



WASTEWATER AND SURFACE WATER
MANAGEMENT

2020

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended **December 31, 2020**
Prepared by the Finance Department

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City of Tacoma, Washington
Environmental Services Department

Wastewater and Surface Water Management

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Financial Data

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2020 and 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2021, on our consideration of the City of Tacoma, Environmental Services Department, Wastewater and Surface Water Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington
May 14, 2021

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Management Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Management's Discussion and Analysis
December 31, 2020 and 2019

Introduction

The following discussion and analysis of City of Tacoma Wastewater and Surface Water Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2020, 2019, and 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and the accompanying notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2020 and 2019, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of City of Tacoma Wastewater and Surface Water Management Division's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- Total net position is \$490.1 million at December 31, 2020 compared to \$474.8 million and \$458.8 million at year-end 2019 and 2018, respectively.
- Operating revenues were \$119.0 million in 2020, \$116.9 million in 2019, and \$115.8 million in 2018.
- Cash and equity in pooled investments was \$170.6 million at December 31, 2020 compared to \$180.4 million in 2019 and \$185.3 million in 2018.

Financial Analysis – Condensed Statements of Net Position

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

	December 31,		
	2020	2019	2018
Current, restricted, and other assets	\$ 205,659,002	\$ 198,967,967	\$ 208,495,085
Net capital assets	623,394,016	605,220,487	594,655,680
Total assets	829,053,018	804,188,454	803,150,765
Deferred outflows of resources	9,896,598	20,103,675	8,258,947
Total assets and deferred outflows of resources	<u>\$ 838,949,616</u>	<u>\$ 824,292,129</u>	<u>\$ 811,409,712</u>
Non-current liabilities	\$ 288,049,238	\$ 300,543,999	\$ 297,917,406
Current liabilities	27,039,733	20,131,901	22,029,267
Total liabilities	315,088,971	320,675,900	319,946,673
Deferred inflows of resources	33,802,772	28,853,934	32,624,240
Total liabilities and deferred inflows of resources	<u>348,891,743</u>	<u>349,529,834</u>	<u>352,570,913</u>
Net position:			
Net investment in capital assets	422,355,570	412,290,574	410,745,328
Restricted	6,523,335	4,672,034	14,663,136
Unrestricted	61,178,968	57,799,687	33,430,335
Total net position	<u>490,057,873</u>	<u>474,762,295</u>	<u>458,838,799</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 838,949,616</u>	<u>\$ 824,292,129</u>	<u>\$ 811,409,712</u>

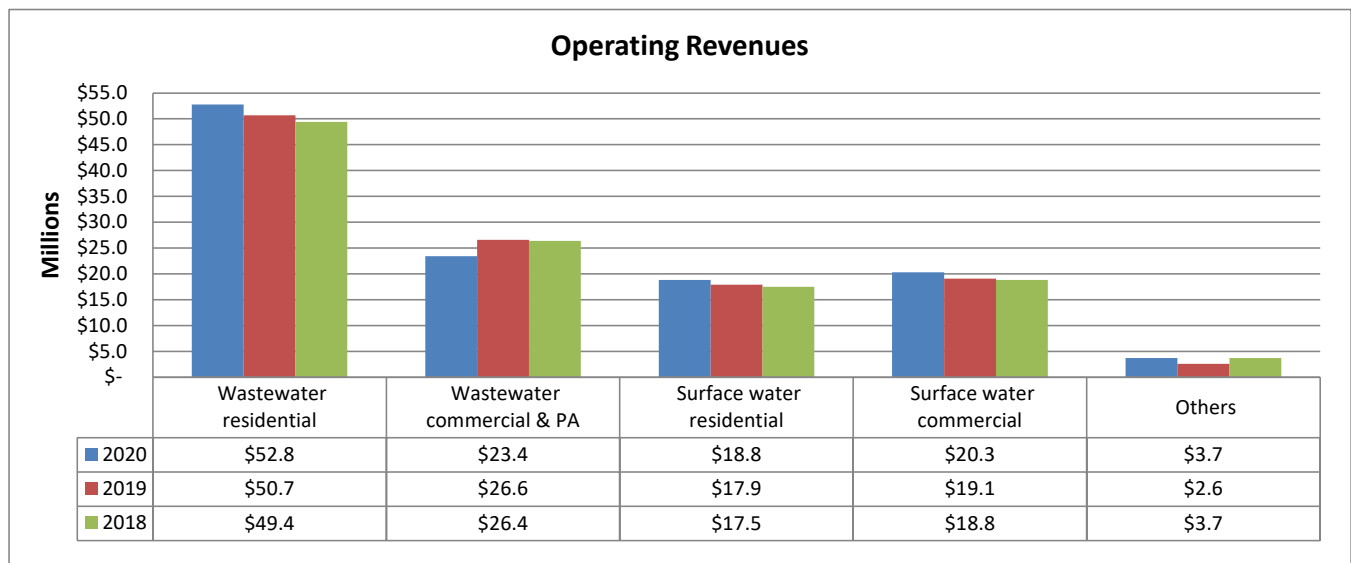
The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$490.1 million in 2020, compared to \$474.8 million in 2019, and \$458.8 million in 2018. The Division's net position increased by \$15.3 million in 2020 compared to an increase of \$16.0 million in 2019 and an increase of \$24.2 million in 2018. However, the largest component of net position reflects the Division's net investment in capital assets (e.g., land, buildings, machinery, and equipment). The net investment in capital assets component of net position was \$422.4 million in 2020, compared to \$412.3 million in 2019, and \$410.7 million in 2018. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Division's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division's net position is \$6.5 million in 2020, compared to \$4.7 million in 2019 and \$14.7 million in 2018 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$61.2 million for 2020, \$57.8 million for 2019, and \$33.4 million for 2018 is unrestricted.

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

	For Year ended December 31,		
	2020	2019	2018
Operating revenues	\$ 119,026,415	\$ 116,918,923	\$ 115,817,015
Operating expenses	93,741,240	92,734,467	83,751,684
Net operating income	25,285,175	24,184,456	32,065,331
Nonoperating expenses	(2,564,825)	(2,007,517)	(4,522,281)
Increase in net position before transfers	22,720,350	22,176,939	27,543,050
Capital contributions	3,568,051	4,123,876	5,568,353
Transfers	(10,992,823)	(10,377,319)	(8,904,806)
Increase in net position	15,295,578	15,923,496	24,206,597
Net position - Beginning of year	474,762,295	458,838,799	434,632,202
Net position - Ending	<u>\$ 490,057,873</u>	<u>\$ 474,762,295</u>	<u>\$ 458,838,799</u>

Operating revenues

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

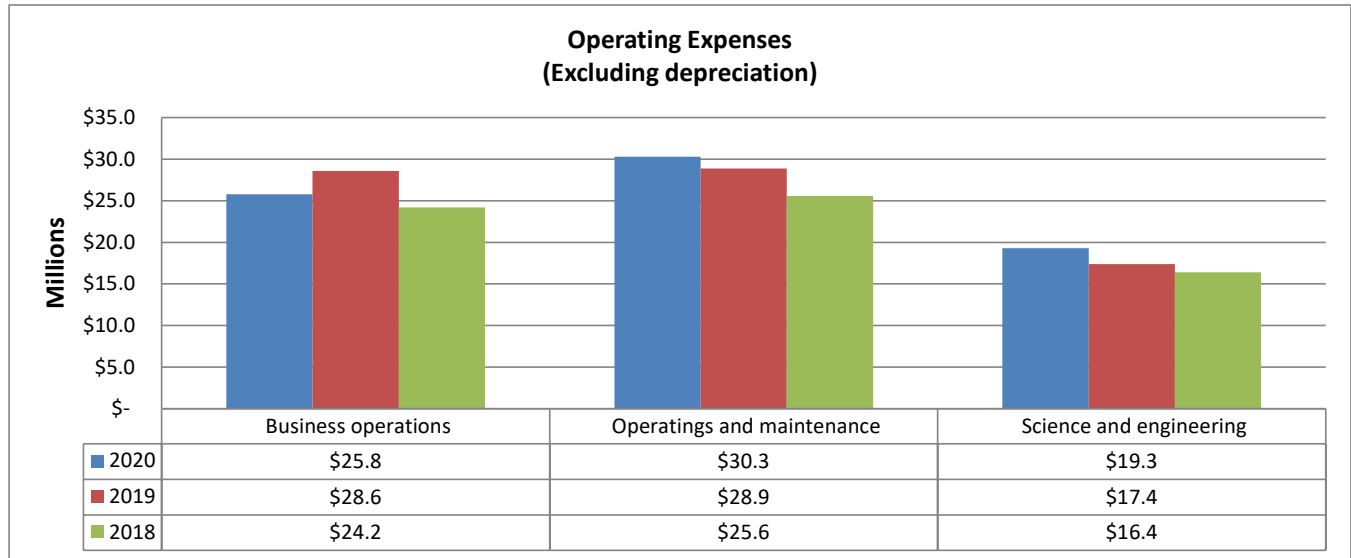


Operating revenues were \$119.0 million in 2020 compared to \$116.9 million in 2019 and \$115.8 million in 2018. The approved average rate increases for Wastewater were 4.0% for 2020 and 2019, and 4.5% for 2018. The average rate increases for Surface Water were 3.5% for 2020 and 2019, and 5.5% for 2018. The rate increases went into effect January 1st of each year.

Wastewater residential revenues increased \$2.1 million or 4% in 2020 compared to \$1.3 million increase or 3% in 2019. Wastewater commercial and public authority (PA) revenues decreased \$3.2 million or 12% in 2020 compared to \$186,000 increase or 1% in 2019 due in part to temporary business shut down and partial closures due to COVID-19 impacts. Surface Water residential increased \$942,000 or 5% in 2020 compared to \$391,000 increase or 2% in 2019 and Surface Water commercial increased \$1.1 million or 6% in 2020 compared to \$351,000 increase or 2% in 2019. Other revenues increased \$1.2 million or 45% compared to a \$1.1 million decrease or 30% in 2019; the 2020 increase was mainly due to increased revenues from septic tank and leachates from the Land Recovery Inc. and the 2019 decrease was mainly due to the Site Development division being transferred to the Public Works Department as of January 1, 2019.

Operating expenses

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



2020 Activity

Operating expenses were \$93.7 million in 2020 and \$92.7 million in 2019, an increase of \$1.0 million.

- Business operation expenses decreased \$2.8 million. The significant events were:
 - Labor expense including all payroll associated costs decreased \$2.9 million mainly due to the decrease in Western Metal Pension withdrawal expenses of \$3.3 million. The remaining difference of \$400,000 was related to multiple small increases within salaries and wages and pension contributions.
 - Administrative and General (A&G) credit allocated to capital projects increased \$706,000 due in part to more spending on capital projects.
 - Bad debts increased \$1.2 million due to an increase in aged accounts receivable.
 - The remaining difference of \$394,000 is related to multiple small decreases in other expenses.
- Operations and maintenance expenses increased \$1.4 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$860,000 primarily due to pay increases in 2020.
 - Inventory reclaim account increased \$312,000, which was used to readjust inventory counts in SAP based on the physical inventory.
 - Operating supplies increased \$227,000 due in part to increases in repair and maintenance costs for Plant 1 and Pump station.
- Science and engineering expenses increased \$1.9 million. The significant events were:
 - Labor expense including all payroll associated costs increased \$743,000 primarily due to pay increases in 2020.
 - External contract services increased \$1.8 million primarily due to the Hosmer Holding Basin maintenance project with Glacier Environmental Services.
 - Environmental liability adjustment decreased \$1.5 million due to the completion of the cap material replenishment project in 2020 and re-measurement of the anticipated monitoring cost for the Olympic View Resource Area (OVRA).
 - The remaining difference of \$857,000 is related to multiple small increases in other expenses.

2019 Activity

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

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

Nonoperating revenues (expenses)

Net nonoperating expenses were \$2.6 million in 2020 and \$2.0 million in 2019, an increase of \$557,000. The significant events were:

- Investment and other earnings decreased \$1.6 million due to the decrease in cash balance and lower interest on investments.
- Other nonoperating revenues increased \$1.3 million mainly due to \$1.6 million contribution for the Hosmer Holding Basin Maintenance Phase 2 project from the Pierce County Flood Control Zone District.
- CARES grant of \$231,000 from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) received in 2020.

Contributions and transfers

Capital contributions decreased \$556,000 mainly due to less capital grants from the State of Washington Ecology Department because major capital projects were completed in 2019, which were the South Tacoma Way Green Infrastructure and Madison and Monroe Permeable Pavement projects. Transfer in from other funds decreased \$649,000 primarily due to the decrease in transfer in of \$407,000 from Public Works for the Puget Sound Ave Green Infrastructure project and \$200,000 from Public Works for the Bennet Street GSI project.

Capital Assets

Net capital assets increased \$18.2 million in 2020 compared to \$10.6 million in 2019 (See Note 4.)

2020 Activity

Net capital assets increased \$18.2 million over the prior year. Land and easements increased \$1.4 million mainly due to the Union Pacific Railroad easements. Buildings increased \$17.7 million: \$17.9 million increased for reclassified assets from machinery and equipment, and transmission lines and other improvements, \$1.6 million decreased for disposed assets per physical inventory, and \$1.4 million increased for the Sedimentation Tank #1 & #2 projects. Machinery and equipment decreased \$14.7 million: \$12.8 million decreased for reclassified assets to buildings, \$2.8 million decreased for disposed assets per physical inventory, and \$900,000 increased for vehicles purchased through Fleet and various equipment. Transmission lines and other improvements increased \$6.9 million: 2,166 feet of donated lines were recorded for \$1.5 million, 74,118 feet of old lines were retired at the historical cost of \$300,000, 28,169 feet of new replacement lines and extended sewer lines were recorded for \$11.0 million, and \$5.3 million was decreased for reclassified assets to buildings. Accumulated depreciation increased \$14.5 million and construction in progress increased \$21.2 million.

2019 Activity

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

Debt Administration

At December 31, 2020, the Division had \$289.6 million outstanding in long-term debt: \$45.5 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and Certificate of Participation (COP) loan. The remaining balance is senior parity bonds debt. This compares to \$288.9 million in 2019 and \$300.6 million in 2018.

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

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

Debt Service Coverage

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

The Division is required by its bond covenants to maintain a debt service coverage ratio of 1.3. The debt service coverage ratio is 2.98 at the end of 2020. This compares to a ratio of 3.03 in 2019 and 4.28 in 2018.

2021 and 2022 Rates

The approved average rate increases for 2021 are 1.5% for Wastewater and Surface Water and 2.0% for 2022. These rates were reduced from the previously planned rate increases of 3.5% for each year for Wastewater and 3.0% for each year for Surface Water due to the economic impacts on customers from the COVID-19 Pandemic. These rate decreases were determined after considering many internal and external factors impacting the Sewer Utility Systems' maintenance and operation such as revenues, expenses, debt service and debt financing needs, capital improvement plans, equity, affordability, and economic considerations.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray the City of Tacoma Wastewater and Surface Water Management's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information. The financial statements have been independently audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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

Request for Information

The Wastewater and Surface Water Management Division's (the Division) financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. For questions concerning any of the information provided in this report or requests for additional financial information, please contact the City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

Financial Statements

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

	As of December 31,	
	2020	2019
ASSETS		
Current assets:		
Cash and equity in pooled investments	\$101,520,308	\$ 92,118,414
Accounts receivable, net	9,404,260	7,520,126
Unbilled revenues	7,675,787	7,736,787
Conservation loan fund receivables	123,536	151,349
Loan receivable	12,711,377	-
Due from other governments	237,692	651,662
Inventory	2,145,521	1,427,934
Prepayments	277,655	249,533
Restricted cash and equity in pooled investments:		
Debt service funds	1,405,277	1,405,464
Construction funds	62,975,331	82,194,733
Total restricted cash and equity in pooled investments	64,380,608	83,600,197
Total current assets	198,476,744	193,456,002
Non-current assets:		
Restricted cash and equity in pooled investments:		
Debt reserves	4,672,034	4,672,034
Net pension asset	1,847,284	-
Conservation loan fund receivables	662,940	746,018
Prepayments	-	93,913
Capital assets:		
Land and easements	25,205,157	23,853,122
Buildings	213,368,244	195,685,067
Machinery and equipment	199,438,768	214,154,846
Transmission lines and other improvements	449,462,863	442,526,066
Computer software	9,466,301	9,307,245
Less: accumulated depreciation	(314,254,868)	(299,766,758)
Construction work in progress	40,707,551	19,460,899
Total capital assets, net	623,394,016	605,220,487
Total non-current assets	630,576,274	610,732,452
TOTAL ASSETS	829,053,018	804,188,454
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - loss on refunding bonds	3,424,042	3,629,399
Deferred outflows - OPEB	992,025	1,052,545
Deferred outflows - pensions	5,480,531	15,421,731
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,896,598	20,103,675
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 838,949,616	\$ 824,292,129

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

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

	As of December 31,	
	2020	2019
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 11,188,879	\$ 4,014,531
Accrued wages payable and compensated absences payable	1,409,975	1,072,317
Accrued taxes payable	189,701	142,380
Due to other governments	780,000	720,000
Accrued environmental liability	147,500	1,766,057
Accrued State loan interest payable	167,676	167,001
Current portion of Capital COP loan	525,000	-
Current portion of State Revolving Fund loan	4,085,363	4,011,393
Current portion of revenue bonds payable	6,668,750	6,375,417
Unearned revenues	467,595	457,341
Current liabilities payable from restricted assets:		
Current portion of revenue bonds payable	606,250	579,583
Accrued revenue bonds interest payable	799,027	825,881
Deposit in lieu of bond	4,017	-
Total current liabilities	27,039,733	20,131,901
Non-current liabilities:		
Long-term debt - revenue bonds, net	236,865,882	245,296,846
Long-term debt - Capital COP loan	12,270,000	-
Long-term State Revolving Fund loan	28,583,345	32,624,538
Long-term accrued compensated absences	3,270,411	2,565,742
Long-term accrued environmental liability	1,144,500	1,192,000
Net pension liability	-	13,029,876
Net OPEB liability	2,635,160	2,555,057
Pension withdrawal liability	3,279,940	3,279,940
Total noncurrent liabilities	288,049,238	300,543,999
TOTAL LIABILITIES	315,088,971	320,675,900
 DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - gain on refunding bonds	17,014	35,574
Deferred inflows - OPEB	1,746,124	2,106,245
Deferred inflows - pensions	7,039,634	1,712,115
TOTAL DEFERRED INFLOWS OF RESOURCES	33,802,772	28,853,934
 NET POSITION	32,668,708	
Net investment in capital assets	422,355,570	412,290,574
Restricted for:		
Bond reserves	4,672,034	4,672,034
Deposit in lieu of bond	4,017	-
Net pension asset	1,847,284	-
Unrestricted	61,178,968	57,799,687
TOTAL NET POSITION	490,057,873	474,762,295
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 838,949,616	\$ 824,292,129

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

	For Year ended December 31	
	2020	2019
OPERATING REVENUES		
Wastewater residential	\$ 52,822,791	\$ 50,738,543
Wastewater commercial and public authorities	23,366,944	26,567,803
Surface water residential	18,835,178	17,893,654
Surface water commercial	20,261,316	19,145,563
Other revenues	3,740,186	2,573,360
Total operating revenues	<u>119,026,415</u>	<u>116,918,923</u>
OPERATING EXPENSES		
Business operations	25,762,591	28,572,464
Operations and maintenance	30,323,439	28,883,438
Science and engineering	19,305,171	17,436,244
Depreciation	18,350,039	17,842,321
Total operating expenses	<u>93,741,240</u>	<u>92,734,467</u>
Net operating income	<u>25,285,175</u>	<u>24,184,456</u>
NONOPERATING REVENUES (EXPENSES)		
Investment and other earnings	4,413,480	5,973,435
Interest expenses and other related costs	(10,979,923)	(10,992,896)
Amortization of bond premium and gain/loss on refunding	969,167	777,227
CARES grant	230,999	-
Other nonoperating revenues	3,668,621	2,338,883
Other nonoperating expenses	(181,085)	-
Gain or loss on sale/disposal of capital assets	(686,084)	(104,166)
Total nonoperating expenses	<u>(2,564,825)</u>	<u>(2,007,517)</u>
Net income before contributions and transfers	<u>22,720,350</u>	<u>22,176,939</u>
Capital contributions and grants	3,568,051	4,123,876
Transfer in from other funds	22,260	670,812
Transfer out to other funds	(1,266,500)	(1,268,500)
Gross earnings tax	(9,748,583)	(9,779,631)
Total contributions and transfers	<u>(7,424,772)</u>	<u>(6,253,443)</u>
CHANGE IN NET POSITION	15,295,578	15,923,496
NET POSITION - JANUARY 1	474,762,295	458,838,799
NET POSITION - DECEMBER 31	<u>\$ 490,057,873</u>	<u>\$ 474,762,295</u>

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

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

	For Year ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 115,233,633	\$ 116,485,004
Payments to suppliers	(28,946,681)	(35,351,533)
Payments to employees	(36,046,089)	(33,867,193)
Payments for taxes	(2,029,039)	(1,870,483)
Net cash from operating activities	<u>48,211,824</u>	<u>45,395,795</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer out to other funds	(11,196,168)	(11,767,506)
Operating grants received	2,173,168	785
CARES grant received	230,999	-
Principal paid on noncapital debt	(650,325)	(618,788)
Interest paid on noncapital debt	(405,752)	(435,636)
Contributions and donations	117,072	14,760
Net cash from noncapital financing activities	<u>(9,731,006)</u>	<u>(12,806,385)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Transfer in from other funds	22,260	670,812
Acquisition and construction of capital assets	(35,887,902)	(27,012,454)
Principal payments on capital debt	(10,316,067)	(9,945,075)
Bond refunding costs	-	(1,742,262)
Interest and issuance costs paid on capital debt	(10,516,729)	(10,544,123)
Proceeds from capital debt	44,169	-
Gain/loss on bonds defeasance	-	(57,855)
Contributions and donations	1,947,648	3,385,363
Cash proceeds from sale of capital assets	202,277	900
Insurance recoveries	5,750	4,028
Net cash from capital financing activities	<u>(54,498,594)</u>	<u>(45,240,666)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	4,413,480	5,973,435
Nonoperating income	1,786,601	1,721,647
Net cash from investing activities	<u>6,200,081</u>	<u>7,695,082</u>
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	(9,817,695)	(4,956,174)
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	180,390,645	185,346,819
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 170,572,950</u>	<u>\$ 180,390,645</u>

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

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

	For Year ended December 31	
	2020	2019
	<u> </u>	<u> </u>
RECONCILIATION OF OPERATING INCOME		
(LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Net operating income	\$ 25,285,175	\$ 24,184,456
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	18,350,039	17,842,321
Expense capital project costs	96,374	-
Pension expense (credits)	391,559	1,878,529
Net OPEB expense (credits)	(219,494)	(239,154)
Pension withdrawal expense	-	3,279,940
Cash from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	(1,884,134)	(284,238)
Accrued unbilled revenue	61,000	527,000
Due from other funds	-	97,971
Inventory	(717,587)	(329,148)
Prepayments	65,791	71,215
Accounts payable	7,174,348	(1,626,294)
Conservation loan fund receivables	110,891	(84,788)
Accrued wages and compensated absences payable	337,658	(61,986)
Accrued taxes payable	47,321	(1,185)
Deposit in lieu of bonds	4,017	(9,250)
Due to other funds	-	(556,492)
Due to other governments	60,000	120,972
Accrued environmental liability	(1,618,557)	543,723
Unearned revenues	10,254	54,710
Long-term accrued environmental liability	(47,500)	179,500
Long-term accrued compensated absences	704,669	(192,007)
Total adjustments	<u>22,926,649</u>	<u>21,211,339</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 48,211,824</u>	<u>\$ 45,395,795</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	\$ 1,620,403	\$ 1,373,616

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

Notes to Financial Statements
Years Ended December 31, 2020 and 2019

NOTE 1 OPERATIONS

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

ACCOUNTING CHANGES - Effective for the fiscal year 2020, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective for periods beginning after June 15, 2018, and later. Where applicable, the Division has applied the effective accounting and financial reporting provisions as prescribed by GASB Statement No. 95.

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

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

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

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

The Division's equity in that portion of the City of Tacoma Investment Pool held in qualified public depositories at December 31, 2020 and 2019 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

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

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

ACCOUNTS RECEIVABLE AND UNBILLED REVENUE - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for uncollectible accounts. The Division accrues an estimated amount for services that have been provided but not billed, which is included in accounts receivable as of December 31, 2020, and 2019.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally, accounts receivable are considered past due after 30 days. Allowance for Uncollectible accounts was \$4,723,864 and \$3,548,999 as of December 31, 2020, and 2019, respectively.

LOAN RECEIVABLE – Loan receivable represents the amounts held by State of Washington relating to the Local Agency Financing Lease, Series 2020C, entered into by and between the State of Washington and the City of Tacoma. Loan Receivable will be decreasing on a cost reimbursement basis. Interest earned on the money held by State of Washington is recorded as a loan receivable and an interest income in the year earned.

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

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

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

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

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

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

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

The estimated useful lives range as follows:

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

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

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

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

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

(*) When the federal Families First Coronavirus Response Act (FFCRA) legislation was enacted on April 1, 2020, and communicated to employees, an updated Emergency Leave Guidance Document was also provided. One of the changes made was in the "Other City Leave" section relating to employees being able to exceed the Personal Time Off (PTO) and Vacation maximum accrual caps by up to 20% through December 31, 2020. Thereafter, employees have 90 calendar days to use the excess leave accruals or they will be forfeited.

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

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

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

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

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

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

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

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

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

NET POSITION - The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

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

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

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

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

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

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

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

USE OF ESTIMATES - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, environmental liabilities, depreciation, Other Post Employment Benefits (OPEB Liability), self-insurance liabilities, net pension liability and other contingencies. Actual results may differ from these estimates.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

- **Level 1** - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- **Level 2** - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- **Level 3** - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations of City's investments in TIP are provided by Interactive Data.

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

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

	As of			
Debt Securities:	12/31/2020	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 371,578,276	\$ -	\$ 371,578,276	\$ -
Supranational Securities	10,065,910	-	10,065,910	-
Municipal Bonds	11,664,518	-	11,664,518	-
Agency Securities	491,827,203	-	491,827,203	-
Corporate Securities	62,803,670	-	62,803,670	-
Total	<u>\$ 947,939,577</u>	<u>\$ -</u>	<u>\$ 947,939,577</u>	<u>\$ -</u>

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

The Division's share of the City's investments shown in the table above is 15.21% and 16.71% as of December 31, 2020 and 2019.

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2020 and 2019 follows:

	2019	Additions	Retirements	Transfers & Adjustments	2020
Capital assets, not being depreciated:					
Land and easements	\$ 23,853,122	\$ 165,941	\$ -	\$ 1,186,094	\$ 25,205,157
Construction work in progress	19,460,899	35,791,527	-	(14,544,875)	40,707,551
Total capital assets, not being depreciated	43,314,021	35,957,468	-	(13,358,781)	65,912,708
Capital assets, being depreciated:					
Buildings	195,685,067	-	(1,687,715)	19,370,892	213,368,244
Machinery and equipment	214,154,846	-	(2,775,734)	(11,940,344)	199,438,768
Transmission lines and other improvements	442,526,066	1,454,461	(286,841)	5,769,177	449,462,863
Computer software	9,307,245	-	-	159,056	9,466,301
Total capital assets, being depreciated	861,673,224	1,454,461	(4,750,290)	13,358,781	871,736,176
Less: accumulated depreciation	(299,766,758)	(18,350,039)	3,861,929	-	(314,254,868)
Total capital assets, being depreciated, net	561,906,466	(16,895,578)	(888,361)	13,358,781	557,481,308
Total capital assets, net	<u>\$ 605,220,487</u>	<u>\$ 19,061,890</u>	<u>\$ (888,361)</u>	<u>\$ -</u>	<u>\$ 623,394,016</u>

	2018	Additions	Retirements	Transfers & Adjustments	2019
Capital assets, not being depreciated:					
Land and easements	\$ 23,696,173	\$ 126,124	\$ -	\$ 30,825	\$ 23,853,122
Construction work in progress	19,216,207	27,012,454	-	(26,767,762)	\$ 19,460,899
Total capital assets, not being depreciated	42,912,380	27,138,578	-	(26,736,937)	43,314,021
Capital assets, being depreciated:					
Buildings	191,724,902	-	-	3,960,165	195,685,067
Machinery and equipment	210,276,727	-	(786,229)	4,664,348	214,154,846
Transmission lines and other improvements	423,336,124	1,373,616	(261,218)	18,077,544	442,526,066
Computer software	9,280,373	-	(8,008)	34,880	9,307,245
Total capital assets, being depreciated	834,618,126	1,373,616	(1,055,455)	26,736,937	861,673,224
Less: accumulated depreciation	(282,874,826)	(17,842,321)	950,389	-	(299,766,758)
Total capital assets, being depreciated, net	551,743,300	(16,468,705)	(105,066)	26,736,937	561,906,466
Total capital assets, net	<u>\$ 594,655,680</u>	<u>\$ 10,669,873</u>	<u>\$ (105,066)</u>	<u>\$ -</u>	<u>\$ 605,220,487</u>

NOTE 5 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2020 and 2019, follows:

	2019	Additions	Reductions	2020	Due within One Year
Revenue bonds	\$ 235,715,000	\$ -	\$ (6,955,000)	\$ 228,760,000	\$ 7,275,000
Plus: Unamortized premium	16,536,846	-	(1,155,964)	15,380,882	-
State Revolving Fund loans	36,635,931	44,169	(4,011,392)	32,668,708	4,085,363
State COP loan	-	12,795,000	-	12,795,000	525,000
Total long-term debt	<u>\$ 288,887,777</u>	<u>\$ 12,839,169</u>	<u>\$ (12,122,356)</u>	<u>\$ 289,604,590</u>	<u>\$11,885,363</u>

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

The Division's long-term debt at December 31, 2020 and 2019 consists of the following payable from revenues of the Division.

Parity bond, senior lien:	2020	2019
2015 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$1,245,000 to \$9,485,000 between 2016 and 2045. Original par value \$109,300,000 with a call date of June 1, 2025. Purpose was to (a) finance a portion of the costs of the Division's capital improvement program, (b) to refund a portion of the outstanding 2006 Revenue and Refunding Bonds, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the bonds.	\$100,835,000	\$102,755,000
2016A Revenue Refunding Bonds, with interest rates ranging from 1.75% to 5%, due in yearly installments of \$525,000 to \$2,010,000 between 2016 and 2038. Original par value \$31,855,000 with a call date of June 1, 2026. Purpose was to advance refund of the TES Properties, 2009 Lease Revenue Bonds and contemporaneously terminate the capital lease agreement with TES Properties. Proceeds were also used to fund the bond reserve and pay issuance costs.	27,205,000	28,300,000
2016B Revenue Refunding Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$2,165,000 to \$2,605,000 between 2017 and 2021. Purpose was to refund a portion of the 2006 Revenue and Refunding Bonds and issuance costs.	2,605,000	5,090,000
2018 Revenue Bonds, with interest rates ranging from 3% to 5% due in yearly installments of \$3,422,000 to \$8,256,000 between 2019 and 2048. Purpose was to finance capital improvements and pay costs of issuance.	98,115,000	99,570,000
Total parity bonds, senior lien	<u>\$228,760,000</u>	<u>\$235,715,000</u>

Notes to the Financial Statements (continued)

Junior lien debt:	2020	2019
<p>State Revolving Fund loans DOE L040006A & DOE L040006B, with an interest rate of 1.5% and 2.6%, respectively, due in semi-annual installments of \$2,297,662 to \$4,532,452 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant upgrade project.</p>	\$32,348,432	\$36,336,361
<p>State Revolving Fund loan 2011 DOE L1000007, with an interest rate of 2.9% in semi-annual installments of \$21,511 to \$31,346 through 2030; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$473,806 to reimburse a portion of costs related to surface water line retrofit projects.</p>	276,107	299,570
<p>Local Agency Financing Lease, Series 2020C, known as “Capital (Certificate Of Participation) Loan”, with an interest rate of approximately 2.12% with annual debt service payments of between \$751,861 and \$787,088 through 2040; this debt is junior lien and is secured by net operating revenue. The issuance costs are included in the interest rate. The proceeds of up to \$12,700,000 to be received on a cost reimbursement basis for Energy Management Project expenditures.</p>	12,795,000	-
<p>The division entered into State Revolving Fund loan agreements with the Department of Ecology on a cost reimbursement basis, of which \$2,800,000 for the Larchmont Permeable Neighborhood project effective 7/1/2019, and \$5,000,000 for the Madison District Green Infrastructure project effective 7/1/2018. In 2020, totals \$42,531 and \$1,638 have been drawn for the Larchmont and Madison District projects respectively (*).</p>	44,169	-
<p>Total junior lien debt</p>	45,463,708	36,635,931
<p>Total outstanding debt</p>	274,223,708	272,350,931
<p>Less:</p>		
<p style="padding-left: 20px;">Current portion</p>	(11,885,363)	(10,966,393)
<p>Plus: Unamortized premium</p>	15,380,882	16,536,846
<p style="padding-left: 20px;">Total long-term debt</p>	\$277,719,227	\$277,921,384

Local Agency Financing Lease, Series 2020C, entered into by and between the State of Washington and the City of Tacoma, known as the “Capital (Certificate Of Participation) Loan”. This debt requires a general obligation, full faith and credit pledge from the City but secured by net operating revenues of the System. The All-in true interest cost (All-in TIC) is approximately 2.12% with annual debt service payments of between \$751,861 and \$787,088 with principal and interest due on June 1 and interest only due on December 1 of each year up to and including June 1, 2040. The proceeds of up to \$12,700,000 to be received on a cost reimbursement basis for Energy Management Project expenditures. This project is designed to convert methane gas to bio-fuel to generate revenues in the form of reduced Liquefied Natural Gas (LNG) costs for the Solid Waste fleet and Renewable Identification Number (RIN) credits which will be used to repay the debt costs.

Notes to the Financial Statements (continued)

As of December 31, 2020, annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2021	\$ 11,885,363	\$ 10,399,651	\$ 22,285,014
2022	11,920,803	10,043,249	21,964,052
2023	12,257,745	9,715,614	21,973,359
2024	12,646,222	9,313,676	21,959,898
2025	13,076,266	8,880,865	21,957,131
2026-2030	60,513,140	37,684,874	98,198,014
2031-2035	60,490,000	25,935,074	86,425,074
2036-2040	43,925,000	14,494,000	58,419,000
2041-2045	35,335,000	6,985,950	42,320,950
2046-2048	12,130,000	982,800	13,112,800
Pending debt schedule (*)	44,169	-	44,169
	<u>\$ 274,223,708</u>	<u>\$ 134,435,753</u>	<u>\$ 408,659,461</u>

(*) The debt schedule for Larchmont Permeable Neighborhood project and Madison District Green Infrastructure project is not available for disclosure as of December 31, 2020.

As of December 31, 2020, the following outstanding bonds were considered defeased in substance:

<u>Issue</u>	<u>Amount</u>
Sewer Revenue Refunding bonds, 2006 and 2011	\$ 34,320,000

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

NOTE 6 INSURANCE

The major risks to the Division are flooding, recontamination, wind damage, chemical spills, and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled \$400,776 for 2020 and \$381,691 for 2019. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City purchased a Fiduciary Liability policy with a limit of \$15.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee retirement plans. The coverage also provides a Government Crime policy with a \$1.0 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest acts by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.0 million per occurrence

and an additional \$250,000 of total loss in excess of the self-insured retention. Such additional \$250,000 deductible may be satisfied by loss from one or more occurrences. Coverage also has a Cybersecurity policy with a limit of \$5.0 million.

General Government maintains Property insurance policy that covers its buildings and contents within the buildings and motor vehicles while on insured premises with a limit of \$500.0 million per occurrence. A deductible of \$150,000 per occurrence applies to the building and contents except a deductible of \$250,000 for water damage claims while a deductible of \$10,000 applies to motor vehicles. Excess liability policies provide coverage for Wrongful Acts, General liability, and Automobile liability with a \$3.0 million retention for claims other than those related to law enforcement. A retention of \$5.0 million applies to law enforcement liability claims. The coverage also provides Aviation Liability - Unmanned Aircraft liability for drones with a limit of \$1.0 million.

The Division's cost for these policies is \$340,566 in 2020 and \$288,544 in 2019.

NOTE 7 WESTERN METAL INDUSTRY PENSION FUND

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

Information was unavailable to determine if an actuarial liability exists for the City in 2020, however, the Plan was in "critical" status in the Plan Year beginning January 1, 2019. The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010, and subsequently updated it on July 24, 2012, and December 9, 2016.

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

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

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

On December 3, 2019, the Tacoma City Council approved the collective bargaining agreements for the following groups; the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma General Unit, and District Lodge 160, Local Lodge 282 covering Wastewater Treatment Plant Maintenance Supervisors' Unit. Contained in this agreement was a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2019, payroll were the final contributions made on behalf of the employees in this unit. As of December 31, 2020, there were no employees participating in the plan nor were there any contributions made.

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

There were no contribution rates applicable for 2020. The contribution rates for 2019 by classification were as follows:

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

There was no contribution in 2020. In 2019, the Division contributed \$305,469.

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

At this time, WMIPF has not provided a withdrawal liability estimate. The City utilized employee data from 2017, the last year in which all units were actively contributing to WMIPF, to estimate the City's withdrawal liability. The Division has recognized a liability in the amount of \$3,279,940 as of December 31, 2020, and 2019.

NOTE 8 TACOMA EMPLOYEES' RETIREMENT SYSTEM

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

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

Or the TERS Annual Financial Report may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

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

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

The breakdown of membership as of December 31, 2019 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits		2,617
Terminated vested and other terminated participants		745
Active members:		
City of Tacoma	2,791	
Pierce Transit	9	
South Sound 911	2	
Tacoma-Pierce County Health Department	274	
Total active members		3,076
Total membership		6,438

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

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

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 41.54 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

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

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

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

Measurement Date	December 31, 2019
Valuation Date	January 1, 2020
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows*: <ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

BENEFIT AND ASSUMPTION CHANGES - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2020 valuation date and December 31, 2019 the measurement date. Therefore, no adjustments were needed from the January 1, 2020 actuarial valuation date to the calculated liabilities as of December 31, 2019, measurement date for reporting date of December 31, 2020. There were no changes between the January 1, 2019, and January 1, 2020, valuation dates.

At its June 8, 2017 meeting, the TERS Board approved updates to the service purchase factors and optional form factors effective January 1, 2018. The Board also approved updated factors for use in converting member contributions with interest into the unmodified benefit form for comparison to the service retirement benefit. This change was effective January 1, 2020.

TARGET ALLOCATION - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2019. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Notes to the Financial Statements (continued)

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	1.46%
US Bank/ Leveraged Loans	3.0%	2.69%
US Long Government Bonds	3.0%	1.69%
High Yield Bonds	6.0%	3.08%
Emerging Market Debt	5.0%	3.31%
Global Equity	34.5%	5.07%
Public Real Estate	10.0%	3.84%
Private Equity	10.0%	9.47%
Master Limited Partnerships	4.0%	3.98%
Timber	1.5%	4.00%
Infrastructure	2.0%	4.79%
Agriculture	1.5%	4.49%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.65%
Portfolio Arithmetic Real Mean Return		4.23%
Portfolio Median Nominal Geometric Return		6.54%
Portfolio Standard Deviation		9.81%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	\$19,770,307	\$(1,847,284)	\$ (19,913,227)

As of December 31, 2020, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (928,364)	\$ 1,617,424
Changes of assumptions	-	1,020,003
Net Difference Between Projected and Actual Earnings	(6,109,984)	-
Changes in Employer Proportion	(1,286)	119
Contributions Made Subsequent to the Measurement Date	-	2,842,985
Total	\$ (7,039,634)	\$ 5,480,531

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

Amounts will be recognized in pension expense as follows:

2021	\$	(1,364,782)
2022		(1,126,768)
2023		553,359
2024		(2,637,835)
2025		173,938
	\$	<u>(4,402,088)</u>

At December 31, 2020, the Division reported a pension asset of \$1,847,284 for its proportionate share of the total System, compared to a pension liability of \$13,029,876 at December 31, 2019. The proportionate share of the Wastewater & Surface Water Division is 9.93% of the total System’s pension liability as of December 31, 2020 and 11.14% as of December 31, 2019. The proportionate share was based on the actual contributions for the year as of December 31, 2020 and 2019.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2019 for non-LEOFF 1 members includes 3,525 active participants, 171 retirees and surviving spouses, and 139 spouses of current retirees. The membership as of January 1, 2020 for LEOFF 1 members includes 1 active participant and 370 retirees.

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

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS - The valuation date is January 1, 2019 for non-LEOFF 1 members and January 1, 2020 for LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2019. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2020.

Subsequent to the January 1, 2019 valuation date for non-LEOFF 1 members, H.R. 1865 Further Consolidated Appropriations Act of 2020 was passed into Law on December 20, 2019. This law repealed the excise tax completely and removed the Health Insurer Fee permanently beginning in 2021. The total OPEB liability as of the December 31, 2019 measurement date reflects this change.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2019 and January 1, 2020 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

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

Actuarial Assumptions:
 Discount Rate: 2.74% for pay-as-you-go funding
 Medical Cost Trend:

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

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

Economic Assumptions -
 Discount Rate (Liabilities): 2.74%

Demographic Assumptions: Eligibility:
 Disability - Five years of service are required for non-service connected disability.

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

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

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

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

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

CHANGES OF ASSUMPTIONS - The discount rate was updated to 2.74% from 4.10%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES - At December 31, 2020, the Division reported a liability of \$2,635,160 for its proportionate share of the collective total OPEB liability of \$208.4 million, compared to \$2,555,057 at December 31, 2019. The OPEB liability was measured as of December 31, 2019 and was determined by an actuarial valuation as of January 1, 2020. At December 31, 2019, the participating Division's proportion was 1.25178% as compared to 1.26434% at December 31, 2020. For the year ended December 31, 2020, the participating Division recognized an OPEB credit of \$219,498.

At December 31, 2020, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (38,583)	\$ 456
Changes of assumptions	(160,998)	130,513
Changes in Employer Proportion	(1,478,799)	680,242
Differences in Contributions	(67,744)	42,949
Contributions Made Subsequent to the Measurement Date	-	137,865
Total	<u>\$ (1,746,124)</u>	<u>\$ 992,025</u>

The Division reported \$137,865 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	\$ (215,782)
2022	(215,782)
2023	(215,782)
2024	(235,845)
2025	(10,277)
Thereafter	<u>1,504</u>
	<u>\$ (891,964)</u>

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

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.74%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.74%, or one percentage point higher, 3.74%, than the current rate.

	1% Decrease 1.74%	Current Discount Rate 2.74%	1% Increase 3.74%
Net OPEB liability	\$ 2,984,775	\$ 2,635,160	\$ 2,343,742

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

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

	1% Decrease 5.00%	Current Trend Rates 6.00%	1% Increase 7.00%
Net OPEB liability	\$ 2,331,477	\$ 2,635,160	\$ 2,995,535

NOTE 10 ENVIRONMENTAL LIABILITIES

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City resolved federal, state, and tribal natural resource damage assessment (NRDA) claims associated with municipal waste and storm water discharges in Commencement Bay through a Consent Decree, effective May 28, 1997. The stated value of the City's settlement was approximately \$7,700,000. Under the NRDA Consent Decree, the City agreed to undertake five restoration projects within the Commencement Bay watershed, perform environmental protection activities, and make certain cash payments. The City completed construction on four projects and alternatively the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016. Following completion of this monitoring, the City received notification that the Trustees had executed a Resolution agreeing that the City had completed their obligations under the Consent Decree (May 28, 2019).

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

OLYMPIC VIEW RESOURCE AREA - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long-term monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys and a cap material replenishment project was designed and subsequently implemented in 2020 under EPA oversight. Because contaminated material was left in place under a cap at the site, long-term monitoring is expected to continue on a periodic basis in perpetuity. The results of this monitoring may result in additional limited maintenance efforts in the future. Included in the financial statements for the years 2020 and 2019 are liabilities of \$475,000 and \$2,046,057 respectively.

FOSS CONSENT DECREE – Under the current Long-term Monitoring Plan developed in accordance with the Foss Consent Decree, the City has an obligation for continued monitoring through at least 2028. It is expected that another Long-term Monitoring Plan will be developed following completion of monitoring under the current plan. Because contaminated material is left in place under caps in the waterway, some level of periodic monitoring is expected to continue in perpetuity. The results of this monitoring may result in additional limited maintenance efforts in the future. Included in the financial statements for the years 2020 and 2019 are liabilities of \$817,000 and \$912,000 respectively.

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

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

NOTE 11 COMMITMENTS AND CONTINGENCIES

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

NOTE 12 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the deadly new virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The COVID-19 pandemic is ongoing, and the duration and severity of the crisis are uncertain. The City and the Division took aggressive budget actions in early 2020 to manage the impacts of COVID-19. The actions included, but are not limited to, the following: reduction of 2020 revenue projections, eliminated discretionary spending, cancelled planned projects, established purchasing and contract freezes, established a hiring freeze, put certain staff on temporary furloughs and did targeted lay-offs. Other actions the City took in response to COVID-19 included, but are not limited to, the following: instituted telework for all non-frontline service staff, health screening for employees reporting to City facilities, implemented an Emergency Leave Program for employees impacted by COVID-19, provided additional funding for Rental Assistance programs, and provided additional funding for utility bill assistance. The City and the Division will continue to monitor the community impacts of COVID-19 and remain flexible on responding to community needs.

In 2020, the Division received \$231,000 from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), of which \$195,000 was used to support small business for business interruptions, and \$36,000 was used for COVID-19 related expenses.

NOTE 13 SUBSEQUENT EVENTS

On March 11, 2021, the American Rescue Plan Act (“ARPA”) was signed into law. ARPA provides \$350 billion to help states, counties, cities and tribal governments cover increased expenditures, replenish lost revenue and mitigate economic harm from the COVID-19 pandemic. Based on allocation projections, the City anticipates receiving approximately \$63.0 million in ARPA assistance. Funds received under the ARPA may be used for authorized purposes relating to mitigating the fiscal effects of the COVID-19 pandemic, including responding to the public health emergency, providing governmental services, and making certain infrastructure investments, among other purposes. The City will monitor and apply for additional Federal and State support for expenses related to responding to the COVID-19 pandemic if and as such relief becomes available.

While the full impact of the COVID-19 pandemic on the City, the Division and the regional economy is currently uncertain, the City and the Division currently believe that the measures they have taken will help mitigate its anticipated revenue shortfall. The City and the Division, however, cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the regional and local economy or on the revenues and expenses of the City and the Division. Management will continue to monitor the situation closely, but given the uncertainty about the situation, it is unable to estimate the full financial impact.

Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,					
	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	9.93%	11.14%	11.21%	11.38%	11.66%	11.65%
Employer's proportion share of net pension liability (asset)	(\$1,847,284)	\$13,029,876	(\$4,409,368)	\$10,569,592	\$10,094,045	(\$1,119,219)
Employer's covered payroll **	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556	\$25,070,695
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-6.94%	47.36%	-16.63%	40.72%	37.44%	-4.46%
Plan fiduciary net position as a percentage the total pension liability	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,					
	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$2,842,985	\$3,111,579	\$2,961,878	\$2,745,272	\$2,753,194	\$2,650,121
Contributions in relation to the contractually required employer contribution	(2,842,985)	(3,111,579)	(2,961,878)	(2,745,272)	(2,753,194)	(2,650,121)
Employer contribution deficiency (excess)	-	-	-	-	-	-
Employer's covered employee payroll	\$28,273,875	\$26,635,524	\$27,513,166	\$26,516,978	\$25,955,557	\$26,960,556
Employer contribution as a percentage of covered-employee payroll	10.06%	11.68%	10.77%	10.35%	10.61%	9.83%

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

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

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,			
	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	1.26%	1.25%	1.86%	1.81%
Employer's proportion share of collective OPEB liability	\$2,635,160	\$2,555,057	\$4,101,053	\$3,793,836
Employer's covered-employee payroll**	\$26,635,524	\$27,513,166	\$26,516,978	\$26,221,707
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	9.89%	9.29%	15.47%	14.47%

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

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

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2020**

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

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

Changes of Assumptions: The discount rate was updated to 2.74% from 4.10%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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Supplemental Information (Unaudited)

Wastewater and Surface Water Management
Unaudited Supplemental Information

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

The following continuing disclosure information for 2020 is provided in accordance with SEC Rule 15c2-12(b)(5)

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

Outstanding Sewer Bonds
Reference Note 5 in Notes to Financial Statements

Debt Service Coverage

	2019	2020
Parity Bond Debt Service Coverage Ratio	3.03	2.98
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.37	2.32

Number of Customers by Type of Service

Year	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract⁽¹⁾	Total	Residential	Commercial/ Industrial	Total
2019	59,331	3,785	14,282	77,398	59,778	11,415	71,193
2020	59,578	3,795	15,924	79,297	59,819	11,416	71,235

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

Revenues by Service

	2019	2020
Wastewater:		
Residential	\$ 50,738,543	\$ 52,822,791
Commercial and wholesale	26,567,803	23,366,944
Other revenues	2,438,896	3,690,936
Surface Water:		
Residential	17,893,654	18,835,178
Commercial	19,145,563	20,261,316
Other revenues	134,464	49,250
Total operating revenues	\$ 116,918,923	\$ 119,026,415

Top Ten Customers

Customer Name	Amount	Percent of 2020 Operating Revenues ⁽¹⁾
Port of Tacoma	\$ 2,905,590	2.44%
City of Tacoma	1,668,301	1.40%
Tacoma School District	1,655,062	1.39%
Puyallup Tribe	951,847	0.80%
Metro Parks	874,798	0.74%
Darling International Inc	680,125	0.57%
Pierce County Facilities	553,296	0.47%
Salishan	518,918	0.44%
Westridge Apartments	515,452	0.43%
BNSF Railway	493,940	0.41%
Total	<u>\$ 10,817,329</u>	<u>9.09%</u>

⁽¹⁾ Total system revenue \$ 119,026,415

Wastewater and Surface Water Rates

Wastewater Rates

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

	2019 ⁽¹⁾	2020 ⁽¹⁾
Residential		
Monthly fixed charge	\$ 25.87	\$ 26.91
Flow charge ⁽²⁾	4.87	5.07
Commercial		
Monthly fixed charge	\$ 12.50	\$ 13.00
Flow charge ⁽³⁾	\$6.75-\$14.13	\$7.02-\$14.70

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

⁽²⁾ Per 100 cubic feet of water consumed.

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

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

Surface Water Rates

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

Category of Development	2019 ⁽¹⁾		2020 ⁽¹⁾	
	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 8.10	\$ 0.1463	\$ 8.36	\$ 0.1493
Undeveloped-area in excess of one acre	8.10	0.0616	8.36	0.0614
Light development	8.10	0.4505	8.36	0.4770
Moderate development	8.10	0.6300	8.36	0.6693
Heavy development	8.10	0.9118	8.36	0.9572
Very Heavy development	8.10	1.2210	8.36	1.2819
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 8.10	\$ 0.2899	\$ 8.36	\$ 0.2921
Undeveloped area in excess of one acre	8.10	0.0616	8.36	0.0614
Light development	8.10	0.9015	8.36	0.9324
Moderate development	8.10	1.2393	8.36	1.2886
Heavy development	8.10	1.8224	8.36	1.8824
Very Heavy development	8.10	2.4394	8.36	2.5216

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

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

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

	Wastewater		Surface Water	
	As of December 31,		As of December 31,	
	2020	2019	2020	2019
ASSETS				
Current assets:				
Cash and equity in pooled investments	\$ 70,543,933	\$ 68,512,031	\$ 30,976,375	\$ 23,606,383
Accounts receivable, net	7,069,945	5,440,450	2,334,315	2,079,676
Unbilled revenues	4,827,787	4,993,787	2,848,000	2,743,000
Conservation loan fund receivables	123,536	151,349	-	-
Loan receivable	12,711,377	-	-	-
Due from other governments	-	-	237,692	651,662
Inventory	2,145,521	1,427,934	-	-
Prepayments	277,655	249,533	-	-
Restricted cash and equity in pooled investments:				
Debt service funds	822,687	822,386	582,590	583,078
Construction funds	23,556,623	35,526,712	39,418,708	46,668,021
Total restricted cash and equity in pooled investments	24,379,310	36,349,098	40,001,298	47,251,099
Total current assets	122,079,064	117,124,182	76,397,680	76,331,820
Non-current assets:				
Restricted cash and equity in pooled investments:				
Debt reserves	4,640,000	4,640,000	32,034	32,034
Net pension asset	1,363,742	-	483,542	-
Due from other governments	-	-	-	-
Conservation loan fund receivables	662,940	746,018	-	-
Prepayments	-	93,913	-	-
Capital assets:				
Land and easements	13,266,759	12,030,410	11,938,398	11,822,712
Buildings	211,503,699	193,820,522	1,864,545	1,864,545
Machinery and equipment	179,399,437	200,190,676	20,039,331	13,964,170
Transmission lines and other improvements	246,380,329	237,005,352	203,082,534	205,520,714
Computer software	5,548,488	5,391,078	3,917,813	3,916,167
Less: accumulated depreciation	(253,249,267)	(242,554,599)	(61,005,601)	(57,212,159)
Construction work in progress	26,217,656	11,255,522	14,489,895	8,205,377
Total capital assets, net	429,067,101	417,138,961	194,326,915	188,081,526
Total non-current assets	435,733,783	422,618,892	194,842,491	188,113,560
TOTAL ASSETS	557,812,847	539,743,074	271,240,171	264,445,380
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - loss on refunding bonds	2,147,063	2,272,191	1,276,979	1,357,208
Deferred outflows - OPEB	263,428	217,076	728,597	835,469
Deferred outflows - pensions	4,045,956	10,458,400	1,434,575	4,963,331
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,456,447	12,947,667	3,440,151	7,156,008
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 564,269,294	\$ 552,690,741	\$ 274,680,322	\$ 271,601,388

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

	Wastewater		Surface Water	
	As of December 31,		As of December 31,	
	2020	2019	2020	2019
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 9,071,399	\$ 2,707,093	\$ 2,117,480	\$ 1,307,438
Accrued wages payable and compensated absences payable	1,063,709	816,646	346,266	255,671
Accrued taxes payable	131,245	95,793	58,456	46,587
Due to other governments	780,000	720,000	-	-
Accrued environmental liability	-	-	147,500	1,766,057
Accrued State loan interest payable	167,676	167,001	-	-
Current portion of Capital COP loan	525,000	-	-	-
Current portion of State Revolving Fund loan	4,061,210	3,987,930	24,153	23,463
Current portion of revenue bonds payable	4,008,707	3,831,910	2,660,043	2,543,507
Unearned revenues	304,544	297,866	163,051	159,475
Current liabilities payable from restricted assets:				
Current portion of revenue bonds payable	364,428	348,355	241,822	231,228
Accrued revenue bonds interest payable	458,259	474,031	340,768	351,850
Deposit in lieu of bond	4,017	-	-	-
Total current liabilities	<u>20,940,194</u>	<u>13,446,625</u>	<u>6,099,539</u>	<u>6,685,276</u>
Non-current liabilities:				
Long-term debt - revenue bonds, net	138,705,924	143,637,156	98,159,958	101,659,690
Long-term debt - Capital COP loan	12,270,000	-	-	-
Long-term State Revolving Fund loan	28,287,222	32,348,431	296,123	276,107
Long-term accrued compensated absences	2,654,336	2,094,738	616,075	471,004
Long-term accrued environmental liability	-	-	1,144,500	1,192,000
Net pension liability	-	8,836,340	-	4,193,536
Net OPEB liability	1,375,803	1,350,938	1,259,357	1,204,119
Pension withdrawal liability	3,279,940	3,279,940	-	-
Total noncurrent liabilities	<u>186,573,225</u>	<u>191,547,543</u>	<u>101,476,013</u>	<u>108,996,456</u>
TOTAL LIABILITIES	<u>207,513,419</u>	<u>204,994,168</u>	<u>107,575,552</u>	<u>115,681,732</u>
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - gain on refunding bonds	7,146	14,941	9,868	20,633
Deferred inflows - OPEB	1,618,935	1,988,074	127,189	118,171
Deferred inflows - pensions	5,196,951	1,161,088	1,842,683	551,027
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>23,823,032</u>	<u>20,164,103</u>	<u>9,979,740</u>	<u>8,689,831</u>
NET POSITION				
Net investment in capital assets	279,616,955	271,117,496	142,738,615	141,173,078
Restricted for:				
Bond reserves	4,640,000	4,640,000	32,034	32,034
Deposit in lieu of bond	4,017	-	-	-
Net pension asset	1,363,742	-	483,542	-
Unrestricted	47,308,129	51,774,974	13,870,839	6,024,713
TOTAL NET POSITION	<u>332,932,843</u>	<u>327,532,470</u>	<u>157,125,030</u>	<u>147,229,825</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 564,269,294</u>	<u>\$ 552,690,741</u>	<u>\$ 274,680,322</u>	<u>\$ 271,601,388</u>

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

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2020	2019	2020	2019
OPERATING REVENUES				
Wastewater residential	\$ 52,822,791	\$ 50,738,543	\$ -	\$ -
Wastewater commercial and public authorities	23,366,944	26,567,803	-	-
Surface water residential	-	-	18,835,178	17,893,654
Surface water commercial	-	-	20,261,316	19,145,563
Other revenues	3,690,936	2,438,896	49,250	134,464
Total operating revenues	<u>79,880,671</u>	<u>79,745,242</u>	<u>39,145,744</u>	<u>37,173,681</u>
OPERATING EXPENSES				
Business operations	17,367,819	20,174,280	8,394,772	8,398,184
Operations and maintenance	26,476,055	24,878,794	3,847,384	4,004,644
Science and engineering	8,780,668	8,201,965	10,524,503	9,234,279
Depreciation	14,158,539	13,786,831	4,191,500	4,055,490
Total operating expenses	<u>66,783,081</u>	<u>67,041,870</u>	<u>26,958,159</u>	<u>25,692,597</u>
Net operating income	<u>13,097,590</u>	<u>12,703,372</u>	<u>12,187,585</u>	<u>11,481,084</u>
NONOPERATING REVENUES (EXPENSES)				
Investment and other earnings	2,604,231	3,700,628	1,809,249	2,272,807
Interest expenses and other related costs	(6,769,463)	(6,659,796)	(4,210,460)	(4,333,100)
Amortization of bond premium and gain/loss on refunding	440,764	247,446	528,403	529,781
CARES grant	135,961	-	95,038	-
Other nonoperating revenues	1,888,784	1,725,315	1,779,837	613,568
Other nonoperating expenses	(88,246)	-	(92,839)	-
Gain or loss on sale/disposal of capital assets	(650,208)	(78,325)	(35,876)	(25,841)
Total nonoperating expenses	<u>(2,438,177)</u>	<u>(1,064,732)</u>	<u>(126,648)</u>	<u>(942,785)</u>
Net income before contributions and transfers	<u>10,659,413</u>	<u>11,638,640</u>	<u>12,060,937</u>	<u>10,538,299</u>
Capital contributions and grants	1,467,734	982,067	2,100,317	3,141,809
Transfer in from other funds	-	-	22,260	670,812
Transfer out to other funds	(117,450)	(118,450)	(1,149,050)	(1,150,050)
Gross earnings tax	(6,609,324)	(6,720,848)	(3,139,259)	(3,058,783)
Total contributions and transfers	<u>(5,259,040)</u>	<u>(5,857,231)</u>	<u>(2,165,732)</u>	<u>(396,212)</u>
CHANGE IN NET POSITION	5,400,373	5,781,409	9,895,205	10,142,087
NET POSITION - JANUARY 1	<u>327,532,470</u>	<u>321,751,061</u>	<u>147,229,825</u>	<u>137,087,738</u>
NET POSITION - DECEMBER 31	<u>\$ 332,932,843</u>	<u>\$ 327,532,470</u>	<u>\$ 157,125,030</u>	<u>\$ 147,229,825</u>

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

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 77,008,601	\$ 79,255,992	\$ 38,225,032	\$ 37,229,012
Payments to suppliers	(16,969,369)	(24,618,799)	(11,977,312)	(10,732,734)
Payments to employees	(26,266,492)	(24,686,745)	(9,779,597)	(9,180,448)
Payments for taxes	(1,386,296)	(1,321,854)	(642,743)	(548,629)
Net cash from operating activities	<u>32,386,444</u>	<u>28,628,594</u>	<u>15,825,380</u>	<u>16,767,201</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer out to other funds	(6,815,020)	(7,335,402)	(4,381,148)	(4,432,104)
Operating grants received	-	11,172	2,173,168	(10,387)
CARES grant received	135,961	-	95,038	-
Principal paid on noncapital debt	-	-	(650,325)	(618,788)
Interest paid on noncapital debt	-	-	(405,752)	(435,636)
Contributions and donations	101,252	130	15,820	14,630
Net cash from noncapital financing activities	<u>(6,577,807)</u>	<u>(7,324,100)</u>	<u>(3,153,199)</u>	<u>(5,482,285)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Transfer in from other funds	-	-	22,260	670,812
Acquisition and construction of capital assets	(26,272,437)	(18,239,810)	(9,615,465)	(8,772,644)
Principal payments on capital debt	(8,168,195)	(7,903,529)	(2,147,872)	(2,041,546)
Bond refunding costs	-	(1,742,262)	-	-
Interest and issuance costs paid on capital debt	(6,700,938)	(6,657,796)	(3,815,791)	(3,886,327)
Proceeds from capital debt	-	-	44,169	-
Gain/loss on bonds defeasance	-	(35,655)	-	(22,200)
Contributions and donations	801,005	800,477	1,146,643	2,584,886
Cash proceeds from sale of capital assets	202,277	900	-	-
Insurance recoveries	5,750	2,268	-	1,760
Net cash from capital financing activities	<u>(40,132,538)</u>	<u>(33,775,407)</u>	<u>(14,366,056)</u>	<u>(11,465,259)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	2,604,231	3,700,628	1,809,249	2,272,807
Nonoperating income	1,781,784	1,711,745	4,817	9,902
Net cash from investing activities	<u>4,386,015</u>	<u>5,412,373</u>	<u>1,814,066</u>	<u>2,282,709</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS				
	(9,937,886)	(7,058,540)	120,191	2,102,366
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING				
	109,501,129	116,559,669	70,889,516	68,787,150
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING				
	<u>\$ 99,563,243</u>	<u>\$ 109,501,129</u>	<u>\$ 71,009,707</u>	<u>\$ 70,889,516</u>

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

	Wastewater		Surface Water	
	For Year ended December 31		For Year ended December 31	
	2020	2019	2020	2019
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Net operating income	\$ 13,097,590	\$ 12,703,372	\$ 12,187,585	\$ 11,481,084
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation expense	14,158,539	13,786,831	4,191,500	4,055,490
Expense capital project costs	-	-	96,374	-
Pension expense (credits)	248,225	1,269,906	143,334	608,623
Net OPEB expense (credits)	(390,624)	(394,223)	171,130	155,069
Pension withdrawal expense	-	3,279,940	-	-
Cash from changes in operating assets and liabilities:				
Accounts receivable, net of allowance	(1,629,495)	(359,268)	(254,639)	75,030
Accrued unbilled revenue	166,000	343,000	(105,000)	184,000
Due from other funds	-	10,842	-	87,129
Inventory	(717,587)	(329,148)	-	-
Prepayments	65,791	71,215	-	-
Accounts payable	6,364,306	(1,344,904)	810,042	(281,390)
Conservation loan fund receivables	110,891	(84,788)	-	-
Accrued wages and compensated absences payable	247,063	(7,195)	90,595	(54,791)
Accrued taxes payable	35,452	(2,483)	11,869	1,298
Deposit in lieu of bonds	4,017	(9,250)	-	-
Due to other funds	-	(262,324)	-	(294,168)
Due to other governments	60,000	120,972	-	-
Accrued environmental liability	-	-	(1,618,557)	543,723
Unearned revenues	6,678	29,445	3,576	25,265
Long-term accrued environmental liability	-	-	(47,500)	179,500
Long-term accrued compensated absences	559,598	(193,346)	145,071	1,339
Total adjustments	19,288,854	15,925,222	3,637,795	5,286,117
NET CASH FROM OPERATING ACTIVITIES	\$ 32,386,444	\$ 28,628,594	\$ 15,825,380	\$ 16,767,201
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 666,729	\$ 163,968	\$ 953,674	\$ 1,209,648



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.