net assets	<u>769,747</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 897,199</u>	<u>\$ 2,934</u>

The notes to financial statements are an integral part of this statement

City of Tacoma, Washington
Fiduciary Funds
Statement of Changes in Net Assets
For the Year Ended December 31, 2008
(amounts expressed in thousands)

	Pension and Employee Trust Funds
ADDITIONS:	
Employer contributions	\$ 28,360
Member contributions	13,067
Other contributions	205
Total contributions	<u>41,632</u>
INVESTMENT INCOME	
Net appreciation(depreciation) in FMV of investments	(394,306)
Interest and dividends	34,423
Securities lending gross income	4,205
Total investment income	<u>(355,678)</u>
LESS INVESTMENT EXPENSE	
Investment management fees	3,700
Security lending - agent fees	411
Security lending - broker rebates	2,986
Total investment expense	<u>7,097</u>
Net investment income	<u>(362,775)</u>
TOTAL ADDITIONS	<u>\$ (321,143)</u>
DEDUCTIONS:	
Pension benefit payments	\$ 45,688
Health care benefit payments	9,776
Refunds of contributions	1,680
Administrative expenses	423
TOTAL DEDUCTIONS	<u>57,567</u>
NET INCREASE (DECREASE)	<u>(378,710)</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Net assets--beginning	1,148,457
Net assets--ending	<u>\$ 769,747</u>

The notes to financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

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Note 1 Summary of significant accounting policies

A. The reporting entity

The City of Tacoma is a municipal corporation incorporated February 14, 1880. The City operates under a Council-Manager form of government, and under its charter has all powers granted by the constitution and laws of the state. The City provides the full range of services contemplated by statute or charter. These include police, fire, public works, planning and development, human relations, and general administrative and support services.

The accompanying financial statements present the City and its component units. Component units are separate legal entities for which the City is financially accountable. Exclusion of these entities would cause the City's financial statements to be misleading or incomplete.

Discretely presented Component Units:

The Tacoma Community Redevelopment Authority (TCRA) is a separate public corporation established through City ordinances and the laws of the State of Washington. The TCRA was created to administer HUD programs and assists the City in economic development efforts of a business nature or with home owners. Separate financial statements for the Authority can be obtained from the Tacoma Community Redevelopment Authority, by writing to TCRA, 747 Market Street, Room 1036, Tacoma, Washington.

The Greater Tacoma Regional Convention Center Public Facilities District (GTRCC PFD) is a separate public corporation organized under Washington State law. The district was created pursuant to an interlocal agreement between the cities of Tacoma, Fife, University Place, Lakewood and Pierce County. Liability of the district is limited to the district's assets with no recourse to the City of Tacoma assets or property. The district has entered into an interlocal agreement with the City of Tacoma to assist with the construction and operation of a Convention Center. The district imposed the 0.33 percent sales and use tax authorized by RCW 82.08 and 82.12; and also has the authority to impose admission and parking taxes. The district pays these revenues to the City of Tacoma primarily for the debt service on bonds issued by the City for the construction of the Convention Center. The district assigned the title to the Convention Center inclusive of real property, buildings, fixtures, furnishings, appurtenances and improvements to the City of Tacoma. Separate financial statements for the District can be requested from the City of Tacoma Finance Department.

The Foss Waterway Development Authority (FWDA), a separate legal entity and is presented as a discretely presented component unit in the City's statements. The Authority was created on October 1, 1996 by Resolution No. 33513. Under the terms of an agreement between the City and the Authority, the FWDA manages the redevelopment of property within and along the Thea Foss Waterway. The FWDA serves both the environment and the City in taking steps to improve the enhancement of the Waterway. Separate financial statements for the Authority can be obtained from the Foss Waterway Development Authority, Tacoma, Washington.

Joint Ventures—The City participates in three joint ventures with Pierce County.

Cheney Stadium—The Tacoma City Council approves the budget and provides the operating funds for the Cheney Stadium facility. In 2009, the City of Tacoma became the sole owner of Cheney Stadium. Prior to this, the City and Pierce County each held a fifty percent interest in the stadium's capital assets and were jointly responsible for financing deficits. The City was responsible for operating the stadium and the results of operations. The Cheney Stadium facility is not considered to be a legally separate entity.

Law Enforcement Support Agency (LESA) and the Tacoma-Pierce County Health Department—the governing bodies of both LESA and the Tacoma-Pierce County Health Department are appointed jointly by the City of Tacoma and Pierce County Councils. The City is not financially accountable for these two entities and contributes substantially less than half of their operating revenues. Financial information for both entities is included in Note 8 Section G.

B. Government-wide and fund financial statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business type.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are payments-in-lieu of taxes, charges between the City's utilities and various other functions of the government, and some indirect cost allocations between the general fund and other funds of the city. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The Statement of Activities demonstrates the degree to which the direct expenses of a given governmental function or business segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a given function or segment. Taxes, transfers between funds and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected to follow subsequent private sector guidance for its utility funds.

The City uses encumbrance accounting. Purchase orders, contracts and other commitments are recorded as encumbrances. Encumbrances at year end are reported as reservations of fund balances for governmental type funds. Encumbrances outstanding at the end of the biennium are reappropriated at the beginning of the next biennium.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred and when goods and services are received, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Deferred revenues represent property taxes that were not available to finance expenditures of the current period and grant revenues

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

received in advance. All other revenue items are considered to be measurable and available only when cash is received by the government.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's various utilities and internal service funds are charges to customers for sales and services. The City enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise and internal service funds include the cost of sales and services; administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental fund:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Wastewater and Surface Water (Sewer) fund for the planning, design, construction, operation, and maintenance of the Wastewater and Surface water facilities owned by the City.

The Water fund accounts for the activities of the City's water distribution system.

The Power fund accounts for the activities of the City's electric production and distribution operations.

Additionally, the City reports the following fund types:

Internal service funds account for finance, budget office, BSIP project, human resources, asphalt plant, youth build Tacoma, facilities management, graphics services fund, equipment rental, radio communications, self-insurance for liability, property, unemployment compensation and worker's compensation, fleet services, health benefits fund and information systems. These funds provide services to other departments on a cost reimbursement basis.

The pension trust fund accounts for the activities of the City's retirement system, which accumulates resources for pension benefit payments to qualified city employees. The police and fire relief and pension trust funds account for the activities related to the police and fire LEOFF pension system. The employees benefit trust funds include deferred compensation and miscellaneous payroll deduction funds account for activities related to mandatory and optional payroll deductions.

Agency funds account for Law Enforcement Support Agency, Tacoma Urban Network, and Tacoma Pierce County Employment Training Consortium which the City acts as an agent for these funds.

The City has no private purpose trust funds or permanent funds.

D. Assets, liabilities and net assets or equity.

1. Cash and investments

The City's cash and cash equivalents include cash on hand, cash working fund, restricted cash, short term investments with original or remaining maturities of three months or less when purchased, and cash and investments in the City-wide investment pool. Investments, including equity in pooled cash and investments are stated at fair value, except for the pension trust fund which is reported on a trade date basis, at fair value. No direct investments restricted or otherwise, are considered to be cash equivalents. The City uses a pooled investment portfolio. Each fund receives interest based on a pro-

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

rata share of its cash balance to the total cash invested. Portfolio earnings are distributed monthly based on average daily cash balances of the participating funds.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year end are referred to as either "due to/from other funds", if current, or "advances to/from other funds", if long-term. All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied in November and become a property lien as of January 1. The first half is due April 30 and the second half on October 31. If the first half is not paid by April 30, the total annual tax becomes delinquent. Property taxes are collected by Pierce County and remitted to the City monthly. An allowance for uncollectible accounts is deemed unnecessary as delinquent taxes become an enforceable lien on the property. Property taxes collected within 60 days after year end are considered measurable and available and are recognized as revenues in the fund statements. The total levy is recognized as revenue in the government-wide financial statements, regardless of when collected.

Utility receivables are shown net of an allowance for uncollectibles. The uncollectible amount is established based on an analysis of historical experience. Allowances for other receivables are not utilized because the amounts are not material.

Notes and contracts receivable signed between the City and/or the Tacoma Community Redevelopment Authority (TCRA) and various parties represent economic development efforts of either a business nature or with home owners. A large majority of the Power utility notes and contracts receivable represent energy conservation efforts between the City and home owners or businesses.

3. Inventories and Prepaid Items

Inventories for proprietary funds are valued at first-in/first out, moving average cost method, or lower of cost or market, depending on the fund. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Restricted assets in the enterprise funds are moneys which are restricted by legal or contractual requirements. These assets are generally intended for either construction of capital assets or for the repayment of debt. See Note 4-G for further information.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value or the life of the asset are expensed.

Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Capital assets are reported net of depreciation. The City uses a combination of group depreciation and straight-line depreciation over the life of the assets.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

The estimated useful lives for all City funds are:

Buildings	5 - 100 years
Improvements Other Than Buildings	3 - 100 years
Library Materials	5 years
Equipment	2 - 50 years
Infrastructure	5 - 100 years

6. Compensated Absences

The City has two different policies for compensated absences. The City's original policy allowed 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. An employee is entitled to 25% of the value of the sick leave at retirement or death or 10% of the value upon termination for any reason. Under the City's current policy, new employees earn Personal Time Off (PTO) 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 Tacoma Public Library has slightly different rules governing sick leave and vacation leave, but these differences are not considered material to the City's financial statements.

In governmental funds, vacation pay, sick leave or PTO are recorded as expenditures when paid which occurs when used or upon employee termination. In the entity-wide statements and the proprietary fund statements, vacation pay and PTO are recorded as a liability and expense in the year earned. A liability and expense is recorded for the vested amount of sick leave.

The differences between the governmental fund statements and the entity-wide statements represent reconciling items between the fund level and government-wide financial statements. The reconciliations are included as part of the financial statements.

7. Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In governmental fund financial statements, bond premiums and discounts and bond issuance costs are treated as expenditures of the current period. The face amount of debt issued is reported as other financing sources while discounts and issuance costs are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental and proprietary funds report reservations of fund balances or reservations of net assets for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balance or net assets represent tentative management plans that are subject to change. Restricted net assets are subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

Note 2 Reconciliation of government-wide and fund financial statements.

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balances—total governmental funds and net assets—governmental activities as reported in the government-wide statement of net assets. As explained in Note 1 C, this reconciliation is necessary because of the differences in accounting basis, most significantly the differences in accounting for capital assets and debt.

City of Tacoma, Washington
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One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds".

The details of this \$ difference are as follows:
(amounts expressed in thousands)

Bonds and leases payable	\$83,015
Bond issuance cost	(131)
Discount on bond issuance	(33)
Net OPEB obligation	7,808
Compensated absences	<u>16,723</u>
Net adjustment to reduce fund balance for total governmental funds to arrive at net assets for governmental activities	\$ 107,382

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities
The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances—total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

The details of this \$ difference are as follows:
(amounts expressed in thousands)

Capital outlay	\$34,813
Depreciation expense	<u>(36,633)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	(\$1,820)

Another element of the reconciliation states "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds."

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The details of this \$ difference are as follows:
(amounts expressed in thousands)

OPEB	(\$3,525.00)
Compensated absences	(497.00)
Accrued Interest	(342.00)
Net pension obligation	639.00
Prior year interest accrual	<u>336.00</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets	(\$3,389.00)

Note 3 Stewardship, compliance and accountability

A. Budgetary information

The Tacoma City Council adopts a biennial budget using an appropriation ordinance. While not legally required by law, the City also adopts budgets for proprietary funds and some selected trust funds. There were no material violations of expenditures or expenses exceeding appropriations.

The description of the budget process, any funds that exceeded appropriations (immaterial amounts) and the budget reconciliation schedule are included in the budget notes included in the Required Supplementary Information (RSI) and Combining Statements – Non-Major funds sections. Budgetary data for the general fund is included in the RSI and Non-Major governmental funds are included in the Combining Statements – Non-Major funds section. The budgetary statements show the original budget, revised amended budget and actual amounts expended for the biennium.

B. Deficit net assets (or fund balance)

The following governmental and proprietary funds had deficit net assets.

The Tacoma Fire Department has and 2002 Police Facility funds have net assets deficit due to a reclassification of reporting an internal note proceeds as an interfund loan which was received in prior years, and also due to capital outlay expenses for 2008 exceeding revenues.

The Third Party Liability Claims Fund has a net assets deficit due to an excess of accrued and incurred but not reported (IBNR) claims over total assets.

The Workers Compensation Fund has a net assets deficit due to insufficient contributions from the departments, and an excess of accrued and IBNR claims over total assets.

The LID Bond Fund has a net assets deficit due to a prior period adjustment for the transfer of a loan recorded previously in the Public Works Streets fund.

However, these funds have a positive cash balance to cover on going expenditures. In addition, the City is currently studying these programs to ensure that future claims are fully funded.

The deficit in the Conservation Project fund resulted from incurring bond debt in order to continue the conservation efforts of the City. The Bonneville Power Administration (BPA), under an agreement with the City, has committed to contributing the resources to liquidate this debt.

The deficit in the Foss Waterway Special Revenue Fund is a result of transfers to Foss Waterway Development Authority exceeding rental revenues.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Net Deficit
(amounts expressed in thousands)

Fund	
Tacoma Fire Department	(1,185)
2002 Police Facility	(3,889)
Third Party Liability/Claims Fund	(40,196)
Workers Compensation Fund	(2,182)
LID Bond Funds	(121)
Conservation Project Fund	(9,123)
Foss Waterway Special Revenue Fund	(82)
	(\$56,688)

C. Legal and contractual compliance
The City has complied, to the best of its knowledge, with all material finance-related legal and contractual provisions. No related party transactions have been identified.

Note 4 Detailed notes on all funds

A. Deposits and Investments

1. Legal, contractual and administrative provisions

Certificates of Deposit (CDs): The City places certificates of deposit and demand deposits only with State of Washington banks and savings and loan institutions approved as qualified public depositories under chapter 39.56 RCW by the Washington State Public Deposit Protection Commission (WSPDPC). Qualified public depositories are limited to banks operating within Washington State, which have executed a Deposit Pledge Agreement with the WSPDPC. The WSPDPC maintains a multiple financial institution collateral pool wherein the qualified public depositories pledge and transmit to a third party trustee, securities through the execution of the pledge agreement, providing common collateral for their deposits of public funds. The assets of the pool and the power to make additional assessments against the members of the pool, if necessary, insure there will be no loss of public funds because of default of a member. WSPDPC allows for deposits up to the net worth of a qualified institution.

At year end, the carrying amount of the City's deposits was \$ 130,135,393.

Other Investments: State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, bankers' acceptances, commercial paper, and repurchase agreements. The City is also authorized to enter into reverse repurchase agreements. The pension trust fund is authorized to invest under the "prudent person rule".

The City sustained no investment losses during 2008, there was no significant loss potential, and there were no significant or recurring violations of administrative, legal or contractual provisions.

Security lending: The City is authorized under State Law, primarily RCW 43.84.080, RCW 39.59.020 and by the City of Tacoma Investment Policy (Tacoma City Charter Section 7.4) to make security lending transactions. Securities lent are collateralized with cash or securities having 102 percent of market value. The city did participate in security lending transactions in 2008.

Investment committee guidelines: The City's Investment Committee, composed of the Mayor, the Finance Director and the City Treasurer, recommended the following portfolio mix guidelines. These guidelines are intended to limit risk and generate a competitive return on investments. The Committee recognizes that daily transactions may misalign this mix.

City of Tacoma, Washington
Notes to Financial Statements
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1. **Bankers Acceptances:** City investment policy allows for purchases of banker's acceptances from the top 50 world banks as published by American Banker. Portfolio mix guidelines suggest a maximum of 40% of the total portfolio with no more than 10% of the total portfolio in any one bank.
2. **U.S. Treasury Bills, Certificates, Notes and Bonds:** Portfolio mix guidelines allow for a maximum of 100% of the total portfolio to be invested in these securities.
3. **U.S. Government Agency Securities:** Portfolio mix guidelines suggest a maximum of 90% of the total portfolio with no more than 50% of the total portfolio per agency.
4. **Commercial Paper:** Portfolio mix guidelines require the highest rating by, at least, two nationally recognized rating agencies for purchase with no more than 10% of the portfolio invested in commercial paper with an additional limit of no more than 3% in any one issuer.
5. **Repurchase Agreements:** Portfolio mix guidelines suggest repurchase agreements be limited to maximum of 15% of the total portfolio. The market value of collateral must exceed the dollar amount of the repurchase agreement by 2 % over the term of the agreement. The collateral must be an investment instrument which the City is authorized to purchase.
6. **Reverse Repurchase Agreements:** The city did not participate in any reverse repurchase agreements in 2008.

2. Deposits and investments – December 31, 2008

Custodial credit risk – All bank deposits are covered 100% by federal depository insurance and pledged collateral on deposit with WSPDPC.

Foreign currency risk – The city has no deposits in subject to foreign currency risk.

All certificates of deposit held by the City are in the City's name and are insured by FDIC up to \$100,000 and by the Washington Public Deposit Protection Commission (WPDPC) for amounts over \$100,000. Under Washington State statute, members of the WPDPC, a multiple financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss.

City of Tacoma, Washington
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For the Year Ended December 31, 2008

At December 31, 2008, the City's total deposits and investments consisted of the following:

Schedule of Deposits and Investments	
December 31, 2008	
(amounts expressed in thousands)	
Investments (less Component Units)	1,645,315
Certificates of Deposit	130,135
Treasurer's Cash, Net	11,252
Petty Cash Funds	315
Adjustment for Rounding	-
Sub-Total	<u>1,787,018</u>
Component Units:	
Tacoma Community Redevelopment Authority * (TCRA)	3,105
TCRA - External Cash	1,927
Foss Waterway Development Authority (FWDA)	237
FWDA - External Cash	1,273
Public Facilities District (PFD)	221
Sub-Total (Component Units)	<u>6,762</u>
Total	<u>1,793,780</u>

At year end, the government's investment balances, expressed in thousands, were as follows:

	Fair Value at 12/31/08
Investments:	
Financial Institutions	
WA State Local Govt Investor Pool	94,130
US Treasury Securities	3,275
Government Agencies (various)	672,403
Commercial Paper	10,572
Electric System Revenue Bonds Investments	8,761
Equity in Pool Transferred to Component Units	<u>(3,563)</u>
Total Investments with Financial Institutions	785,579
Component Units	
TCRA Equity in Investment Pool	3,105
FWDA Equity in Investment Pool	237
PFD Equity in Investment Pool	221
Total Component Unit Investments	<u>3,563</u>

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Pension Trust

Other Assets Not Allowable for City Investments	Fair Value at 12/31/08
U. S. Government obligations	7,786
Domestic corporate bonds	271,545
Domestic stocks	296,658
International stocks	99,065
International bonds	12,607
REITs	69,987
Securities lending collateral	79,528
Short Term Inv/Mutual Funds	<u>22,559</u>
Total Other Investments - Pension Trust	<u>859,736</u>
TOTAL	<u>\$ 1,648,878</u>

3. General Disclosure and Disclosure Relating to Interest Rate Risk/Segmented Time Distribution Method

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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. The City has deposits of \$94,130,422 with the State Treasurer's Local Government Investment Pool and \$5,135,393 in an interest bearing demand deposit account with a commercial bank. Portfolio Modified Duration is 2.40 years.

Investment Type	Par	Maturing 0-12 Months	Maturing 13-24 Months	Maturing 25-36 Months	Maturing 37-48 Months	Maturing 49-60 Months
Bank Demand Deposits & State Pool	\$94,130,422	\$94,130,422				
Fixed Rate Non-Callable Municipal Securities	67,175,000	24,960,000	4,425,000	20,530,000		17,660,000
Fixed Rate Non-Callable Agency Securities	22,100,000	6,000,000		158,233,000		16,100,000
Fixed Rate Callable Agency Securities	580,300,000	2,500,000	25,000,000	158,233,000	165,685,000	229,880,000
Total	\$894,705,422	\$297,725,422	\$29,425,000	\$376,963,000	\$165,685,000	\$263,640,000
		26.8%	3.3%	40.0%	18.5%	29.3%

4. Disclosure Relating to Credit Risk

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. Presented below is the minimum rating required by state statute, which is the same in the City investment policy and the actual rating as of the end of the year 2008 for each type of investment. AAA is the highest rating for bonds. The Bank Certificates of Deposit and Demand Deposit Accounts are protected by the Federal Deposit Insurance Corporation (FDIC) insurance up to \$100,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State Public Deposit Protection Commission of the State of Washington. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. It constitutes a multiple financial collateral pool. The WA State Treasurer's Local Government Investment Pool (LGIP) is authorized by the Revised Code of Washington (RCW) 43.250. The LGIP operates like a 2A7 fund and is collateralized by short term legal investments.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Investment Type	Par	Current Credit Rating			
		Minimum Legal Requirement	FDIC & PDPC AAA	AA	A
Bank Demand Deposits & State Pool	99,265,815	FDIC & PDPC	99,265,815		
Bank Certificates of Deposit	125,000,000	FDIC & PDPC	125,000,000		
Fixed Rate Non-Collateral Municipal Securities	67,375,000	A	170,000	59,905,000	7,300,000
Fixed Rate Non-Collateral Agency Securities	21,410,000	AAA	21,410,000		
Fixed Rate Collateral Agency Securities	586,593,000	AAA	586,593,000		
Total	894,243,815		224,265,815	602,773,000	59,905,000

5. Concentration of Credit Risk
Concentration Risk disclosure is required for all investments in any one issuer that is 5% or more of the total of the City's investments. The following include Government Sponsored Agencies which have an AAA rating.

Issuer	Investment Type	Reported Amount	Percentage
Federal Home Loan Bank	Agency Securities	137,390,000	22.8%
Federal Home Loan Mortgage Corporation	Agency Securities	136,330,000	22.6%
Federal National Mortgage Association	Agency Securities	168,183,000	27.9%
Federal Farm Credit Corporation	Agency Securities	160,700,000	26.7%
Total		602,603,000	100.0%

6. Disclosure of Custodial Credit Risk

Custodial credit risk - Investments
The city policy is all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

B. Receivables

Receivables as of year end for the governments and enterprise's individual major and non-major funds, internal service and fiduciary funds, including applicable allowances for uncollectible accounts are as follows (amounts expressed in thousands):

Accounts Receivable (amounts expressed in thousands)	Non-Major			
	General Fund	Governmental Funds	Sewer Fund	Water Fund
Accounts receivable - net - ST	1,548	4,810	8,498	7,978
Interest receivable - net - ST		35		
Taxes receivable - net - ST	11,367	1,196		
Loans receivable - net - ST				
Notes & contracts receivable - net - ST		5,018	173	1,032
Notes & contracts receivable - net - LT			511	5,085
Total	12,915	11,059	9,182	14,095

Accounts Receivable (amounts expressed in thousands)	Non-Major Enterprise Funds		Fiduciary Funds		Total
	Power Fund	Internal Service Funds	Fiduciary Funds	Total	
Accounts receivable - net - ST	50,803	17,275	1,606	17,337	109,855
Interest receivable - net - ST				4,540	4,575
Taxes receivable - net - ST					12,563
Loans receivable - net - ST					-
Notes & contracts receivable - net - ST	54				6,277
Notes & contracts receivable - net - LT	2,606	51,894			60,096
Total	53,463	69,169	1,606	21,877	193,366

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

C. Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows (amounts expressed in thousands):

Governmental Activities	Begin Balance	Increase	Decrease	Prior Year Adj	Ending Balance
<i>Capital assets, not being depreciated</i>					
Land	24,000	1,419	-	-	25,419
Parks	-	-	-	5,245	5,245
Art	918	-	-	-	918
Construction work in progress	43,773	10,188	(14,117)	(22,383)	17,461
<i>Total capital assets, not being depreciated</i>	68,691	11,607	(14,117)	(17,138)	49,043
<i>Capital assets, being depreciated:</i>					
Property, plant and equipment	244,988	26,629	(7,127)	7,754	242,244
Library materials	19,114	1,715	(1,445)	-	19,384
Infrastructure	1,096,730	191,139	-	15,967	1,131,836
<i>Total capital assets, being depreciated</i>	1,330,832	47,483	(8,572)	23,721	1,393,464
<i>Less accumulated depreciation:</i>					
Property, plant and equipment	(119,200)	(12,588)	2,495	(3,122)	(132,415)
Library materials	(14,347)	(1,576)	1,445	-	(14,478)
Infrastructure	(664,209)	(28,369)	-	-	(692,578)
<i>Total accumulated depreciation</i>	(897,756)	(42,533)	3,940	(3,122)	(639,471)
Governmental activities capital assets (net of accumulated depreciation)	\$801,767	\$16,557	(\$18,749)	\$3,461	\$803,036

Business-type Activities

Business-type Activities	Begin Balance	Increase	Decreases	Prior Period Adjustments	Ending Balance
<i>Capital Assets, not being depreciated</i>					
Land	132,988	3,476	(2,561)	-	133,903
Construction Work in Progress	258,043	22,334	(35,772)	(52,368)	192,239
<i>Total capital assets, not being depreciated</i>	391,031	25,810	(38,333)	(52,368)	326,142
<i>Capital Assets, being depreciated:</i>					
Property, plant and equipment	2,532,444	196,641	(16,167)	52,451	2,765,369
<i>Total capital assets, being depreciated</i>	2,532,444	196,641	(16,167)	52,451	2,765,369
<i>Less accumulated depreciation:</i>					
Buildings	-	-	-	-	-
Improvements other than buildings	-	-	-	-	-
Property, plant and equipment	(953,365)	(62,310)	16,982	(85)	(1,018,778)
Utility Plant	-	-	-	-	-
<i>Total accumulated depreciation</i>	(953,365)	(62,310)	16,982	(85)	(1,018,778)
Total capital assets (net of accumulated depreciation)	\$1,970,110	\$140,141	(\$37,516)	\$0	\$2,072,733

City of Tacoma, Washington
Notes to Financial Statements
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	392
Public Safety	2,279
Transportation	28,369
Economic Environment	75
Culture and Recreation	2,195
Capital assets held by governments internal service funds	
are charged to the various functions based on their usage of the assets	9,223
Total depreciation expense - governmental activities	<u>\$42,533</u>
Business-type Activities:	
Public assembly facilities	3,511
Rail	1,011
Solid waste	6,324
Sewer fund	9,219
Water fund	13,017
Light fund	48,406
Other business-type funds	<u>822</u>
Total depreciation expense - business-type activities	<u>\$82,310</u>

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

D. Leases

Capital leases
The City leases certain equipment under various capital lease agreements. Capital lease balances at December 31, 2008: (amounts expressed in thousands)

	<u>Governmental Activities</u>
Information Systems Fund San Storage & CISCO Lease Purchase	\$ 3,401
Year Ending Dec. 31	Amount
2009	680
2010	680
2011	680
2012	680
2013	<u>681</u>
Total lease payments	<u>\$3,401</u>

Business Activities

Tacoma Dome Energy Upgrades \$220

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, are as follows: (amounts expressed in thousands)

Year Ending Dec. 31	Amount
2009	49
2010	47
2011	51
2012	52
2013	52
Total minimum lease payments	<u>251</u>
Less: interest amount	<u>(31)</u>
Present value of min lease payments	<u>\$ 220</u>

E. Short-term debt

Governmental activities:
No short-term debt was issued or outstanding in 2008.

Business activities:
No short term debt was issued or outstanding in 2008.

F. Long-term debt

General obligation bonds
The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$ 156.7 million. These issues carry variable interest rates adjusted quarterly equal to the composite interest rate earned on the investments of the City Treasury's pooled cash portfolio for the previous calendar quarter.

City of Tacoma, Washington
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For the Year Ended December 31, 2008

	GO Bonds and Public Works Trust Fund Loans (amounts expressed in thousands)	
	Governmental Activities	Business-type Activities
	Principal	Interest
2009	4,676	3,125
2010	4,826	2,967
2011	4,981	2,797
2012	5,161	2,618
2013	4,374	3,385
2014-2018	21,481	17,176
2019-2023	27,499	4,219
2024-2028	3,226	423
2029-2033	-	-
2034-2038	-	-
Total	\$76,216	\$36,710

	Business-type Activities	
	Principal	Interest
2009	1,350	3,168
2010	1,400	3,099
2011	1,460	3,029
2012	1,515	2,956
2013	1,580	2,881
2014-2018	6,920	13,205
2019-2023	11,050	10,892
2024-2028	13,955	7,803
2029-2033	17,855	4,144
2034-2038	6,030	416
Total	\$65,115	\$51,893

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows: (amounts expressed in thousands)

	Interest Rates	Amount
Governmental Activities	4.39%--5.63%	\$76,216
Business-type Activities	4.45%--4.86%	\$65,115

Special assessment bonds

The City has issued special assessment bonds in prior years for various capital construction purposes. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other foreclosure proceeds are received. As of December 31, 2008, the amount of LID Special Assessment delinquency equals \$33,402. The bond interest rates range from 3.9 to 5.6% and are payable over the next twenty years.

Annual debt service requirements to maturity for special assessment debt outstanding at year end are as follows:

	Special Assessment Debt (amounts expressed in thousands)	
	Governmental Activities	Business-type Activities
	Principal	Interest
2009	-	127
2010	-	127
2011	40	127
2012	-	125
2013	-	125
2014-2018	-	623
2019-2023	-	623
2024-2028	6,758	374
Total	\$6,798	\$2,252

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Revenue Bonds and Loans

The City also issues bonds where the City pledges income derived from acquired or constructed assets to pay debt service. The original amount of revenue bonds, WA public works board loans and drinking water state revolving loans issued in prior years was \$ 1.2 billion. During the year, \$ 1.4 million were issued to refund a portion of the 1997 solid waste revenue refunding bonds, and for a treatment plant upgrade for the Sewer fund.

	Revenue Bonds and Loans (amounts expressed in thousands)	
	Business-type Activities	Interest
	Principal	Interest
2009	47,596	49,684
2010	52,285	46,749
2011	54,760	44,223
2012	57,442	41,551
2013	60,191	38,021
2014-2018	342,575	147,646
2019-2023	283,684	67,009
2024-2028	90,372	28,199
2029-2033	55,475	12,754
2034-2036	19,705	2,028
Total	\$1,074,085	\$479,864

Changes in long-term debt

	Governmental activities--long-term (amounts expressed in thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds	68,465	-	(3,654)	64,801
Less: Unamortized discount	(35)	-	2	(33)
Public works trust fund loan	12,331	-	(915)	11,416
Bond anticipation notes	1,607	4,816	0	6,423
Special assessment debt	740	-	(365)	375
Capital leases	-	-	-	3,401
Claims and judgments	55,508	8,590	(9,756)	54,342
Accrued employee leave benefits	17,293	13,837	(13,150)	18,280
Governmental activities--long-term liabilities	\$166,199	\$27,243	(\$27,838)	\$165,605
				\$54,369

Business activities--long term

	Business activities--long term (amounts expressed in thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
Revenue bonds	1,087,877	13,993	(53,342)	1,048,528
Water public works board and drinking water state revolving loans	26,742	-	(1,735)	25,007
Municipal liability	10,021	-	(645)	9,376
General obligation bonds	66,420	-	(1,305)	65,115
Plus: Unamortized premium	20,060	3,911	(3,228)	20,743
Less: Unamortized discount	(759)	-	109	(650)
Less: Loss on refundings	(18,982)	(827)	2,782	(17,027)
Less: Loss on defeasance	(1,023)	-	148	(875)
Bond anticipation notes	1,283	-	(733)	550
Capital leases	256	-	(36)	220
Environmental liability	3,762	-	(1,261)	2,501
Landfill closure cost liability	36,561	3,272	-	39,833
Accrued employee leave benefits	13,560	12,469	(11,293)	14,736
Business activities--long-term liabilities	\$1,245,778	\$52,838	(\$70,539)	\$1,228,077

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Business activities—long term liabilities - \$500,000 has been accounted for in payable from restricted assets—current liabilities. See Proprietary Funds Statement of Net Assets.

Long-term liabilities are included as part of the above totals for governmental activities. At year end, \$1.6 million of internal service funds compensated absences were included in the above amounts. For governmental activities compensated absences are liquidated by the general or special revenue funds.

Refunding trustee

The Solid Waste fund sold Revenue Refunding Bonds series 2008, par value \$12.1 million on September 5, 2008. The proceeds of the sale were used to refund \$13.1 million of the 1997 Revenue Refunding Bonds. The Solid Waste fund used operating cash of \$10.0 million to defease \$9.8 million of the 1997 Refunding Bonds in 2008. Loss on the defeasance was \$669,531 and \$442,000 was transferred from the bond reserved fund to the bond construction fund. 2006 Series B Refund Refunding Bonds, par value \$22.3 million were sold on September 2006 for total proceeds of \$23.8 million. As of December 31, 2008, \$30.8 million of the bonds outstanding are considered refunded or defeased.

In 2006, the Sewer fund issued par value \$55 million of Sewer Revenue and Refunding Bonds for total proceeds of \$56.2 million and payable over 30 years. They used \$9.6 million of operating cash to defease \$9 million of the 1994B Revenue Refunding Bonds. The cost of the defeasance was \$689,637. As of December 31, 2008, \$19.9 million of the bonds outstanding are considered refunded or defeased.

The Power fund has \$197.8 million of outstanding Revenue and Revenue and Refunding bonds considered defeased.

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

G. Restricted assets

The balance of the restricted assets accounts in the enterprise funds are as follows:

(amounts expressed in thousands)	
Cash for construction	153,339
Cash for debt service	54,021
Cash for other special purposes	94,292
Investments for other purposes	3,275
Notes and contacts receivable	5,085
Customer deposits	—
Total restricted assets	\$310,012

H. Related party transactions

The City is not aware of any related party transactions.

I. Federal Compliance Requirements for Municipal Securities Issuers.

Internal Revenue Code Sections 103 and 148-150 and U. S. Treasury Regulation Sections 1.148-1; 150 require that most tax-exempt bonds issued after August 31, 1986 are subject to the arbitrage rebate requirement and the tax-exempt proceeds subject to yield restrictions.

The City monitors the tax-exempt issues for compliance and rebates.

The Internal Revenue Service (IRS) does correspondence examinations periodically. In May 2004 the IRS began an examination on 6 tax-exempt bond issues of \$225 million in bonds for Tacoma Power, Tacoma Water, Environmental Service and Wastewater Management and General Government. In April 2005 the City received notification from the IRS that they had successfully completed the correspondence examination. There have been no other Federal Compliance issues since then.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

J. Reserved Fund balances in the fund financial statements, the governmental funds report a reserve of fund balances that are legally segregated for a future use or are not available for appropriation.

Reserved fund balances at December 31, 2008 are as follows:

	General Fund	Other Governmental Funds	Total
Reserved for:			
Encumbrances	3,333	21,029	24,362
Advances to other funds	15,630	7,513	23,143
Other purposes	5,908	5,221	11,129
Total reserved fund balance	\$ 24,871	\$ 33,763	\$ 58,634

Reserved for encumbrances. A reserve is reported to recognized outstanding commitments in subsequent periods.

Advances to other funds. The reserve should agree with the advances to other funds to segregate current financial resources that are not available for appropriation.

Other purposes. The reserve is used to match the reservation of fund balance to the long-term receivables and inventory reported in the governmental funds. Even though, this represents a financial resource, this does not constitute a current financial resource because the receipt is not expected until future years.

Note 5 Pension plan(s) obligations and other post employment benefits

Employees of the City, other than law enforcement officers, firefighters, and railroad employees, are covered by the Tacoma Employees' Retirement System, an actuarially funded system operated by the City. Law enforcement officers and firefighters are covered by the Law Enforcement Officer and Firefighter Retirement System (LEOFF) which is operated by the State of Washington for law enforcement officers and firefighters throughout the State of Washington. Additionally, the City administers two single employer pension funds as required by State Statute - a Police Relief and Pension Fund and a Firemen's Relief and Pension Fund.

A. Tacoma Employees' Retirement System Fund (TERS)

1. Administration of the System: The "Tacoma Employees' Retirement System" is a local single employer defined benefit pension retirement plan covering City of Tacoma employees. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and benefit provisions are established in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code. There are currently 1,820 retirees and beneficiaries receiving benefits, 367 vested terminated employees entitled to future benefits; and 3,124 active members of Tacoma Employees' Retirement System, as of December 31, 2008.

2. Basis of Accounting: The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

3. Investments: Equity securities; fixed income securities; real estate and short-term investments are all reported at fair market value. Fair market value was determined by our custodian bank utilizing standard industry practices and verified by our performance consultant. No investment in any one corporation or organization exceeded 5% of net assets available for benefits.

4. Contracts: The system has no securities of the employer and related parties included in the plan assets. The system has not made any loans to the employer in the form of notes, bonds, or other instruments.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

5. Benefits: The pension received upon 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) which is determined based on the member's age and years of service. The system also provides death and disability benefits.

6. Contribution Rates: Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute based on the rates provided in the following table:

Applicable Period	City Rate	Member Rate	Total Rate
1/1/1980 to 12/31/1996	10.44%	8.89%	19.33%
1/1/1997 to 12/31/2000	9.02%	7.68%	16.70%
1/1/2001 to 2/1/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64%	7.36%	16.00%
1/1/2010 to Forward	9.72%	8.28%	18.00%

Contributions city-wide totaled \$27.2 million in 2008 (\$14.5 million employer contributions and \$12.7 million employee contributions) and totaled \$25.7 million in 2007 (\$13.6 million employer contributions and \$12.1 million employee contributions).

7. GASB Statement 50: The note disclosures above emphasize the employer disclosures with additional detailed information presented in an independent annual report issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 747 Market Street, Room 1544, Tacoma, WA, 98402.

8. Funding Status and Progress: Historical trend information about TERS is presented with supplementary information and can be found in the required supplementary information section of this report. This information is intended to help assess TERS funding status on a going-concern basis, and assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

9. Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date:	January 1, 2009
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Percentage of the System's Projected Payroll
Remaining Amortization Period:	30 Years (Open)
Asset Valuation Method:	Assets are valued at market value, with a four year smoothing of all market value gains and losses.

Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	4.25%
Includes Inflation at	3.25%
Cost of Living Adjustments	2.125%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation may be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of Tacoma Employees' Retirement System funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in analysis of Tacoma Employees

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

Retirement System progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

Annual Pension Cost and Net Pension Obligation:

The City's annual pension cost and net pension obligation to the Retirement System for 2008 were as follows:

Annual Required Contribution (ARC):	(amounts expressed in millions)
Adjustment to ARC:	\$14.3
Annual Pension Cost (APC):	0.0
Employer Contribution:	14.3
Increase/ (Decrease) in Pension Obligation:	(0.6)
Net Pension Obligation at beginning of year:	(0.4)
Net Pension Obligation at end of year:	\$(1.0)

Trend Information
(\$ in millions)

Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
12/31/2002	\$11.6	100%	\$(0.4)
12/31/2003	\$11.6	100%	\$(0.4)
12/31/2004	\$13.0	100%	\$(0.4)
12/31/2005	\$13.1	100%	\$(0.4)
12/31/2006	\$13.2	100%	\$(0.4)
12/31/2008	\$14.3	100%	\$(1.0)

B. Law Enforcement Officers' and Firefighters' Retirement System (LEOFF)

The City of Tacoma contributes to the LEOFF system, a contributory cost sharing, multi-employer retirement plan administered according to state statute by the State of Washington through the Department of Retirement Systems, per RCW 41.26 for all uniformed law enforcement officers and firefighters. The LEOFF system contains two plans. Retirement benefits are financed by employee and employer contributions, investment earnings and legislative appropriation.

Participants who joined the system by September 30, 1977 are Plan I members. Those who joined thereafter are enrolled in Plan II. LEOFF provides retirement and disability benefits, and death benefits to plan members and beneficiaries. The benefit provisions were established under the authority of legislative statute.

Contribution rates for LEOFF Plan I are developed by the Office of State Actuary to fully fund the system. LEOFF Plan I members are required to contribute 0% of their annual covered salary and the City is required to contribute 0.48% during January, 2007 through August 2007 and 0.16% for 2008. The State is responsible for the balance of the funding.

LEOFF Plan II employers and employees are required to pay at the level established by the legislature. LEOFF Plan II members were required to contribute 8.64% during January 2008 through June 2008, and 5.83% during July 2008 through December 2008 of their covered salary. The City was required to contribute 5.35% January 2008 through June 2008, and 5.46% July 2008 through December 2008. The methods used to determine the contribution requirements were established under the authority of legislative statute.

The City's contribution for the years ending December 31, 2008, 2007, and 2006 of \$3.8 million, \$3.1 million, and \$2.6 million, respectively, are equal to the required contributions for each year. This represents the City's full liability under the system, except for certain medical and disability obligations as covered under the Police and Firefighter's Relief and Pension Funds outlined below.

Pursuant to GASB Statement 27, the note disclosures above provide the employer disclosures and summarize detailed information presented in the independent CAFR issued by the State of Washington. Further detailed information regarding these disclosures can be found in that report. That report may be obtained by writing to State of Washington, Office of Financial Management, Insurance Building, P.O. Box 43113, Olympia, WA 98504-3113.

C. Police and Firefighter's Relief and Pension Funds

1. Plan description:

The Police Relief and Pension Fund (PRP) and the Fire Relief and Pension Fund (FRP) are single-employer, defined benefit pension funds established and administered by the City in accordance with the requirements of the RCW. Since the effective date of the LEOFF on March 1, 1970, no payroll deductions for active employees have been taken under these pension plans.

These plans also provide post-employment healthcare benefits to members of the plans and certain excess pension benefits to LEOFF members hired prior to October 1, 1977.

No new employees have been covered by either of these plans since March 1, 1970. Pension obligations for all firefighters and law enforcement officers retired since March 1, 1970, whether hired before or since that date, have been assumed by the State of Washington Law Enforcement Officers and Firefighters Retirement System (LEOFF), with the exception of certain minimal benefits in excess of the LEOFF benefits. There are 0 active Police Officer and 2 active Firefighters with prior rights covered under these plans as of December 31, 2008. Retirees and beneficiaries of deceased retirees eligible to receive pension benefits currently number 200 for the PRP and 244 for the FRP as of December 31, 2008. There are no terminated employees under either plan who are entitled to benefits but not receiving them.

A member of the FRP is eligible for retirement after completion of service for a period of five years or more and attainment of age 50. A member is eligible for disability benefits if disabled for a minimum of six months. An individual becomes vested after five years of service. A member of the PRP is eligible for benefits after completing 25 years of service. An individual becomes vested after five years of service. Since there have been no new employees covered under these systems since 1970, all employees are fully vested.

The PRP and FRP make three types of payments: (1) pensions to eligible members retired prior to March 1, 1970, (2) amounts to certain eligible members retired after that date if the amount received from LEOFF does not equal or exceed the amount entitled from the appropriate prior pension fund, and (3) medical services for both active and retired firefighters and law enforcement officers, excluding those hired since October 1, 1977. The medical services are an obligation that may be paid directly from the City's General Fund if so desired. The pension benefits are tied to the current pay rates for the rank the members held at retirement and/or the cost of living index. Benefits are established in accordance with RCWs 41.16, 41.18, 41.20 and 41.26.

Benefits are calculated based on length of service (a percentage for each year of service) and on the final average salary (calculated over the last two years of credited service). There were no changes in benefit provisions in the current year.

Each police officer or firefighter in service on March 1, 1970 receives the greater of benefit payable under the LEOFF system and the benefits available under the old law. Where benefits under the old law exceed those under LEOFF, the excess benefits are paid by the Pension Fund of the City employing him/her on March 1, 1970.

Post-retirement medical benefits are available to firefighters and law enforcement officers hired before October 1, 1977 only. For retirees before June 8, 1961, only medical expenses that are directly related to their disability retirement are eligible for payment. Those who retired or will retire after June 8, 1961, have medical insurance paid by the City through the City's normal medical insurance carrier. The City will also pay any expense in excess of those covered by the medical insurance carrier. All benefits are funded on a pay-as-you-go basis. At December 31, 2008, there were 231 retired law enforcement officers and 284 retired firefighters who are eligible for medical coverage (this does not include active employees).

The post retirement medical benefits are accounted for in the PRP and FRP trust fund financial statements. Since these benefits are paid on a pay-as-you-go basis - the beginning fund balance is zero; contributions of \$2.9 million and \$3.4 million were made for PRP officers and FRP officers, respectively, which equaled benefits paid; and the ending fund balance is zero.

2. Basis of Accounting:

The financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which they are due and the City has made a formal commitment to provide the contributions. Expenses are recorded when the liabilities are recognized when due and payable in accordance with terms of the plan.

3. Investments:

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair market value.

4. Contributions required and contributions made:

The PRP is funded entirely from a biennially budgeted contribution from the City's General Fund. Funding of these benefits is required by RCW. The General Fund is responsible for ensuring that the fund has adequate cash to pay its obligations each year. Total contributions to the PRP were \$6.9 million in 2008.

The FRP is funded from two sources: (1) 22-1/2 cents per \$1,000 of assessed valuation has been earmarked from property taxes as authorized by R.C.W. 41.16.060, and 25% of the tax on fire insurance premiums collected by the State is earmarked by State law for distribution to cities for this purpose. This amount was \$5.2 million in 2008; and (2) the balance of 1.3 million is made up of a biennially budgeted contribution from the City's General Fund. Funding of these benefits is required by RCW. Total contributions to the FRP were \$6.5 million in 2008. There have been no required employee contributions to the police and firefighter's relief and pension plans since March 1, 1970.

An actuarial valuation of these funds will no longer be performed on these plans because all monies in the "prior" system funds were transferred to the State of Washington on March 1, 1970. No new employees have been covered by either of these plans since March 1, 1970. These plans are funded on a "pay as you go" basis using a cash flow projection performed by Milliman rather than an actuarial funding plan to liquidate liabilities which is not considered material. The City uses this cash projection to budget annual amounts to transfer to these funds for benefits. Actual expenditures may be greater or less than the budgeted amounts. Monies are transferred as needed.

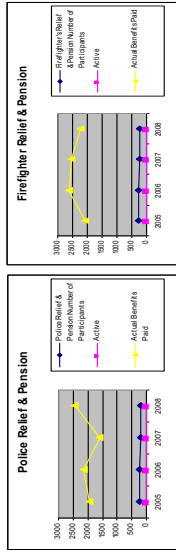
The number of participants and actual benefits paid (in thousands) has been fairly constant over the years:

Year-End	Police Relief & Pension Number of Participants		Actual Benefits Paid		Firefighter's Relief & Pension Number of Participants		Actual Benefits Paid	
	12/31/2005	223	0	1,962	12/31/2005	265	3	2,070
12/31/2006	215	0	0	2,146	12/31/2006	261	2	2,603
12/31/2007	205	0	0	1,596	12/31/2007	249	2	2,529
12/31/2008	200	0	0	2,453	12/31/2008	244	2	2,243

The financial statements of the PRP and FRP are included in the City's annual financial report in the Combining Fiduciary statement section. A separate audit report is not issued for these pension plans. Further detailed information regarding these pension plans may be obtained by writing to the City of Tacoma - Fire and Police Pension, 747 Market Street, Room 1520, Tacoma, WA 98402.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

(Tables amounts for Actual Benefits Paid expressed in thousands)



D. Other Post Employment Benefits (OPEB) Than Pensions

1. Plan description:

The City contributes to two single-employer defined benefit plans: Tacoma Employees' Retirement System Fund (TERS) and Law Enforcement Officers' and Firefighters' Retirement System Plan II (LEOFF II), one agent multi-employer plan: Law Enforcement Officers' and Firefighters' Retirement System Plan I (LEOFF I) and the Railroad Retirement System which is an independent agency in the executive branch of the U.S. Government which administers the Railroad Retirement Act. The benefits under the Railroad Retirement Act are not payments under a 'pension plan' but rather are grants under a Federal statute. Railroad benefit amounts are divided into a social security level benefit, staff-type benefits based on a railroad services, and in some instances a dual benefit component. Each plan provides medical benefits to eligible retired city employees and beneficiaries.

Benefit provisions for TERS are established in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code. These statutes assign the authority to establish benefit provision for TERS. For LEOFF Plan II, benefits are established in accordance with RCWs 41.16, 41.18, 41.20 and 41.26. These statutes assign the authority to establish benefit provisions. For LEOFF Plan I, these benefit provision are state statute by the State of Washington through the Department of Retirement Systems, per RCW 41.26. For the Railroad Retirement System, these are administered by Federal statute under the Railroad Retirement Act (45 U.S.C. 231 et seq.) and authority resides by these Federal statutory provisions. Each plan issues an available financial report that includes financial information for that plan except LEOFF Plan II which is presented on the Combining Statements. Those reports may be obtained by writing at the following addresses:

TERS LEOFF Plan I
Tacoma Employees' Retirement System State of Washington
747 Market Street, Room 1544 Office of Financial Management
Tacoma, WA 98402 P.O. Box 43113
Olympia, WA 98504-3113

LEOFF Plan II U.S. Railroad Retirement Board
City of Tacoma 844 North Rush Street
747 Market St Rm 1520 Chicago, IL 60611-2092
Tacoma, WA 98402

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

2. Funding Policy and Annual OPEB Cost:

The City is financing the plans on a pay-as-you-go basis. The railroad retirement benefits are paid from the Railroad Retirement Account, maintained by the Department of the Treasury of the U.S. and is financed through taxes levied upon railroad employees and employers by the Railroad Retirement Tax Act (26 U.S.C. 3201 et seq.), which is administered by the Internal Revenue Service.

The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate. The valuation interest rate used is 4.00% based upon the expected return for the short-term fixed income securities. This rate is used, as the required contributions net of benefits paid, are not prefunded.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year. The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The Annual Required Contribution (ARC) is the amount the City would be required to report as an expense for the year. The ARC is equal to the Normal Cost plus an amount to amortize the unfunded Actuarial Accrued Liability (AAL). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Each year the ARC, less current year benefit payments, will accumulate as a liability, Net OPEB Obligation, on the balance sheet.

	TERS	LEOFF Plan I	LEOFF Plan II	Rail
Annual Required Contribution				
Normal Cost at Year-end	2,971,267	640,887	1,299,261	38,319
Amortization of UAAL	1,151,255	7,575,320	458,315	24,714
Annual Required Contribution (ARC)	\$ 4,122,522	\$ 8,216,207	\$ 1,757,576	\$ 63,033
Net OPEB Obligation				
Annual Required Contribution	4,122,522	8,216,207	1,757,576	63,033
Interest on prior year Net OPEB obligation	99,815	59,572	69,757	(3,885)
Adjustment to ARC	141,277	84,317	98,733	(5,499)
Annual OPEB Cost	4,081,060	8,191,462	1,728,600	64,647
Contributions made	1,869,270	7,243,274	49,947	104,476
Increase in Net OPEB Obligation	\$ 2,211,790	\$ 948,188	\$ 1,678,653	\$ (39,829)
Net OPEB Obligation - Beginning of Year	2,495,369	1,489,304	1,743,924	(97,122)
Net OPEB Obligation - End of Year	\$ 4,707,159	\$ 2,437,492	\$ 3,422,577	\$ (136,951)

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

	2007 Monthly Premium Levels	Projected Claim Cost per Retiree	Value of Retiree Premium
TERS:			
Preferred Selections	\$ 891.38	\$ 1,479.44	\$ 588.06
	\$ 947.37	\$ 1,532.44	\$ 585.07
Rail:			
Preferred Selections	\$ 891.38	\$ 1,479.44	\$ 588.06
	\$ 947.37	\$ 1,532.44	\$ 585.07

	2007 Monthly Premium Levels	Projected Claim Cost per Retiree	Value of Retiree Premium
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LEOFF Plan II:

Fire			
Preferred			
Male Retirees & Spouses			
Age 50	\$ 830.31	\$ 421.85	\$ (408.46)
Age 55	\$ 830.31	\$ 564.52	\$ (265.79)
Age 60	\$ 830.31	\$ 741.85	\$ (88.46)
Age 64	\$ 830.31	\$ 998.84	\$ 168.53
Female Retirees			
Age 50	\$ 830.31	\$ 485.08	\$ (345.23)
Age 55	\$ 830.31	\$ 585.66	\$ (244.65)
Age 60	\$ 830.31	\$ 708.22	\$ (122.09)
Age 64	\$ 830.31	\$ 901.78	\$ 71.47
Female Spouses			
Age 50	\$ 830.31	\$ 488.74	\$ (341.57)
Age 55	\$ 830.31	\$ 587.00	\$ (243.31)
Age 60	\$ 830.31	\$ 708.65	\$ (121.66)
Age 64	\$ 830.31	\$ 901.88	\$ 71.57
Selections	\$ 880.31	N/A	N/A

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

	2007 Monthly Premium Levels	Projected Claim Cost per Retiree	Value of Retiree Premium
Police Local 6			
Preferred			
Male Retirees & Spouses			
Age 50	\$ 688.30	\$ 367.51	\$ (320.79)
Age 55	\$ 688.30	\$ 491.80	\$ (196.50)
Age 60	\$ 688.30	\$ 646.28	\$ (42.02)
Age 64	\$ 688.30	\$ 870.17	\$ 181.87
Female Retirees			
Age 50	\$ 688.30	\$ 422.59	\$ (265.71)
Age 55	\$ 688.30	\$ 510.21	\$ (178.09)
Age 60	\$ 688.30	\$ 616.99	\$ (71.31)
Age 64	\$ 688.30	\$ 785.61	\$ 97.31
Female Spouses			
Age 50	\$ 688.30	\$ 425.78	\$ (262.52)
Age 55	\$ 688.30	\$ 511.38	\$ (176.92)
Age 60	\$ 688.30	\$ 617.36	\$ (70.94)
Age 64	\$ 688.30	\$ 785.70	\$ 97.40
Selections	\$ 738.30	N/A	N/A

	2007 Monthly Premium Levels	Projected Claim Cost per Retiree	Value of Retiree Premium
Police non-Local 6			
Preferred			
Male Retirees & Spouses			
Age 50	\$ 702.90	\$ 299.72	\$ (403.18)
Age 55	\$ 702.90	\$ 401.08	\$ (301.82)
Age 60	\$ 702.90	\$ 527.07	\$ (175.83)
Age 64	\$ 702.90	\$ 709.66	\$ 6.76
Female Retirees			
Age 50	\$ 702.90	\$ 344.65	\$ (358.25)
Age 55	\$ 702.90	\$ 416.10	\$ (286.80)
Age 60	\$ 702.90	\$ 503.18	\$ (199.72)
Age 64	\$ 702.90	\$ 640.70	\$ (62.20)
Female Spouses			
Age 50	\$ 702.90	\$ 347.24	\$ (355.66)
Age 55	\$ 702.90	\$ 417.05	\$ (285.85)
Age 60	\$ 702.90	\$ 503.49	\$ (199.41)
Age 64	\$ 702.90	\$ 640.77	\$ (62.13)
Selections	\$ 752.90	N/A	N/A

LEOFF Plan I: (1)

Preferred			
Police	\$ 369.00	N/A	N/A
Fire	\$ 435.00	N/A	N/A

(1) The monthly premiums reflect the amount paid by the City.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

The composition of interfund balances (amounts expressed in thousands) at December 31, 2008 is as follows:

Due To	Due From					Total
	General Fund	Sewer	Water	Power	Internal Service	
General Fund	-	27	-	26	7	\$771
Sewer	47	-	-	346	2	\$561
Water	2	-	-	557	7	\$566
Power	38	3	6	-	34	\$97
Internal Service Funds	14	6	450	965	1	\$1,516
Non-Major Governmental Funds	273	0	-	125	4	\$770
Enterprise Funds	230	1	-	78	22	\$445
Pension and Trust Funds	-	-	-	-	-	\$2
	\$604	\$47	\$456	\$2,197	\$77	\$3,184

Interfund balances result when transactions are recorded in the accounting system and payments are made between funds during the 13th period (period from after December 31st, 2008 until year-end close).

Advance From	Advance To			Total
	General Fund	Non-Major Governmental	Internal Service	
Non-Major Governmental	4,532	2,188	-	\$6,720
Non-Major Enterprise Funds	9,100	3,526	2,383	\$15,009
Internal Service Funds	2,018	1,799	-	\$3,817
	\$15,650	\$7,513	\$2,383	\$25,546

The below information provides detail of the interfund payable transactions:

The amount of \$4,512,000 due to the General Fund from Non-Major Governmental funds is for various Local Improvement Development projects, and for additional funding to complete the new Tacoma police headquarters and four new police substations.

The amount of \$9,100,000 due to the General Fund from Non-Major Enterprise funds resulted from the installation of a new septic system at Tacoma Narrows Airport and to purchase Sunriver Asset Management, LLC, buildings and the leasehold on which the buildings. The balance of these loans should be paid within subsequent years. In 2007, financing was needed for the Mountain Division Rail to provide interim financing for cash flow deficits.

The amount of \$2,018,000 due to the General Fund from Internal Service funds resulted from loans to pay for the cost of rehabilitation and acquisition of the Tacoma Municipal Building and to finance the acquisition of business systems improvements.

The amount of \$2,188,000 due to Non-Major Governmental funds from Non-Major Governmental funds resulted from loans to pay for condemnation and acquisition of certain blighted property and for asbestos removal, demolition, and site cleanup of said City-owned parcels. Additionally, funds were used in the refit and renovation of the Tacoma Fire Department fireboat Commencement.

The amount of \$3,526,000 due to Non-Major Governmental funds from Non-Major Enterprise funds was for various capital improvement projects at the Tacoma Dome.

The amount of \$1,799,000 due to Non-Major Governmental funds from Internal Service Funds resulted from financing the acquisition of business system improvements.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

4. Actuarial Methods and Assumptions:
Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members), and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation Date.....	January 1, 2007	LEOFF Plan I
Census Date.....	July 31, 2006	LEOFF Plan II
Actuarial Cost Method.....	Entry Age	IRail
Amortization Method.....	Level percentage of expected payroll	
Remaining Amortization Period.....	30 years, open	
Demographic Assumptions.....	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.	

Actuarial Assumptions:	4.00%	4.00%
Discount Rate.....	10.0% in the first year (2007-8), 9% in the second year, and graded down 1% per year to 5.00% per year in the sixth and beyond.	10.0% in the first year (2007-8), 9% in the second year, and graded down 1% per year to 5.00% per year in the sixth and beyond.
Health Cost Trend.....	4.00%	4.00%
Projected Payroll Increases.....	4.00%	4.00%

Note 6 Deferred compensation

The City offers its employees a deferred compensation plan through a third party created in accordance with Internal Revenue Code Section 457. The plan, available to all City permanent full-time and part-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable emergency, but the plan does offer a loan provision. An employee may defer 100% of their salary net of employee pension contributions and any Section 125 deductions. The 2008 contribution limits are \$15,500 for regular deferral, \$31,000 for pre-retirement and \$20,500 for age 50 provision deferrals. The City has agreed through contract negotiation with the Police union and the Fire union to match contributions made by all Police Officers and Fire Officers up to a maximum of \$192 per pay period.

Note 7 Interfund activity

Interfund activity is composed of three types of transactions. Transfers represent a sharing of resources between funds. At the fund level, these transfers increase or decrease individual funds resources, but they do not affect the City's total resources. Advances to and from other funds are loans between funds for capital or cash flow purposes. Due to and due from other funds represent internal charges for services except for utility services which are considered "external" in nature. These internal activities do not represent inflows or outflows of the City's resources; rather, they reflect resources being moved within the City. The effects of these transactions are included in the City's fund statements but are removed from the entity-wide financial statements.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

The amount of \$2,383,000 due to Internal Service funds from Non-Major Enterprise funds was due to improvements to the Pantages Theater, and to finance capital projects for Tacoma Rail.

	Transfers In					Total
	General Fund	Sewer	Water	Power	Non-Major Governmental Enterprise Funds	
General Fund	-	-	-	-	6,632	600
Sewer	6,800	-	-	-	-	480
Water	4,500	-	-	-	-	25
Power	25,382	-	-	-	-	514
Non-Major Governmental	510	-	-	-	3,888	4,228
Non-Major Enterprise	5,786	-	-	-	107	792
Internal Service Fund	-	-	-	-	2	391
	\$41,978	\$0	\$0	\$0	\$10,679	\$5,620
						\$3,132
						\$61,409

\$5,800,000 was transferred from Sewer Fund to General Fund to record the transfer of 2008 billed and unbilled gross earnings tax.

\$4,500,000 was transferred from Water Fund to General Fund to record the transfer of 2008 billed and unbilled gross earnings tax.

\$25,382,000 was transferred from Power Fund to General Fund to record the transfer of 2008 billed and unbilled gross earnings tax.

\$510,000 was transferred from Non-Major Governmental funds to General Fund to support Fire department operations, and right of way cleanup.

\$5,786,000 was transferred from Non-Major Enterprise funds to General Fund to record the transfer from Tacoma Rail and Solid Waste for 2008 billed and unbilled gross earnings tax.

\$6,682,000 was transferred from General Fund to Non-Major Governmental for property tax revenue transfer for debt service payments and various public works projects.

\$3,888,000 was transferred from Non-Major Governmental to Non-Major Governmental to record reimbursement for LID projects and to reimburse the Public Works Streets fund for street-related improvements.

\$107,000 was transferred from Non-Major Enterprise funds to Non-Major Governmental funds for REET (Real Estate Excise Tax) contributions for the South Park garage capital improvement.

\$2,000 was transferred from Internal Service funds to Non-Major Governmental funds for a Police Department Fund grant match.

\$600,000 was transferred from General Fund to Non-Major Enterprise funds to assist the Theatres (BCPA) throughout the year and to support operations.

\$4,228,000 was transferred from Non-Major Governmental to Non-Major Enterprise funds to transfer the pledge revenue from the Tourism and Convention Special Revenue fund to the Convention Center fund, and for a construction contribution to Tacoma Rail Mountain Division fund.

\$792,000 was transferred from Non-Major Enterprise funds to Non-Major Enterprise funds to record the transfer of the Convention Center Parking Garage associated debt from the Convention Center fund to the Parking Garage fund.

\$480,000 was transferred from General Fund to Internal Service funds to record donated vehicles for the Equipment Rental Fund.

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

The amount of \$25,000 was transferred from the Sewer Fund to Internal Service funds to record a donated vehicle for the Equipment Rental Fund.

\$514,000 was transferred from Water Fund to Internal Service funds to record 2008 Fleet Services contribution.

\$297,000 was transferred from Power Fund to Internal Service fund to record 2008 Fleet Services contribution.

\$1,400,000 was transferred from Non-Major Governmental to Internal Service funds to record the purchase of fire apparatus for the Equipment Rental Fund, and to contribute to Municipal Building maintenance costs.

\$391,000 was transferred from Non-Major Enterprise funds to Internal Service funds to record donated vehicles for the Equipment Rental Fund.

\$25,000 was transferred from Internal Service funds to Internal Service funds in order to transfer the balance at closing of the Human Resources Fund.

Note 8 Other information

A. Accounting changes

In 2008, the Legal Special Revenue fund 1400 was created for the purpose of managing all specially designated or restricted funds derived from or related to grants and donations for the legal department. In November 2006, GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This statement requires the City to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The estimate is required if one of five specified obligating events occurs. These are an imminent endangerment, violation of a pollution prevention-related permit or license, the government being named as a responsible party for remediation or for sharing costs, the government participating in pollution remediation, and lastly the government commences or legally obligates itself to commence pollution remediation. This statement was effective for the City's fiscal year ended December 31, 2008.

In May 2007, GASB issued Statement No. 50 Pension Disclosures and amendment of GASB Statements No. 25 and 27. This statement requires the City to disclose in the notes to the financial statements the current funded status of the pension plan as of the most recent actuarial valuation date.

B. Risk management

The City is self-insured for general liability, medical, benefits, unemployment and worker's compensation and records its claims and liabilities in the accrual basis of accounting. Liabilities include an estimate for Incurred But Not Reported (IBNR) claims. The estimate for reported claims is based on Risk Management and Legal Departments' projections and is adjusted annually. The IBNR for the self-insured employee's benefits is based on an average of 2-months claims from the reporting year. The General IBNR liabilities are calculated by a periodic actuarial study. The handling and paying of all general liability claims for which the City is found legally liable is accounted for in either the Self-Insurance Claim Fund or the TPU Self Insurance Claim Fund. Moneys are appropriated from various cost centers based on prior claims history and paid to these funds.

The self-insurance Program is maintained in conformity with all laws, rules and regulations pertaining thereto and in accordance with the Revised Code of Washington in RCW 35.21.085 (2). The City has carried a supplemental general liability policy with a \$20 million limit and a \$3 million deductible, renewable on August 13 of each year. As of August 2008, the policy has a \$15 million limit with a \$3 million self-insured retention. This policy is provided to supplement the City's current self-insurance

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

risk for settlements in excess of \$3 million. Supplemental liability policies are also held specifically for the Airport. This policy renews October 1st of each year. The City also has a policy to cover extraordinary worker's compensation claims with a liability limit of \$25 million with a \$1 million retention. This policy renews January 1st of each year.

The city carries property coverage with a maximum single occurrence limit of \$500,000,000 with \$100,000 deductible per occurrence, with exceptions. Earthquake coverage has a 5% or \$250,000, whichever is greater per building deductible. This policy renews March 1st of each year.

The TPU Self-Insurance Claim Fund was established in 1979 to cover general liability claims of the Power, Water, and Rail divisions. Tacoma Rail became a participant in 1985. Total assets in this fund are \$4.8 million. Settlement payments were within amounts available for coverage for the last three years—2008, 2007 and 2006.

Changes in estimated claims settlements liability for the past two years were as follows:

	Self Insurance Fund	Workers Compensation Fund	TPU Self Insurance Fund
	2008	2007	2008
Balance Jan 1, 2008	44,843	15,620	3,025
New Claims	1,820	34,866	2,127
Adjustments to Claims	2,297	(4,405)	2,294
Claims Payment	(5,293)	(1,238)	(4,467)
Balance Dec. 31, 2008	\$43,667	\$44,843	\$2,979
			\$3,025
			\$1,899

C. Prior Period Adjustments

Prior year adjustments are used for the correction of an error or the implementation of a new authoritative standard.

Subsequent to the issuance of the December 31, 2008 financial statements, prior period adjustments were made.

(amounts expressed in thousands)

Governmental Activities	Amount	Description
General Fund	(2,255)	To record prior year audit adjustments to utility gross earnings tax revenue, and to record permit charges for prior years.

PW Right-of-Way Streets 142 To transfer permit charges to the General Fund for prior year.
LID Bond Funds (535) To correct the recording of an LID internal note.

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Notes to Financial Statements
For the Year Ended December 31, 2008

Fund Name	Amount	Description
Facilities Management	(567)	To transfer the Parking Lot Reserve Fund from an internal service fund to an enterprise fund.
Self Insurance Claims	23	To transfer risk from Self Insurance Funds to Tacoma Rail, Water Fund, and Power Fund due to accounting requirements of GASB 10.

Entity-Wide Statements

Fund Name	Amount	Description
Governmental Activities	776	To adjust Capital Assets for previously unrecorded assets including parks, equipment, and infrastructure.
	(1,568)	To adjust Operating Grants and Contributions for prior year.
Total	(\$3,984)	

Business Activities

Fund Name	Amount	Description
Tacoma Rail Mountain Division	213	To reconcile the account balance and adjust the amounts carried over from SAP conversion.
Parking Garage Fund	(18)	To record the unamortized issue costs and bond premium for the 2004 Revenue Bonds, and to record the transfer of the Parking Lot Reserve Fund from an internal service fund to an enterprise fund.
Convention Center & Bicentennial Pavilion Fund	586	To reclass the parking portion of the unamortized issue cost and bond premium for the 2004 Revenue Bonds.
Total	\$ 781	

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

D. Segment Information
The following are the three segment enterprise funds maintained by the City. Segment information was as follows:
(amounts expressed in thousands)

CONDENSED STATEMENT OF NET ASSETS

	Convention Center & Bicentennial Pavilion Fund	Solid Waste Fund	Tacoma Rail	Total
Assets:				
Current assets	5,002	30,569	8,717	44,288
Due from other funds	-	84	195	279
Restricted assets	-	51,290	414	51,704
Capital assets	77,707	37,208	9,422	144,337
Other non-current assets	926	848	8	1,782
Total Assets	83,635	139,989	18,796	242,390
Liabilities:				
Current liabilities	2,294	12,077	870	15,241
Due to other funds	-	380	51	431
Current liabilities payable from restricted assets	-	689	-	689
Non current liabilities	75,033	120,448	4,971	200,452
Total Liabilities	77,327	133,604	6,892	216,823
Net assets:				
Invested in capital assets, net of related debt	2,606	22,431	6,042	31,079
Restricted	-	1,077	414	1,491
Unrestricted	3,702	(17,113)	6,408	(7,003)
Total net assets	6,308	6,395	12,864	25,567

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS**

	Convention Center & Bicentennial Pavilion Fund	Solid Waste Fund	Tacoma Rail	Total
Operating revenues	8,504	56,060	18,409	83,373
Depreciation expense	(2,191)	(6,324)	(611)	(9,126)
Other operating expenses	(4,820)	(41,782)	(16,398)	(63,000)
Operating income	1,893	7,954	1,400	11,247
Nonoperating revenues (expenses):				
Interest revenue	130	3,159	284	3,553
Interest expense	(3,872)	(4,185)	(174)	(8,231)
Other nonoperating revenues (expenses)	52	324	861	1,237
Capital contributions	-	-	-	-
Transfers	2,998	(4,617)	(1,561)	(3,180)
Change in net assets	1,201	2,635	790	4,626
Beginning net assets	4,521	3,760	12,074	20,355
Prior period adjustments	586	-	-	586
Ending net assets	6,308	6,395	12,864	25,567

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Notes to Financial Statements
For the Year Ended December 31, 2008

CONDENSED STATEMENT OF CASH FLOWS

	Convention Center & Bicentennial Pavilion Fund	Solid Waste Fund	Tacoma Rail	Total
Net cash provided (used) by:				
Operating activities	4,596	16,866	3,157	24,619
Noncapital financing activities	-	(4,146)	(1,560)	(5,706)
Capital and related financing activities	(2,545)	(10,885)	(1,919)	(15,449)
Investing activities	125	3,174	262	3,561
Net increase (decrease)	2,076	5,009	(60)	7,025
Beginning cash and cash equivalents	2,598	70,425	6,225	79,248
Ending cash and cash equivalents	4,674	75,434	6,165	86,273

E. The Performing Arts Center

As a result of subsequent transactions, the City entered into an Operating Agreement for possession and use of the building for a term of 35 years with two automatic renewal options of 10 years and 20 years. The future minimum annual lease payments paid by the Performing Arts Center Fund calculated at an implicit interest rate of 8 percent are as follows (amounts expressed in thousands):

2008	386
2009	358
2010	346
2011	321
2012	297
2013/2017	1,185,155
2018/2022	640,576
2023/2027	344,770
2028	54

In addition, the future annual minimum sublease payments received by the Performing Arts Center Fund calculated at an implicit interest rate of 8 percent are as follows (amounts expressed in thousands):

2008	345
2009	319
2010	311
2011	288
2012	266
2013/2017	1,063,304
2018/2022	392,326
2023/2027	85,002
2028	13

F. Tax expense - Utility Funds

The taxes expense shown in the statements for Enterprise Funds consists primarily of an 8.0% tax upon gross earnings for Tacoma Rail, Surface Water, Waste Water, and Solid Waste Fund, and a 6.0% tax upon gross earnings for Tacoma Power which is paid to the General Fund. Non-ferrous metal utilities also pay gross earnings tax at the following rates: Natural Gas, 6%; Cable TV, 8.0%; Electricity, 6%; Solid Waste Collection, 8% and Telephone, 6.0%.

City of Tacoma, Washington
Notes to Financial Statements
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disaster and their self insurance funds and resources were to be depleted, the City and other participating jurisdictions would be required to stand behind and make good the excess liability.

Under state law, the City is required to pay for unemployment and industrial insurance and medical aid. The City has chosen to self-insure rather than remit its payments to the state pool. See Note 8 B for risk management information.

B. Construction Commitments

The City has various construction projects as of December 31, 2008. The projects include street and capital project constructions for improvements of existing streets and bridges or new bridges. At year-end, the City's major commitments with the contractors are as follows: (amounts expressed in thousands)

Project	Bid Proposal	Spent To-Date	Remaining Commitment
1) Sector 4 Tacoma Police Substation	1,427	320	1,107
2) 58th Ave E Sanl Force Main	161	133	28
3) Permanent Street/SWR/WTR Impr union/Wash/Wapato/Huson	1,221	1,192	29
4) S. Tacoma Way Improvements Pine to S 38th	1,795	1,229	566
5) S. 69th St Madison to Durango & S. Proctor Watermain Impr	851	762	89
6) Pac Ave Arterial St Impr S17th to S 25th	1,923	1,725	198
7) Broadway LID (8645)	10,986	9,682	1,304
8) Thea Foss Waterway Esplanade Site 1	1,370	442	928
9) Thea Foss Waterway Esplanade Site 2	1,370	442	928
10) Tac Chinese Garden & Recon Ph II	776	65	711
11) Street & Utility Impr (LID 8642)	1,324	203	1,121
	\$23,204	\$16,195	\$7,009

These commitments are being funded by a variety of funding sources such as Federal, State and Local Grants, Gas Tax Revenue, City contributions and long-term debt.

C. Solid waste utility—landfill closure and post closure costs

The Solid Waste Utility operates a 235 acre landfill site which became part of the South Tacoma Channel Superfund Site in 1983. In United States et al., v. City of Tacoma, US District Court Cause No. C-89C583T, action was brought under CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) to require cleanup of City's Landfill. The City Solid Waste Fund elected to assume sole responsibility for cost and performance of cleanup to EPA (Environmental Protection Agency and DOE (Department of Ecology) standards. The Agencies and the City negotiated a settlement of the matter in the form of a Consent/Decree, which was approved by the United States District Court for the Western District of Washington in March 1991. Remediation consists of (1) covering the landfill with cap of soil, clay and plastic which will be impermeable to water; (2) capturing methane gas within and at landfill perimeter to prevent off-site migration; (3) pumping and treating ground water to remove contamination beyond property boundaries; (4) closing the landfill over the next 10 to 25 years in accordance with Tacoma Landfill Cleanup Consent Decree; (5) monitoring of cleanup results over the next 30 years. Initial remedial actions to comply with the Consent Decree were completed in prior years at a cost of \$22.9 million, of which \$11.5 million was reimbursed through Washington State DOE grants. State and Federal laws and regulations require the City of Tacoma Solid Waste Utility to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although future closure and post closure care costs will be paid only near or after the date the landfill stops accepting waste, Solid Waste began reporting a portion of these future closure and post closure care costs as an operating expense in 1994 based on landfill capacity used as of the balance sheet date.

The City reported \$39.8 million as landfill closure and post closure liability at December 31, 2008 represents an estimated closure and post-closure liability based on 97% use of total capacity of the landfill. The Solid Waste Utility will recognize an additional estimated cost of closure and post-closure liability of \$2.3 million as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2008. Actual cost may be higher or lower due to inflation, changes in technology, or changes in regulations. The City's permit to operate the landfill is

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

G. Results of operations of joint ventures

As discussed in Note 1, paragraph A, the Tacoma-Pierce County Health Department, and the Law Enforcement Support Agency (LESA) are joint ventures with Pierce County. Summary financial information on the joint ventures are listed below for the year of the last audited financials. These figures reflect the information as prepared and submitted to the City by the various entities. Cheney Stadium is included even though in the Combining Statements for Non-Major Enterprise Funds. The City is the fiscal agent for LESA and Cheney Stadium. Additional information about each entity can be obtained from separately published financial statements by each entity. None of the joint ventures have long-term bonded debt. Current debt is secured by a combination of assets and unrestricted net assets.

The joint ventures have accrued sick leave and vacation liabilities as follows (amounts expressed in thousands):

LESA	667
TPCHD	1,188

Cheney Stadium - in 2009, the City of Tacoma became the sole owner of Cheney Stadium. Prior to that, the City of Tacoma and Pierce County held an equal share interest (50% each) in the capital assets and were jointly responsible for financing deficits.

Law Enforcement Support Agency and Tacoma-Pierce County Health Department - The City and Pierce County are jointly responsible for approving the organizations' budgets, financing their deficits, receiving entitlement to their surpluses, and funding their operations (approximately 50% each).

Financial information for the joint ventures for the last audited year is summarized below:

JOINT VENTURES (amounts expressed in thousands)	Cheney Stadium		Health Department	
	12/31/08	12/31/06	LESA	Department
Balance Sheet Date		12/31/07		
Total Assets	\$7,444	\$5,462	\$10,539	3,851
Total Liabilities	10	1,437	6,688	187
Total Net Assets	7,434	4,025	2,332	2,396
Capital Assets (net of accumulated depreciation)	-	-	15,735	30,934
Total Revenues	121	15,443	32,260	284
Total Expenditures/Expenses	313	-	-	-
Other Non-Operating Revenues/Expenditures	2,135	-	-	-
Capital Contributions	2,797	-	292	(1,042)
Transfers	-	-	\$6,405	\$1,328
Net Increase/(Decrease) in Net Assets	4,740	-	-	-
City Contribution	\$ -	-	-	-

Note 9 Claims and Judgments

A. Claims
From time to time, claims have been filed against the City involving tort actions for such things as defective sidewalks, automobile accidents, claims of false arrest, etc.; all of which are in a sense routine in nature and common to all local governments. In those instances, when material, where it has been determined that it is probable that a claim will be paid by the City, the expenditure/expense and the related liability are reported in the statements of the appropriate fund in the year when such a determination is made. See Note 8 B for risk management information.

The City has entered into interlocal agreements with the Pierce County Health Department and the Law Enforcement Support Agency. If, in fact, any of these entities were to suffer a catastrophic

City of Tacoma, Washington
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valid through 2009 which one five-year renewal option based on meeting permitting agency parameters. The City will be responsible for the costs of additional work if migration of pollutant from the site is not completely controlled by current remedial actions. The City expects to operate the landfill through the year 2014. The City satisfies the requirements of 40 CFR Part 258(f) - "Local government financial test." To meet previous requirements of State and Federal laws and regulations, annual contributions were made to a reserve for financing closure and post closure care. As of December 31, 2008, \$2.7 million is held for these purposes, and is reported as a restricted asset on the balance sheet.

D. Potential environmental contamination or utility claims or suits

The City is identified as a responsible party in various environmental cleanup projects under the federal superfund statute. The City is involved in several lawsuits to recover a portion of the cleanup costs from other parties and recovery from insurance policies. The City has also received grant funding to defray some of these costs.

BPA Letter of Credit

In 2006, Bonneville Power Administration (BPA) offered its wholesale power customers, including Tacoma Power, the option to participate in their Flexible PF Rate (Power Bill Liquidity) program. The program is designed to provide potential reductions, in the rates and payments by reducing the need for BPA to retain additional cash reserves, and therefore, reducing the cost of BPA power to Tacoma Power's system. BPA requires each participant to provide a letter of credit to secure the participant's obligations under the program. In August 2006, Tacoma Power was issued a letter of credit (LOC) by Bank of America for an amount not to exceed \$30 million. Any fees associated with establishing and maintaining the LOC will be reimbursed annually by BPA on Tacoma Power's power bills up to a maximum of one percent of the LOC face value, if BPA continues with this program during the FY 2010-2011 rate period. Tacoma Power will continue to participate under similar terms. However, if it is determined that there are not significant savings to Tacoma Power by participation in this program, Tacoma Power intends to dissolve this LOC.

Clear Channel Outdoor

Clear Channel Outdoor, billboard advertising company, has challenged the City's billboard regulations. This matter is being handled by outside counsel.

Coal Gasification Site

The State Department of Ecology ("Ecology") has designated the City a PRP based on land ownership within this contaminated site. There are approximately five other PRPs. At this time, the City does not expect to conduct or pay for any additional cleanup work at the site. The City spent \$645,000 at the site from 1993 through 2003, the majority of which was spent in the earlier years. Ecology has indicated that it plans to initiate Consent Decree negotiations with the City and other potentially liable persons in 2009, to address additional remedial actions that must be performed to complete the cleanup of the Coal Gasification Site. This matter is being handled by the City Attorney's Office.

Commencement Bay Natural Resource Damage (NRD)

The City has resolved federal, state, and tribal natural resource damage claims associated with municipal stormwater discharges in Commencement Bay, through a Consent Decree that became effective on December 30, 1997. The stated value of the City's settlement is approximately \$7.7 million. Under the Consent Decree, (the NRDA Consent Decree) the City agreed to undertake five restoration projects within the Commencement Bay watershed, and make certain cash payments. Four projects have been completed. The City is expected to complete the fifth project in late 2009 or 2010.

Ongoing monitoring and maintenance of the various projects will continue through 2013. A liability of \$159,962 and \$329,961 in 2008 and 2007, respectively, has been accrued in the accompanying financial statements.

Although the City resolved its NRDA liability, 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.

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Cushman Federal Energy Regulatory Commission License

In 1974, Tacoma Power petitioned the Federal Energy Regulatory Commission (FERC) to relicense its Cushman Dam Project located on the Skokomish River near Hoodport, Washington. The Skokomish Tribe, along with others, contested significant portions of Tacoma Power's proposal before FERC. FERC issued a license in 1998 for the Cushman Project, but the proposed conditions significantly increased the cost of operating the project.

Tacoma Power appealed the license conditions to the U.S. Court of Appeals for the D.C. Circuit. The D.C. Circuit remanded the license back to FERC for consultation under the Endangered Species Act (ESA) after several salmonid species, including Fall Chinook, Summer Chum and Bull Trout, were listed as threatened under the ESA in 1999. FERC issued a license order in June 2004 that incorporated conditions from ESA biological opinions issued by USFWS and NOAA Fisheries in March 2004. At the same time, FERC lifted a stay of interim conditions, thus requiring Tacoma Power to install a valve in Cushman No. 2, increase the amount of spill from the project to 240 cfs and construct a bridge on the Reichert launch. On February 14, 2005, FERC denied rehearing and affirmed the License Order. Tacoma filed a petition for judicial review of the license in the D.C. Circuit and obtained a stay of the "interim conditions". The D.C. Circuit issued an opinion on August 22, 2006, remanding the license to FERC and lifting the stay on the interim conditions.

Tacoma Power, the Skokomish Tribe and the various federal and state agencies charged with giving input on the licensing articles agreed to a settlement on January 12, 2009. The settlement agreement, along with the proposed amended licensing articles, has been submitted to FERC for review and approval. A decision is expected by the end of 2009.

Tacoma Power continues to operate the Cushman Project pursuant to the 1998 FERC license which is subject to a partial stay.

Federal Energy Regulatory Commission Refund Proceedings

In July 2001, Tacoma Power, along with Seattle, Eugene, Northern Wasco PUD, Snohomish PUD and the Port of Seattle, sought from the Federal Energy Regulatory Commission (FERC) refunds from the sellers of power who sold power at extremely high prices during the energy crisis (October 2000 through April 2001) (the "Puget" proceeding). The Puget proceeding is a case that was bifurcated from a much larger original refund proceeding referred to as the California Refund proceeding. In the Puget Proceeding, Tacoma Power is requesting between \$65 and \$145 million in refunds arising from power being purchased at prices that were extremely unreasonable. FERC declined to grant refunds, stating that even assuming that the prices were unjust and unreasonable, relief could not be equitably granted because not all parties were subject to FERC jurisdiction, parties relying on the spot market would be rewarded over those choosing longer term purchases, there were too many transactions to trace, and not all upstream sellers might be identified. This matter was appealed to the U.S. Court of Appeals for the Ninth Circuit. In August 2007, the Ninth Circuit issued a decision in the "Pacific Northwest Refund Proceeding" (Puget, FERC docket No. EL 01-10), granting in part the petitions for review and remanding for FERC to reconsider its 2003 order denying refunds for charges in the Pacific Northwest that allegedly exceeded just and reasonable levels. The Court found FERC failed to consider market manipulation evidence and improperly excluded potential refunds for CERS purchases in the Pacific Northwest for delivery to California. On remand, the Court required the FERC to "examine this...evidence of market manipulation in detail and account for it in any future orders regarding the award or denial of refunds in the Pacific Northwest proceeding." Further, the Court strongly urged the FERC to consider its decision, on remand, in light of the related decisions of this court that followed FERC's final orders in Puget. This matter remains under the jurisdiction of the Ninth Circuit, as petitions for rehearing, filed by various sellers in December 2007, are still pending at the Court.

The Ninth Circuit has also consolidated and stayed some 150 appeals of FERC orders in the original California Refund proceeding, and has issued three opinions covering the major issues in the proceeding. The first of these opinions, in 2005, held that FERC did not have refund jurisdiction over municipal entities, but that the plaintiffs were not barred from pursuing contractual remedies. After this first opinion was issued, the State of California filed "claims" against all the municipal entities involved in the California Refund proceeding, including Tacoma. Tacoma received a claim in the amount of \$1.7 million on January 12, 2006. Tacoma has denied this claim, and it was not included in the suit filed by California against other municipalities.

Tacoma also intervened in three FERC investigative proceedings involving alleged tariff violations and

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

market manipulation by El Paso, Portland General Electric and Avista, pertaining to similar issues. Tacoma entered into a multi-party settlement of this proceeding with Portland General Electric, but was not a party to a settlement with El Paso. Tacoma's appeal in the Avista matter in the Ninth Circuit Court of Appeals is stayed pending decisions in the California Refund proceeding.

Tacoma Power also participates in consolidated "Gaming" and "Partnership" proceedings that FERC initiated in June 2003 to require a number of named entities to "show cause" why they ought not to be required to disgorge profits obtained as a result of market manipulation. After FERC settled with a number of parties, these proceedings largely focused on Enron. As did other parties, Tacoma reached a settlement with Enron in June 2006 in which Tacoma received the full amount of its bankruptcy claim against Enron, in the amount of \$3.3 million, as an "allowed claim" in the Enron bankruptcy. Tacoma subsequently entered into a multi-party settlement allocating distributions of monies FERC has received through settlements with parties other than Enron in these proceedings. FERC approved the settlement in December 2008, with the first of several distributions of funds to occur in early 2009.

Muckleshoot Indian Tribe Settlement

A mutually beneficial settlement agreement was reached with the Muckleshoot Indian Tribe in 1995. The settlement package has a cost of approximately \$30 million and includes five basic elements: 1) building a fish restoration facility and annual operation and maintenance of that facility, or in the alternative, providing \$12 million (indexed at 1995 dollars) into a fish restoration fund; 2) providing for enhanced flows in the Green River; 3) transferring certain lands; 4) establishing a trust fund payable over 40 years which is intended to provide for the general welfare, educational and other needs of the Tribe; and 5) limited access into the Green River Watershed. The settlement will resolve past damage claims by the Tribe for Tacoma Water's historical operations on the river, gain the Tribe's support for the Second Supply Project and provide the basis for a long-term, cooperative working relationship on the Green River.

Tacoma Water has been implementing this agreement. In 2005, Tacoma Water concluded the alternative payment under item 1, and the transfer of certain lands under item 3.

Port of Tacoma Lincoln Avenue Grade Separation Project Claim

On January 30, 2009, the Port of Tacoma ("Port") notified the City that it intends to file a future claim to recover a portion of the costs that the Port incurs handling, removing, and disposing of contaminated soil and refuse during the construction of its Lincoln Avenue Grade Separation project. The project includes surface street and utility improvements. In its notice, the Port indicated that it expects to encounter contaminated soil and refuse because a portion of its project extends into a historic landfill area used by the City in the 1940's and 1950's to dispose of municipal solid waste. The Port estimates the cost to handle, remove, and dispose of contaminated soil and refuse encountered during the Lincoln Avenue project could total around \$11.5 million, of which the City's share would be 40 percent.

Robison Construction Inc.

On Tacoma Water's Second Supply Pipeline construction project, the contractor has developed two potential "additional work" construction claims arising out of work done by its subcontractor Northwest Boring, in boring tunnels for the I-5 and Green River crossings. The potential claims total \$4,884,055. The claim for damages was filed in the spring of 2009.

Shaw EDS

There is a remaining dispute over \$867,216 in sales tax arising out of the approximately \$12 million Tacoma Power Narrows Crossing Replacement project. Shaw claims Tacoma Power owes this amount in sales taxes. Tacoma Power asserts they were included in the design build price. The amount of \$40,000 is still disputed.

Thea Foss Upland

The City acquired approximately 30 acres of property adjacent to the Foss Waterway, the majority of which is now owned by the Foss Waterway Development Authority. Much of the soil located on the properties was contaminated. Pursuant to a Consent Decree with the Department of Ecology, which became effective in 1994 and has been subsequently amended, the City has undertaken cleanup of several parcels of contaminated property within the 30-acre site. Some of the properties have since been redeveloped. The City filed two lawsuits to recover its cleanup costs against several companies historically responsible for contaminating certain parcels along the Foss Waterway. Mediation took place in late summer 2001 to settle the lawsuits before trial, which resulted in settlements with several

City of Tacoma, Washington
Notes to Financial Statements
For the Year Ended December 31, 2008

parties. Litigation may still be possible with one or more parties. The law firm of Mikkleberg, Broz, Wells & Fryer assisted the City with this matter, but is no longer under contract to the City. It is expected that any additional litigation will be handled by the City Attorney's Office.

Note 10 Contingent liabilities

Grants

Under the terms of federal and state grants, periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Some of the audits for the grants received by Wastewater and Surface Water Management have not yet been conducted by the granting agency; therefore, some expenditure may be disallowed. City management believes disallowances, if any, will be immaterial.

Note 11 Subsequent events

There were no subsequent events.

NAME OF BOND ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURIT Y DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT				
						O/S 01-01-08	ISSUED 2008	REDEEMED 2008	AMOUNT O/S 12/31/08	
Sewer Utility										
Sewer Revenue/Refunding Bonds 1994	Improvements/Refunding	11/01/94	1995 - 2009	42,519	5.5660	350	-	-	350	
Sewer Revenue Bonds 2001A	Improvements/Refunding	10/15/01	2016 - 2031	53,200	5.1269	38,035	-	-	38,035	
Sewer Revenue Bonds 2001B	Improvements	12/01/01	2008	1,790	4.0000	1,790	-	1,790	-	
Sewer Refunding Bonds 2002	Refunding	03/01/02	2002 - 2015	28,990	4.4240	17,965	-	-	17,965	
State Revolving Fund (SRF) Loan	Treatment Plant Upgrade	09/19/03	2008 - 2027	72,000	1.5000	74,842	336	-	75,178	
Sewer Rev & Ref Bonds 2006	Improvements/Refunding	06/29/06	2006 - 2036	55,000	4.8852	54,950	-	-	54,950	
Subtotal Sewer						187,932	336	1,790	186,478	
Solid Waste Utility										
Refuse Utility Bonds 1997 B	Refunding	04/01/97	2000-2019	60,370	5.8725	23,520	-	14,890	8,630	
Solid Waste Rev & Ref Bonds, 2001	Additions/Refunding	10/15/01	2008-2021	32,915	5.0504	10,490	-	1,405	9,085	
Solid Waste Revenue Bonds, 2006A	Capital Improvements	07/12/06	2013-2026	29,385	-	29,385	-	-	29,385	
Solid Waste Rev/Ref Bonds, 2006B	Refunding	09/27/06	2014-2021	22,315	-	22,315	-	-	22,315	
Solid Waste Rev/Ref Bonds, 2008	Refunding	09/05/08	2013-2017	12,055	3.8577	-	12,055	-	12,055	
Subtotal Refuse						85,710	12,055	16,295	81,470	
Electric System										
Electric System 1999	Capital Improvements	08/01/99	2013-2020	36,045	5.4900	13,500	-	-	13,500	
Electric System 2001A	Cap Impr. & Refunding	06/15/01	2003-2021	191,510	4.7307	54,560	-	5,605	48,955	
Electric System 2001B	Capital Improvements	10/03/01	2006-2012	101,860	4.7307	78,800	-	12,530	66,270	
Electric System 2004A	Capital Improvements	06/08/04	2005-2017	82,655	4.6376	68,005	-	5,165	62,840	
Electric System 2005A	Capital Improvements	10/04/05	2010-2021	93,480	4.2200	93,480	-	-	93,480	
Electric System 2005B	Capital Improvements	10/04/05	2008-2021	156,425	4.2900	155,370	-	880	154,490	
Electric System 2007	Refunding	03/13/07	2008-2015	81,130	3.7949	81,130	-	1,095	80,035	
Subtotal Electric System						544,845	-	25,275	519,570	
Water System										
Water Sys Ref. Rev Bonds 2001	Construction	12/01/01	2002-2023	32,900	4.9731	30,840	-	380	30,460	
PW-DWSRF-00-65120-031	Construction	10/07/02	2003-2021	3,060	2.5000	2,255	-	161	2,094	
PW -00-691-PRE-115	Construction	04/11/01	2002-2021	1,000	0.5000	737	-	53	684	
PW-01-691-061	Construction	08/27/01	2002-2021	10,000	0.5000	7,467	-	534	6,933	
PW -01-691-PRE-127	Construction	02/15/02	2003-2021	1,000	0.5000	759	-	55	704	
PW-02-691-056	Construction	06/17/02	2004-2022	10,000	0.5000	7,969	-	531	7,438	
Water Sys Rev Bonds 2002	Construction Regional Supply	12/15/02	2005-2032	86,550	4.8820	80,300	-	1,150	79,150	
Water Sys Ref & Rev Bonds 2003	Construction & Refinance	09/01/03	2004-2023	51,380	4.2340	40,695	-	2,865	37,830	
PW-04-691-PRE-101	Construction	03/19/04	2004-2024	1,000	0.5000	907	-	53	854	
Water Sys Ref & Rev Bonds 2005	Construction & Refinance	10/11/05	2006-2025	46,550	4.6390	44,475	-	1,665	42,810	
PW-06-962-043	Construction	07/18/06	2007-2026	6,650	0.5000	6,650	-	350	6,300	
Subtotal Water System						223,054	-	7,797	215,257	

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CITY OF TACOMA, WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR DECEMBER 31, 2008

NOTE 12
CHANGES IN LONG TERM DEBT
(all dollar values in thousands)

NAME OF BOND ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURIT Y DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT				
						O/S 01-01-08	ISSUED 2008	REDEEMED 2008	AMOUNT O/S 12/31/08	
GENERAL OBLIGATION BONDS, LOANS, & NOTES										
Unlimited General Obligation Bonds										
Genl Obl Bonds 2002	Police HQ & Substations	06/01/02	2003-2022	34,300	4.8448	29,230	-	1,385	27,845	
Subtotal Unlimited (Voted)						29,230	-	1,385	27,845	
Limited General Obligation Bonds										
Ltd. Genl Obl Bonds 1997 Ser B	Capital Improvements	08/05/97	2008-2018	16,100	5.4554	6,050	-	209	5,841	
Ltd. Genl Obl Bonds 2001	Cap Imp & Ref '92 & '94 LTG	07/15/01	2003-2014	17,390	4.4598	10,680	-	1,750	8,930	
Ltd. Genl Obl Bonds 2004 Conv Ctr	Construction	08/05/04	2004-2034	51,900	4.8573	49,945	-	1,015	48,930	
Ltd Genl Obl Bonds 2006A Conv Ctr	Improvements	09/10/06	2008-2036	16,475	4.4537	16,475	-	290	16,185	
Ltd. Genl Obl Bonds 2006B	Refund 1997A LTGO	10/09/06	2004-2014	12,885	4.3942	12,885	-	0	12,885	
Ltd. Genl Obl Bonds 2007 Parking Structur	Retrofit Parking Structure	12/21/07	2008-2027	9,610	5.6328	9,610	-	310	9,300	
Subtotal Limited (Councilmanic)						105,645	-	3,574	102,071	
Washington State Public Works Trust Fund Loan										
CTED PWTf No. 98-791-065	Capital Improvements	08/17/98	1999-2018	9,000	1.0000	5,944	-	540	5,404	
CTED PWTf No. 04-691-068	Capital Improvements	06/02/04	2004-2024	4,500	0.5000	6,387	-	375	6,012	
Subtotal Washington State Loan (Councilmanic)						12,331	-	915	11,416	
Tacoma Dome WA State LOCAL Lease Purchase										
TAC0610-0001 Series F	Capital Improvements	12/01/01	2002-2013	436	4.9425	256	-	36	220	
Subtotal LOCAL Lease Purchase (Councilmanic)						256	-	36	220	
San Storage & CISCO Lease Purchase	Equip. Purchase	12/31/08	2009-2013	3,401	-	-	3,401	-	3,401	
Subtotal Cisco Lease Purchase						-	3,401	-	3,401	
Total General Obligation Bonds, Loans, & Notes						147,462	3,401	5,910	144,953	
ENTERPRISE REVENUE BONDS, LOANS, & NOTES										
Greater Tacoma Convention Center										
Tac CC & Parking Rev Bonds, Series 2004 Construction		08/19/04	2005-2024	32,975	4.4307	29,795	-	1,265	28,530	
Subtotal Convention Center						29,795	-	1,265	28,530	

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NAME OF BOND ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURIT Y DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT O/S 01-01-08	ISSUED 2008	REDEEMED 2008	AMOUNT O/S 12/31/08
Tacoma Rail									
Tacoma Rail RAN 2004 (LOC - BofA)	Capital Improvements	08/01/04	2006 - 2009	2,200	6.1000	1,284	-	734	550
Rail Revenue Bond 2006 (BofA)	Capital Improvements	12/21/06	2017	2,000	5.3900	1,887	-	162	1,725
	Subtotal Tacoma Rail					3,171	-	896	2,275
Lease Revenue									
Lease Revenue Bonds 1990	Construction	03/15/90	1992-2022	36,250	9.3476	28,440	-	985	27,455
Lease Revenue Bonds 1992	Construction	12/15/92	1993-2022	4,695	7.4769	3,555	-	130	3,425
	Subtotal Lease Revenue					31,995	-	1,115	30,880
Conservation Revenue Bonds, guaranteed by BPA									
Conservation System 2003 Bonds	Conservation Project	06/02/03	2003-2014	17,065	4.1957	11,005	-	1,380	9,625
	Total Conservation Bonds					11,005	-	1,380	9,625
	Total Revenue Bonds					\$1,117,507	\$12,391	\$55,813	\$1,074,085
	Total General Obligation & Revenue Bonds					\$1,264,969	\$15,792	\$61,723	\$1,219,038
SPECIAL ASSESSMENT BONDS									
Local Improvement District Bonds									
District #57 Bonds	Construction	09/01/99	2011	3,157	5.6173	265	-	225	40
District #60 Bonds	Construction	04/01/04	2026	1,036	3.9290	475	-	140	335
	Subtotal LID Bonds/Notes					740	-	365	375
Bond Anticipation Notes									
Revolving Line of Credit	LID Construction	06/30/00	At CLID Issue \$6mm Max		Floating	1,607	4,816	-	6,423
	Subtotal Bond Anticipation Notes					1,607	4,816	-	6,423
	Total Special Assessment Bonds					\$2,347	\$4,816	\$365	\$6,798
	Total All Bonds					\$1,267,316	\$20,608	\$62,088	\$1,225,836
									\$1,225,836

Notes:

1 Solid Waste Revenue/Refunding Bonds 2008 issued to refund portion of 1997B Bonds.

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APPENDIX C
CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE UNDERTAKING

A. **Contract/Undertaking.** This section constitutes the City's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.

B. **Financial Statements/Operating Data.** The City agrees to provide or cause to be provided to the Municipal Securities Rulemaking Board ("MSRB"), the following annual financial information and operating data for the prior fiscal year (commencing in 2010 for the fiscal year ended December 31, 2009):

1. Annual financial statements, which statements may or may not be audited, showing ending fund balances for the City's general fund prepared in accordance with the Budgeting Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute);

2. The assessed valuation of taxable property in the City;

3. Ad valorem taxes due and percentage of taxes collected;

4. Property tax levy rate per \$1,000 of assessed valuation; and

5. Outstanding general obligation debt of the City.

Items 2-5 shall be required only to the extent that such information is not included in the annual financial statements.

The information and data described above shall be provided on or before nine months after the end of the City's fiscal year. The City's current fiscal year ends December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents available to the public on the MSRB's internet website and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Budgeting Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to the MSRB.

C. **Material Events.** The City agrees to provide or cause to be provided, in a timely manner to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the Tax-Exempt Bonds;
- Modifications to the rights of Bond owners;
- Bond calls (optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);
- Defeasances;
- Release, substitution or sale of property securing repayment of the Bonds; and
- Rating changes.

Solely for purposes of disclosure, and not intending to modify this undertaking, the City advises that no debt service reserves or property secures payment of the Bonds. Furthermore, interest on the Taxable Bonds is not excludable from gross income from the owners thereof for federal income tax purposes.

D. Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described in Subsection (B) above on or prior to the date set forth in Subsection (B) above.

E. Emma; Format for Filings with the MSRB. Until otherwise designated by the MSRB or the Commission, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at *www.emma.msrb.org* (such website is not incorporated herein by such reference). All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

F. Termination/Modification. The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this section shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (2) notifies the MSRB of such opinion and the cancellation of this section.

The City may amend this section with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any amendment of this section, the City shall describe such amendment in the next annual report, and shall include a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Subsection (c) and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

G. Bond Owner's Remedies Under This Section. The right of any bondowner or beneficial owner of Bonds to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the City's obligations under this section, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds. For purposes of this section, "beneficial owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

APPENDIX D
DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

The City is the third largest city in the State and the county seat of Pierce County. It is located in the west-central part of the State, near the southern tip of Puget Sound, approximately 28 miles north of Olympia, the State capitol, and 32 miles south of Seattle. The City is a world-class port city, with various major downtown redevelopment projects undertaken over the last decade.

Population

POPULATION			
Year	Pierce County	City of Tacoma	State of Washington
2009	813,600	203,400	6,682,600
2008	805,400	202,700	6,587,600
2007	790,500	201,700	6,488,000
2006	773,500	199,600	6,375,600
2005	755,900	198,100	6,256,400

Source: Washington State Office of Financial Management, August 2009

Income

PERSONAL INCOME AND PER CAPITA INCOME				
Year	Pierce County		State of Washington	
	Total Personal Income (in thousands)	Per Capita Income	Total Personal Income (in thousands)	Per Capita Income
2008 ⁽¹⁾	N/A	N/A	\$277,397,233	\$42,356
2007	\$28,949,941	\$37,446	265,738,395	41,203
2006	27,149,797	35,551	245,764,517	38,639
2005	25,027,972	33,406	226,585,245	36,227
2004	23,426,242	31,604	218,431,726	35,347
2003	22,234,218	30,202	202,942,123	33,214

(1) Preliminary estimate.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, August 2009

Taxable Retail Sales

TAXABLE RETAIL SALES		
	Pierce County	City of Tacoma
2009 ⁽¹⁾	\$ 2,476,361,471	\$ 935,139,731
2008	11,621,810,293	4,288,739,111
2007	12,449,283,525	4,665,526,631
2006	12,068,965,461	4,536,401,297
2005	11,177,879,150	4,218,012,058
2004	10,055,822,192	3,832,667,816

(1) Through first quarter only.

Source: Washington State Department of Revenue, August 2009

Building Permits

PIERCE COUNTY RESIDENTIAL BUILDING PERMITS

Year	New Single Family Units		New Multi Family Units		Total Construction Cost
	Number	Construction Cost	Number	Construction Cost	
2009 ⁽¹⁾	708	\$137,345,841	485	\$ 48,527,047	\$ 185,872,888
2008	1,805	342,505,780	545	64,597,860	407,103,640
2007	3,571	725,405,494	1,561	182,469,096	907,874,590
2006	4,884	871,654,939	1,122	136,877,649	1,008,532,588
2005	5,515	940,937,931	1,311	149,095,600	1,090,033,531

(1) Through July 2009.

Source: U.S. Bureau of the Census, August 2009

Employment

PIERCE COUNTY 2009 MAJOR EMPLOYERS

Employer	Type of Business	Number of Employees
U.S. Army Fort Lewis	Military	42,231
Local Public School Districts	Education	13,736
U.S. Air Force McChord	Military	10,301
Washington State Employees ⁽¹⁾	Government/Public Offices	7,889
Multicare Health System	Health Services	6,204
Franciscan Health System	Health Services	4,406
U.S. Army Madigan Hospital	Military Health Care	4,023
Pierce County Government	Government/Public Offices	3,299
Washington State Higher Education Authority ⁽¹⁾	Colleges	2,912
Washington State National Guard ⁽¹⁾	Military	2,476
City of Tacoma (does not include Tacoma Public Utilities)	Government/Public Offices	2,394
Fred Meyer Stores ⁽¹⁾	Retail	2,321
Emerald Queen Casino ⁽²⁾	Casino Gaming	1,915
Wal-Mart ⁽¹⁾	Retail	1,820
Boeing Company (Frederickson Site)	Aerospace	1,537
U.S. Postal Service	Government/Public Offices	1,482
Tacoma Public Utilities	Public Utility	1,313
Safeway Stores Inc.	Retail (Grocer)	1,261
Costco	Wholesale	1,134
State Farm Insurance	Insurance	1,124

(1) Full-time equivalent (“FTE”) count was not available for some employers. Headcount used for Pierce College, Fred Meyer Stores, Target, Wal-Mart, and Washington State Employees.

(2) Number of employees in 2008; FTE total not reported for 2009.

Source: Economic Development Board for Tacoma-Pierce County, 2009

**PIERCE COUNTY
NONAGRICULTURAL WAGE AND SALARY WORKERS
AND LABOR FORCE AND EMPLOYMENT DATA⁽¹⁾**

	Annual Average				
	<u>2009⁽¹⁾</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Civilian Labor Force	403,620	395,040	384,460	374,600	370,240
Total Employment	365,110	372,530	366,370	355,500	348,540
Total Unemployment	38,510	22,510	18,080	19,100	21,700
Percent of Labor Force	9.5	5.7	4.7	5.1	5.9
NAICS INDUSTRY	<u>2009⁽¹⁾</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Nonfarm	270,057	280,533	280,900	271,692	263,800
Total Private	211,857	223,608	226,300	217,100	209,500
Total Goods Producing	37,200	43,733	46,300	43,400	40,800
Construction	19,700	23,508	25,400	22,900	20,600
Manufacturing	17,114	19,825	20,400	20,100	19,700
Total Services Providing	232,857	236,800	234,900	228,300	223,000
Trade, Transportation, and Utilities	52,829	55,642	56,400	53,600	52,200
Information	3,429	3,667	3,700	3,600	3,400
Financial Activities	12,886	13,283	13,700	14,500	14,300
Professional and Business Services	23,729	24,917	25,500	24,200	22,600
Education and Health Services	42,543	41,617	40,500	39,100	38,300
Leisure and Hospitality	26,557	27,817	27,400	26,400	26,000
Total Government	58,200	56,925	54,900	54,600	54,300

(1) Civilian Labor Force data is based on household surveys of residents. NAICS data are estimates based on surveys of employers and benchmarked based on covered employment as reported by all employers.

(2) Data through July 2009.

Source: Washington State Employment Security Department, August 2009

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APPENDIX E
BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The City makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

[Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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