NEW ISSUE **Moody's Rating: Aa2**
BOOK-ENTRY ONLY **S&P's Rating: AA+**
NOT BANK QUALIFIED **Fitch's Rating: AA+**
See "RATINGS"

In the opinion of Pacifica Law Group LLP, Bond Counsel, assuming compliance with certain covenants of the City, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

CITY OF TACOMA, WASHINGTON

$31,855,000 SEWER REVENUE REFUNDING BONDS, 2016A	$11,865,000 SEWER REVENUE REFUNDING BONDS, 2016B

DATED: Date of Initial Delivery **DUE: December 1, as shown on inside cover**

The City of Tacoma, Washington (the "City"), Sewer Revenue Refunding Bonds, 2016A (the "2016A Bonds") and Sewer Revenue Refunding Bonds, 2016B (the "2016B Bonds," and together with the 2016A Bonds, the "Bonds"), will be issued as fully registered bonds in the name of Cede & Co., as Registered Owner and as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of $5,000 or any integral multiple thereof within a series and maturity. Purchasers will not receive certificates representing their interest in the Bonds. See "THE BONDS."

The Bonds bear interest payable semiannually on each December 1 and June 1 to maturity or prior redemption, beginning December 1, 2016. The principal of and interest on the Bonds are payable by the fiscal agent of the state of Washington (the "Bond Registrar"), currently U.S. Bank National Association. For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar will make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described herein under Appendix F—"BOOK-ENTRY SYSTEM." The Bonds of each series are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption."

The 2016A Bonds are being issued to provide the funds necessary to advance refund and defease the outstanding TES Properties Lease Revenue Bonds, 2009 issued to finance the costs of designing and constructing an office and laboratory building for occupancy by the City's Environmental Services Department and other tenants, to make a deposit to the debt service reserve fund, and to pay costs of issuance of the 2016A Bonds. The 2016B Bonds are being issued to provide the funds necessary to refund on a current basis a portion of the City's outstanding Sewer Revenue and Refunding Bonds, 2006, and to pay costs of issuance of the 2016B Bonds. See "USE OF PROCEEDS."

Maturity Dates, Principal Amounts, Interest Rates, Yields, Prices and CUSIP Numbers on Inside Cover

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The Bonds are secured by a pledge of the Gross Revenues of the City's municipal sewer system (the "System") after payment of the Costs of Maintenance and Operation (as further defined herein, the "Net Revenues") and ULID Assessments, if any. The lien of the Bonds on Net Revenues and ULID Assessments is equal to the lien securing the Outstanding Parity Bonds (as defined herein) and superior to any other liens and charges of any kind. The City has reserved the right to issue additional bonds and other obligations on a parity of lien with the Bonds and the Outstanding Parity Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE ONLY FROM THE BOND FUND. THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY OR THE STATE OF WASHINGTON (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE CITY OR OF THE STATE, OR OF ANY POLITICAL SUBDIVISION OF THE STATE, NOT SPECIFICALLY PLEDGED BY THE BOND ORDINANCE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

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

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

The Bonds are offered by the Underwriter when, as and if issued, subject to the approving legal opinions of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. Forms of the proposed opinions of Bond Counsel are attached hereto as Appendix B. Certain matters will be passed upon for the Underwriter by its counsel, Foster Pepper PLLC, Seattle, Washington. It is anticipated that the 2016A Bonds in definitive book-entry form will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer ("FAST") on or about June 15, 2016. It is expected that delivery of the 2016B Bonds will be made by FAST through DTC on or about September 7, 2016. ***See "DELAYED DELIVERY OF THE 2016B BONDS" for a discussion regarding the delayed delivery of the 2016B Bonds, certain conditions to the obligation of the Underwriter to purchase the 2016B Bonds and certain risks to Registered Owners of the 2016B Bonds resulting from the delayed delivery thereof.***

J.P. Morgan

Official Statement dated May 4, 2016

CITY OF TACOMA, WASHINGTON

$31,855,000

SEWER REVENUE REFUNDING BONDS, 2016A

Maturity Year December 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1] Nos.
2016	$ 525,000	2.00%	0.64%	100.625	873545HV2
2017	975,000	3.00	0.66	103.396	873545HW0
2018	1,010,000	4.00	0.77	107.859	873545HX8
2019	1,045,000	5.00	0.91	113.903	873545HY6
2020	1,095,000	4.00	1.04	112.870	873545HZ3
2021	1,145,000	1.75	1.19	102.952	873545JA6
2022	1,165,000	2.00	1.32	104.197	873545JB4
2023	1,185,000	4.00	1.46	117.893	873545JC2
2024	1,230,000	5.00	1.61	126.714	873545JD0
2025	1,295,000	2.00	1.81	101.644	873545JE8
2026	1,325,000	3.00	2.00	108.990[2]	873545JF5
2027	1,360,000	3.25	2.18	109.533[2]	873545JG3
2028	1,405,000	3.25	2.38	107.674[2]	873545JH1
2029	1,445,000	3.50	2.55	108.309[2]	873545JJ7
2030	1,500,000	3.50	2.64	107.488[2]	873545JK4
2031	1,555,000	3.50	2.70	106.945[2]	873545JL2
2032	1,605,000	3.75	2.76	108.569[2]	873545JM0
2033	1,665,000	3.75	2.82	108.026[2]	873545JN8
2034	1,730,000	3.75	2.87	107.576[2]	873545JP3
2035	1,790,000	3.75	2.94	106.949[2]	873545JQ1
2036	1,860,000	4.00	2.90	109.456[2]	873545JR9
2037	1,935,000	4.00	2.94	109.094[2]	873545JS7
2038	2,010,000	4.00	2.95	109.004[2]	873545JT5

$11,865,000

SEWER REVENUE REFUNDING BONDS, 2016B

Maturity Year December 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP[1] Nos.
2017	$ 2,165,000	4.00%	0.91%	103.780	873545JU2
2018	2,250,000	5.00	1.01	108.787	873545JV0
2019	2,360,000	5.00	1.16	112.149	873545JW8
2020	2,485,000	5.00	1.28	115.279	873545JX6
2021	2,605,000	5.00	1.43	117.937	873545JY4

(1) CUSIP is a registered trademark of the American Bankers Association. These CUSIP numbers were provided by CUSIP Global Services and are not intended to create a database and do not serve in any way as a substitute for the CUSIP Global Services. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The City takes no responsibility for the accuracy of such CUSIP numbers.

(2) Priced to the par call date of June 1, 2026.

CITY OF TACOMA, WASHINGTON
747 MARKET STREET
TACOMA, WASHINGTON 98402
(253) 591-5000
www.cityoftacoma.org*

MAYOR AND TACOMA CITY COUNCIL

Elected Officials

Name	Position	Term Expires
Marilyn Strickland	Mayor	December 31, 2017
Ryan Mello	Deputy Mayor	December 31, 2019
Victoria Woodards	Councilmember	December 31, 2017
Keith Blocker	Councilmember	December 31, 2019
Anders Ibsen	Councilmember	December 31, 2019
Robert Thoms	Councilmember	December 31, 2017
Marty Campbell	Councilmember	December 31, 2017
Joe Lonergan	Councilmember	December 31, 2017
Connor McCarthy	Councilmember	December 31, 2019

City Officials

T.C. Broadnax	City Manager
Andrew Cherullo	Finance Director
Teresa Sedmak	City Treasurer
Elizabeth A. Pauli	City Attorney
Doris Sorum	City Clerk

City Environmental Services Department

Michael P. Slevin III, P.E.	Environmental Services Director
John O'Loughlin, P.E.	Environmental Services Assistant Director

Bond and Disclosure Counsel

Pacifica Law Group LLP
Seattle, Washington

Financial Advisor

Piper Jaffray & Co.
Seattle, Washington

Bond Registrar

Washington State Fiscal Agent
(currently U.S. Bank National Association, Seattle, Washington)

* The City's website is not part of this Official Statement, and investors should not rely on information presented in the City's website in determining whether to purchase the Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

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

No quotations from or summaries or explanations of the provisions of laws or documents herein purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds. The cover page hereof and appendices attached hereto are part of this Official Statement.

The information set forth or included in this Official Statement has been provided by the City and from other sources believed by the City to be reliable but is not guaranteed as to accuracy or completeness and it is not to be construed as a representation by the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof.

Certain statements contained in this Official Statement reflect not historical facts but are forecasts and "forward-looking statements." The forecasts, projections, and estimates are based upon expectations and assumptions that existed at the time such forecasts, projections, and estimates were prepared. No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe" and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Such risks and uncertainties include, among others, general economic conditions, change in political conditions, weather conditions, social and economic conditions, regulatory initiatives, and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. All estimates, projections, forecasts, assumptions and other forward-looking statements speak only as of the date they were prepared and are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement.

The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, in reliance upon a specific exemption contained in such act. The Bonds may, however, be subject to registration or qualification under the securities laws of various states, and may not be transferred in violation of such state laws. The registration or qualification of the Bonds in accordance with applicable provisions of the securities laws of the states in which the Bonds have been registered or qualified, if any, and exemption from registration or qualification in other states, shall not be regarded as a recommendation thereof. No state nor any state or federal agency has passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

TABLE OF CONTENTS

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OFFICIAL STATEMENT

CITY OF TACOMA, WASHINGTON

$31,855,000 SEWER REVENUE REFUNDING BONDS, 2016A	$11,865,000 SEWER REVENUE REFUNDING BONDS, 2016B

INTRODUCTION

The City of Tacoma, Washington (the "City"), a municipal corporation duly organized and existing under the laws of the State of Washington (the "State"), furnishes this Official Statement in connection with the offering of its Sewer Revenue Refunding Bonds, 2016A (the "2016A Bonds") and Sewer Revenue Refunding Bonds, 2016B (the "2016B Bonds," and together with the 2016A Bonds, the "Bonds").

The Bonds are to be issued pursuant to Ordinance No. 28355, passed by the City Council (the "Council") on April 26, 2016 (the "Bond Ordinance"), and under and in accordance with the City Charter and the laws and provisions of the State, including chapters 39.46, 35.92 and 39.53 of the Revised Code of Washington ("RCW"). Capitalized terms not otherwise defined herein shall have the meanings set forth in Appendix A—"FORM OF THE BOND ORDINANCE."

The 2016B Bonds will not be delivered until on or about September 7, 2016 (the "2016B Date of Delivery"). The delay in the issuance and delivery of the 2016B Bonds may have significant consequences to the purchasers of the 2016B Bonds. The market value of the 2016B Bonds on the 2016B Date of Delivery is likely to be greater or less than the respective initial offering prices thereof, and the difference may be substantial. Several factors may adversely affect the market price of the 2016B Bonds, including, but not limited to, a general increase in interest rates for all obligations and other indebtedness, threatened or adopted changes in federal tax laws affecting the relative benefits of owning tax-exempt securities instead of other types of investments, such as fully taxable obligations, or adverse development with respect to the City or with respect to the security for the 2016B Bonds. See "DELAYED DELIVERY OF THE 2016B BONDS."

This Official Statement provides information concerning the City, the Bonds and the City's municipal sewer system, which is comprised of two separate utilities: Wastewater Management and Surface Water Management (together, the "System"). The Bonds are secured by a pledge of the Gross Revenues of the System after payment of Costs of Maintenance and Operation (as further defined herein, the "Net Revenues") and utility local improvement district ("ULID") assessments ("ULID Assessments"), if any, levied in a ULID for the acquisition or construction of improvements to and extensions of the System if those assessments are pledged to be paid into the Bond Fund. The Bonds are issued with a lien on Net Revenues on a parity with the following System obligations (the "Outstanding Parity Bonds"):

- Sewer Revenue and Refunding Bonds, 2006 (the "2006 Bonds") currently outstanding in the aggregate principal amount of $15,560,000, a portion of which will be refunded with proceeds of the 2016B Bonds;

- The City's obligation to pay monthly rent under the Project Lease Agreement dated as of February 1, 2009, between TES Properties and the City (the "Project Lease"), delivered in connection with the TES Properties Lease Revenue Bonds, 2009 (the "TES Bonds"), currently outstanding in the aggregate principal amount of $33,590,000, all of which will be refunded with proceeds of the 2016A Bonds;

- Sewer Revenue Refunding Bonds, 2011 (the "2011 Bonds") currently outstanding in the aggregate principal amount of $34,315,000; and

- Sewer Revenue and Refunding Bonds, 2015 (the "2015 Bonds") currently outstanding in the aggregate principal amount of $109,300,000.

The TES Bonds were issued by TES Properties, on behalf of the City, pursuant to an Indenture of Trust dated as of February 1, 2009 (the "Indenture") to finance the costs of designing and constructing an office and laboratory building (the "Urban Waters Building") for occupancy by the City's Environmental Services Department and other tenants. Under the terms of the Project Lease, the City has been obligated to make monthly rental payments ("Monthly Rent") which were deposited with the trustee under the Indenture and used to pay principal of and interest on the TES Bonds when due. Monthly Rent under the Project Lease constitutes a revenue obligation of the System with a lien on Net Revenues on a parity with the Outstanding Parity Bonds. After the issuance of the 2016A Bonds and the refunding and defeasance of the TES Bonds, the City will no longer be required to pay Monthly Rent and title to the Urban Waters Building will transfer to the City. See "USE OF PROCEEDS—Refunding Plan."

After the issuance of the Bonds and the refunding of a portion of the 2006 Bonds and all of the TES Bonds, the City expects that the Outstanding Parity Bonds will include the remaining 2006 Bonds, the 2011 Bonds, and the 2015 Bonds. See "DEBT INFORMATION" herein. The City has reserved the right in the Bond Ordinance to issue additional bonds ("Future Parity Bonds") and other obligations on a parity of lien on Net Revenues with the Outstanding Parity Bonds and the Bonds upon satisfaction of certain conditions. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Parity Bonds." The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are collectively referred to herein as the "Parity Bonds."

The Bonds are special revenue obligations of the City. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS

General

The Bonds of each series will be dated their date of delivery and will be issued in fully registered form in denominations of $5,000 each or integral multiples thereof within a series and maturity. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover of this Official Statement and will bear interest from their date, payable on December 1, 2016 and semiannually thereafter on June 1 and December 1 of each year until maturity or prior redemption, at the rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

The Bonds will be issued in registered form, initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds will be made initially in book-entry form only and purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners or bond owners will mean Cede & Co. and will not mean the "Beneficial Owners" of the Bonds. In this Official Statement, the term "Beneficial Owner" will mean the person for whom a DTC participant acquires an interest in the Bonds. See Appendix F—"BOOK-ENTRY SYSTEM."

Bond Registrar

The City has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee (the "Committee"). Pursuant to chapter 43.80 RCW, the Committee designates a fiscal agent for bonds issued within the State. The State's fiscal agent, currently U.S. Bank National Association (the "Bond Registrar"), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar.

To pay the principal of and interest on the Bonds when due, the City will remit money from the City's Sewer Revenue Bond Fund (the "Bond Fund") to the Bond Registrar. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Bond Fund" herein. The Bond Registrar is obligated to remit such payments only to DTC, which, in turn, is obligated to remit such payments to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds as described in Appendix F—"BOOK-ENTRY SYSTEM." In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds will be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated office of the Bond Registrar; provided, however, that if so requested in writing by the Registered Owner of at least $1,000,000 principal amount of Bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

Redemption

Optional Redemption. The Bonds maturing in years December 1, 2016 through 2025, inclusive, are not subject to optional redemption prior to maturity. The Bonds maturing on or after December 1, 2026 are subject to redemption at the option of the City, in whole or in part (and if in part, with maturities to be selected by the City) on any date on or after June 1, 2026 at a price equal to 100 percent of the principal amount to be redeemed, without premium, plus accrued interest, if any, to the date fixed for redemption.

Selection of Bonds for Redemption. For as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a series and maturity to be redeemed shall be made by DTC in accordance with its operational procedures then in effect. If the Bonds are no longer held in uncertificated form, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the Bond Ordinance. If the City redeems at any one time fewer than all of the Bonds of a series having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of $5,000. In the case of a Bond of a denomination greater than $5,000, the City and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of $5,000 as is obtained by dividing the actual principal amount of such Bond by $5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then-unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like series, maturity and interest rate in any of the denominations authorized in the Bond Ordinance.

Notice of Redemption. For so long as the Bonds are held in uncertificated form, notice of redemption (which notice may be conditional) shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. Thereafter (if the Bonds are no longer held in uncertificated form), notice of redemption shall be given in the manner as provided in the Bond Ordinance. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

On or prior to any redemption date, unless any condition to such redemption has not been satisfied or waived or notice of such redemption has been rescinded, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The City retains the right to rescind any redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected Registered Owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

If notice of redemption has been given and not rescinded, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and, if the Bond Registrar then holds sufficient funds to pay such Bonds at the redemption price, then from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as provided in the Bond Ordinance. All Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued.

Open Market Purchase

The City has reserved the right at any time and at any price to purchase any of the Bonds from amounts in the Sewer Fund available for such purchase.

Defeasance

In the event that the City, to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, cash or noncallable "Government Obligations," as defined in chapter 39.53 RCW, as it may be amended, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bond. The owner of a Bond so provided for shall cease to be entitled to any lien, benefit or security of the Bond Ordinance except the right to receive payment of principal, premium, if any, and interest from the Bond Fund or such special account, and such Bond shall be deemed to be not outstanding under the Bond Ordinance.

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

USE OF PROCEEDS

Purpose

The 2016A Bonds are being issued to provide the funds necessary to advance refund and defease the outstanding TES Bonds for debt service savings (as determined by comparing the Monthly Rent the City is paying under the Project Lease to the debt service to be paid on the 2016A Bonds), to make a deposit to the Reserve Fund, and to pay costs of issuance of the 2016A Bonds. The 2016B Bonds are being issued to provide the funds necessary to refund on a current basis a portion of the City's outstanding 2006 Bonds for debt service savings, and to pay costs of issuance of the 2016B Bonds. See "Refunding Plan" below.

Sources and Uses of Funds

The table below sets forth the sources and uses of funds in connection with the issuance of the Bonds and the plan of refunding (amounts in table may not foot due to rounding).

Sources of Funds	**2016A Bonds**	**2016B Bonds**	**Total**
Principal Amount of the Bonds	$ 31,855,000	$ 11,865,000	$ 43,720,000
Original Issue Premium	2,802,994	1,413,203	4,216,197
Reserve Fund held under the TES Bond Indenture	2,612,756	—	2,612,756
Debt Service Fund held under the TES Bond Indenture	405,416	—	405,416
Reserve Fund Contribution	2,612,689	58,643	2,671,332
Total Sources:	$ 40,288,855	$ 13,336,846	$ 53,625,701
Uses of Funds			
Escrow Deposit	$ 37,945,251	$ 13,252,559	$ 51,197,809
Reserve Fund Deposit	2,111,502	—	2,111,502
Costs of Issuance(1)	232,102	84,287	316,389
Total Uses:	$ 40,288,855	$ 13,336,846	$ 53,625,701

(1) Includes legal fees, rating agency fees, printing costs, escrow fees, real estate transfer fees, Financial Advisor fees, Underwriter's discount, additional proceeds, and other costs associated with the issuance of the Bonds.

Refunding Plan

The City will use a portion of the proceeds of the 2016A Bonds to advance refund and defease all of the following outstanding TES Bonds:

TES Properties
Lease Revenue Bonds, 2009

Maturity Years (December 1)	Principal Amounts	Interest Rates	Call Date (100% of Par)	CUSIP Numbers
2016	$ 810,000	4.000%	Defeased to maturity	881566AG8
2017	845,000	4.000	Defeased to maturity	881566AH6
2018	880,000	4.250	Defeased to maturity	881566AJ2
2019	915,000	4.500	06/01/2019	881566AK9
2024[(1)]	5,280,000	5.000	06/01/2019	881566AL7
2029[(1)]	6,815,000	5.500	06/01/2019	881566AM5
2038[(1)]	18,045,000	5.625	06/01/2019	881566AN3

[(1)] Term Bond.

The City will use a portion of the proceeds of the 2016B Bonds to refund on a current basis the following callable maturities of the 2006 Bonds (the "2006 Refunded Bonds"). $12,935,000 of the 2006 Bonds will be refunded with proceeds of the Bonds, leaving $2,625,000 ($2,620,000 maturing on December 1, 2016 and $5,000 maturing on December 1, 2036) in aggregate principal amount of the 2006 Bonds remaining outstanding:

City of Tacoma
Sewer Revenue and Refunding Bonds, 2006
Refunded Bonds

Maturity Years (December 1)	Principal Amounts	Interest Rates	Call Date (100% of Par)	CUSIP Numbers
2017	$ 2,345,000	5.000%	12/01/2016	873545HP5
2018	2,460,000	5.000	12/01/2016	873545HQ3
2019	2,585,000	4.550	12/01/2016	873545HR1
2020	2,705,000	5.000	12/01/2016	873545HS9
2021	2,840,000	5.000	12/01/2016	873545HT7

A portion of the proceeds of the 2016A Bonds will be escrowed to the maturity date or redemption date for the TES Bonds, at which time the TES Bonds will be redeemed at a price of par plus accrued interest to the maturity date or redemption date. A portion of the proceeds of the 2016B Bonds will be escrowed to the redemption date for the 2006 Refunded Bonds on December 1, 2016, at which time the 2006 Refunded Bonds will be redeemed at a price of par plus accrued interest to the redemption date.

From a portion of the proceeds of each series of Bonds, the City will purchase certain direct non-callable United States Government Obligations ("Acquired Obligations"). These Acquired Obligations will be deposited in the custody of U.S. Bank National Association, Seattle, Washington (the "Escrow Agent"). The maturing principal of the Acquired Obligations purchased with proceeds of the 2016A Bonds, interest earned thereon, and necessary cash balance, if any, will provide payment of interest and principal on the TES Bonds when due up and including the applicable maturity date or redemption date, and on such date the redemption price of the TES Bonds. The Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will irrevocably be pledged to and held in trust for the benefit of the owners of the TES Bonds by the Escrow Agent, pursuant to an escrow deposit agreement to be executed by the City, TES Properties, and the Escrow Agent. Likewise, the maturing principal of the Acquired Obligations purchased with proceeds of the 2016B Bonds, interest earned thereon, and necessary cash balance, if any, will provide payment of interest and principal on the 2006 Refunded Bonds when due up and including the redemption date, and on such date the redemption price of the 2006 Refunded Bonds. The Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will irrevocably be pledged to and held in trust for the benefit of the owners of the 2006 Refunded Bonds by the Escrow Agent, pursuant to an escrow deposit agreement to be executed by the City and the Escrow Agent.

Verification of Mathematical Calculations

Causey Demgen & Moore P.C. will verify the accuracy of the mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Acquired Obligations, to be placed together with other escrowed money in the escrow account to pay when due, on the maturity date or redemption date, the principal of and interest on the TES Bonds and the 2006 Refunded Bonds. The verification will also confirm the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" as defined by Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Net Revenues

The City has pledged as security for the payment of the principal of and interest and premium, if any, on all Parity Bonds, including the Bonds, subject to the provisions of the Bond Ordinance restricting or permitting the application thereof:

(a) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance,

(b) Net Revenues and ULID Assessments, if any, and

(c) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom.

The City does not currently have any utility local improvement districts outstanding. See "Utility Local Improvement Districts" herein. The pledge of Net Revenues, money and assets credited to the Sewer Fund and Bond Fund and ULID Assessments constitutes a statutory lien and charge on the Net Revenues, the funds and ULID Assessments superior to all other charges of any kind or nature.

State law provides that the owner of a bond, such as the Bonds, the payment of which is pledged from a special fund has a claim only against that fund and proportionate amounts of revenue pledged to that fund. Under State law, any bond owner may bring an action to compel a city to set aside and pay into the special fund, such as the Bond Fund, the amount that a city is obligated to set aside and pay therein.

"Net Revenues" are defined in the Bond Ordinance to mean, for any period, the excess of Gross Revenues over Costs of Maintenance and Operation for such period, excluding from the computation of Gross Revenues (a) ULID Assessments, (b) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights or facilities of the System, or (c) gains or losses resulting from the early extinguishment of debt.

"Gross Revenues" are defined in the Bond Ordinance to mean (a) all revenues received for the use of the System, (b) revenues received from the sale of by-products from a treatment facility of the System or from any other source for rental, use or services rendered by the System, (c) ULID Assessments, (d) the proceeds received by the City from the sale or other disposition of any of the properties of the System, (e) investment income earned on money held in any fund or account of the City in connection with the ownership and operation of the System, including any bond redemption funds, and (f) federal or state reimbursement of operating expenses to the extent that such expenses are included as Costs of Maintenance and Operation, but excluding (i) insurance proceeds, (ii) investment income irrevocably pledged to the payment of any specific sewer revenue bonds of the City refunded or defeased pursuant to a plan of refunding adopted by the City, (iii) investment income earned on money in any rebate fund, and (iv) grants, gifts or donations. Amounts withdrawn from the Rate Stabilization Fund shall increase Gross Revenues for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Fund shall reduce Gross Revenues for the period during which they are deposited. See "Rate Stabilization Fund."

"Costs of Maintenance and Operation" means all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, insurance premiums and administrative expenses and reasonable pro-rata budget charges for services provided to the System by City departments, but excludes (a) payments for debt service or into debt service reserve accounts or funds, (b) costs of capital additions to or replacements of the System, (c) money necessary to pay extraordinary legal claims and judgments against the System or amortized payments to the City's self-insurance fund with respect to extraordinary claims and judgments, (d) depreciation, (e) City taxes (or payments to the City in lieu of taxes) upon the properties and earnings of the System, and (f) any Rebate Amount.

The Bonds are special revenue obligations of the City. Neither the full faith and credit nor the taxing power of the City is pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City.

Flow of Funds

A special fund of the City has been created and designated the "Sewer Fund." The City has covenanted and agreed that so long as any of the Parity Bonds are outstanding it will pay into the Sewer Fund all Gross Revenues exclusive of ULID Assessments and earnings on money and investments in any construction fund, the Rate Stabilization Fund, the Bond Fund, and any rebate fund, which may be retained in such funds or accounts or transferred to other funds or accounts as permitted or required by the Bond Ordinance.

The amounts on deposit in the Sewer Fund will be used only for the following purposes and in the following order of priority:

(a) to pay or provide for Costs of Maintenance and Operation;

(b) to make all payments required to be made into the Interest Account in the Bond Fund or to make any Payments under a Parity Payment Agreement;

(c) to make all payments required to be made into the Principal Account and the Term Bond Retirement Account in the Bond Fund;

(d) to make all payments pursuant to a reimbursement agreement ranking on a parity of lien with the Parity Bonds and entered into in connection with a Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility with respect to the Reserve Fund, and *after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased*, into any other reserve fund created in the future for the payment of debt service on Parity Bonds; provided that, if there is not sufficient money to make all payments under reimbursement agreements, the payments will be made on a pro-rata basis;

(e) to make all payments required to be made into the Reserve Fund to secure the payment of any Covered Bonds, and *after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased*, into any other reserve fund created in the future for the payment of debt service on Parity Bonds;

(f) to make all payments required to be made into any special fund or account created to pay or secure the payment of obligations issued having a lien upon amounts in the Sewer Fund junior and inferior to the lien thereon for the principal of and interest on the Parity Bonds;

(g) to pay any taxes (or payments in lieu of taxes) upon the System payable to the City; and

(h) to make payments into the Rate Stabilization Fund or for any lawful purpose of the City related to the System.

Bond Fund

The Bond Fund will be used solely for the purposes of paying the principal of, premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to maturity in the manner provided in the Bond Ordinance or in any ordinance authorizing the issuance of a series of Parity Bonds. The City has irrevocably obligated itself to set aside and to pay into the Bond Fund all ULID Assessments and out of the Sewer Fund certain fixed amounts sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on the Bonds and all other Parity Bonds outstanding when due. The Bond Fund contains four funds and accounts: the Interest Account, the Principal Account, the Term Bond Retirement Account, and the Reserve Fund. At the option of the City, separate funds and accounts may be created in the Bond Fund for the purpose of paying or securing the payment of principal, premium, if any, and interest on any series of Parity Bonds. The fixed amounts to be paid into the Bond Fund will be made into those funds and accounts in the following order of priority:

Interest Account. In the case of all Parity Bonds, no later than the day prior to the date on which an installment of interest is due on any Parity Bonds, the City will transfer from the Sewer Fund to the Interest Account an amount (together with other money as is on hand and available in such Account) equal to the installment of interest then due on all outstanding Parity Bonds.

Principal Account and Term Bond Retirement Account. No later than the day prior to the date upon which an installment of principal on Parity Bonds that are Serial Bonds is due, the City will transfer from the Sewer Fund to the Principal Account an amount (together with such other money as is on hand and available in such Account) equal to the installment of principal then due on all outstanding Parity Bonds that are Serial Bonds.

No later than the day prior to the date upon which the principal amount of Term Bonds required to be purchased or redeemed in that year (the "Sinking Fund Requirement") is due, the City will transfer from the Sewer Fund to the Term Bond Retirement Account an amount (together with such other money as is available and on hand in such account) equal to the Sinking Fund Requirement for such date.

Reserve Fund. The Reserve Fund has been established in the Bond Fund to serve as a common reserve securing the repayment of (a) the Outstanding Parity Bonds, (b) *so long as the 2006 Bonds and the 2011 Bonds remain outstanding*, the Bonds, (c) *after all of the 2006 Bonds and 2011 Bonds are fully redeemed, refunded or defeased*, the Bonds, unless and until the City determines pursuant to the Bond Ordinance that the Bonds are no longer to be Covered Bonds secured by the Reserve Fund, and (d) those Future Parity Bonds designated in the Parity Bond Ordinance authorizing their issuance as Covered Bonds secured by the Reserve Fund (the "Covered Bonds"). *After the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased*, the City may create separate reserve funds and establish separate Reserve Fund Requirements, if any, to secure the payment of the principal of and interest on other Parity Bonds.

The Bonds shall initially be issued as Covered Bonds and the payment of the principal of and interest on the Bonds shall initially be secured by the Reserve Fund. ***After the 2006 Bonds and 2011 Bonds are fully redeemed, refunded or defeased*****, the City, in its sole discretion, may create a separate reserve fund and establish a separate Reserve Fund Requirement, if any, to secure the payment of the principal of and interest on the Bonds. If the City determines to create a separate reserve fund and establish a Reserve Fund Requirement for the Bonds, from such date the Bonds will no longer be Covered Bonds and the payment of the principal of and interest on the Bonds will no longer be secured by the Reserve Fund. The new Reserve Fund Requirement for the Bonds shall be equal to the amount, if any and which may be zero, specified in a certificate of the City Finance Director, Treasurer and Environmental Services Director.** The City has agreed in the Bond Ordinance to provide notice of any such separate reserve fund and corresponding Reserve Fund Requirement for the Bonds in the same manner as a listed event notice that would be required upon the occurrence of a material "release, substitution, or sale of property securing repayment of the Bonds" as provided under "CONTINUING DISCLOSURE UNDERTAKING."

The City has covenanted in the Bond Ordinance that, at the time of issuance of the Bonds, the amount on deposit in the Reserve Fund, which may include cash, insurance or letters or credit, as further described below, will satisfy the Reserve Fund Requirement for the Parity Bonds.

"Reserve Fund Requirement" is defined in the Bond Ordinance as the dollar amount to be calculated with respect to all Covered Bonds and, *after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased*, separately with respect to other Parity Bonds.

(a) With respect to Covered Bonds, the Reserve Fund Requirement means as of any date an amount equal to the lesser of (1) the Maximum Annual Debt Service for Covered Bonds then outstanding, (2) 125% of average Annual Debt Service for Covered Bonds then outstanding, or (3) 10% of the initial face amount of the Covered Bonds then outstanding; provided, however, that the dollar amount required to be contributed, if any, as a result of the issuance of a series of Future Parity Bonds shall not be greater than the maximum dollar amount permitted by the Code to be allocated to a reserve fund from tax-exempt bond proceeds without requiring a balance to be invested at a restricted yield (the "Maximum Reserve Requirement"). If the dollar amount required to be contributed at the time of issuance of a series of Future Parity Bonds exceeds the Maximum Reserve Requirement, then the amount required to be contributed shall be equal to the Maximum Reserve Requirement.

(b) *After the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased*, with respect to other series of Parity Bonds, the Reserve Fund Requirement shall be equal to the amount, if any, specified in either the Parity Bond Ordinance authorizing the issuance of such Parity Bonds or in a certificate of the Finance Director, Treasurer, and Environmental Services Director; provided, however, such Reserve Fund Requirement shall not exceed the Maximum Reserve Requirement.

"Annual Debt Service" means the amount required to be paid in a calendar year for (a) interest due in such calendar year on all Parity Bonds, (b) principal of all Serial Bonds due in such calendar year, and (c) any Sinking Fund Requirement for such calendar year, calculated as provided in the Bond Ordinance.

As of March 1, 2016, the City had $10,025,257 in cash and investments and Qualified Insurance in the form of a surety policy in the amount of $3,033,407 from Financial Guaranty Insurance Company ("FGIC") delivered in connection with the issuance of the 2006 Bonds on deposit in the Reserve Fund. The Qualified Insurance originally issued by FGIC has been reinsured by National Public Finance Guaranty Corp. and will terminate on the earlier of the scheduled final maturity date of the 2006 Bonds (December 1, 2036) or the date on which no 2006 Bonds are deemed outstanding. A portion of the amount on deposit in the Reserve Fund, together with a portion of the proceeds of the 2016A Bonds, will be used to satisfy the Reserve Fund Requirement on the date of issuance of the 2016A Bonds ($12,962,390) and the 2016B Bonds ($12,903,747). See "USE OF PROCEEDS—Sources and Uses of Funds."

The City has further covenanted that if it issues any Future Parity Bonds that are Covered Bonds, it will deposit proceeds from the Future Parity Bonds or approximately equal monthly payments into the Reserve Fund from money in the Sewer Fund so that, within five years from the date of issuance of the Future Parity Bonds or by the final maturity of the Future Parity Bonds, whichever occurs first, the amount in the Reserve Fund will equal the Reserve Fund Requirement. See "Future Parity Bonds."

At any time, the City is permitted to substitute Qualified Insurance or a Qualified Letter of Credit for the money and investments in the Reserve Fund or may substitute money and investments for Qualified Insurance or a Qualified Letter of Credit in accordance with the Bond Ordinance. The face amount of that Qualified Insurance or Qualified Letter of Credit must be at least equal to the amount of the money or investments for which the Qualified Insurance or Qualified Letter of Credit is substituted. Valuation of the amount in the Reserve Fund and all subaccounts therein will be made by the City on each December 31 and may be made on any other date. Valuation must be at the market value of the obligations in the Reserve Fund and the subaccounts (including accrued interest); provided, that investments which mature within one year will be valued at their maturity value.

On receipt of a notice of cancellation of any Qualified Letter of Credit or Qualified Insurance or upon notice that the entity providing the Qualified Letter of Credit or Qualified Insurance no longer meets the requirements specified in the Bond Ordinance, the City has covenanted to substitute a Qualified Letter of Credit or Qualified Insurance in the amount required to make up the deficiency created in the Reserve Fund, or in the alternative to make approximately equal monthly deposits of Net Revenues so that within 36 succeeding calendar months such amount, together with other money and investments on deposit in the Reserve Fund, to equal the Reserve Fund Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective.

If at any time the money and value of Permitted Investments in the Reserve Fund exceeds the amount of money and value of Permitted Investments then required to be maintained in the Reserve Fund, the excess may be transferred to the Sewer Fund.

If there is a deficiency in the Interest Account, Principal Account or Term Bond Retirement Account in the Bond Fund, the City will make up such deficiency promptly from the Reserve Fund by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Fund, if necessary, in amounts that will provide cash in the Reserve Fund sufficient to make up the deficiency. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City then will draw from any Qualified Letter of Credit, Qualified Insurance or other equivalent credit facility in an amount sufficient to make up the deficiency. Such a draw will be made at such times and under such circumstances as the agreement for the Qualified Letter of Credit or Qualified Insurance provides. The City has covenanted and agreed that any deficiency created in the Reserve Fund by reason of any withdrawal therefrom for payment into the Interest Account, Principal Account or Term Bond Retirement Account will be made up from money in the Sewer Fund first available after providing for the required payments into the Interest Account, Principal Account and Term Bond Retirement Account and after providing for payments under a reimbursement agreement entered into by the City in connection with the Reserve Fund; provided, *after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased*, any such deficiency shall be made up within 12 months of such deficiency.

When a series of Covered Bonds is refunded in whole or in part, money may be withdrawn from the Reserve Fund to pay or provide for the payment of refunded Covered Bonds; provided that immediately after such withdrawal there must remain in or be credited to the Reserve Fund money and Permitted Investments in an amount equal to the Reserve Fund Requirement or as much thereof as is then required to be maintained.

At the option of the City, money in the Bond Fund may be invested and reinvested as permitted by law. At the City's option, earnings on investments in the Bond Fund may be retained in the Bond Fund or transferred to the Sewer Fund, except that earnings on investments in the Reserve Fund will be applied first to remedy any deficiency in the Reserve Fund.

If necessary, money in each of the subaccounts established in the Bond Ordinance may be used to pay Rebate Amounts to the extent that the Rebate Amounts are directly attributable to earnings on such subaccount.

Rate Stabilization Fund

A special fund of the City designated the "Rate Stabilization Fund" (the "Rate Stabilization Fund") has been established in the Sewer Fund. In accordance with the priorities set forth above under "Flow of Funds," the City may from time to time deposit Net Revenues into the Rate Stabilization Fund and may from time to time withdraw amounts therefrom to enhance rate stability or for other lawful purposes of the City related to the System. As of March 1, 2016, the balance in the Rate Stabilization Fund was $25,000,000. See "Rate Covenant."

Future Parity Bonds

The City reserves the right to issue Future Parity Bonds from time to time as may be required for any lawful purpose of the City relating to the System, including but not limited to acquiring, constructing and installing additions and improvements to and extensions of the System, acquiring necessary equipment for the System, or making necessary renewals, replacements or repairs and capital improvements to the System and refunding any outstanding indebtedness.

The City has covenanted that Future Parity Bonds will be issued only upon compliance with the following conditions:

(a) At the times of the issuance of the Future Parity Bonds there may not be any deficiency in the Bond Fund or in any of the funds or accounts therein.

(b) With respect to Covered Bonds, the ordinances authorizing the issuance of the Future Parity Bonds must require that the following amounts will be paid into the Reserve Fund in the Bond Fund:

(i) from the proceeds of such Future Parity Bonds, an amount such that the amount on deposit in the Reserve Fund, allowing for any amount covenanted in an ordinance authorizing the issuance of outstanding Parity Bonds to be paid into the Reserve Fund over five years, is equal to the Reserve Fund Requirement, or

(ii) from the Sewer Fund in approximately equal monthly payments, such amounts and at such times so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity established for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Fund an amount equal to the Reserve Fund Requirement.

Upon the issuance of any series of Future Parity Bonds, the City will recalculate the Reserve Fund Requirement, which will become effective as of the date of recalculation.

(c) If the Future Parity Bonds are being issued to pay costs incurred or to be incurred for purposes other than refunding purposes, there must be on file with the City Clerk either:

(i) a certificate of the Finance Director of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the proposed Future Parity Bonds, as determined from the financial statements of the System, was not less than 1.30 times Maximum Annual Debt Service minus the amount of ULID Assessments due in that year and not delinquent ("Maximum Adjusted Annual Debt Service") on all outstanding Parity Bonds and the proposed Future Parity Bonds; provided, *after all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows*: a certificate of the Finance Director of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the bonds then proposed to be issued, as determined from the financial statements of the System, were not less than 1.25 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued.

In issuing such certificate the Finance Director shall reflect in the certificate the Net Revenues he or she estimates would have been collected in such 12 month period if the Council at any time on or prior to the date of delivery of the bonds proposed to be issued had adopted any adjustment in the rates, fees and charges collected by the City for the services to the System if such new rates, fees and charges had been in effect for the entire 12 month period, or

(ii) a certificate of an Engineer or a Certified Public Accountant (the "Accountant") showing that the "Adjusted Net Revenues" (as described below) for each calendar year during the life of the bonds proposed to be issued will equal at least 1.30 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the proposed Future Parity Bonds; provided, *after all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows:* a certificate of an Engineer or an Accountant showing that the Adjusted Net Revenues for each calendar year during the life of the bonds proposed to be issued will equal at least 1.25 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued.

"Adjusted Net Revenues" will be the Net Revenues for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of the proposed Future Parity Bonds (the "Base Period") as adjusted by such Engineer or Accountant to take into consideration changes in Net Revenues estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the proposed Future Parity Bonds, will be outstanding:

(1) the additional Net Revenues that would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of the Base Period and effective within 12 months had been in force during the full Base Period;

(2) the additional Net Revenues that would have been received if any facility of the System that became fully operational after the beginning of the Base Period had been so operating for the entire Base Period;

(3) the additional Net Revenues estimated by the Engineer or Accountant to be received as a result of any additions and improvements to and extensions of any facilities of the System which (a) are under construction at the time of such certificate or (b) will be constructed or acquired from the proceeds of the Future Parity Bonds to be issued;

(4) the additional Net Revenues that would have been received if any customers added to the System during the Base Period or subsequent thereto were customers for the entire Base Period; and

(5) ninety percent of the additional Net Revenues estimated by such Engineer or Accountant to be derived from the new customers that will be added to the System in the first 12 months after the completion of the construction of the improvements to be made thereto or from acquisitions out of the proceeds of the sale of such Future Parity Bonds.

The Engineer or Accountant may rely upon financial statements of the System, certified by the Finance Director, showing income and expenses for the period upon which the same is based.

After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, for purposes of satisfying the requirements for the issuance of Future Parity Bonds, Annual Debt Service for any Fiscal Year or calendar year shall exclude receipts of the City that are not included in Gross Revenues and that are legally available to pay debt service on Parity Bonds, including without limitation federal interest subsidy payments, designated as such by the City ("Debt Service Offsets") that have been received or are expected to be received in such Fiscal Year or calendar year.

Refunding Bonds. If any Future Parity Bonds are issued for refunding purposes, and the refunding results in a present value monetary saving to the City and does not require an increase of more than $5,000 in debt service payments to be paid in any fiscal or calendar year thereafter than would have been paid in the same period for Annual Debt Service on the bonds being refunded, then certification of sufficient Net Revenues will not be required.

Junior Lien Obligations. Nothing in the Bond Ordinance prevents the City from issuing bonds, notes, warrants, or other obligations payable from and secured by a lien and charge junior to the lien and charge of the Parity Bonds.

The City has complied, or will have complied at the closing of the Bonds, with the requirements summarized above for issuance of the Bonds.

Rate Covenant

The City has covenanted in the Bond Ordinance that so long as the Bonds are outstanding it will establish, maintain and collect rates or charges in connection with the ownership and operation of the System that will be fair and nondiscriminatory and adequate to provide Gross Revenues sufficient for:

(a) the payment of the principal of and interest on all Parity Bonds (for which payment has not otherwise been provided) and all amounts that the City is obligated to set aside in the Bond Fund,

(b) the proper operation and maintenance of the System, and

(c) the payment of all amounts that the City may now or hereafter become obligated to pay from Gross Revenues.

The City has further covenanted to establish, maintain and collect rates or charges in connection with the ownership and operation of the System sufficient to provide Net Revenues in any calendar year after the date of issuance of the Bonds in an amount equal to at least 1.30 times the Adjusted Annual Debt Service (the "Rate Covenant"). "Adjusted Annual Debt Service" is defined as Annual Debt Service minus an amount equal to ULID Assessments due in that year and not delinquent and any Capitalized Interest to be paid with respect to Parity Bonds. *After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased,* the Rate Covenant shall require rates and charges to be sufficient to provide Net Revenues in any calendar year in an amount equal to at least 1.25 times the Adjusted Annual Debt Service.

Solely for purposes of calculating the Rate Covenant, any amount that has been withdrawn from the Rate Stabilization Fund in a Fiscal Year and deposited into the Sewer Fund will be added to Gross Revenues of that Fiscal Year, and any amount withdrawn from the Sewer Fund and deposited into the Rate Stabilization Fund will be subtracted from Gross Revenues. *After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased,* credits to or from the Rate Stabilization Fund that occur within 90 days after the end of a Fiscal Year may be treated as occurring within such Fiscal Year.

After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, for purposes satisfying the Rate Covenant, Annual Debt Service for any Fiscal Year or calendar year shall exclude Debt Service Offsets that have been received or are expected to be received in such Fiscal Year or calendar year.

Additional Covenants

The City has covenanted in the Bond Ordinance to maintain the properties of the System in good repair, working order, and condition; to sell or otherwise dispose of the System in its entirety only if provision is made for the payment, redemption or retirement of all Parity Bonds then outstanding, and in part only upon satisfaction of certain conditions; to insure (or self-insure) the properties of the System; to not provide sanitary and storm sewage collection and disposal service to any customer free of charge unless otherwise permitted by law or City legislation; to keep proper books of account of the System; and to satisfy certain other covenants for the benefit of the owners of the Bonds. See Appendix A—"FORM OF THE BOND ORDINANCE" for a complete description of these and other covenants agreed to by the City for the benefit of the owners of the Bonds.

Utility Local Improvement Districts

The City has no ULIDs with assessments currently outstanding. However, the City has reserved the right to create ULIDs in the future and to issue Future Parity Bonds to finance improvements within a ULID, consistent with the certain conditions set forth in the Bond Ordinance. In such event, ULID Assessments will be paid directly into the Bond Fund.

General Description. Under State law (chapter 35.43 RCW), a city may establish ULIDs to pay in whole or in part the costs of certain improvements and may levy special assessments on all property specially benefited by any such improvement, with the amount of the assessment based on the special benefit to each parcel within the district. A city must permit each property owner to pay its assessment in full within a 30 day prepayment period and to pay the remaining outstanding balance in annual installments of principal and interest.

Lien of Assessments. State law (chapter 35.50 RCW) provides that assessments will be a lien on the property assessed from the time the assessment roll is placed in the hands of the county treasurer for collection, and that interest and penalty shall be included in and become part of the assessment lien, which lien is paramount to all other liens theretofore or thereafter created except the lien for general property taxes. The manner in which delinquent assessments may be foreclosed is set forth in chapter 35.50 RCW. Foreclosure proceedings may be initiated if on the first day of January two installments of any assessment are delinquent, or if the final installment has been delinquent for more than one year. Property foreclosed upon is sold by the city, and the laws governing appeals from general tax foreclosure judgments apply similarly to appeals from judgments obtained in a local improvement assessment lien foreclosure action. Proceeds of the sale of any property foreclosed upon in the manner required by law up to the amount of the unpaid assessment and interest and penalties thereon, are deposited into and become a part of the Bond Fund.

Impact of State Homestead Exception Upon Local Improvement District Financing. Chapter 6.13 RCW permits the owner of a residence to protect a certain portion of the homestead (residence) from forced sale. In 1982, the Washington State Court of Appeals held, in *City of Algona v. Sharp, et al.*, that the filing for a homestead exemption before a scheduled foreclosure sale of residential property valued at less than the statutory homestead exemption (currently $125,000) effectively exempted the subject property from a forced sale to enforce collection of delinquent local improvement district assessments. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

Parity Payment Agreements

The City has reserved the right in the Bond Ordinance to enter into written agreements from time to time with a qualified counterparty for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes (a "Payment Agreement"). A payment ("Payment") under a Payment Agreement may be made on parity with the Parity Bonds if the Payment Agreement satisfies the requirements for Future Parity Bonds described in the Bond Ordinance, taking into consideration regularly scheduled Payments and receipts (if any) under the Payment Agreement. The City does not currently have any Payment Agreements outstanding. See Appendix A—"FORM OF THE BOND ORDINANCE" for a description of the conditions that must be satisfied prior to the execution of a Parity Payment Agreement and other related provisions.

Nothing described above will preclude the City from entering into Payment Agreements with a claim on Net Revenues junior to that of the Bonds. Furthermore, nothing described above will preclude the City from entering into obligations on a parity with the Bonds in connection with the use of Payment Agreements or similar instruments if the City obtains an opinion of Bond Counsel that the obligations of the City under the Payment Agreements or similar instruments are consistent with the Bond Ordinance.

Reimbursement Obligations

If the City elects to meet the requirements of the Bond Ordinance with respect to the Reserve Fund as to any issue of Parity Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement, the City may contract with the entity providing the Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

If the City additionally elects to secure any issue of Variable Interest Rate Bonds through the use of a letter of credit, insurance or other equivalent credit enhancement, the City may contract with the entity providing such letter of credit, insurance or other equivalent credit enhancement that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds; provided, that the payments due under the reimbursement agreement are such that if the reimbursement obligation were a series of Future Parity Bonds, such Future Parity Bonds could be issued in compliance with the provisions concerning the same.

Additional Terms of the Bond Ordinance; Springing Amendments

The Bond Ordinance sets forth provisions related to amending the Bond Ordinance, with and without the consent of owners of Parity Bonds. See Appendix A—"FORM OF THE BOND ORDINANCE" for provisions related amendments and other terms of the Bonds.

The Bond Ordinance also includes including certain springing provisions that will take effect after the 2006 Bonds and the 2011 Bonds are no longer outstanding. The outstanding 2006 Bonds and 2011 Bonds have final maturity dates of December 1, 2036 and December 1, 2031, respectively. The City retains the right at any time to defease and/or redeem the outstanding 2006 Bonds and 2011 Bonds. As a result, the springing amendments contained in the Bond Ordinance may become effective while the Bonds are outstanding. By purchase of the Bonds, the owners of the Bonds shall be deemed to have consented to these springing amendments.

DEBT INFORMATION

Description of Outstanding Parity Bonds

Following the issuance of the Bonds and the refunding of the TES Bonds and the 2006 Refunded Bonds, the City expects to have the following Parity Bonds outstanding.

Series[(1)]	Dated Date	Maturity Date (December 1)	Authorizing Ordinance	Original Principal Amount	Outstanding Principal Amount
2006 Bonds	06/29/2006	2036	27490	$ 55,000,000	$ 2,625,000
2011 Bonds	10/12/2011	2031	28015	34,315,000	34,315,000
2015 Bonds	03/18/2015	2045	28278	109,300,000	109,300,000
2016A Bonds	06/15/2016	2038	28355	31,855,000	31,855,000
2016B Bonds	09/07/2016	2021	28355	11,865,000	11,865,000
Total				$ 242,335,000	$ 189,960,000

(1) Excludes the City's Monthly Rent obligation related to the TES Bonds and all of the 2006 Refunded Bonds.

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Schedule of Parity Bond Debt Service

The following table shows the scheduled debt service for the Outstanding Parity Bonds and the Bonds, excluding the City's Monthly Rent obligation related to the TES Bonds and all of the 2006 Refunded Bonds. Amounts in the following table have been rounded to the nearest dollar.

SCHEDULE OF PARITY BOND DEBT SERVICE

	Outstanding Parity Bonds[1]		2016A Bonds		2016B Bonds		
Year[2]	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Total[3]**
2016	$ 3,865,000	$ 7,554,930	$ 525,000	$ 520,260	—	$ 133,373	$ 12,598,563
2017	1,690,000	6,169,706	975,000	1,117,775	$ 2,165,000	571,600	12,689,081
2018	1,765,000	6,102,106	1,010,000	1,088,525	2,250,000	485,000	12,700,631
2019	1,845,000	6,013,856	1,045,000	1,048,125	2,360,000	372,500	12,684,481
2020	1,920,000	5,940,056	1,095,000	995,875	2,485,000	254,500	12,690,431
2021	2,015,000	5,844,056	1,145,000	952,075	2,605,000	130,250	12,691,381
2022	4,820,000	5,763,456	1,165,000	932,038	—	—	12,680,494
2023	5,065,000	5,522,456	1,185,000	908,738	—	—	12,681,194
2024	5,270,000	5,312,406	1,230,000	861,338	—	—	12,673,744
2025	5,460,000	5,121,031	1,295,000	799,838	—	—	12,675,869
2026	5,660,000	4,922,669	1,325,000	773,938	—	—	12,681,607
2027	5,900,000	4,681,056	1,360,000	734,188	—	—	12,675,244
2028	6,200,000	4,386,056	1,405,000	689,988	—	—	12,681,044
2029	6,505,000	4,076,056	1,445,000	644,325	—	—	12,670,381
2030	6,830,000	3,750,806	1,500,000	593,750	—	—	12,674,556
2031	7,165,000	3,409,306	1,555,000	541,250	—	—	12,670,556
2032	8,040,000	3,051,056	1,605,000	486,825	—	—	13,182,881
2033	8,440,000	2,649,056	1,665,000	426,638	—	—	13,180,694
2034	8,775,000	2,311,456	1,730,000	364,200	—	—	13,180,656
2035	9,130,000	1,960,456	1,790,000	299,325	—	—	13,179,781
2036	9,490,000	1,595,256	1,860,000	232,200	—	—	13,177,456
2037	2,870,000	1,215,600	1,935,000	157,800	—	—	6,178,400
2038	2,985,000	1,100,800	2,010,000	80,400	—	—	6,176,200
2039	3,105,000	981,400	—	—	—	—	4,086,400
2040	3,230,000	857,200	—	—	—	—	4,087,200
2041	3,360,000	728,000	—	—	—	—	4,088,000
2042	3,495,000	593,600	—	—	—	—	4,088,600
2043	3,635,000	453,800	—	—	—	—	4,088,800
2044	3,780,000	308,400	—	—	—	—	4,088,400
2045	3,930,000	157,200	—	—	—	—	4,087,200
Total[3]	$146,240,000	$102,533,293	$31,855,000	$15,249,410	$11,865,000	$1,947,223	$309,689,925

(1) Includes the remaining 2006 Bonds, the 2011 Bonds, and the 2015 Bonds. Excludes the City's Monthly Rent obligation related to the TES Bonds and all of the 2006 Refunded Bonds.
(2) Based on Fiscal Years ending December 31.
(3) Totals may not foot due to rounding.

For accounting purposes, the City has allocated its payment obligations under the Project Lease, including all revenue, costs and cash requirements, proportionally to the System and the City's Solid Waste Utility System on a pro-rata basis. As of December 31, 2014, the allocation was adjusted to approximately 84.5% to the System, and 15.5% to the City's Solid Waste Utility System. Prior to December 31, 2014, the allocation was approximately 80% to the System, and 20% to the City's Solid Waste Utility System. These allocations may be further adjusted from time to time. These utilities include their pro-rata share of the payment obligations under the Project Lease in their respective financial statements. The City expects to continue this allocation for payment of the 2016A Bonds. For purposes of this Official Statement, however, all calculations involving Parity Bond debt service include the full payment of principal of and interest on the 2016A Bonds.

Subordinate Lien Obligations

The City retains the right to issue revenue obligations with a subordinate lien on Net Revenues. The City currently has the following subordinate lien obligations from the Washington State Department of Ecology ("DOE") outstanding (amounts are rounded to the nearest dollar):

OUTSTANDING SUBORDINATE LIEN OBLIGATIONS
AS OF DECEMBER 1, 2015

Loan Name	Loan Amount Received	Date Issued	Outstanding Principal	Interest Rate	Final Loan Payment Due
DOE L1000007	$ 473,806	06/2011	$ 386,913	2.90%	12/2030
DOE L040006A	53,491,420	08/2007	36,288,146	1.50	04/2028
DOE L040006B	21,686,847	04/2008	15,295,088	2.60	04/2028
Total Outstanding			$ 51,970,147		

The DOE loans are low-interest loans from the State for repair, replacement, rehabilitation, reconstruction and improvements to water, sewer, and storm water systems. These loans constitute a lien and charge on Net Revenues junior and subordinate to the lien and charge of Parity Bonds. The related loan agreements provide that, upon an event of default, the State may declare the loan immediately due and payable. This remedy is, however, made expressly subject to the prior lien and charge of then outstanding Parity Bonds.

Debt Payment Record

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

Future Financing

Other than the Bonds, the City has no authorized but unissued bonds secured by Net Revenues outstanding. The City does not expect to issue bonds secured by Net Revenues in the next 12 months.

THE SYSTEM

General Information

The System assumed responsibility for the operation and maintenance of the City's wastewater collection, treatment and disposal facilities in 1951. In 1979, the System took over operation and maintenance of the City's surface water system. The current System serves the entire area within the City limits. In addition to providing wastewater service within the City, the System provides sewage treatment and disposal services to customers located in the city of Fife, the town of Ruston, the city of Fircrest and in certain areas of Pierce County pursuant to interlocal agreements between the City and those jurisdictions. The interlocal agreements with the County, Ruston, Fircrest, and Fife expire in 2035, 2050, 2049 and 2046, respectively.

The System is comprised of two separate utilities, Wastewater Management and Surface Water Management, which are administered within the City's Environmental Services Department (the "Department"). Wastewater Management and Surface Water Management are presented together as an enterprise fund within the Department under the provisions of the City Charter and are included in the City's Comprehensive Annual Financial Report. The Department is responsible for the planning, design, construction, operation, and maintenance of the facilities comprising the System and the City's solid waste utility. The Department manages surface water generated within the City as well as surface water that flows into the System from areas outside the City. For management and employee information for the City and the Department, see "THE CITY OF TACOMA."

Facilities

Wastewater facilities consist of approximately 700 miles of sewer pipes, two treatment plants, 47 pump stations, and associated equipment and facilities.

Surface water facilities serve the area within the corporate limits of the City and consist of approximately 440 miles of pipe, 10,000 manholes, 18,000 catch basins, three major regional detention basins, three major pump stations, 456 acres of "open space" land, and an extensive network of ditches (200 miles), culverts, and other natural drainage courses.

The City has undertaken an asset management program to maintain and replace facilities comprising the System. See "Capital Improvement Program" herein.

Wastewater Treatment Plant Capacity and Permitting

The City's two wastewater treatment plants are permitted under the National Pollutant Discharge Elimination System ("NPDES") (discharge) system administered pursuant to the federal Clean Water Act. The NPDES system is administered in the State by DOE pursuant to delegation rules set forth in the federal regulations.

Central Treatment Plant. The Central Treatment Plant was constructed in 1954 with major upgrades in the late 1980's and a recent upgrade and overhaul to include new peak wet weather systems completed in 2011. The Central Treatment Plant's most recent NPDES permit expired on October 30, 2015. The permit renewal application was submitted by the City to DOE on May 1, 2015. The Central Treatment Plant will continue to operate under the lapsed permit until DOE issues a new permit. The City has not received notice to date from DOE of any required modifications for permit renewal. The plant has a permitted maximum monthly treatment capacity average of 60 million gallons per day ("mgd") and a peak wet season daily flow of 150 mgd. In 2014 and 2015, the average daily flow to this treatment plant was 22 mgd and 22 mgd respectively, and the peak daily flow was 89 mgd and 96 mgd, respectively. The City believes that the treatment capacity at the Central Treatment Plant should be sufficient for its needs for the foreseeable future.

North End Treatment Plant. The North End Treatment Plant ("NETP") was constructed in 1969 and received a comprehensive upgrade in the 1990's which was completed in 1997. The NETP most recent NPDES permit expired on June 30, 2014. The permit renewal application was submitted by the City to DOE on March 31, 2014. The NETP will continue to operate under the lapsed permit until DOE issues a new permit. The City has not received notice to date from DOE of any required modifications for permit renewal. The permit specifies a temporary maximum monthly permitted treatment capacity average of 8 mgd and has no daily peak flow limit. The temporary maximum monthly treatment capacity is in place while the City completes the process to rerate the plant to reflect its increased capacity. The City incorporated the results of the rerating study into the most recent NPDES permit application. In 2014 and 2015, the average flow to this treatment plant was 5 mgd and 4 mgd, respectively, and the peak daily flow was 18 mgd and 26 mgd, respectively. The City believes that the treatment capacity at the NETP should be sufficient for its needs for the foreseeable future.

Surface Water Permitting

The surface water utility's management of its municipal stormwater system has been regulated under a Phase I Municipal Stormwater NPDES permit since 1995. The City is currently operating under its fourth Stormwater NPDES permit, which has an effective date of August 1, 2013. The latest permit was appealed to the Pollution Control Hearings Board by several of the permittees, excluding the City, and a modified permit was issued on January 16, 2015 and is scheduled to expire on July 31, 2018. The modified permit includes some minor modifications to basin planning and some low impact development technologies.

The City's Stormwater NPDES permit regulates discharges from the municipal storm sewer system to receiving waters. It requires the City to implement a stormwater management program aimed at reducing pollutants in municipal stormwater to the "maximum extent practicable." The City meets this requirement through inspections and enforcement to prevent and control stormwater impacts, public education regarding good stormwater management practices, operation and maintenance of the municipal stormwater system, and reporting, among others. Unlike NPDES permits based on point sources such as industrial permits, the City's Stormwater NPDES permit does not impose end-of-pipe pollutant limits.

Rates and Charges and Billing

Rates charged by the System are not subject to control by any federal or State agency. The establishment of rates for wastewater and surface water services is within the exclusive jurisdiction of the Council, subject to a requirement of State law that fair and nondiscriminatory rates must be fixed to produce revenue adequate to pay for operation and maintenance and to meet all debt service requirements payable from such revenue. Rate ordinances must be approved by a minimum of five affirmative votes of the nine-member Council. The City has never failed to adopt rates sufficient to allow the System to meet its payment obligations. United States Environmental Protection Agency ("EPA") user charge regulations also require the establishment of rates sufficient to meet operation and maintenance expenses and to allocate rates according to usage.

Since 1994, the Department has increased public participation in the rate setting process through the group known as the Environmental Services Commission or "ESC". The ESC provides the City Manager and Council with a full description of issues, concerns and perspectives associated with proposed rate increases from the customers' viewpoint. The ESC consists of 13 voting representatives of industry groups, large industrial customers, other local government customers, and residential customers. In addition to the 13 voting members, the ESC includes two non-voting members representing DOE and the Tacoma Pierce County Health Department. Meetings are typically scheduled once per month during the rate development process and at other times as needed.

With the exception of certain large commercial customers, who receive a separate monthly bill, System customers receive a single bimonthly City bill that includes charges for the City's sewer, water, electric, surface water, and solid waste services and make a single payment for these services. Payments are received by the City Treasurer, who distributes them to the appropriate fund for each utility. If a customer payment is insufficient to cover the total amount due and payable under the combined utility bill, the payment is distributed on a pro-rata basis to each utility fund unless an objection to a specific utility is raised. If the payment is pro-rated to all utilities, lack of payment can result in termination of electric and water service. If an objection is raised concerning a specific utility and payment to that utility is excluded, the full payments will be distributed to the other utilities. If payment is excluded from the wastewater, surface water or solid waste charges where they are combined with water, then nonpayment can result in termination of water service or a lien being placed on the property. Liens for delinquent and unpaid rates and charges for sewer service, related penalties, and connection charges, including interest thereon, are superior to all other liens and encumbrances except general property taxes and special assessments (RCW 35.67.200 *et seq*). Such lien may be foreclosed upon in the manner provided by chapter 35.67 RCW.

Rates and Charges

System Rates and Charges. The City completed a rate model update in 2014 for the 2015 through 2020 planning period, and the City's current rate ordinance includes adopted rate increases for each of the years 2015 and 2016 as recommended. Increases for each of the years 2017 through 2020 are projected but have not been adopted by the Council. Rates for 2017 and 2018 will be determined during the City's 2016 biennial budget process. See "Historical and Projected Rate Adjustments" below. The City may adjust rates for certain customers, such as for low-income customers or local governments receiving services under interlocal agreements with the City.

Wastewater Rates. The 2016 monthly rates for wastewater service inside the City are shown in the following table.

MONTHLY WASTEWATER RATES

	2016(1)
Residential	
Monthly fixed charge	$ 22.79
Flow charge(2)	4.30
Commercial	
Monthly fixed charge	$ 10.84
Flow charge(3)	5.73-13.10

(1) Rates became effective January 1, 2016.
(2) Per 100 cubic feet of water consumed during the winter quarter.
(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.

Source: City of Tacoma Environmental Services Department

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 2016 monthly rates for surface water service are shown in the following table.

MONTHLY SURFACE WATER RATES

	2016[1]	
Category of Development	**Monthly Fixed Charge**	**Rate per 500 Square Feet of Premises Area**
Waterfront/Direct Discharge Parcels		
Undeveloped-first acre or less	$ 6.73	$ 0.1322
Undeveloped-area in excess of one acre	6.73	0.0594
Light development	6.73	0.3962
Moderate development	6.73	0.5516
Heavy development	6.73	0.7921
Very Heavy development	6.73	1.0560
All Other Parcels		
Undeveloped area – one acre or less	$ 6.73	$ 0.2714
Undeveloped area in excess of one acre	6.73	0.0594
Light development	6.73	0.8139
Moderate development	6.73	1.1085
Heavy development	6.73	1.6275
Very Heavy development	6.73	2.1700

(1) Rates became effective January 1, 2016.
Source: City of Tacoma Environmental Services Department

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.

Historical and Projected Rate Adjustments. The following tables show the revenue rate increases from average rate adjustments across customer classes as adopted by the Council for the years 2010 through 2016 and as projected but not adopted for the years 2017 through 2020.

HISTORICAL AND PROJECTED WASTEWATER REVENUE RATE ADJUSTMENTS

Year	Percentage Change in Revenues
2010	6.2%
2011	4.8
2012	4.8
2013	4.8
2014	4.8
2015	6.0
2016	6.0
2017*	5.0-7.0
2018*	5.0-7.0
2019*	4.5-6.5
2020*	4.5-6.5

* Projected range of average rate increases; not approved by the Council.
Source: City of Tacoma Environmental Services Department

HISTORICAL AND PROJECTED SURFACE WATER RATE ADJUSTMENTS

Year	Percentage Change in Revenues
2010	7.8%
2011	5.4
2012	5.4
2013	6.0
2014	6.0
2015	5.5
2016	5.5
2017*	4.0-6.0
2018*	4.0-6.0
2019*	4.0-6.0
2020*	4.0-6.0

* Projected range of average rate increases; not approved by the Council.
Source: City of Tacoma Environmental Services Department

Comparative Rates

The following tables show a comparison of typical single family monthly charges of the System in 2015 with the same charges of certain other utilities. Monthly charges may not be directly comparable between agencies. Other agencies may have additional charges to recover capital costs and may partially fund operating costs from other sources.

SINGLE FAMILY MONTHLY CHARGES—WASTEWATER(1)

	Monthly Charge
Bellevue	$ 73
Seattle	71
Puyallup	60
Olympia	56
Spokane	56
Tacoma	**46**
Portland	40

(1) Charges are shown for 2015. Assumes 600 cubic feet of water consumed, winter quarter water usage.
Source: City of Tacoma Environmental Services Department

SINGLE FAMILY MONTHLY CHARGES—SURFACE WATER(1)

	Monthly Charge
Bellevue	$ 35
Seattle	29
Portland	27
Tacoma	**21**
Olympia	12
Puyallup	12
Spokane	4

(1) Charges are shown for 2015. Assumes average parcel of 7,000 square feet with development classification listed as "moderate."
Source: City of Tacoma Environmental Services Department

Historical Number of Customers

The System's historical number of customers by type of service is shown in the table below.

HISTORICAL NUMBER OF CUSTOMERS BY TYPE OF SERVICE

	Wastewater				Surface Water		
Year	**Residential**	**Commercial/ Industrial**	**Contract[(1)]**	**Total**	**Residential**	**Commercial/ Industrial**	**Total**
2015	58,156	3,763	13,813	75,732	59,518	11,093	70,611
2014	57,599	3,749	13,592	74,940	59,425	11,087	70,512
2013	57,030	3,728	13,618	74,376	59,381	11,078	70,459
2012	56,860	3,731	13,488	74,079	59,370	11,109[(2)]	70,479
2011	56,945	3,728	13,418	74,091	63,075	7,469	70,544

(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.

(2) Starting in 2012, multifamily units of three or more are classified as commercial.

Source: City of Tacoma Environmental Services Department

The System's ten largest customers for 2015 are shown in the following tables.

TOP TEN WASTEWATER CUSTOMERS – 2015

Customer Name	Amount	Percent of 2015 Wastewater Operating Revenues[(1)]
Darling International Inc.	$ 754,151	1.15%
Puyallup Tribe	580,556	0.88
Tacoma School District	531,219	0.81
Pierce County Facilities	516,625	0.79
St. Joseph Medical Center	428,413	0.65
The City	367,133	0.56
Tacoma Metropolitan Park District	357,651	0.54
Westridges Apartment Property Owner LLC	354,025	0.54
The Geo Group Inc.	334,010	0.51
Salishan (Tacoma Housing Authority)	329,729	0.50
	$ 4,553,512	6.93%

(1) Based on audited 2015 wastewater revenues in the amount of $65,669,320. The top ten wastewater customers for 2014 accounted for approximately 7.02% of 2014 wastewater revenues in the amount of $60,870,095.

Source: City of Tacoma Environmental Services Department

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TOP TEN SURFACE WATER CUSTOMERS – 2015

Customer Name	Amount	Percent of 2015 Surface Water Operating Revenues[(1)]
Port of Tacoma	$ 2,007,978	6.53%
Tacoma School District	986,618	3.21
The City	820,368	2.67
Burlington Northern Railroad	407,394	1.33
Puyallup Tribe	247,038	0.80
Tacoma Community College	230,433	0.75
US Oil and Refining	206,150	0.67
Tacoma Mall Partnership	156,571	0.51
Tacoma Metropolitan Park District	159,622	0.52
APM Terminals Pacifica Ltd.	149,915	0.49
	$ 5,372,087	17.48%

(1) Based on audited 2015 surface water revenues in the amount of $30,730,205. The top ten surface water customers for 2014 accounted for approximately 17.78% of 2014 surface water revenues in the amount of $29,362,152.

Source: City of Tacoma Environmental Services Department

Capital Improvement Program

The City is actively pursuing a best management practices Asset Management Program (the "Program") for the System, and has been working over the last several years to implement a program which allows the utilities to maximize life of assets both in the ground and at operational plants. The Program has initially identified annual spend rates estimated at approximately $22 million for wastewater and $12 million for surface water and replacement schedules for assets over a 100 year asset lifecycle.

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Wastewater Management's capital improvement program ("CIP") for 2016 through 2020 is shown below. Total expenditures over this period are projected at approximately $116 million, which will be funded from available Net Revenues, proceeds of the 2015 Bonds, and proceeds of Future Parity Bonds expected to be issued in 2019, or later, and other available sources. The issuance of such Future Parity Bonds is subject to Council approval.

WASTEWATER CAPITAL IMPROVEMENT PROGRAM
($000s)

	2016	2017	2018	2019	2020	Total
Item:[1]						
Collection systems	$ 5,203	$ 9,038	$ 9,602	$ 11,331	$ 12,021	$ 47,196
Treatment facilities	4,756	4,725	3,623	4,781	3,685	21,569
Equipment	4,041	2,891	2,753	607	1,217	11,509
Pump stations	1,090	78	1,163	928	965	4,224
Special projects	516	125	130	135	140	1,046
Capitalized labor, interest and other[2]	6,458	5,227	5,765	6,308	6,887	30,645
Total	$ 22,064	$ 22,084	$ 23,036	$ 24,090	$ 24,915	$116,189
Funding:						
Parity Bonds[3]	$ 16,506	$ 15,089	$ 0	$ 22,348	$ 23,558	$ 77,501
Grants and other	1,000	1,000	1,000	1,000	0	4,000
Operating Revenues	4,557	5,995	22,036	742	1,357	34,687
Total	$ 22,064	$ 22,084	$ 23,036	$ 24,090	$ 24,915	$116,189

(1) Capital costs are derived from projected annual needs in current dollars, and are inflated by 4% per year for each of the years 2017 through 2020. Totals may not foot due to rounding.
(2) Includes project labor, capitalized interest, and overhead allocated to capital projects from operating activities.
(3) Capital improvements in 2016 and 2017 will be financed with proceeds of the 2015 Bonds. Capital improvements in 2019 and 2020 are expected to be financed with proceeds of Future Parity Bonds. Issuance of such Future Parity Bonds is subject to approval by the Council.

Source: City of Tacoma Environmental Services Department

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Surface Water Management's CIP for 2016 through 2020 is shown below. Total expenditures over this period are projected at approximately $76.5 million, which will be financed from available Net Revenues, proceeds of the 2015 Bonds, and proceeds of Future Parity Bonds expected to be issued in 2019, or later, and other available sources. The issuance of such Future Parity Bonds is subject to Council approval.

SURFACE WATER CAPITAL IMPROVEMENT PROGRAM
($000s)

	2016	2017	2018	2019	2020	Total
Item:[1]						
Collection system	$ 5,750	$ 9,022	$ 6,219	$ 10,941	$ 4,387	$ 36,319
Facilities	5,908	0	0	1,912	2,340	10,160
Equipment	432	234	806	759	585	2,816
Treatment and low impact	571	4,912	2,163	2,250	2,340	12,236
Special projects	589	156	162	169	175	1,252
Capitalized labor, interest and other[2]	2,787	2,710	2,681	2,709	2,800	13,687
Total	$ 16,037	$ 17,035	$ 12,031	$ 18,740	$ 12,626	$ 76,469
Funding:						
Parity Bonds[3]	$ 10,085	$ 0	$ 0	$ 16,312	$ 3,688	$ 30,085
Grants and other	2,532	3,712	1,445	1,500	1,500	10,689
Operating Revenues	3,420	13,323	10,587	928	7,438	35,695
Total	$ 16,037	$ 17,035	$ 12,031	$ 18,740	$ 12,626	$ 76,469

(1) Capital costs are derived from projected annual needs in current dollars, and are inflated by 4% per year for each of the years 2017 through 2020. Totals may not foot due to rounding.
(2) Project labor, capitalized interest, and overhead allocated to capital projects from operating activities.
(3) Capital improvements in 2016 will be financed with proceeds of the 2015 Bonds. Capital improvements in 2019 and 2020 are expected to be financed with proceeds of Future Parity Bonds. Issuance of such Future Parity Bonds is subject to approval by the Council.

Source: City of Tacoma Environmental Services Department

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HISTORICAL FINANCIAL RESULTS

Historical Operating Statements

The following tables provide a historical balance sheet and operating results for the System.

WASTEWATER AND SURFACE WATER MANAGEMENT BALANCE SHEET ($000s)[1]

	2011	2012	2013	2014	2015
Current Assets					
Cash	$ 132,553	$ 105,099	$ 79,107	$ 60,105	$117,148
Customer accounts receivable	9,452	10,859	11,175	11,964	12,283
Other receivables	143	159	174	182	162
Due from other funds	126	15	108	445	401
Due from other governments	723	446	1,086	1,206	1,831
Other current assets	1,125	969	1,468	1,305	1,240
Total Current Assets	144,122	117,547	93,118	75,207	133,065
Utility Plant					
Utility Plant in service	616,517	647,776	694,861	734,155	768,115
Construction work in progress	14,575	17,997	21,434	23,323	24,483
Allowance for depreciation	(181,243)	(193,705)	(207,464)	(221,487)	(236,073)
Total Utility Plant	449,849	472,068	508,831	535,991	556,525
Other Noncurrent Assets					
Other	3,476	3,469	3,517	4,226	5,207
Total Assets	597,447	593,084	605,466	615,424	694,797
Deferred Outflows of Resources					
Unamortized bond refunding costs	1,919	1,160	1,098	1,037	3,333
Pension[2]	0	0	0	0	2,657
Total Assets and Deferred Outflows of Resources	599,366	594,244	606,564	616,461	700,787
Current Liabilities					
Accounts payable	4,288	4,418	3,624	5,912	4,031
Accrued wages compensated absences payable	993	1,330	1,545	1,687	737
Accrued taxes payable	597	648	690	731	654
Deposits payable	135	110	105	0	0
Due other funds	1,089	1,073	1,318	1,783	1,311
Due other governments	506	510	493	490	529
Unearned revenue	168	179	188	196	0
Bond interest payable	412	365	365	365	581
State revolving loan interest payable	301	285	269	253	236
Capital lease obligation	558	578	602	661	684
Current portion of revenue bonds[2]	2,550	0	0	0	3,865
Current portion of state revolving loans	3,469	3,532	3,597	3,663	3,730
Current environmental liability	716	966	679	604	648
Total Current Liabilities	15,782	13,994	13,475	16,345	17,006
Noncurrent Liabilities					
Long-term bonds	97,680	89,265	89,265	89,265	155,310
Unamortized Bond Premium	5,022	4,557	4,237	3,918	11,741
Unamortized Bond Discount	0	0	0	0	0
State revolving loans	62,762	59,230	55,633	51,970	48,241
Capital Lease Obligation[3]	28,624	28,046	27,444	28,326	27,642
Accrued compensated absences	1,903	2,444	2,684	2,646	2,692
Long-term environmental liability	900	550	500	400	150
Net OPEB obligation	1,353	1,671	1,968	2,232	2,519
Total Noncurrent Liabilities	198,244	185,763	181,731	178,757	248,295
Total Liabilities	214,026	199,757	195,206	195,102	265,301
Deferred Inflows of Resources					
Rate Stabilization	22,500	25,000	25,000	25,000	25,000
Pension[2]	0	0	0	0	1,182
Total Deferred Inflows of Resources	22,500	25,000	25,000	25,000	26,182
Net Position					
Net investment in capital assets, net of related debt	324,302	345,791	379,250	401,734	392,428
Restricted for bond reserves	7,517	8,227	9,573	9,691	14,595
Unrestricted	31,021	15,469	(2,465)	(15,066)	2,281
Total Net Position	362,840	369,487	386,358	396,359	409,304
Total Liabilities, Net Position and Deferred Inflow of Resources	$ 599,366	$ 594,244	$ 606,564	$ 616,461	$ 700,787

Footnotes to table are on the following page.

(1) Information for years 2011 through 2015, inclusive, is based on audited financial statements. Data for years 2011 and 2012 has been restated to reflect implementation of Governmental Accounting Standards Board ("GASB") 65. Figures in table have been rounded.

(2) Information for 2015 reflects implementation of GASB 68. See "Management Discussion of Results" below, "THE CITY OF TACOMA—Pension," and Appendix D for additional information on GASB 68.

(3) The City did not have a Parity Bond principal payment in 2013 or 2014.

Source: City of Tacoma Environmental Services Department

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WASTEWATER AND SURFACE WATER MANAGEMENT
HISTORICAL OPERATING RESULTS ($000s)[(1)]

	2011	2012	2013	2014	2015
Revenues available for Debt Service					
Wastewater:					
Residential	$ 33,562	$ 36,210	$ 37,180	$ 39,575	$ 42,086
Commercial and Industrial	13,166	13,914	13,539	14,376	16,054
Interlocal agreements[(2)]	5,150	5,473	5,927	5,856	5,797
Other service revenues	364	356	333	447	1,167
TAGRO sales[(3)]	276	281	493	616	565
Surface Water:					
Residential	12,186	11,862	13,204	29,189	30,504
Commercial	11,451	11,679	14,089	0	0
Other service revenues	255	353	224	173	226
Total Operating Revenues	76,410	80,128[(4)]	84,989	90,232	96,399
Operating Expenses[(5)]					
Administration	13,171	14,005	13,464	14,396	15,083
Business operations	9,219	9,412	9,452	7,372	7,507
Operations and maintenance	22,344	23,444	22,633	26,411	24,965
Science and engineering	6,602	8,577	9,137	12,293	13,388
Total Operating Expenses	51,336	55,438	54,686	60,472	60,943
Net Operating Income	25,074	24,690	30,303	29,760	35,456
Non-Operating Revenues[(6)]	5,016	2,898	632	1,031	1,410
Non-Operating Expenses[(7)]	0	(9)	(23)	0	(2)
Revenue Available for Debt Service	$ 30,090	$ 27,579	$ 30,912	$ 30,791	$ 36,864
Parity Bond Debt Service					
Sewer Revenue Bonds	$7,714	$7,127	$4,377	$4,377	$6,201
Lease Obligation[(8)]	2,608	2,611	2,609	2,610	2,610
Total Parity Bond Service	10,322	9,738	6,986	6,987	8,811
Subordinate Lien Debt Service[(9)]	4,654	4,670	4,670	4,670	4,670
Total Parity Bond and Subordinate Lien Debt Service	$ 14,976	$ 14,408	$ 11,656	$ 11,657	$ 13,481
Parity Bond Debt Service Coverage					
After Rate Stabilization Transfer	2.92	2.83	4.42	4.41	4.18
Before Rate Stabilization Transfer	—	3.09	—	—	—
Parity Bond and Subordinate Lien Debt Service Coverage Ratio (after Rate Stabilization Transfer)	2.01	1.91	2.65	2.64	2.73

(1) Information for years 2011 through 2015, inclusive, is based on audited financial statements. Information for years 2011 through 2014, inclusive, has been restated to report asset dispositions, insurance proceeds, and environmental liability adjustments in accordance with the definitions of Gross Revenues and Costs of Maintenance and Operations under the Bond Ordinance, resulting in minor adjustments to debt service coverage ratios for such years. Figures in table have been rounded.
(2) Reflects revenue received from public agencies pursuant to interlocal agreements.
(3) Organic soil amendments produced from treated wastewater.
(4) Operating revenues for 2012 were reduced by $2,500,000 due to the transfer to the Rate Stabilization Fund. Revenues were reduced by service on a pro-rata basis.
(5) Operating expenses exclude depreciation and environmental clean-up costs.
(6) Non-operating revenues exclude capital related grant income, gain or loss on sale of property, insurance recoveries and contributions.
(7) Non-operating expenses exclude interest expense and transfers (including gross earnings taxes).
(8) The lease obligation (Monthly Rent) is a parity debt but as of December 31, 2014, the City received 15.5% of the required debt service from the City's Solid Waste Utility System. Prior to December 31, 2014, the City received 20.0% of the required debt service from the City’s Solid Waste System. This lease obligation is being refunded with proceeds of the 2016A Bonds. The City expects to continue this allocation for payment of debt service on the 2016A Bonds. See the paragraph under the table titled “SCHEDULE OF PARITY BOND DEBT SERVICE.”
(9) See “DEBT INFORMATION—Subordinate Lien Obligations.”

Source: City of Tacoma Environmental Services Department

Management Discussion of Results

The two most significant financial events in 2015 were the implementation of Governmental Accounting Standards Board ("GASB") 68 "Accounting and Financial Reporting for Pensions" and the issuance of the 2015 Bonds. As a result of implementing GASB 68, the 2015 beginning net position has been adjusted to conform to the new reporting and accounting requirements. Specifically, deferred outflows increased $2.7 million and a pension related deferred inflow was recorded in the amount of $1.2 million. See "THE CITY OF TACOMA—Pension" and Appendix D for additional information.

Cash increased by approximately $57,053,000 due primarily to the issuance of the 2015 Bonds to fund approximately $70,000,000 of the capital improvement program. Outstanding Parity Bonds of the City totaled $159,175,000 at year-end 2015, an increase of $69,910,000 from the prior year-end.

Operating revenues for 2015 increased by approximately $6,167,000, or 6.8% over 2014. This resulted primarily from 5.5% surface water and 6% wastewater average rate revenue increase effective January 1, 2015. Similar increases were approved by the Council and went into effect January 1, 2016.

Operating expenses included in the Rate Covenant calculation exclude depreciation expense of $14,957,000, accrued environmental liability expense of $90,000, and $466,000 in capital retirements. These costs increased 1% over 2014 primarily due to cost reduction efforts in operations and maintenance offsetting increases in other functions.

CERTAIN ENVIRONMENTAL MATTERS AND FACTORS AFFECTING THE SYSTEM

Prospective purchasers should consult their investment advisors before making any decision as to the purchase of the Bonds. The following discussion, while not setting forth all of the factors affecting the System, contains some of the factors which should be considered, in addition to the other information in this Official Statement, prior to purchasing the Bonds. This section is not meant to be comprehensive or definitive, and there may be other risk factors that will become material in the future. The order in which this information is presented does not necessarily reflect the relative importance of various risks.

General

A number of factors affect the operation of the System. Federal, state and local standards and procedures that regulate the operations and environmental impacts of wastewater and surface water systems are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the System will remain subject to the regulations currently in effect, will be in compliance with current or future regulations or will always be able to obtain all required operating permits. Compliance with applicable environmental standards could result in additional capital and operating expenditures and reduced operating and efficiency levels, as well as possible fines, penalties or liabilities for noncompliance.

City officials charged with management of the System report that the City now holds all licenses, permits and approvals necessary for the operation of the System and that the City is in compliance in all material respects with such licenses, permits and approvals.

Operating Results

A number of factors could impact the results of operations of the System in the future, including a decrease in the number of customers of the System, changes in regional and local economic conditions, regulatory and permit requirements, changes in population, increase in Costs of Maintenance and Operation, and changes in general market conditions. There can be no assurance that the System will be able to maintain the current number of existing users if there are changes in the residential and/or commercial population of the service area.

Actions by Regulatory Agencies

Commencement Bay Natural Resource Damage Assessment ("NRDA"). The City has resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree that became effective on December 30, 1997. The stated value of the City's settlement is approximately $7,700,000. Under the Consent Decree (the "NRDA Consent Decree"), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. Construction has been completed on four projects and the City made a payment to the Port of Tacoma of $134,692 to construct the fifth project.

In 2013 the City provided notification to the Commencement Bay Natural Resource Trustees that the obligations of the NRDA Consent Decree had been fulfilled. In the Trustees' response, they indicated that monitoring of a related project needed to be complete before the NRDA Consent Decree could be closed out. Included in the financial statements for the years 2015 and 2014 were liabilities of $198,000. This amount will carry over until the NRDA Consent Decree is closed out. Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimis given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources.

Hylebos Waterway Consent Decree. In 2003, the City of Tacoma – General Government entered into a Consent Decree settlement with EPA to resolve any liability it may have had for sediment contamination in the Hylebos Waterway. The majority of the City's potential liability was attributed to municipal storm water discharges. Under the terms of its settlement, the City paid $459,663 to "cash-out" its liability. This amount included a 50 percent premium, which obligated the City to pay a small percentage (i.e., 0.4397%) of any cost overruns if the remedial action work exceeded the project estimate of $56,056,407 to complete such work. On January 11, 2011, the City was notified by the Hylebos Performing Party Group that the cost of the Hylebos Waterway remedial action project totaled $110,991,511. This project cost was subsequently adjusted downward, setting the City's share of cost overruns at $224,683. The City agreed to make an additional payment to the Hylebos Performing Party Group in the amount of $63,317, to fully and finally resolve the City's liability for any post-2013 costs overruns under its 2003 Hylebos Waterway Consent Decree settlement with EPA. Also included in the settlement was a payment of $8,346 for additional EPA oversight charges. The City recorded an expense of $296,346 as of December 31, 2015 and there is no liability remaining for this decree in 2016.

Foss Consent Decree. The City has an obligation under the Thea Foss Waterway Superfund Consent Decree for continued monitoring. The results of this monitoring may result in additional cleanup efforts and related costs in the future. The obligations for future monitoring have been recognized as environmental liabilities in the City's financial statements in the amounts of $600,000 in 2015 and $500,000 in 2014.

Other Considerations

Flood Risk. In 2015 the construction of a floodwall around the City's Central Treatment Plant was completed. This floodwall is expected to provide protection against flooding of the plant from the Puyallup River and is keyed into the Army Corps of Engineers Levy.

Water Quality Standards. In July 2014, the State Governor announced proposed revisions to Human Health Water Quality criteria to be used by DOE in setting State water quality standards. Current criteria are based on nationwide fish consumption rates ("FCR") that are not seen as representative of the amount of fish and shellfish eaten by State residents. Revising the FCR upward, as proposed, would increase the strictness of water quality standards. The City cannot predict the impact these new standards would have on its operations, which could result in increased costs to the City.

Seismic and Other Considerations. The facilities comprising the System are in an area of seismic activity, with occasional earthquakes of varying magnitude. The City can give no assurance regarding the effect of an earthquake, a tsunami from seismic activity in the State or in other areas, a volcano or other natural disaster or that proceeds of insurance carried by the Department would be sufficient, if available, to rebuild and reopen the necessary facilities or that such facilities or surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster.

THE CITY OF TACOMA

The City was incorporated in 1884 and utilizes the Council-Manager form of government, which is administered by a City Council under the Constitution and laws of the State and the City Charter. The Council is composed of a Mayor and eight Council members, five of whom are elected from districts that have been apportioned according to population. The three remaining positions are "at-large" positions, nominated and elected City-wide. The Council member positions are for four-years with overlapping terms to allow for the election of four new Council members every two years. The Mayor is elected City-wide for a four-year term and is the presiding officer of the Council. Council members, including the Mayor, can serve no more than 10 consecutive years as a member of the Council, Mayor, or combination thereof.

City Officials

Current members of the City Council are listed in the following table.

Elected Officials

Name	Position	Term Expires
Marilyn Strickland	Mayor	December 31, 2017
Ryan Mello	Deputy Mayor	December 31, 2019
Victoria Woodards	Councilmember	December 31, 2017
Keith Blocker	Councilmember	December 31, 2019
Anders Ibsen	Councilmember	December 31, 2019
Robert Thoms	Councilmember	December 31, 2017
Marty Campbell	Councilmember	December 31, 2017
Joe Lonergan	Councilmember	December 31, 2017
Connor McCarthy	Councilmember	December 31, 2019

Administration

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

The City Treasurer is responsible for the receipt, custody and disbursement of City funds. The City Treasurer receives all money due and belonging to the City, and keeps a detailed account of the same in the manner prescribed by the Finance Director. The Government Performance and Finance Committee, composed of the Mayor and three council members, is responsible for the financial management and policies of the City.

T.C. Broadnax, City Manager. T.C. Broadnax began serving as City Manager of the City on February 13, 2012, with more than 19 years of local government management experience. Prior to joining the City, Mr. Broadnax served as Assistant City Manager of the City of San Antonio, Texas for five years. Prior to his San Antonio experience, he was Assistant City Manager in Pompano Beach, Florida for ten years. Additionally, while in Pompano Beach, Mr. Broadnax was responsible for the oversight of the City's housing and community revitalization agency. As City Manager, Mr. Broadnax is the Chief Executive Officer for the City government.

Andrew ("Andy") Cherullo, Finance Director. Andrew Cherullo joined the City in February 2013. Prior to joining the City, he most recently served as the Chief Financial Officer for the Washington State Health Care Authority. Prior to that, Mr. Cherullo served as the Chief Financial Officer for the Massachusetts School Building Authority. He started his career in public finance at the Massachusetts House Ways and Means Committee, where within four years he became the Budget Director. As Finance Director for the City, Mr. Cherullo serves as the Chief Financial Officer for the City Manager and the City Council. He is responsible for overseeing the City's financial affairs, including accounting, debt and investment management, procurement and purchasing, and financial reporting. Mr. Cherullo has Bachelor's degrees in Economics and Political Science from the University of Montana and a Master's degree in Economics from Tufts University.

Teresa Sedmak, City Treasurer. Teresa Sedmak was sworn in as the City Treasurer in June 2012. In that role, she holds primary responsibility for the receipt and investment of the City's funds and management of the City's debt portfolio. Ms. Sedmak served as the Manager of Debt and Investments for the Regional Transportation District ("RTD") in Denver, Colorado for thirteen years prior to her employment with the City. Previous to her experience at RTD, she served as Vice President at Dominion Capital Group, an investment advisory firm specializing in the investment of public funds including bond proceeds. Ms. Sedmak earned both her Bachelor's and her Master's Degree in Business at the University of Colorado.

Tadd Wille, Budget Director, Office of Management and Budget. Tadd Wille was appointed Budget Director for the Office of Management and Budget in September 2012. Before working at the City, Mr. Wille served as an Assistant Director and Grants Administrator for the City of San Antonio, Office of Management and Budget. Mr. Wille earned both his Bachelor's degree in History and his Master's Degree in Public Administration from Brigham Young University.

Management

The City Manager appoints the Director of the Department who is responsible for the System and the solid waste utility system.

Michael P. Slevin III, P.E., Environmental Services Director, was appointed to his position in January 2009. In that position, Mr. Slevin is responsible for management of the Office of Environmental Policy and Sustainability as well as the four divisions that make up the Environmental Services utilities: Operations and Maintenance, Science and Engineering, Business Operations, and Solid Waste Management. Prior to his current position, Mr. Slevin held various positions within the Public Works Department, including interim Public Works Director and Facilities division manager. Mr. Slevin joined the Department of Public Works in 1995. He holds a Bachelor's of Science Degree Summa cum Laude in Civil Engineering from Washington State University and a Master's of Business Administration from the University of Washington. He is a Licensed Professional Civil Engineer in the State.

John F. O'Loughlin, P.E., Environmental Services Assistant Director, has worked in the wastewater, surface water and solid waste fields in a multitude of positions for the past 25 years. Mr. O'Loughlin holds a Bachelor's Degree in Chemistry and a Master's Degree in Business Administration - both from the University of Washington. He is a Licensed Professional Engineer in the State.

Financial Policies

The Council approved the System's Financial Management Policy Statement in Resolution No. 35288, passed on September 25, 2001. These policies may be amended by the City Council at any time. The policies set bond covenants, minimum levels of debt service coverage and describe in general terms requirements for rate setting to fund maintenance and operating expenses and capital expenditures.

Over the past five years, the System has informally adopted certain goals as a guide to financial management and rate setting. These goals include rate setting for two-year periods, rates based on cost of service within a customer class (except for the residential class), restrictions on the term of debt, a minimum of 20 percent of capital financed with current revenues, Parity Bond coverage of at least 170 percent, and a minimum of 60 days of operating cash.

Budgetary Policies

The biennial budget is proposed by the City Manager and adopted by the Council with legal budgetary control at the fund level. The City Manager may authorize transfers within funds; however, the Council must approve, by ordinance, any amendments which increase the total for the fund. Any unexpended appropriated balances lapse at the end of the fiscal biennium. These budgetary policies apply to the System.

Auditing

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

The State Auditor is required to examine the affairs of cities at least once every two years. As discussed below, the City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the finance department of the City.

The accounting and reporting policies of the System conform to generally accepted accounting principles for municipal governments. The System's financial statements are audited annually by the Office of the State Auditor and by Moss Adams LLP, an independent firm of certified public accountants. For the Fiscal Years ended December 31, 2014 and 2015, the financial statements of the System, included in Appendix C and Appendix D hereto, respectively, were audited by Moss Adams LLP. Neither the Office of the State Auditor nor Moss Adams LLP has reviewed or participated in the preparation of this Official Statement.

Pension

Employees of the System are covered by the Tacoma Employees' Retirement System ("TERS"), an actuarially funded system administered by the City. The following information is provided on a City-wide basis. Additional information is available on the TERS website at www.cityoftacoma.org/retirement (which website is not incorporated herein by this reference).

TERS is a cost-sharing multiple-employer, defined benefit retirement plan covering substantially all employees of the City, with the exception of police officers, firefighters and Tacoma Rail employees who are covered by other retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in TERS when these agencies were still City departments, are also members. The Board of Administration (the "Board") of TERS administers the plan, and benefit provisions are established in accordance with chapter 41.28 RCW and Chapter 1.30 of the Tacoma Municipal Code. The Board consists of nine members, including the City Mayor, who serves as chair, Finance Director, City Manager (or designee), Public Utilities Director (or designee), three employees, one retiree and one City resident (not employed by the City) elected by the other eight members. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of TERS. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of TERS. As of January 1, 2015, there were 2,167 retirees and beneficiaries currently receiving benefits, 627 vested terminated members entitled to future benefits and 2,884 active members in TERS.

The System is current in all payments to TERS. Further details about the plan are included in Note 7 to the financial statements attached as Appendix C and Appendix D.

The following table shows the historical City-wide contributions to TERS for the years ended December 31:

Year	City-Wide Contribution
2013	$ 21,188,984
2014	22,149,246
2015	22,746,593[(1)]

(1) Unaudited.

Covered employees are required by Chapter 1.30 of the Tacoma Municipal Code to contribute a percentage of their gross wages to TERS, and the employer contributes an additional percentage. The contribution rates for the System are provided in the following table:

Applicable Period	Employer Rate	Member Rate	Total Rate
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

The most recent actuarial valuation of TERS was completed as of January 1, 2015 by Milliman. Assumptions include investment earnings of 7.25%, wage growth of 4.00% and price inflation of 3.00%. The January 1, 2015 actuarial funded ratio, which represents the ratio of the Actuarial Value of Assets ("AVA") to the Actuarial Accrued Liability ("AAL"), is 95.5%, up from 92.6% from the 2014 valuation. This is based on the AVA as of December 31, 2014, which uses smoothing on gains and losses over four years. The TERS Board of Administration has ratified the valuation including the actuarial assumptions. The amortization period of the unfunded AAL ("UAAL") is 52.3 years due to the fact that the portion of the contribution rate for UAAL amortization is only 1.16%. The combined employer/employee contribution rate would need to be increased from 20.00% of pay to 20.41% of pay to reduce the UAAL amortization period to 30 years.

The following table provides historical funding information for TERS, and is based on the most recent actuarial valuation performed, dated January 1, 2015. The next actuarial valuation of TERS, completed as of January 1, 2016, is expected to be available in May or June of 2016.

TERS Valuations
($ in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c)=(b)-(a)	Funded Ratio (d)=(a)/(b)	Covered Payroll (e)	UAAL as a Percentage of Covered Payroll (f)=(c)/(e)
1/1/2013	$ 1,187	$ 1,307	$ 120	90.9%	$ 211	56.7%
1/1/2014	1,297	1,400	103	92.6	214	48.2
1/1/2015	1,403	1,468	66	95.5	221	29.6

See Note 7 to the financial statements attached as Appendix C and Appendix D.

In addition to TERS, City employees participate in the federal social security program. The City withholds the employee contribution from the City employee's wages.

GASB 68 and 71. Effective for Fiscal Year 2015 reporting, the City implemented new accounting standards issued by GASB - GASB 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. In addition, prior to implementing GASB 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan. Upon adoption of GASB 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB 71 amends GASB 68 regarding the deferred outflows of resources for governments whose current year pension contributions are reported subsequent to the measurement date. As of December 31, 2015, the System's proportionate share of the collective net pension liability was 11.65%.

The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the restatement of 2015 beginning balances by $1,376,279 for the System's portion of the net pension liability incurred in prior years. See Note 7 in the financial statements attached as Appendix D for further details.

Other Post-Employment Benefits

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

The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. Generally accepted accounting principles require that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future. The City funds its OPEB obligation on a pay as you go basis.

The following table shows the annual OPEB cost and net OPEB obligation for three years for the System and the City. This table is based upon a 3.75% interest rate for 2013, 2014 and 2015.

OTHER POST EMPLOYMENT BENEFITS

Year	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Ended	City	System	City	System	City	System
12/31/2013	$ 19,528,767	$ 417,168	$ 9,887,334	$ 120,646	$ 56,110,801	$ 1,967,642
12/31/2014	19,319,944	412,703	9,292,539	148,742	66,138,206	2,231,603
12/31/2015	15,954,387	372,463	8,963,091	84,685	73,129,502	2,519,381

For additional information regarding the City's post-employment benefits, see Note 8 to the financial statements attached as Appendix C and Appendix D.

Taxation

The Tacoma City Charter allows the City to impose a gross earnings tax not exceeding eight percent on the System revenue. The gross earnings tax currently imposed on the System is eight percent on revenues from operations. Payment of the gross earnings tax is subordinate to the payments required to be made into any fund or funds previously or subsequently created for the payment of the principal of and interest on the Parity Bonds. The System also pays business and occupation taxes and other excise taxes imposed by the State.

Investment Practices

The City's Investment Committee is composed of the Mayor, the Finance Director and the City Treasurer. The City Treasurer invests City funds. The System'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 securities 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 similar to a demand deposit account in that all City departments, including the System, 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 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating , Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool ("LGIP"). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP.

The System's investments in that portion of the TIP held in qualified public depositories at December 31, 2015 and 2014 is entirely covered by the Federal Deposit Insurance Corporation ("FDIC") and the Washington State Public Deposit Protection Commission ("PDPC").

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's 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.

As of December 31, 2015, the par value of the City's investments totaled $746.026 million. The portfolio was distributed in various types of investment instruments in the following percentages:

Government Agencies	58.96%
U.S. Treasuries	11.54
State Local Government Investment Pool	8.75
Bank Interest-Bearing Accounts	6.54
Municipal Securities	14.21
	100.00%

Insurance

Historically the System's risk exposure includes but is not limited to flooding, recontamination, wind damage, chemical spills, and earthquakes. Mitigating controls and emergency and business resumption plans are in place, including the construction of a floodwall around the City's Central Treatment Plant. See "CERTAIN ENVIRONMENTAL MATTERS AND FACTORS AFFECTING THE SYSTEM—Other Considerations." To the extent damage or claims exceed insured values, rates may be impacted.

The City has established a Self-Insurance Fund (the "Fund") to insure the System and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The System 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 System and not from the Fund. The System is required to make payments to the Fund to cover claims incurred by the System and administrative expenses of the Fund. The Division's premium payments totaled $378,274 for 2015 and $211,399 for 2014.

The City maintains an excess general liability policy with limits of $15 million, subject to a self-insured retention of $3 million and a $30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with statutory limits and with a $1 million self-insured retention plus a $250,000 of total loss each 12 month policy period. The City carries property coverage with a maximum single occurrence limit of $500,000,000 with a sublimit of $150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The System's costs for these policies were $223,286 in 2015 and $253,165 in 2014.

Labor Relations

Wastewater Management and Surface Water Management employ approximately 321 full-time equivalent employees working directly within the utilities. 304 of these employees are represented by one of the labor organizations representing City employees. The City negotiates with those labor organizations through its management negotiating team.

The City enters into a collective bargaining agreement with the Joint Labor Committee concerning negotiable issues, including vacations, sick leave, holidays, life insurance, longevity, medical insurance and other health benefits. Matters that are specific to a particular union, such as wages and other working conditions, are subject to a separate collective bargaining agreement individually negotiated with the unions.

As provided by State law, matters that are delegated by the City Charter to the City's Civil Service Board, including issues relating to tenure of employment, hiring, recruitment, and termination, are not negotiated at the bargaining table. Additionally, retirement benefits through the TERS have been set historically by the Tacoma Retirement Board, which includes representatives of City employees as well as City management.

The City strives to promote sound labor relations policies that are beneficial both to management and to its employees. This cooperative effort has precluded a significant work stoppage among general government employees for the last several decades.

Bargaining units representing employees of the System are shown in the following table.

Bargaining Unit	Number of Employees	Contract Expiration Date
International Federation of Professional and Technical Engineers (Local 17)	76	12/31/2018
Washington State Council of County and City Employees (Local 120)	1	12/31/2016
International Association of Machinist and Aerospace Workers ("IAM and AW") (Local 160) (General)	25	12/31/2016
IAM and AW (Local 160) (Supervisors)	2	12/31/2016
Teamsters Local 117 (General)	3	12/31/2018
Teamsters Local 311 (Solid Waste)	1	12/31/2017
Teamsters Local 313 (Sewer)	62	12/31/2017
International Brotherhood of Electrical Workers ("IBEW") Local 483 (Customer and Field Services)	4	12/31/2018
IBEW 483 (Clerical)	13	12/31/2015(1)
IBEW 483 (Custodians)	3	12/31/2015(1)
IBEW 483 (Supervisors)	2	12/31/2016
IBEW 483 (Water Pollution)	41	12/31/2017

(1) Under negotiation.
Source: City of Tacoma Environmental Services Department

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

Under the City Charter, Tacoma voters may initiate local legislation and City Charter amendments, and modify existing legislation, through powers of initiative and referendum. Under Washington law, the Bond Ordinance may not be a proper subject for a referendum petition. Nonetheless, the referendum period will have expired and the Bond Ordinance will become effective on or before the date of issuance and delivery of the Bonds. As of the date of this Official Statement, no referendum petition has been filed.

In recent years there has been an increase in the number of initiatives and referenda filed in Washington, including state initiatives targeting property taxes imposed by local jurisdictions. The City cannot predict whether this trend will continue, whether any filed initiatives will receive the requisite signatures to be certified to the ballot, and whether such initiatives will be approved by the voters and, if challenged, upheld by the courts.

TAX MATTERS

General. In the opinion of Bond Counsel, under existing law and subject to certain qualifications described below, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The proposed forms of opinions of Bond Counsel with respect to the Bonds to be delivered on the date of issuance of a series of Bonds are set forth in Appendix B.

The Code contains a number of requirements that apply to the Bonds, and the City has made certain representations and has covenanted to comply with each such requirement. Bond Counsel's opinion assumes the accuracy of the representations made by the City and is subject to the condition that the City comply with the above-referenced covenants. If the City fails to comply with such covenants or if the City's representations are inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated herein, Bond Counsel expresses no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

Original Issue Premium and Discount. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax consequences of owning such Bonds.

Post Issuance Matters. The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the owners to incur significant expense.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bank Qualified. The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with Section (b)(5) of Securities and Exchange Commission (the "Commission") Rule 15c2–12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the City has agreed in the Bond Ordinance for the benefit of the owners and the Beneficial Owners of the Bonds to provide or cause to be provided to the Municipal Securities Rulemaking Board ("MSRB") the following annual financial information and operating data for the prior fiscal year (commencing in 2016 for the fiscal year ended December 31, 2015):

(1) Annual financial statements, which statements may or may not be audited, showing ending fund balances for the System prepared in accordance with Generally Accepted Accounting Principles prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute);

(2) Principal amount of outstanding Parity Bonds and debt service coverage;

(3) Rates for the System substantially as provided in the rate ordinance approved by the Council; and

(4) Number of wastewater and surface water customers.

Items (2) through (4) shall be required only to the extent that such information and data is not included in the information and data provided pursuant to item (1) above.

The information and data described above shall be provided on or before the last day of the ninth month after the end of the City's fiscal year. The City's current fiscal year ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents available to the public on the MSRB's internet website or filed with the Commission.

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

Listed Events. The City agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- principal and interest payment delinquencies;
- non-payment related defaults, if material;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- modifications to the rights of Bondholders, if material;
- optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds, if material;
- rating changes;
- bankruptcy, insolvency, receivership or similar event of the City;

- the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure, without any intent to modify the undertaking as set forth above, the City advises that no credit enhancement, credit or liquidity facilities, or property secure payment of the Bonds.

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

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

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

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

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

Other Ongoing Disclosure Undertakings of the City. The City has previously entered into continuing disclosure undertakings under the Rule (the "Prior Undertakings"). The City failed to file information regarding assessments levied, collected and uncollected for the years 2010 and 2011 in connection with its Consolidated Local Improvement District ("CLID") No. 60 Bonds. The City filed the missing information in February 2013. The City failed to file information regarding the balance in the supplemental reserve fund for its CLID No. 65 Bonds as of December 31, 2014. The City filed the information in March 2016. The City failed to file certain lodging tax information for 2010. The City filed the missing information in September 2012. In connection with the City's Regional Water Supply System bonds, the operating data for the year ended December 31, 2014 was filed five days after the deadline. Further, the City has provided notice of certain underlying rating changes either through separate notice filings or in its financial statements, some of which may have been done after the deadlines provided for in the Prior Undertakings. Except as described herein, the City believes it has complied with its Prior Undertakings for the previous five years in all material respects

RATINGS

As noted on the cover page of this Official Statement, Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have assigned ratings of "Aa2," "AA+" and "AA+," respectively, to the Bonds. The ratings reflect only the views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings will be likely to have an adverse effect on the market price of the Bonds. The City does not have any obligation to take any action, other than file a listed event notification, if the ratings on the Bonds are changed, suspended or withdrawn.

No assurance can be given that the ratings for the 2016B Bonds on the 2016B Date of Delivery will not be different than such ratings. A rating downgrade does not terminate the 2016B Purchase Agreement (as defined under "DELAYED DELIVERY OF THE 2016B BONDS") or release the Underwriter from its obligation to purchase the 2016B Bonds. See "DELAYED DELIVERY OF THE 2016B BONDS" herein for a discussion regarding the termination of the 2016B Purchase Agreement and ratings risk resulting from the delayed delivery thereof.

UNDERWRITING

The 2016A Bonds are being purchased by J.P. Morgan Securities LLC (the "Underwriter") at a price of $34,561,045.66, and will be reoffered at a price of $34,657,994.45. The 2016B Bonds are being purchased by the Underwriter at a price of $13,247,294.14, and will be reoffered at a price of $13,278,202.90. The Underwriter may offer and sell the Bonds of each series to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices and yields set forth in this Official Statement, and such initial offering prices and yields may be changed from time to time, by the Underwriter. After the initial public offering, the public offering prices and yields may be varied from time to time.

The Underwriter has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

FINANCIAL ADVISOR

The City has retained Piper Jaffray & Co., Seattle, Washington, as financial advisor (the "Financial Advisor"). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. While under contract to the City, the Financial Advisor may not participate in the underwriting of any City debt.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of Bonds by the City are subject to the approving legal opinions of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel. Copies of the forms of opinions of Bond Counsel are attached hereto as Appendix B. Pacifica Law Group LLP is also serving as Disclosure Counsel to the City in connection with the issuance of the Bonds.

For a discussion of the delayed delivery of the 2016B Bonds, as it pertains to the approving legal opinion to be delivered by Bond Counsel, see "DELAYED DELIVERY OF THE 2016B BONDS" herein. There can be no assurance that the facts and circumstances on the 2016B Date of Delivery will not differ from those currently expected, or that the provisions of federal income tax law and applicable regulations, State law and other relevant law will not change prior to the 2016B Date of Delivery and as a consequence, such opinion may not be rendered, preventing the issuance and delivery of the 2016B Bonds.

Certain legal matters will be passed on for the Underwriter by Foster Pepper, PLLC, Seattle, Washington, Counsel to the Underwriter. Any opinion of such firm will be addressed solely to the Underwriter, will be limited in scope, and cannot be relied upon by investors.

DELAYED DELIVERY OF THE 2016B BONDS

The City expects to enter into a delayed delivery bond purchase agreement, dated May 4, 2016 (the "2016B Purchase Agreement") for the 2016B Bonds with the Underwriter. Subject to the terms of the 2016B Purchase Agreement, the City expects to issue and deliver the 2016B Bonds on or about September 7, 2016 (the "2016B Date of Delivery").

The obligation of the Underwriter to purchase the 2016B Bonds from the City is subject to the satisfaction of certain conditions, as outlined in the 2016B Purchase Agreement, on the preliminary closing date (June 15, 2016) (the "Closing Date") and on the 2016B Date of Delivery. The conditions to be satisfied on the Closing Date are, in general, comparable to those required in connection with bond closings that use a customary period of up to six weeks between sale dates and settlement dates.

Because of the longer period between the sale and settlement of the 2016B Bonds, there are certain additional termination rights and settlement conditions that are not generally present in bond sales that do not involve a delayed delivery, and those additional rights and conditions are summarized below. All the conditions and termination rights with respect to the sale and settlement of the 2016B Bonds are set forth in the 2016B Purchase Agreement.

The following is a description of certain provisions of the 2016B Purchase Agreement. The following description is not to be considered a full statement of the terms of the 2016B Purchase Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof, a copy of which is available from the City and the Underwriter.

BY PLACING AN ORDER WITH THE UNDERWRITER FOR THE PURCHASE OF THE 2016B BONDS, EACH INVESTOR ACKNOWLEDGES AND AGREES THAT THE 2016B BONDS ARE BEING SOLD ON A "DELAYED DELIVERY" BASIS THAT THE INVESTOR IS OBLIGATED TO ACCEPT DELIVERY AND PAY FOR THE 2016B BONDS ON THE 2016B DATE OF DELIVERY SUBJECT TO THE CONDITIONS IN THE 2016B PURCHASE AGREEMENT, AND THAT EACH INVESTOR WILL SIGN, AND DELIVER TO THE UNDERWRITER, A DELAYED DELIVERY CONTRACT (IN THE FORM ATTACHED AS APPENDIX G) AS A CONDITION TO ANY 2016B BONDS BEING ALLOCATED TO SUCH INVESTOR.

2016B Date of Delivery

The issuance of the 2016B Bonds and the Underwriter's obligation under the 2016B Purchase Agreement to purchase, accept delivery of and pay for the 2016B Bonds on the 2016B Date of Delivery are conditioned upon the performance by the City of its obligations thereunder, including, without limitation, the delivery of an opinion of Bond Counsel dated the 2016B Date of Delivery, substantially in the form and to the effect as set forth in Appendix B to this Official Statement. The issuance of the 2016B Bonds is further contingent upon the delivery of certain certificates and the satisfaction of other conditions as of the 2016B Date of Delivery. At any time subsequent to the Closing Date and on or prior to the 2016B Date of Delivery, the Underwriter has the right to terminate its obligations under the 2016B Purchase Agreement, by notifying the City of its election to do so, if:

(a) any Change in Law shall have occurred (defined below);

(b) this Official Statement, as amended (if applicable), between the date of this Official Statement to and including the date that is 30 days after the Closing Date, or the updated Official Statement (the "Updated Official Statement"), as amended (if applicable), between the date of delivery of the Updated Official Statement to and including the 2016B Date of Delivery, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, requiring the preparation and publication of a supplement or amendment to this Official Statement or Updated Official Statement (whether or not the Official Statement or Updated Official Statement is actually prepared and delivered);

(c) Bond Counsel does not deliver an opinion on the 2016B Date of Delivery either (i) substantially in the form and to the effect set forth in Appendix B to this Official Statement or (ii) which states that, notwithstanding a Change in Law that prevents Bond Counsel from issuing an opinion substantially in the form and to the effect set forth in Appendix B to this Official Statement, the interest on the 2016B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations;

(d) an event of default has occurred and is continuing, technical or otherwise, on the 2016B Date of Delivery under the Bond Ordinance;

(e) any rating of the 2016B Bonds by a national rating agency rating the 2016B Bonds has been withdrawn or suspended;

(f) a decision by a court of the United States shall be rendered, or a stop order, release, regulation or no-action letter by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall have been issued or made, to the effect that the issuance, offering or sale of the 2016B Bonds, or any document relating to the issuance, offering or sale of the 2016B Bonds, is or would be in violation of any provision of the federal securities laws at the 2016B Bonds Date of Delivery, including the Securities Act, the Exchange Act and the Trust Indenture Act; or

(g) legislation shall have been enacted by the Congress of the United States or shall have been favorably reported out of committee or be pending in committee, or shall have been recommended to the Congress for passage by the President of the United States or a member of the President's Cabinet, or a decision by a court of the United States shall be rendered, or a ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made, to the effect that any obligations of the general character of the 2016B Bonds or any comparable securities of the City are not exempt from the registration, qualification or other requirements of the Securities Act or the Trust Indenture Act or otherwise, or would be in violation of any provision of the federal securities laws.

During the period between the date of this Official Statement and the 2016B Date of Delivery (the "Delayed Delivery Period"), certain information contained in this Official Statement could change in a material respect. The City has agreed in the 2016B Purchase Agreement to deliver an updated Official Statement not more than 25 days nor less than 10 days prior to the 2016B Date of Delivery.

On the 2016B Date of Delivery, the City will cause to be paid to the Underwriter underwriting compensation for the 2016B Bonds as described in the 2016B Purchase Agreement; provided, however, that no such payment will be due if the delivery of the 2016B Bonds is not completed because (i) the 2016B Purchase Agreement is terminated by the Underwriter pursuant to items (a) through (g) above or (ii) the Underwriter defaults in the payment of the purchase price of the 2016B Bonds in accordance with the terms of the 2016B Purchase Agreement.

If, on the 2016B Date of Delivery, the City is unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the 2016B Bonds as set forth in the 2016B Purchase Agreement or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the 2016B Bonds are terminated for any reason permitted by items (a) through (g) above, the 2016B Purchase Agreement will terminate and neither the Underwriter nor the City will be under any further obligation under the 2016B Purchase Agreement.

A "Change in Law" means (i) any change in or addition to applicable federal or State law, whether statutory or as interpreted by the courts, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or State agencies, (ii) any legislation enacted by the Congress of the United States or introduced therein or recommended for passage by the President of the United States (if such enacted, introduced or recommended legislation has a proposed effective date that is on or before the 2016B Date of Delivery), (iii) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date that is on or before the 2016B Date of Delivery) or (iv) any judgment, ruling or order issued by any court or administrative body, which in the case of any of (i), (ii), (iii) or (iv) would, as to the Underwriter, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriter from purchasing the 2016B Bonds as provided in the 2016B Purchase Agreement or selling the 2016B Bonds or beneficial ownership interests therein to the public or, as to the City, would make the issuance, sale or delivery of the 2016B Bonds illegal (or have the retroactive effect of making such issuance, sale or delivery illegal, if enacted, adopted, passed or finalized); provided, however, that such change in or addition to law, legislation, law, rule or regulation or judgment, ruling or order shall have become effective, been enacted, introduced or recommended, been proposed or enacted or been issued as the case may be, after the date of the 2016B Purchase Agreement.

If the Change in Law involves the enactment of legislation which only diminishes the value of, as opposed to eliminating the exclusion from gross income for federal income tax purposes of interest payable on "state or local bonds," the City may, nonetheless, be able to satisfy the requirements for the delivery of the 2016B Bonds. In such event, the Underwriter would be obligated to purchase the 2016B Bonds from the City and the purchasers would be required to accept delivery of the purchased 2016B Bonds from the Underwriter.

The Underwriter has advised the City that the 2016B Bonds will be sold only to purchasers who execute a Delayed Delivery Contract in substantially the form attached hereto as Appendix G (the "Delayed Delivery Contract"). The form of Delayed Delivery Contract is attached as Appendix G at the request and for the convenience of the Underwriter. The City will not be a party to the Delayed Delivery Contracts, and the City is not in any way responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations under the 2016B Purchase Agreement are not conditioned or dependent upon the performance of any Delayed Delivery Contract.

The Underwriter may not refuse to purchase the 2016B Bonds from the City except as expressly described above, and the purchasers may not refuse to purchase the 2016B Bonds from the Underwriter except as expressly described in the Delayed Delivery Contract.

THE UNDERWRITER (AND, IN TURN, THE PURCHASERS OF THE 2016B BONDS FROM THE UNDERWRITER) MAY NOT REFUSE TO PURCHASE THE 2016B BONDS BY REASON OF "GENERAL MARKET OR CREDIT CHANGES" INCLUDING, BUT NOT LIMITED TO (a) CHANGES IN THE RATINGS ANTICIPATED TO BE ASSIGNED TO THE 2016B BONDS OR (b) CHANGES IN THE FINANCIAL CONDITION, OPERATIONS, PERFORMANCE, PROPERTIES OR PROSPECTS OF THE CITY PRIOR TO THE SETTLEMENT DATE.

Additional Risks Related to the Delayed Delivery Period

During the Delayed Delivery Period, certain information contained in this Official Statement could change in a material respect. Changes in such information will not permit the Underwriter to terminate the 2016B Purchase Agreement unless the change reflects an event described above in items (a) through (g) under "2016B Date of Delivery," or release the purchasers of their obligation to purchase the 2016B Bonds except as expressly described in the Delayed Delivery Contract In addition to the risks set forth above, purchasers of the 2016B Bonds are subject to certain additional risks, some of which are described below.

Prospective purchasers should consult their investment advisors before making any decision as to the purchase of the 2016B Bonds. The following discussion, while not setting forth all of the factors that should be considered, contains some of the factors which should be considered, in addition to the other information in this Official Statement, prior to purchasing the 2016B Bonds. This section is not meant to be comprehensive or definitive, and there may be other risk factors which will become material in the future.

Opinion of Bond Counsel: Tax Law Risk. Subject to the additional conditions of settlement described under "2016B Date of Delivery" above, the 2016B Purchase Agreement obligates the City to deliver and the Underwriter to acquire the 2016B Bonds if the City delivers an opinion of Bond Counsel with respect to the 2016B Bonds substantially in the form and to the effect as set forth in Appendix B. During the Delayed Delivery Period, new legislation, new court decisions, new regulations, or new rulings may be enacted, promulgated or interpreted that might prevent Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. Notwithstanding that the enactment of new legislation, new court decisions or the promulgation of new regulations or rulings might diminish the value of, or otherwise affect, the exclusion of interest on the 2016B Bonds for purposes of federal income taxation payable on "state or local bonds," the City might be able to satisfy the requirements for the delivery of the 2016B Bonds. In such event, the purchasers would be required to accept delivery of the 2016B Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to such purchasers.

Ratings Risk. Ratings have been assigned to the 2016B Bonds as described under "RATINGS." No assurances can be given that the ratings assigned to the 2016B Bonds on the 2016B Date of Delivery will not be different from those currently assigned to the 2016B Bonds. Issuance of the 2016B Bonds and the Underwriter's obligations under the 2016B Purchase Agreement are not conditioned upon the assignment of any particular ratings for the 2016B Bonds or the maintenance of the initial ratings of the 2016B Bonds.

Market Value Risk. The market value of the 2016B Bonds as of the 2016B Date of Delivery may be affected by a variety of factors including, without limitation, general market conditions, the ratings then assigned to the 2016B Bonds, the financial condition and operations of the City, and federal income tax and other laws. The market value of the 2016B Bonds as of the 2016B Date of Delivery could therefore be higher or lower than the price to be paid by the initial purchasers of the 2016B Bonds and that difference could be substantial. NEITHER THE CITY NOR THE UNDERWRITER MAKE ANY REPRESENTATION AS TO THE EXPECTED MARKET PRICE OF THE 2016B BONDS AS OF THE 2016B DATE OF DELIVERY. Further, no assurance can be given that the introduction or enactment of any future legislation will not affect the market price for the 2016B Bonds as of the 2016B Date of Delivery or thereafter or not have a materially adverse impact on any secondary market for the 2016B Bonds.

Termination of Purchase Agreement. The Underwriter may terminate the 2016B Purchase Agreement by notification to the City on or prior to the 2016B Date of Delivery if any of the events described above in items (a) through (g) under "2016B Date of Delivery" occurs.

Secondary Market Risk. The Underwriter is not obligated to make a secondary market in the 2016B Bonds, and no assurances can be given that a secondary market will exist for the 2016B Bonds during the Delayed Delivery Period. Purchasers of the 2016B Bonds should assume that the 2016B Bonds will be illiquid throughout the Delayed Delivery Period.

LITIGATION

No Litigation Concerning the Bonds

There is no litigation pending or threatened in any court (local, state, or federal) to restrain or enjoin the issuance or delivery of the Bonds, or questioning the creation, organization, existence, or title to office of the officers of the Department or the City, the validity or enforceability of the Bond Ordinance, or the proceedings for the authorization, execution, sale, and delivery of the Bonds.

Other Litigation

Because of the nature of its activities, the City is subject to various pending and threatened legal actions which arise in the ordinary course of business. The City 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 City or the System, but could be material to results of operations or cash flows for a particular annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim. See "CERTAIN ENVIRONMENTAL MATTERS AND FACTORS AFFECTING THE SYSTEM" for a summary of certain actions by regulatory agencies concerning the System.

POTENTIAL CONFLICTS OF INTEREST

Some or all of the fees of the Underwriter, Underwriter's Counsel, the Financial Advisor, and Bond Counsel are contingent upon the issuance and sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Financial Advisor and as counsel to the Underwriter on matters unrelated to the issuance of the Bonds. Foster Pepper PLLC is serving as counsel to the Underwriter and from time to time serves as counsel to the City and as counsel to the Financial Advisor on matters unrelated to the issuance of the Bonds.

LIMITATIONS ON REMEDIES

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Ordinance are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the City fails to comply with its covenants under the Bond Ordinance or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Ordinance, the rights and obligations under the Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinions to be delivered by Pacifica Law Group LLP, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. Copies of the forms of legal opinions of Bond Counsel are set forth in Appendix B.

No Acceleration

Under the Bond Ordinance, a Bond owner cannot require acceleration of debt service on the Bonds upon the occurrence of an event of default. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the bond owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between owners of earlier and later maturing Parity Bonds.

Bankruptcy

Under current Washington law, local governments, such as the City, may be able to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the City. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code. Taxing districts in the State are expressly authorized to carry out a plan of readjustment if approved by the appropriate court. Should the City become a debtor in a federal bankruptcy proceeding, the owners of the Bonds would continue to have a statutory lien on Net Revenues after the commencement of the bankruptcy case so long as the Net Revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide utility services. The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents, such as the Bond Ordinance. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the Bond Ordinance may not be applicable. If Net Revenues do not constitute "special revenues," there could be delays or reductions in payments by the City with respect to the Bonds.

Furthermore, if the City were to become a debtor in a federal bankruptcy case, the parties (including the Bond Registrar and the holders of the Bonds) may be prohibited from taking any action to collect any amount from the City, to enforce any obligations of the City, or to exercise any remedies unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Bond Registrar from making payments to the holders of the Bonds from funds in the Bond Registrar's possession. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and/or reductions in payments could result.

OFFICIAL STATEMENT

At the time of delivery of a series of Bonds, one or more officials of the City will furnish a certificate stating that to the best of his or her knowledge, this Official Statement (excluding certain information regarding DTC, provided under the heading "UNDERWRITING," and contained in Appendix G), as of its date and as of the date of delivery of such series of Bonds does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

The preparation and distribution of this Official Statement have been authorized by the City.

THE CITY OF TACOMA, WASHINGTON

By: /s/Andrew Cherullo
Finance Director

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APPENDIX A

FORM OF THE BOND ORDINANCE

(attached)

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Req. #16-0287

ORDINANCE NO. 28355

AN ORDINANCE of the City of Tacoma, Washington, providing for the issuance and sale of two series of sewer revenue refunding bonds of the City in the aggregate principal amount of not to exceed $55,000,000 to refund and defease certain outstanding sewer revenue bonds of the City and the outstanding TES Properties Lease Revenue Bonds, 2009 issued on behalf of the City and to pay costs of issuing the bonds; providing the form and terms of the bonds; and delegating the authority to approve the final terms of the bonds.

WHEREAS the City of Tacoma, Washington (the "City"), now owns, operates, and maintains a municipal sewer system, comprised of Wastewater Management and Surface Water Management (the "System"), and

WHEREAS the City has issued and has outstanding the following sewer revenue bonds and obligations:

Designation	Authorizing Documents	Date of Ordinance	Principal Amount Outstanding as of March 1, 2016
Sewer Revenue and Refunding Bonds, 2006 (the "2006 Bonds")	Ordinance No. 27490 and Substitute Resolution No. 36895	5/16/2006 and 6/20/2006, respectively	$ 15,560,000
Monthly Rent obligation ("Monthly Rent") (principal component)	Ordinance No. 27677, as amended by Ordinance No. 27783	12/18/2007 and 1/20/2009, respectively	33,590,000
Sewer Revenue Refunding Bonds, 2011 (the "2011 Bonds")	Ordinance No. 28015 and Substitute Resolution No. 38334	9/20/2011 and 9/27/2011, respectively	34,315,000
Sewer Revenue and Refunding Bonds, 2015 (the "2015 Bonds")	Ordinance No. 28287	01/13/2015	109,300,000

(The outstanding sewer revenue bonds and the City's obligation to pay Monthly Rent identified above are referred to as the "Outstanding Parity Bonds" and the

authorizing documents identified above are referred to as the "Outstanding Parity Bond Ordinances"), and

WHEREAS the Outstanding Parity Bond Ordinances provide that additional sewer revenue bonds may be issued with a lien on Net Revenues (as defined herein) on a parity with the lien of the Outstanding Parity Bonds if certain conditions are met, and

WHEREAS Ordinance No. 27490 provides that the 2006 Bonds may be defeased and/or refunded prior to their stated maturities at the option of the City on or after December 1, 2016, at a price of par plus accrued interest to their date of redemption, and

WHEREAS the City Council ("Council") has determined that it is in the best interest of the City and its ratepayers to defease and refund a portion of the 2006 Bonds if debt service savings can be achieved, and

WHEREAS the City sought proposals for the development of an office and laboratory building ("Project") for occupancy by the City's Environmental Services Department and other tenants and selected TES Properties, a Washington nonprofit corporation ("TES"), and Lorig Associates, L.L.C. to develop the Project, and

WHEREAS, pursuant to a Property Conveyance and Reconveyance Agreement between TES and the City, the City conveyed to TES real property on which TES was to develop the Project on behalf of the City, and the City leased the completed Project from TES pursuant to a Project Lease Agreement ("Project Lease"), approved by Ordinance No. 27677, as amended by Ordinance No. 27783, adopted by the Council on December 18, 2007, and January 20, 2009, respectively, and

WHEREAS TES financed the development of the Project through the issuance of its Lease Revenue Bonds, 2009 (“TES Bonds”) which were issued on behalf of the City pursuant to Revenue Ruling 63-20 of the U.S. Department of Treasury (as compiled and supplemented by Revenue Procedure 82-26 of the U.S. Department of Treasury) (together, the “Ruling”), and

WHEREAS the City pays monthly rent under the Project Lease in an amount sufficient to pay debt service on the TES Bonds (referred to herein as “Monthly Rent”), and

WHEREAS, pursuant to City Ordinance No. 27677, as amended, the City’s obligation to pay Monthly Rent was declared to be a “Future Parity Bond” with a lien on Net Revenues on a parity with the then-Outstanding Parity Bonds, and

WHEREAS, pursuant to the Ruling, the City has the right to obtain unencumbered title and exclusive possession of the Project by placing into escrow an amount sufficient to defease the TES Bonds and pay reasonable costs incident to the defeasance, and

WHEREAS the City may realize savings by issuance of its sewer revenue refunding bonds to defease and refund the TES Bonds if debt service on the bonds authorized herein is lower than Monthly Rent paid by the City with respect to the TES Bonds, and

WHEREAS the City may provide written direction to TES to call the TES Bonds at maturity and/or TES Bonds maturing on or after December 1, 2019, for

redemption on or after June 1, 2019, in whole or in part on any date, at a price of par plus accrued interest, if any, to the date of redemption, and

WHEREAS, after due consideration, it appears to the Council that directing TES to defease and refund the TES Bonds with proceeds of the bonds authorized herein will result in a savings to the City and its ratepayers, and

WHEREAS the Council acknowledges that, upon the defeasance of the TES Bonds, the Project Lease will terminate and unencumbered title and exclusive possession of the Project will transfer to the City, and

WHEREAS the Council deems it in the best interest of the City to issue two series of sewer revenue refunding bonds in the aggregate principal amount of not to exceed $55,000,000 (the “Bonds”) to redeem and defease a portion of the outstanding 2006 Bonds, to redeem and defease all of the outstanding TES Bonds, and to pay costs of issuing the Bonds, and

WHEREAS the Council wishes to delegate authority to the City Finance Director and Treasurer, or their designee (each, a “Designated Representative”) for a limited time, to select the 2006 Bonds to be refunded, if any, and to approve the interest rates, maturity dates, redemption terms, principal maturities and other terms for each series of Bonds within the parameters set by this ordinance, and

WHEREAS the Bonds shall be sold by negotiated sale as set forth herein; Now, Therefore,

BE IT ORDAINED BY THE CITY OF TACOMA:

TABLE OF CONTENTS*

* This Table of Contents is provided for convenience only and is not a part of this ordinance.

Section 1. Definitions and Interpretation of Terms.

(a) Definitions. As used in this ordinance, the following words shall have the following meanings:

"Accreted Value" means, with respect to any Capital Appreciation Bond, as of the time of calculation, the sum of the amount representing the initial principal amount of such bond plus interest accrued, compounded thereon as of the most recent compounding date. With respect to any particular Payment Date, the Accreted Value is the amount set forth on the Accreted Value Table included as part of the form of Capital Appreciation Bond. In the event the Accreted Value of any Capital Appreciation Bond is required to be determined as of a date other than the Payment Date, the Accreted Value shall be determined by adding to the Accreted Value for the next preceding Payment Date the product obtained by multiplying (a) the difference between the Accreted Value for the next Payment Date and the Accreted Value for the next preceding Payment Date, by (b) the ratio obtained by dividing by 180 the number of days elapsed since the next preceding Payment Date (calculated on the basis of a 360-day year of twelve 30-day months).

"Accreted Value Table" means the Accreted Value Table printed on the Capital Appreciation Bonds reflecting the Accreted Value of such Capital Appreciation Bonds as of any Payment Date.

"Acquired Obligations" means noncallable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States Government, but only to the extent that the same are acquired at Fair Market Value.

"Adjusted Annual Debt Service" means Annual Debt Service minus (a) an amount equal to ULID Assessments due in that year and not delinquent and (b) any Capitalized Interest to be paid with respect to Parity Bonds.

"Adjusted Net Revenues" has the meaning set forth in Section 17 of this ordinance.

"Annual Debt Service" means the amount required to be paid in a calendar year for (a) interest due in such calendar year on all Parity Bonds, (b) principal of all Serial Bonds due in such calendar year, and (c) any Sinking Fund Requirement for such calendar year.

In the case of Variable Interest Rate Bonds, for the purpose of calculating Annual Debt Service, the interest rate thereon shall be calculated on the assumption that such bonds will bear interest during such period at a rate equal to the rate most recently reported by The Bond Buyer as the Bond Buyer Municipal Bond Index for long-term revenue bonds; provided, that if on such date of calculation the interest rate on any Variable Interest Rate Bonds shall then be fixed for a specified period, including pursuant to a Payment Agreement, the interest rate used for such specified period shall be such fixed interest rate. After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this paragraph shall read as follows: In the case of Variable Interest Rate Bonds, for the purpose of calculating Annual Debt Service, the interest rate thereon shall be equal to the higher of (i) the average of the SIFMA Municipal Swap Index over the 60-month period immediately preceding the date of computation, or (ii) the average of the SIFMA Municipal Swap Index over the 12-month period immediately

preceding the date of computation, in each case as determined within ten days prior to the date of computation, with the principal thereof amortized to provide for essentially level annual debt service of principal and interest over such period; provided, that if on such date of calculation the interest rate on any Variable Interest Rate Bonds shall then be fixed for a specified period, including pursuant to a Payment Agreement, the interest rate used for such specified period shall be such fixed interest rate.

For purposes of computing Annual Debt Service on any Parity Bonds which constitute Balloon Indebtedness, it shall be assumed that the principal of such Balloon Indebtedness, together with interest thereon at the rate applicable to such Balloon Indebtedness, shall be amortized in equal annual installments over a term equal to the lesser of (a) 25 years or (b) the average weighted useful life (expressed in years and rounded to the next highest integer) of the properties and assets constituting the project (if any) financed out of the proceeds of such Balloon Indebtedness.

After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, for purposes of satisfying the coverage test pursuant to Section 15 or the requirements for the issuance of Future Parity Bonds pursuant to Section 17, Annual Debt Service for any Fiscal Year or calendar year shall exclude any Debt Service Offsets received or expected to be received in such Fiscal Year or calendar year.

"Balloon Indebtedness" means any series of Parity Bonds more than 25 percent of the principal of which, in accordance with the terms of such Parity

Bonds, is due and payable in any one Fiscal Year either by reason of the stated maturity date of such Parity Bonds or pursuant to a Sinking Fund Requirement; provided that with respect to any Parity Bonds issued as Term Bonds, such Bonds shall only be treated as Balloon Indebtedness if more than 25 percent of the principal thereof is due in any one Fiscal Year pursuant to the applicable Sinking Fund Requirement or upon the stated maturity date thereof (assuming that the only principal due on the stated maturity date thereof will be the principal remaining outstanding after all redemptions have been made pursuant to the applicable Sinking Fund Requirement).

"Bond Counsel" means an attorney at law or a firm of attorneys, selected by the City, of nationally recognized standing in matters pertaining to the tax exempt nature of interest on bonds issued by states and their political subdivisions.

"Bond Fund" means the Sewer Revenue Bond Fund created by the City for the purpose of paying and securing the payment of Parity Bonds.

"Bond Obligation" means, as of any given date of calculation, the sum of (a) the aggregate principal amount of all outstanding Current Interest Bonds and (b) the aggregate Accreted Value of all outstanding Capital Appreciation Bonds calculated as of the date of calculation if that date is a Payment Date or as of the next preceding Payment Date if the date of calculation is not a Payment Date.

"Bond Purchase Contract" means one or more contracts for the purchase of the Bonds between the Underwriter and the City, executed pursuant to Section 19.

"Bond Register" means the registration books maintained by the Bond Registrar for purposes of identifying ownership of the Bonds or the nominee of each owner, and such other information as the Bond Registrar shall determine.

"Bond Registrar" means, initially, the fiscal agent of the state of Washington, for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds and paying interest on and principal of the Bonds.

"Bonds" mean the 2016A Bonds and the 2016B Bonds.

"Call Date" means the dates specified in the Escrow Deposit Agreement for the refunding of each series of the Refunded Bonds.

"Capital Appreciation Bonds" mean Parity Bonds, the interest on which accrues and compounds, payable at maturity or earlier redemption.

"Capitalized Interest" means proceeds (not including accrued interest) of Parity Bonds used to pay interest on such Parity Bonds.

"Certified Public Accountant" means an independent licensed certified public accountant (or firm of certified public accountants) selected by the City.

"City" means the City of Tacoma, Washington, a municipal corporation duly organized and existing under and by virtue of the laws of the State.

"City Clerk" means the duly appointed and acting City Clerk of the City or the successor to the duties of that office.

"City Manager" means the duly appointed and acting City Manager of the City or the successor to the duties of that office.

“Closing” means the applicable dates of delivery of the 2016A Bonds and the 2016B Bonds to the Underwriter.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Commission” means the Securities and Exchange Commission.

“Costs of Maintenance and Operation” means all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, insurance premiums and administrative expenses and reasonable pro rata charges for services provided to the System by City departments, but excludes (a) payments for debt service or into debt service reserve accounts or funds, (b) costs of capital additions to or replacements of the System, (c) money necessary to pay extraordinary legal claims and judgments against the System or amortized payments to the City’s self-insurance fund with respect to extraordinary claims and judgments, (d) depreciation, (e) City taxes (or payments to the City in lieu of taxes) upon the properties and earnings of the System, and (f) any Rebate Amount.

“Council” means the Council of the City, as the same shall be duly and regularly constituted from time to time.

“Covered Bonds” mean (a) the Outstanding Parity Bonds, (b) so long as the 2006 Bonds and the 2011 Bonds remain outstanding, the Bonds, (c) after all of the

2006 Bonds and 2011 Bonds are fully redeemed, refunded or defeased, the Bonds, unless and until the City determines pursuant to Section 10(a)(3)(A) of this ordinance that the Bonds are no longer to be Covered Bonds secured by the Reserve Fund, and (d) those Future Parity Bonds designated in the Parity Bond Ordinance authorizing their issuance as Covered Bonds secured by the Reserve Fund.

“Current Interest Bonds” means Parity Bonds, the interest on which is paid periodically.

“Debt Service Offset” means receipts of the City that are not included in Gross Revenues and that are legally available to pay debt service on Parity Bonds, including without limitation federal interest subsidy payments, designated as such by the City.

“Designated Representative” means the City Finance Director and Treasurer, or his or her designee. The signature of one Designated Representative shall be sufficient to bind the City.

“DTC” means The Depository Trust Company, New York, New York.

“Engineer” means an independent licensed professional engineer (or firm of licensed professional engineers) selected by the City and experienced and skilled in the design, construction and operation of sewer systems of comparable size and character to the System.

“Environmental Services Director” means the duly appointed and acting Environmental Services Director of the City or the successor to the duties of that office.

"Escrow Agent" means U.S. Bank National Association.

"Escrow Deposit Agreement" means one or more Escrow Deposit Agreements among the City, the Escrow Agent, and TES (with respect to the TES Bonds and the 2016A Bonds only) to be dated as of the date of Closing for a series of Bonds.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security – State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a 10 percent beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the applicable regulations under the Code, the term "investment" will include a hedge.

"Federal Tax Certificate" means as applicable, the certificate executed by the Finance Director setting forth the requirements of the Code for maintaining the tax exemption of interest on a series of Bonds to be dated as of the date of Closing for a series of Bonds, and attachments thereto.

"Finance Director" means the duly appointed and acting Finance Director of the City or the successor to the duties of that office.

"Fiscal Year" means the fiscal year used by the City at any time. At the time of the adoption of this ordinance, the Fiscal Year is the 12-month period beginning January 1 of each year.

"Fitch" means Fitch, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns.

"Future Parity Bonds" means any revenue bonds of the City issued after the date of issuance of the Bonds having a charge or lien upon the Net Revenues and ULID Assessments for payment of the principal thereof and interest thereon equal in priority to the charge or lien upon the Net Revenues and ULID Assessments for the payment of the principal of and interest on the Outstanding Parity Bonds and the Bonds.

"Government Obligations" mean those obligations now or hereafter defined as such in chapter 39.53 RCW.

"Gross Revenues" mean (a) all revenues received for the use of the System, (b) revenues received from the sale of by-products from a treatment facility of the System or from any other source for rental, use or services rendered by the System, (c) ULID Assessments, (d) the proceeds received by the City from the sale or other disposition of any of the properties of the System, (e) investment income earned on money held in any fund or account of the City in connection with the ownership and operation of the System, including any bond redemption funds, and (f) federal or state reimbursement of operating expenses to the extent that such expenses are included as Costs of Maintenance and Operation, but excluding (i) insurance proceeds, (ii) investment income irrevocably pledged to the payment of any specific sewer revenue bonds of the City refunded or defeased pursuant to a plan of refunding heretofore or hereafter adopted by the City, (iii) investment income earned on money in any rebate fund, and (iv) grants, gifts or donations. Amounts withdrawn from the Rate Stabilization Fund shall increase Gross Revenues for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Fund shall reduce Gross Revenues for the period during which they are deposited.

"Indenture" means the Indenture of Trust dated as of February 1, 2009, between TES and the TES Bond Trustee.

"Interest Account" means the Interest Account in the Bond Fund created by Ordinance No. 25562.

"Letter of Representations" means the Blanket Issuer Letter of Representations from the City to DTC.

"Maximum Annual Debt Service" means at the time of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current Fiscal Year or any future Fiscal Year on the Parity Bonds.

"Maximum Annual Adjusted Debt Service" means Maximum Annual Debt Service minus the amount of ULID Assessments due in that year and not delinquent.

"Maximum Interest Rate" means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, which shall be set forth in any Parity Bond Ordinance authorizing such Bond, which shall be the maximum rate of interest such Bond may at any time bear.

"Maximum Reserve Requirement" means the maximum dollar amount permitted by the Code to be allocated to a reserve fund from tax-exempt bond proceeds without requiring a balance to be invested at a restricted yield.

"Monthly Rent" means the City's obligation to pay monthly rental payments under the terms of the Project Lease.

"Moody's" means Moody's Investors Service, Inc. or its comparable recognized business successor.

"MSRB" means the Municipal Securities Rulemaking Board or any successor to its functions.

"Net Revenues" means, for any period, the excess of Gross Revenues over Costs of Maintenance and Operation for such period, excluding from the computation of Gross Revenues (a) ULID Assessments, (b) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights or facilities of the System, or (c) gains or losses resulting from the early extinguishment of debt.

"Outstanding Parity Bond Ordinances" mean the ordinances and resolutions authorizing the issuance of the Outstanding Parity Bonds as described in the recitals to this ordinance.

"Outstanding Parity Bonds" means, as of the date of this ordinance, the 2006 Bonds, the Monthly Rent, the 2011 Bonds, and the 2015 Bonds as identified in the recitals to this ordinance. After the Closing of each series of Bonds and the refunding of the Refunded Bonds, the Outstanding Parity Bonds will include the then-outstanding 2006 Bonds, 2011 Bonds, and 2015 Bonds.

"Parity Bond Ordinances" mean the Outstanding Parity Bond Ordinances, this ordinance, and any ordinance hereafter passed for the purpose of authorizing Future Parity Bonds.

"Parity Bonds" mean the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

"Payment Date" means the dates on which principal and/or interest on the Parity Bonds is due and payable.

"Permitted Investments" means any investments that are now or may hereafter be permitted to the City by the laws of the State.

"Principal Account" means the Principal Account of the Bond Fund created by Ordinance No. 25562.

"Project" means the office and laboratory building known as the Urban Waters Building for occupancy by the City's Environmental Services Department and other tenants and financed with proceeds of the TES Bonds.

"Project Lease" means the Project Lease Agreement dated as of February 1, 2009, between TES and the City, delivered in connection with the TES Bonds.

"Qualified Insurance" means any municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by Moody's and S&P; provided, after all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this definition shall be amended to read as follows: "Qualified Insurance" means any non-cancellable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by Moody's, S&P or Fitch, or any other rating agency then maintaining a rating on the Bonds.

"Qualified Letter of Credit" means any letter of credit issued by a financial institution for the account of the City on behalf of the owners of the Bonds, which institution maintains an office, agency, or branch in the United States and as of the time of issuance of such letter of credit is currently rated in one of the two highest rating categories by Moody's and S&P; provided, after all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this definition shall be amended to read as follows: "Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of the owners of one or more series of Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is currently rated in one of the two highest rating categories by Moody's, S&P or Fitch, or any other rating agency then maintaining a rating on the Bonds.

"Rate Stabilization Fund" means the fund of that name in the Sewer Fund.

"Rebate Amount" means the amount, if any, determined to be payable with respect to the Bonds by the City to the United States of America in accordance with Section 148(f) of the Code.

"Refunded Bonds" means (a) the portion of the outstanding 2006 Bonds designated by the Designated Representative for defeasance and/or refunding pursuant to Section 8 and Section 19 of this ordinance, and (b) all of the outstanding TES Bonds.

"Refunding Account" means the account by that name established pursuant to Section 8 of this ordinance.

"Registered Owner" means the person named as the registered owner of a Bond in the Bond Register. For so long as the Bonds are held in book-entry only form, DTC or its nominee shall be deemed to be the sole Registered Owner.

"Reserve Fund" means the Reserve Fund created in the Bond Fund.

"Reserve Fund Requirement" is the dollar amount to be calculated with respect to all Covered Bonds and, after the 2006 Bonds and the 2011 Bonds are

fully redeemed, refunded or defeased, separately with respect to other Parity Bonds.

(a) With respect to Covered Bonds, the Reserve Fund Requirement means as of any date an amount equal to the lesser of (1) the Maximum Annual Debt Service for Covered Bonds then outstanding, (2) 125 percent of average Annual Debt Service for Covered Bonds then outstanding, or (3) 10 percent of the initial face amount of the Covered Bonds then outstanding; provided, however, that the dollar amount required to be contributed, if any, as a result of the issuance of a series of Future Parity Bonds shall not be greater than the Maximum Reserve Requirement. If the dollar amount required to be contributed at the time of issuance of a series of Future Parity Bonds exceeds the Maximum Reserve Requirement, then the amount required to be contributed shall be equal to the Maximum Reserve Requirement.

(b) After the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, with respect to other series of Parity Bonds, the Reserve Fund Requirement shall be equal to the amount, if any, specified in either the Parity Bond Ordinance authorizing the issuance of such Parity Bonds or in a certificate of the Finance Director, Treasurer, and Environmental Services Director; provided, however, such Reserve Fund Requirement shall not exceed the Maximum Reserve Requirement.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"Ruling" means Revenue Ruling 63-20 of the U.S. Department of Treasury (as compiled and supplemented by Revenue Procedure 82-26 of the U.S. Department of Treasury).

"S&P" means Standard & Poor's Ratings Services, or its comparable recognized business successor.

"Serial Bonds" means Parity Bonds other than Term Bonds.

"Sewer Fund" means the fund of the City of that name created by Section 13 of Ordinance No. 13989, as amended by Ordinance No. 14015, and reenacted by Section 38 of Ordinance No. 21632.

"Sinking Fund Requirement" means, for any Fiscal Year, the principal amount of Term Bonds required to be purchased, redeemed or paid in such year as established by the ordinance or resolution of the City authorizing the issuance of such Term Bonds.

"State" means the state of Washington.

"System" means the "Tacoma Municipal Sewer System," comprised of Wastewater Management and Surface Water Management, as the same is defined in Section 1 of Ordinance No. 13989, as amended by Ordinance No. 14015, and reenacted in and referred to as the "Municipal Sewer System" in Section 1 of Ordinance No. 21632, as amended by Ordinance No. 21681 and as supplemented by Ordinance No. 21638, by adding thereto the system of storm and surface water drainage of the City, as the same has heretofore been added to, improved and extended and as the same will be added to, improved and extended for as long as any of the Parity Bonds are outstanding. Such additions, improvements and

extensions shall include the water system of the City should the municipal sewer system ever be combined with such water system.

"Term Bond Retirement Account" means the Term Bond Retirement Account of the Bond Fund created by Ordinance No. 25562.

"Term Bonds" means Parity Bonds designated by the City as term bonds.

"TES" means TES Properties, a Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation.

"TES Bond Trustee" means The Bank of New York Mellon Trust Company, N.A., and its successors and assigns, as trustee pursuant to the Indenture.

"TES Bonds" mean the TES Properties, Lease Revenue Bonds, 2009, dated as of February 12, 2009, and issued in the original aggregate principal amount of $37,840,000 by TES, on behalf of the City, pursuant to the Indenture.

"Treasurer" means the duly appointed and acting Treasurer of the City or the successor to the duties of that office.

"2006 Bond Ordinance" means the ordinance and resolution authorizing the issuance of the 2006 Bonds as described in the recitals of this ordinance.

"2006 Bonds" means the outstanding Sewer Revenue and Refunding Bonds, 2006 issued pursuant to Substitute Ordinance No. 27490 and Substitute Resolution No. 36895.

"2011 Bonds" means the outstanding Sewer Revenue Refunding Bonds, 2011 issued pursuant to Substitute Ordinance No. 28015 and Substitute Resolution No. 38334.

"2015 Bonds" means the outstanding Sewer Revenue and Refunding Bonds, 2015 issued pursuant to Ordinance No. 28287.

"2016A Bonds" mean the City of Tacoma, Washington, Sewer Revenue Refunding Bonds, 2016A, authorized to be issued pursuant to this ordinance for the purpose set forth in Section 3 of this ordinance.

"2016B Bonds" mean the City of Tacoma, Washington, Sewer Revenue Refunding Bonds, 2016B, authorized to be issued pursuant to this ordinance for the purpose set forth in Section 3 of this ordinance.

"ULID Assessments" means all assessments (including any interest and penalties) levied in a utility local improvement district for the acquisition or construction of improvements to and extensions of the System if those assessments are pledged to be paid into the Bond Fund. In the case of ULID Assessments payable in installments, ULID Assessments shall be allocated to the years in which they would be received if the unpaid principal balance of each assessment roll were paid over the remaining number of installments with interest thereon at the rate and in the manner provided in the ordinance confirming the assessment roll.

"Underwriter" means, collectively, the initial purchaser or purchasers of the Bonds, as selected by the Designated Representative.

"Variable Interest Rate" means a variable interest rate or rates to be borne by a series of Parity Bonds or any one or more maturities within a series of Parity Bonds. The method of computing such variable interest rate shall be specified in the bond ordinance authorizing such series of Parity Bonds. Such variable interest

rate shall be subject to a Maximum Interest Rate and there may be an initial rate specified, in each case as provided in such bond ordinance, or a stated interest rate that may be changed from time to time as provided in the bond ordinance authorizing such bonds. Such bond ordinance shall also specify either (a) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (b) the time or times upon which any change in such variable interest rate shall become effective.

"Variable Interest Rate Bonds" for any period of time means Parity Bonds that during such period bear a Variable Interest Rate, provided that Parity Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be Variable Interest Rate Bonds.

(b) Interpretation. In this ordinance, unless the context otherwise requires:

(1) The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this ordinance, refer to this ordinance as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this ordinance;

(2) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(3) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(4) Any headings preceding the text of the several articles and sections of this ordinance, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this ordinance, nor shall they affect its meaning, construction or effect; and

(5) All references herein to “articles,” “sections,” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

Section 2. Compliance with Parity Conditions. In accordance with the Outstanding Parity Bond Ordinances, which permit the issuance of additional Parity Bonds upon compliance with the conditions set forth therein, the City hereby finds and determines, as follows:

(a) The Bonds are being issued for lawful purposes of the City related to the System.

(b) There is not now and at the time of Closing of the Bonds there shall not be any deficiency in the Bond Fund.

(c) The Bonds shall initially be issued as Covered Bonds, and this ordinance provides for payments, if necessary, into the Reserve Fund of amounts and at the times required by the Outstanding Parity Bond Ordinances.

(d) The Bonds are being issued for refunding purposes and the issuance of such Bonds will result in a present value monetary saving to the City and will not

require an increase of greater than $5,000 in debt service payments to be paid in any fiscal or calendar year hereafter than would have been required to be paid in the same fiscal or calendar year for Annual Debt Service on the Refunded Bonds proposed to be refunded.

The applicable conditions of the Outstanding Parity Bond Ordinances having been or to be complied with in connection with the issuance of the Bonds, the pledge contained herein of Net Revenues of the System to pay and secure the payment of the Bonds shall constitute a lien and charge upon such Net Revenues equal in rank with the lien and charge upon the Net Revenues to pay and secure the payment of the Outstanding Parity Bonds.

Section 3. Authorization and Description of Bonds.

(a) 2016A Bonds. For the purposes of defeasing and refunding the outstanding TES Bonds and paying costs of issuance of the 2016A Bonds, the City is hereby authorized to issue and sell sewer revenue refunding bonds (the “2016A Bonds”). The 2016A Bonds shall be designated as the “City of Tacoma, Washington, Sewer Revenue Refunding Bonds, 2016A” with additional series designation or other designation as set forth in the Bond Purchase Contract and approved by the Designated Representative.

The 2016A Bonds shall be dated as of their date of initial delivery, shall be fully registered as to both principal and interest, shall be in the denomination of $5,000 each or any integral multiple thereof within a maturity, shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification and control, and shall bear interest payable on the dates set forth in the Bond Purchase Contract. The 2016A Bonds shall bear interest at the rates set forth in the Bond Purchase Contract; and shall mature on the dates and in the principal amounts set forth in the Bond Purchase Contract and as approved by a Designated Representative pursuant to Section 19.

(b) 2016B Bonds. For the purposes of defeasing and refunding a portion of the 2006 Bonds and paying costs of issuance of the 2016B Bonds, the City is hereby authorized to issue and sell sewer revenue refunding bonds (the "2016B Bonds"). The 2016B Bonds shall be designated as the "City of Tacoma, Washington, Sewer Revenue Refunding Bonds, 2016B" with additional series designation or other designation as set forth in the Bond Purchase Contract and approved by the Designated Representative.

The 2016B Bonds shall be dated as of their date of initial delivery, shall be fully registered as to both principal and interest, shall be in the denomination of $5,000 each or any integral multiple thereof within a maturity, shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification and control, and shall bear interest payable on the dates set forth in the Bond Purchase Contract. The 2016B Bonds shall bear interest at the rates set forth in the Bond Purchase Contract; and shall mature on the dates and in the principal amounts set forth in the Bond Purchase Contract and as approved by a Designated Representative pursuant to Section 19.

(c) Limited Obligations. The Bonds shall be special obligations of the City payable only from the Bond Fund and shall be payable and secured as provided

herein. The Bonds shall not be general obligations of the City, the State or any political subdivision thereof.

Section 4. Registration, Exchange and Payments.

(a) Bond Registrar/Bond Register. The City hereby specifies and adopts the system of registration approved by the Washington State Finance Committee from time to time through the appointment of a state fiscal agent. The City shall cause a Bond Register to be maintained by the Bond Registrar. So long as any Bonds remain outstanding, the Bond Registrar shall make all necessary provisions to permit the exchange or registration or transfer of Bonds at its designated office. The Bond Registrar may be removed at any time at the option of the Finance Director upon prior notice to the Bond Registrar and a successor Bond Registrar appointed by the Finance Director. No resignation or removal of the Bond Registrar shall be effective until a successor shall have been appointed and until the successor Bond Registrar shall have accepted the duties of the Bond Registrar hereunder. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication of the Bonds.

(b) Registered Ownership. The City and the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as provided in Section 23 of this ordinance), and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in Section 5(g), but such Bond may be transferred as herein provided. All such payments made as described in Section 5(g) shall be valid and shall satisfy and discharge the liability of the City upon such Bond to the extent of the amount or amounts so paid.

(c) DTC Acceptance/Letters of Representations. The Bonds initially shall be held in fully immobilized form by DTC acting as depository. The City has executed and delivered to DTC the Letter of Representations. Neither the City nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to the Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice which is permitted or required to be given to Registered Owners under this ordinance (except such notices as shall be required to be given by the City to the Bond Registrar or to DTC (or any successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Bonds are held in fully immobilized form by a depository, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in such Bonds.

(d) Use of Depository.

(1) The Bonds shall be registered initially in the name of "Cede & Co.", as nominee of DTC, with one Bond of each series maturing on each of the maturity dates for the Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by the Finance Director pursuant to subsection (2) below or such substitute depository's successor; or (C) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Finance Director to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Finance Director may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding Bonds of a series, together with a written request on behalf of the Finance Director, issue a single new Bond for each series and maturity then outstanding, registered

in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Finance Director.

(4) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository and no substitute depository can be obtained, or (B) the Finance Director determines that it is in the best interest of the beneficial owners of the Bonds that such owners be able to obtain physical Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and such Bonds shall no longer be held by a depository. The Finance Director shall deliver a written request to the Bond Registrar, together with a supply of physical Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Bond Registrar of all then outstanding Bonds of a series together with a written request on behalf of the Finance Director to the Bond Registrar, new Bonds shall be issued in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(e) Registration of Transfer of Ownership or Exchange; Change in Denominations. The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond

(or Bonds at the option of the new Registered Owner) of the same series, date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and canceled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same series, date, maturity and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to register the transfer or to exchange any Bond during the 15 days preceding any principal payment date any such Bond is to be redeemed.

(f) Bond Registrar's Ownership of Bonds. The Bond Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Bonds.

(g) Place and Medium of Payment. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a year of 360 days and twelve 30-day months. For so long as all Bonds are held by a depository, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer held by a depository, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, or upon the written request of a Registered Owner of more than $1,000,000 of Bonds (received by the Bond Registrar at least 15 days prior to the applicable payment date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated office of the Bond Registrar.

If any Bond shall be duly presented for payment and funds have not been duly provided by the City on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Bond until it is paid.

Section 5. Redemption Prior to Maturity and Purchase of Bonds.

(a) Mandatory Redemption of Term Bonds and Optional Redemption, if any. The Bonds of each series shall be subject to mandatory redemption to the extent, if any, set forth in the Bond Purchase Contract approved by the Designated Representative pursuant to Section 19. The Bonds of each series shall be subject to optional redemption on the dates, at the prices and under the terms set forth in the Bond Purchase Contract approved by the Designated Representative pursuant to Section 19.

(b) Purchase of Bonds. The City hereby reserves the right at any time and at any price to purchase any of the Bonds from amounts in the Sewer Fund available for such purchase.

(c) Selection of Bonds for Redemption. For as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a series and maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC. If the Bonds are no longer held in uncertificated form, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the following provisions of this subsection (c). If the City redeems at any one time fewer than all of the Bonds of a series having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of $5,000. In the case of a Bond of a denomination greater than $5,000, the City and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of $5,000 as is obtained by dividing the actual principal amount of Bonds by $5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the designated office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like series, maturity and interest rate in any of the denominations herein authorized.

(d) Notice of Redemption.

(1) Official Notice. For so long as the Bonds are held in uncertificated form, notice of redemption (which notice may be conditional) shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any beneficial owners. Thereafter (if the Bonds are no longer held in uncertificated form), notice of redemption shall be given in the manner hereinafter provided. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first-class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

All official notices of redemption shall be dated and shall state:

(A) the redemption date,

(B) the redemption price,

(C) if fewer than all outstanding Bonds are to be redeemed, the identification by maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,

(D) that unless conditional notice of redemption has been given and such conditions have not been satisfied or waived or such notice has

been rescinded, on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and if the Bond Registrar then holds sufficient funds to pay such Bonds at the redemption price, interest thereon shall cease to accrue from and after said date,

(E) any conditions to redemption, and

(F) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the designated office of the Bond Registrar.

On or prior to any redemption date, unless any condition to such redemption has not been satisfied or waived or notice of such redemption has been rescinded, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The City retains the right to rescind any redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected Registered Owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain outstanding.

(2) Effect of Notice; Bonds Due. If notice of redemption has been given and not rescinded, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and, if the Bond Registrar then holds sufficient

funds to pay such Bonds at the redemption price, then from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. All Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued.

(3) Additional Notice. In addition to the foregoing notice, further notice shall be given by the City as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as originally issued; (C) the rate of interest borne by each Bond being redeemed; (D) the maturity date of each Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption may be sent at least 20 days before the redemption date to each party entitled to receive notice pursuant to Section 23 and with such additional information as the City shall deem appropriate, but such mailings shall not be a condition precedent to the redemption of such Bonds.

(4) Amendment of Notice Provisions. The foregoing notice provisions of this Section 5, including, but not limited to, the information to be included in redemption

notices and the persons designated to receive notices, may be amended by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 6. Form of Bonds and Certificate of Authentication. The Bonds of each series shall be in substantially the form set forth in Exhibit A, which is incorporated herein by this reference, with appropriate or necessary insertions, depending upon the omissions and variations as permitted or required hereby.

Section 7. Execution of Bonds. The Bonds shall be executed on behalf of the City with the manual or facsimile signatures of the Mayor and City Clerk of the City and the seal of the City shall be impressed, imprinted or otherwise reproduced thereon.

Only such Bonds as shall bear thereon a Certificate of Authentication in the form provided herein, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this ordinance.

In case either of the officers who shall have executed the Bonds shall cease to be an officer or officers of the City before the Bonds so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the City as though those who signed the same had continued to be such officers of the City. Any Bond may be signed and attested on behalf of the City by such persons who at the date of the actual execution of such Bond, are the proper officers of the City, although at the original date of such Bond any such person shall not have been such officer of the City.

Section 8. Application of Bond Proceeds; Refunding Plan. For the purpose of realizing a debt service savings (as determined by comparing the Monthly Rent the City is paying under the Project Lease to the debt service to be paid on the 2016A Bonds), the City proposes to defease and/or refund the TES Bonds as set forth herein. A portion of the proceeds of the 2016A Bonds shall be deposited, on behalf of TES, with the Escrow Agent pursuant to the Escrow Deposit Agreement to be used immediately upon receipt thereof to defease the TES Bonds as authorized by the Indenture and the Project Lease and to pay costs of issuance of the 2016A Bonds.

For the purpose of realizing a debt service savings, the City also proposes to defease and/or refund a portion of the 2006 Bonds as set forth herein. The Designated Representative shall designate which 2006 Bonds will be refunded with proceeds of the 2016B Bonds and such designation shall be set forth in the Bond Purchase Contract. A portion of the proceeds of the 2016B Bonds shall be deposited with the Escrow Agent pursuant to the Escrow Deposit Agreement to be used immediately upon receipt thereof to defease the refunded 2006 Bonds as authorized by the 2006 Bond Ordinance and to pay costs of issuance of the 2016B Bonds.

The net proceeds of each series of Bonds deposited with the Escrow Agent shall be used to defease the applicable Refunded Bonds and discharge the obligations thereon by the purchase of certain Acquired Obligations bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of:

(a) interest on each series of Refunded Bonds as such becomes due on and prior to the applicable Call Date; and

(b) the redemption price (100 percent of the principal amount) of each series of Refunded Bonds on the applicable Call Date.

Such Acquired Obligations shall be purchased at a yield not greater than the yield permitted by the Code and regulations relating to acquired obligations in connection with refunding bond issues.

A beginning cash balance, if any, and the Acquired Obligations shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease the applicable series of Refunded Bonds. In order to carry out the purposes of this Section 8, the Finance Director is authorized and directed to execute and deliver to the Escrow Agent, one or more Escrow Deposit Agreements.

The City hereby sets aside sufficient funds out of the purchase of Acquired Obligations from proceeds of the Bonds to make the payments described above.

The City hereby calls the refunded 2006 Bonds for redemption on their Call Date in accordance with the provisions of the 2006 Bond Ordinance authorizing the redemption and retirement of the 2006 Bonds prior to their fixed maturities.

The City hereby directs TES and the Escrow Agent to irrevocably call the TES Bonds for redemption on their Call Date in accordance with the provisions of the Indenture authorizing the redemption and retirement of the TES Bonds prior to their fixed maturities.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the issuance of the Bonds and delivery of the Acquired Obligations to the Escrow Agent.

The Escrow Agent is hereby authorized and directed to provide, or cause the TES Bond Trustee to provide, for the giving of notices of the defeasance and/or redemption of each series of the Refunded Bonds in accordance with the applicable provisions of the 2006 Bond Ordinance and the Indenture, as applicable. The costs of publication of such notices shall be an expense of the City.

The Escrow Agent is hereby authorized and directed to pay to the Finance Director, or, at the direction of the Finance Director, to the paying agent for the Refunded Bonds, sums sufficient to pay, when due, the payments specified in this Section 8. All such sums shall be paid from the moneys and Acquired Obligations deposited with the Escrow Agent, and the income therefrom and proceeds thereof. All such sums so paid to or to the order of the Finance Director shall be credited to the Refunding Account. All moneys and Acquired Obligations deposited with the Escrow Agent and any income therefrom shall be held, invested (but only at the direction of the Finance Director) and applied in accordance with the provisions of this ordinance, the Indenture, and the Escrow Deposit Agreement and with the laws of the State for the benefit of the City and owners of the Refunded Bonds.

The City will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due.

A portion of the proceeds of the Bonds may also be used, if necessary, to satisfy the Reserve Fund Requirement at the time of issuance of the Bonds as set forth in Section 10(a)(3)(A) of this ordinance.

Section 9. Sewer Fund. A special fund of the City has been created and designated the “Sewer Fund”. The City covenants and agrees that so long as any of the Parity Bonds are outstanding, it will pay or cause to be paid into the Sewer Fund all Gross Revenues exclusive of ULID Assessments and earnings on money and investments in any construction fund, the Rate Stabilization Fund, the Bond Fund and any rebate fund, which earnings may be retained in such funds or accounts or transferred to other funds or accounts as permitted or required by this ordinance.

The amounts on deposit in the Sewer Fund shall be used only for the following purposes and in the following order of priority:

(a) To pay or provide for Costs of Maintenance and Operation.

(b) To make all payments required to be made into the Interest Account in the Bond Fund or to make any Payment in accordance with Section 16.

(c) To make all payments required to be made into the Principal Account in the Bond Fund and to make all payments into the Term Bond Retirement Account in the Bond Fund.

(d) To make all payments pursuant to a reimbursement agreement ranking on a parity of lien with the Parity Bonds and entered into in connection with a Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility with respect to the Reserve Fund, and after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, into any other reserve fund created in the future for the payment of debt service on Parity Bonds; provided, that if there is not sufficient money to make all payments under reimbursement agreements the payments will be made on a pro rata basis.

(e) To make all payments required to be made into the Reserve Fund to secure the payment of any Covered Bonds, and after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, into any other reserve fund created in the future for the payment of debt service on Parity Bonds.

(f) To make all payments required to be made into any special fund or account created to pay or secure the payment of obligations issued having a lien upon amounts in the Sewer Fund junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds.

(g) To pay any taxes (or payments in lieu of taxes) upon the System payable to the City.

(h) To make payments into the Rate Stabilization Fund for the purposes set forth in Section 11 or for any lawful purpose of the City related to the System.

Section 10. Bond Fund.

(a) A special fund of the City designated the "City of Tacoma Sewer Revenue Bond Fund" (the "Bond Fund") has previously been created by the City.

The Bond Fund shall be used solely for the purposes of paying the principal of, premium, if any, and interest on Parity Bonds and retiring Parity Bonds prior to maturity in the manner provided herein or in any Parity Bond Ordinance.

The Bond Fund contains four funds and accounts: the Interest Account, the Principal Account, the Term Bond Retirement Account, and the Reserve Fund. At the option of the City, separate funds and accounts may be created in the Bond Fund for the purpose of paying or securing the payment of principal, premium, if any, and interest on any series of Parity Bonds. The City hereby obligates and binds itself irrevocably to set aside and to pay into the Bond Fund all ULID Assessments and out of the Sewer Fund certain fixed amounts sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on the Bonds and all other Parity Bonds outstanding pursuant to this ordinance and all other Parity Bond Ordinances when due, either at maturity or in accordance with the terms of any Sinking Fund Requirement schedule established for the retirement of Term Bonds. The fixed amounts to be paid into the Bond Fund, to the extent that such payments are not made from ULID Assessments, bond proceeds or from other legally available money, shall be made out of the Sewer Fund in the following order of priority: first, into the Interest Account; second, into the Principal Account and Term Bond Retirement Account; and third, into the Reserve Fund. The City may create subaccounts within such funds and accounts for the purpose of paying the Bonds.

(1) Interest Account. In the case of all Parity Bonds, no later than the day prior to the date on which an installment of interest is due on any Parity Bonds,

the City shall transfer from the Sewer Fund to the Interest Account in the Bond Fund an amount (together with other money as is on hand and available in such Account) equal to the installment of interest then due on all outstanding Parity Bonds.

(2) Principal Account and Term Bond Retirement Account. No later than the day prior to the date upon which an installment of principal on Parity Bonds that are Serial Bonds is due, the City shall transfer from the Sewer Fund to the Principal Account in the Bond Fund an amount (together with such other money as is on hand and available in such Account) equal to the installment of principal then due on all outstanding Parity Bonds that are Serial Bonds.

No later than the day prior to the Sinking Fund Requirement date, the City will transfer from the Sewer Fund to the Term Bond Retirement Account an amount (together with such other money as is available and on hand in such account) equal to the Sinking Fund Requirement for such date.

The City will apply all the money paid into the Term Bond Retirement Account to the redemption or purchase of Term Bonds on the next ensuing Sinking Fund Requirement due date (or may so apply such money prior to the Sinking Fund Requirement due date). In addition to redeeming Term Bonds, the City may apply the money paid into the Term Bond Retirement Account to retire Term Bonds by purchasing such Term Bonds at a purchase price (including any brokerage charge) that is not in excess of the principal amount thereof, in which event the principal of such Term Bonds so purchased will be credited against the ensuing Sinking Fund Requirement. If, as of any January 1, the principal amount of Term Bonds retired

by purchase or redemption exceeds the cumulative amount required to be redeemed by Sinking Fund Requirement on or before such January 1, then the excess may be credited against Sinking Fund Requirements in the manner determined by the City at the time of the purchase or redemption. Any such purchase of Term Bonds by the City may be made with or without tenders of such Term Bonds in such manner as the City will deem, in its discretion, to be in its best interest.

(3) Reserve Fund.

(A) A Reserve Fund has been created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Covered Bonds. After the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, the City may create separate reserve funds and establish separate Reserve Fund Requirements, if any, to secure the payment of the principal of and interest on other Parity Bonds.

The Bonds shall initially be issued as Covered Bonds and the payment of the principal of and interest on the Bonds shall initially be secured by the Reserve Fund. After the 2006 Bonds and 2011 Bonds are fully redeemed, refunded or defeased, the City, in its sole discretion, may create a separate reserve fund and establish a separate Reserve Fund Requirement, if any, to secure the payment of the principal of and interest on the Bonds. If the City determines to create a separate reserve fund and establish a Reserve Fund Requirement for the Bonds, from such date the Bonds will no longer be Covered Bonds and the payment of the principal of and interest on the Bonds will no longer be secured by the Reserve

Fund. The new Reserve Fund Requirement for the Bonds shall be equal to the amount, if any, specified in a certificate of the Finance Director, Treasurer and Environmental Services Director, a form of which is attached hereto as Exhibit "B." The City shall provide notice of any such separate reserve fund and corresponding Reserve Fund Requirement for the Bonds in the same manner as a listed event notice that would be required upon the occurrence of a material "release, substitution, or sale of property securing repayment of the Bonds" in accordance with Section 23(c) of this ordinance.

The City hereby covenants and agrees that on the date of Closing for the Bonds it shall pay into the Reserve Fund out of proceeds of such Bonds and other funds lawfully available therefor and/or acquire Qualified Insurance or a Qualified Letter of Credit so that the amount in the Reserve Fund at least equals the Reserve Fund Requirement.

The City may, at any time, substitute Qualified Insurance or a Qualified Letter of Credit for the money and investments in the Reserve Fund or may substitute money and investments for Qualified Insurance or a Qualified Letter of Credit in accordance with this subsection. The face amount of such Qualified Insurance or Qualified Letter of Credit shall be at least equal to the amount of the money or investments for which the Qualified Insurance or Qualified Letter of Credit is substituted.

(B) Valuation of the amount in the Reserve Fund and all subaccounts therein shall be made by the City on each December 31 and may be made on any other date. Such valuation shall be at the market value of the

obligations in such fund and such subaccounts (including accrued interest); provided, that investments which mature within one year shall be valued at their maturity value.

(C) In the event of the issuance of any Future Parity Bonds that are Covered Bonds, the Parity Bond Ordinance authorizing the issuance of such Future Parity Bonds shall provide for further and additional approximately equal monthly payments into the Reserve Fund from the money in the Sewer Fund, in such amounts and at such times so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity established for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Fund an amount equal to the Reserve Fund Requirement. Notwithstanding the foregoing provisions of this subparagraph (C), the proceedings authorizing the issuance of Future Parity Bonds that are Covered Bonds, to the extent permitted under the Code, may provide for payments into the Reserve Fund from the proceeds of such Future Parity Bonds or from any other money lawfully available therefor, or may provide for the City to obtain Qualified Insurance or a Qualified Letter of Credit for amounts required by subparagraph (E) of this section or parallel provisions in other Parity Bond Ordinances to be paid out of the Reserve Fund. The face amount of any such Qualified Insurance or Qualified Letter of Credit may be credited against the amounts required to be maintained in the Reserve Fund by this section or parallel provisions in other Parity Bond Ordinances to the extent that such payments and credits to be made are insured by an insurance company or guaranteed by a letter of credit from a financial institution.

On receipt of a notice of cancellation of any Qualified Letter of Credit or Qualified Insurance or upon notice that the entity providing the Qualified Letter of Credit or Qualified Insurance no longer meets the requirements specified herein, the City shall substitute a Qualified Letter of Credit or Qualified Insurance in the amount required to make up the deficiency created in the Reserve Fund or in the alternative shall create a special account in the Sewer Fund and deposit therein, on or before the 25th day of each of the 36 succeeding calendar months (commencing with the 25th day of the calendar month next following the date of the notice) one thirty-sixth of the amount sufficient, together with other money and investments on deposit in the Reserve Fund, to equal the Reserve Fund Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective. Those amounts shall be deposited in the special account from money in the Sewer Fund after making provision for payment of Costs of Maintenance and Operation and for required payments into the Bond Fund. Amounts on deposit in that special account shall not be available to pay debt service on Covered Bonds or for any other purpose of the City, and shall be transferred to the Reserve Fund on the effective date of any cancellation of a Qualified Letter of Credit or Qualified Insurance to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Fund may be transferred to the Sewer Fund and used for any purpose if and when a qualifying Qualified Letter of Credit or Qualified Insurance is obtained.

(D) If at any time the money and value of Permitted Investments in the Reserve Fund shall exceed the amount of money and value of

Permitted Investments then required to be maintained therein, such excess may be transferred to the Sewer Fund.

(E) In the event that there shall be a deficiency in the Interest Account, Principal Account or Term Bond Retirement Account in the Bond Fund with respect to Covered Bonds, the City shall promptly make up such deficiency from the Reserve Fund by the withdrawal of cash therefrom for that purpose and by the sale or redemption of obligations held in the Reserve Fund, if necessary, in such amounts as will provide cash in the Reserve Fund sufficient to make up any such deficiency, and if a deficiency still exists immediately prior to a Payment Date and after the withdrawal of cash, the City shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such circumstances as the agreement for such Qualified Letter of Credit or Qualified Insurance shall provide. The City covenants and agrees that any deficiency created in the Reserve Fund by reason of any withdrawal therefrom for payment into the Interest Account, Principal Account or Term Bond Retirement Account shall be made up from money in the Sewer Fund first available after providing for the required payments into such Interest, Principal and Term Bond Retirement Accounts and after providing for payments under a reimbursement agreement entered into by the City under Section 18; provided, after the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, any such deficiency shall be made up within 12 months of such deficiency.

(F) When a series of Covered Bonds is refunded in whole or in part, money may be withdrawn from the Reserve Fund to pay or provide for the payment of refunded Covered Bonds; provided that immediately after such withdrawal there shall remain in or be credited to the Reserve Fund money and Permitted Investments in an amount equal to the Reserve Fund Requirement or so much thereof as is then required to be maintained.

(b) In making the payments and credits to the Principal Account, Interest Account, Term Bond Retirement Account and Reserve Fund required by this Section 10 and parallel provisions in other Parity Bond Ordinances, to the extent that such payments are made from bond proceeds, from money in any Capitalized Interest account, or from other money that may legally be available, such payments are not required to be made from the Sewer Fund.

(c) Money in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments of principal of, premium, if any, and interest on all Parity Bonds when due. All money remaining in the Bond Fund after provision for the payment in full of the principal of, premium, if any, and interest on all Parity Bonds shall be returned to the Sewer Fund.

Subject to the foregoing sentence, the Bond Fund shall be drawn upon solely for the purpose of paying the principal of, premium, if any, and interest on Parity Bonds. Money set aside from time to time with the Bond Registrar for such payment shall be held in trust for the owners of Parity Bonds in respect of which the same shall have been so set aside. Until so set aside, and except as otherwise

provided herein, all money in the Bond Fund shall be held in trust for the benefit of the owners of all Parity Bonds at the time outstanding equally and ratably.

(d) Money in the Bond Fund may, at the option of the City, be invested and reinvested as permitted by law in Permitted Investments maturing, or which are redeemable at the option of the owner, prior to the date needed or prior to the maturity date of the final installment of principal of the Parity Bonds payable out of the Bond Fund, but only to the extent that the same are acquired, valued and disposed of at Fair Market Value. At the City's option, earnings on investments in the Bond Fund may be retained in the Bond Fund or transferred to the Sewer Fund, except that earnings on investments in the Reserve Fund shall first be applied to remedy any deficiency in such fund.

(e) Money in each of the subaccounts and funds established in this Section 10 may be used, if necessary, to pay Rebate Amounts to the extent that such Rebate Amounts are directly attributable to earnings on such subaccount.

Section 11. Rate Stabilization Fund. A special fund of the City designated the "Rate Stabilization Fund" has been established by the City in the Sewer Fund. In accordance with the priorities set forth in this ordinance, the City may from time to time deposit Net Revenues into the Rate Stabilization Fund and may from time to time withdraw amounts therefrom to enhance rate stability or for other lawful purposes of the City related to the System.

Section 12. Security for Parity Bonds. All Parity Bonds are special limited obligations of the City payable from and secured solely by a charge and lien as set forth in this paragraph. There are hereby pledged as security for the payment of the principal of, premium, if any, and interest on all Parity Bonds in accordance with the provisions of this ordinance, subject to the provisions of this ordinance restricting or permitting the application thereof, (a) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by this ordinance, (b) Net Revenues and ULID Assessments and (c) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom. The pledge of Net Revenues, money and assets credited to the Sewer Fund and Bond Fund and ULID Assessments constitutes a lien and charge on the Net Revenues, the funds and ULID Assessments superior to all other charges of any kind or nature.

All Parity Bonds hereafter outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the ordinance providing for their issuance or by reason of their number or date of sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts, assignments and covenants made herein, except as otherwise expressly provided or permitted in this ordinance and except as to insurance which may be obtained by the City to insure the repayment of one or more series or maturities within a series.

Parity Bonds shall not in any manner or to any extent constitute general obligations of the City or of the State, or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City or of the State, or of any political subdivision of the State, not specifically pledged thereto by this ordinance.

Section 13. Adequacy of Revenue of System to Make Required Payments. The Council declares, in fixing the amounts to be paid into the Bond Fund as

provided herein, that it has exercised due regard for Costs of Maintenance and Operation and has not obligated the City to set aside and pay into the Bond Fund a greater amount of the Gross Revenues than in its judgment will be available over and above such Costs of Maintenance and Operation.

Section 14. Defeasance. In the event that the City, to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, cash or noncallable Government Obligations, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bond. The owner of a Bond so provided for shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive payment of principal, premium, if any, and interest from the Bond Fund or such special account, and such Bond shall be deemed to be not outstanding under this ordinance.

The City shall give written notice of defeasance in accordance with Section 23.

Section 15. Covenants. The City covenants and agrees with the owners of the Bonds, from time to time for as long as any such Bonds are outstanding, as follows:

(a) Rate Covenant – General. The City shall establish, maintain and collect rates or charges in connection with the ownership and operation of the System that shall be fair and nondiscriminatory and adequate to provide Gross Revenues sufficient for the payment of the principal of and interest on all Parity Bonds for which payment has not otherwise been provided and all amounts that the City is obligated to set aside in the Bond Fund, for the proper operation and maintenance of the System, and for the payment of all amounts that the City may now or hereafter become obligated to pay from Gross Revenues.

(b) Rate Covenant – Coverage. The City shall establish, maintain and collect rates or charges in connection with the ownership and operation of the System sufficient to provide Net Revenues in any calendar year hereafter in an amount equal to at least 1.30 times the Adjusted Annual Debt Service. After all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows: The City shall establish, maintain and collect rates or charges in connection with the ownership and operation of the System sufficient to provide Net Revenues in any calendar year hereafter in an amount equal to at least 1.25 times the Adjusted Annual Debt Service.

Solely for purposes of calculating the coverage requirement set forth above, there shall be added to Gross Revenues in any Fiscal Year any amount withdrawn from the Rate Stabilization Fund in such Fiscal Year and deposited in the Sewer Fund, and there shall be subtracted from Gross Revenues in any Fiscal Year any amount withdrawn from the Sewer Fund and deposited in the Rate Stabilization Fund. After all of the 2006 Bonds and the 2011 Bonds are fully redeemed,

refunded or defeased, credits to or from the Rate Stabilization Fund that occur within 90 days after the end of a Fiscal Year may be treated as occurring within such Fiscal Year.

The calculation of the coverage requirement set forth above, and in Section 17, and the City's compliance therewith, may be made solely with reference to this ordinance without regard to future changes in generally accepted accounting principles. If the City has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise, then an event of default relating to this coverage requirement shall not be considered an event of default if the coverage requirement ratio would have been complied with had the City continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of this ordinance.

(c) Maintenance and Operation Standards. The City will at all times keep and maintain the System in good repair, working order and condition, and will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(d) Disposal of Properties. The City shall not sell, mortgage, lease or otherwise dispose of the properties constituting the System except as provided by law and subject to such additional restrictions as are provided in this section and as may be provided in a reimbursement agreement with respect to Qualified Insurance or a Qualified Letter of Credit, as follows:

(1) The City will not sell, mortgage, lease or otherwise dispose of the System in its entirety unless simultaneously with such sale or other disposition, provision is made for the payment, redemption or other retirement of all Parity Bonds then outstanding.

(2) Except as provided in paragraph (3) below, the City will not sell, mortgage, lease or otherwise dispose of any part of the System in excess of 5 percent of the book value of the net utility plant of the System unless provision is made for the payment, redemption or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts:

(A) An amount that will be in the same proportion to the net Bond Obligation of Parity Bonds then outstanding (defined as the total Bond Obligation of such Parity Bonds outstanding less the amount of cash and investments in the Principal Account and Term Bond Retirement Account in the Bond Fund) that the revenues attributable to the part of the System sold or disposed of for the 12 preceding months bears to the total revenues for such period; or

(B) An amount that will be in the same proportion to the net Bond Obligation of Parity Bonds then outstanding that the book value of the part of the System sold or disposed of bears to the book value of the entire System immediately prior to such sale or disposition.

(3) The City may sell, lease, mortgage or otherwise dispose of any part of the System which shall have become unserviceable, inadequate, obsolete or

unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation.

(4) The proceeds of the sale, lease or disposal of any part of the System shall be deposited in the Sewer Fund.

(5) If the sale, lease, mortgage or other disposal of any part of the System is valued in excess of 10 percent of the book value of the physical assets of the System, an opinion of an Engineer, based on financial statements of the System for the most recent Fiscal Year available, shall be delivered in connection with such disposition demonstrating that such sale, mortgage, lease or other disposal would not prevent the City from meeting the requirements of Section 15(b).

(e) No Free Service. Except as permitted by law for the support of the poor and infirm and otherwise permitted by law in an amount per year not exceeding 1/10 of 1 percent of annual Costs of Maintenance and Operation, the City will not furnish sanitary and storm sewage collection and disposal service to any customer whatsoever free of charge.

(f) Books and Accounts – Operating Statement. The City shall keep and maintain proper books and accounts with respect to the operations, income and expenditures of the System that are in accordance with proper and legal accounting procedures. On or before 120 days after each Fiscal Year of the City's operation of the System, it will prepare or cause to be prepared an operating statement of the System for such preceding Fiscal Year. Each such statement shall contain a statement in detail of the Gross Revenues, Costs of Maintenance and Operation, and expenses for capital purposes of the System for such Fiscal

Year, shall contain a statement as of the end of such year showing the status of all the funds and accounts created by the various ordinances pertaining to the operation of the System and authorizing the issuance of outstanding bonds payable from the revenue of the System, and shall contain a statement of the number of sanitary and storm sewage collection and disposal customers per class of customer at the end of such year. Copies of such statement shall be placed on file in the office of the Department of Finance and shall be open to inspection at any reasonable time by any owner of the Bonds or of any other outstanding bonds of the City payable out of the Gross Revenues of the System. Upon the request of any owner of Parity Bonds, the City shall provide a copy of such statement to such owner. All expenses incurred in the maintenance of such books and accounts and the preparation of such statement may be regarded and paid as an expense of operation of the System.

(g) Insurance. The City will keep the System insured, and will carry such other insurance, with responsible insurers, with policies payable to the City, against risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties; provided, however, that the City may, if deemed necessary and advisable by the Council, institute or continue a self-insurance program with respect to any or all of the aforementioned risks. In the event of any loss or damage, the City will promptly deposit the insurance proceeds into any construction fund hereafter created for the System, and use such funds to repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy or self-insurance funding for that purpose; or in

the event the City should determine not to repair or reconstruct such damaged portion of the properties of the City, the proceeds of such insurance or self-insurance funding shall be transferred to the Reserve Fund to the extent that such transfer shall be necessary to make up any deficiency in the Reserve Fund and the balance, if any, shall, at the option of the City, be used for repairs, renewals, replacements, or additions to or extension of the System or be used in the retirement of Parity Bonds prior to maturity, either by purchase at prices not to exceed the next applicable redemption price or by call for redemption.

(h) Tax Covenants. The City will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds, including but not limited to the following:

(1) Private Activity Bond Limitation. The City will assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(2) Limitations on Disposition of Project. The City will not sell or otherwise transfer or dispose of (i) any personal property components of the projects refinanced with proceeds of the Bonds (the “Projects”) other than in the ordinary course of an established government program under Treasury Regulation 1.141-2(d)(4) or (ii) any real property components of the Projects, unless it has received an opinion of Bond Counsel to the effect that such

disposition will not adversely affect the treatment of interest on the Bonds as excludable from gross income for federal income tax purposes.

(3) Federal Guarantee Prohibition. The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(4) Rebate Requirement. The City will take any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

(5) No Arbitrage. The City will not take, or permit or suffer to be taken by the Escrow Agent or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(6) Registration Covenant. The City will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code until all Bonds have been surrendered and canceled.

(7) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the Bonds for at least three years after the Bonds mature or are redeemed (whichever is earlier); however, if the Bonds are redeemed and refunded, the City will retain its records of accounting and monitoring

at least three years after the earlier of the maturity or redemption of the obligations that refunded the Bonds.

(8) Compliance with Federal Tax Certificate. The City will comply with the provisions of the Federal Tax Certificate with respect to the Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Bonds.

Section 16. Parity Derivative Products. For purposes of this Section 16, the following words shall have the following definitions:

(a) "Payment" means any payment (designated as such by an ordinance or resolution) required to be made by or on behalf of the City under a Payment Agreement and which is determined according to a formula set forth in the Payment Agreement.

(b) "Parity Payment Agreement" means a Payment Agreement under which the City's payment obligations are expressly stated to be secured by a pledge of and lien on Net Revenues on an equal and ratable basis with the Net Revenues required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on Parity Bonds.

(c) "Payment Agreement" means a written agreement, for the purpose of managing or reducing the City's exposure to fluctuations or levels of interest rates, currencies or commodities or for other interest rate, investment, asset or liability management purposes, entered into on either a current or forward basis by the City and a Qualified Counterparty, all as authorized by any applicable laws of the State.

Such agreement may or may not be characterized by a structure of reciprocity of payment.

(d) "Payment Date" means any date specified in the Payment Agreement on which a City Payment or Receipt is due and payable under the Payment Agreement.

(e) "Receipt" means any payment (designated as such by an ordinance or resolution) to be made to, or for the benefit of, the City under a Payment Agreement by the Payor.

(f) "Payor" means a Qualified Counterparty to a Payment Agreement that is obligated to make one or more payments thereunder.

(g) "Qualified Counterparty" means a party (other than the City or a party related to the City) who is the other party to a Payment Agreement that has or whose obligations are unconditionally guaranteed by a party that has at least an investment grade rating from a rating agency (who, if the City's Parity Bonds are rated by Moody's, must have a rating of at least "A") and who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

A Payment made under a Payment Agreement may be on a parity with the Bonds if the Payment Agreement satisfies the requirements for Future Parity Bonds described in Section 17, taking into consideration regularly scheduled Payments and Receipts (if any) under a Payment Agreement. The following shall be conditions precedent to the use of any Payment Agreement on a parity with the Bonds:

(1) The City shall obtain an opinion of Bond Counsel on the due authorization and execution of such Payment Agreement, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by this ordinance or the applicable provisions of any supplemental ordinance and will not adversely affect the excludability for federal income tax purposes of the interest on any outstanding Parity Bonds.

(2) Prior to entering into a Payment Agreement, the City shall adopt an ordinance, which shall:

(A) set forth the manner in which the Payments and Receipts are to be calculated and a schedule of Payment Dates;

(B) establish general provisions for the rights of parties to Payment Agreements; and

(C) set forth such other matters as the City deems necessary or desirable in connection with the management of Payment Agreements as are not clearly inconsistent with the provisions of this ordinance.

The Payment Agreement may oblige the City to pay, on one or more scheduled and specified Payment Dates, the Payments in exchange for the Payor's obligation to pay or to cause to be paid to the City, on scheduled and specified Payment Dates, the Receipts. The City may also enter into Payment Agreements that are not reciprocated by the other party to the agreement.

If the City enters into a Parity Payment Agreement, Payments shall be made from the Interest Account in the Bond Fund and Annual Debt Service shall include any regularly scheduled City Payments adjusted by any regularly scheduled

Receipts during a Fiscal Year. Receipts shall be paid directly into the Bond Fund. Obligations to make unscheduled payments, such as termination payments, may not be entered into on a parity with the Parity Bonds.

Nothing in this section shall preclude the City from entering into Payment Agreements with a claim on Net Revenues junior to that of the Bonds. Furthermore, nothing in this section shall preclude the City from entering into obligations on a parity with the Bonds in connection with the use of Payment Agreements or similar instruments if the City obtains an opinion of Bond Counsel that the obligations of the City thereunder are consistent with this ordinance.

Section 17. Future Parity Bonds.

(a) The City reserves the right to issue Future Parity Bonds from time to time as may be required for any lawful purpose of the City relating to the System, including but not limited to, acquiring, constructing and installing additions and improvements to and extensions of, acquiring necessary equipment for, or making necessary renewals, replacements or repairs and capital improvements to the System and refunding any outstanding indebtedness.

(b) The City covenants that Future Parity Bonds shall be issued only upon compliance with the following conditions:

(1) At the times of the issuance of such Future Parity Bonds there is no deficiency in the Bond Fund or in any of the funds and accounts therein.

(2) With respect to Covered Bonds, the ordinances authorizing the issuance of the Future Parity Bonds shall require that there shall be paid into the Reserve Fund in the Bond Fund (A) from the proceeds of such Future Parity Bonds

an amount such that the amount on deposit in the Reserve Fund, allowing for any amount covenanted in an ordinance authorizing the issuance of outstanding Parity Bonds to be paid into such Fund over five years, is equal to the Reserve Fund Requirement, or (B) from the Sewer Fund in approximately equal monthly payments, such amounts and at such times so that by no later than five years from the date of issuance of such Future Parity Bonds or by the final maturity established for such series of Future Parity Bonds, whichever occurs first, there will be credited to the Reserve Fund an amount equal to the Reserve Fund Requirement. Upon the issuance of any series of Future Parity Bonds, the City shall recalculate the Reserve Fund Requirement, which recalculated Reserve Fund Requirement shall become effective as of such date of recalculation.

(3) If such Future Parity Bonds are being issued to pay costs incurred or to be incurred for purposes other than refunding purposes as described in subsection 17(c), there shall be on file with the City Clerk either:

(A) A certificate of the Finance Director of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the bonds then proposed to be issued, as determined from the financial statements of the System, were not less than 1.30 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued; provided, after all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows: A certificate of the Finance Director of the City stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the bonds then proposed to be issued, as determined from the financial statements of the System, were not less than 1.25 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued. In issuing such certificate the Finance Director shall reflect in the certificate the Net Revenues he or she estimates would have been collected in such 12-month period if the Council at any time on or prior to the date of delivery of the bonds proposed to be issued had adopted any adjustment in the rates, fees and charges collected by the City for the services to the System if such new rates, fees and charges had been in effect for the entire 12-month period, or

(B) A certificate of an Engineer or a Certified Public Accountant showing that the “Adjusted Net Revenues” (as determined herein) for each calendar year during the life of the bonds proposed to be issued will equal not less than 1.30 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued; provided, after all of the 2006 Bonds and the 2011 Bonds are fully redeemed, refunded or defeased, this requirement shall read as follows: A certificate of an Engineer or a Certified Public Accountant showing that the “Adjusted Net Revenues” (as determined herein) for each calendar year during the life of the bonds proposed to be issued will equal not less than 1.25 times Maximum Adjusted Annual Debt Service on all outstanding Parity Bonds and the bonds then proposed to be issued.

The “Adjusted Net Revenues” shall be the Net Revenues for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds (the “Base Period”) as adjusted by

such Engineer or Certified Public Accountant to take into consideration changes in Net Revenues estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

(1) the additional Net Revenues that would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of the Base Period and effective within 12 months had been in force during the full Base Period;

(2) the additional Net Revenues that would have been received if any facility of the System that became fully operational after the beginning of the Base Period had been so operating for the entire Base Period;

(3) the additional Net Revenues estimated by such Engineer or Certified Public Accountant to be received as a result of any additions and improvements to and extensions of any facilities of the System which are (a) under construction at the time of such certificate or (b) will be constructed or acquired from the proceeds of the Future Parity Bonds to be issued;

(4) the additional Net Revenues that would have been received if any customers added to the System during the Base Period or subsequent thereto were customers for the entire Base Period, and

(5) ninety percent of the additional Net Revenues estimated by such Engineer or Certified Public Accountant to be derived from the new customers that will be added to the System in the first 12 months after the completion of the

construction of the improvements to be made thereto or from acquisitions out of the proceeds of the sale of such Future Parity Bonds.

Such Certified Public Accountant or Engineer may rely upon, and the Certified Public Accountant or Engineer's certificate shall have attached thereto, financial statements of the System, certified by the Finance Director, showing income and expenses for the period upon which the same is based.

(c) Refunding Bonds. In the event that any Future Parity Bonds provided for in this section are issued for refunding purposes and the issuance of such refunding Future Parity Bonds results in a present value monetary saving to the City and such refunding Future Parity Bonds will not require an increase of greater than $5,000 in debt service payments to be paid in any fiscal or calendar year thereafter than would have been required to be paid in the same fiscal or calendar year for Annual Debt Service on the bonds being refunded, then paragraph (3) of subsection 17(b) need not be complied with to permit such refunding Future Parity Bonds to be issued, although the provisions of paragraphs (1) and (2) of subsection 17(b) must still be complied with.

(d) Junior Lien Bonds. Nothing herein shall prevent the City from issuing bonds, notes, warrants or other obligations payable from and secured by a lien and charge junior to the lien and charge securing the payment of Parity Bonds.

Section 18. Reimbursement Obligations. In the event that the City elects to meet the requirements of subsection 10(a)(3) with respect to the Reserve Fund as to any issue of Parity Bonds through the use of a Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement, the City may contract

with the entity providing such Qualified Letter of Credit, Qualified Insurance or other equivalent credit enhancement that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

In the event that the City elects additionally to secure any issue of Variable Interest Rate Bonds through the use of a letter of credit, insurance or other equivalent credit enhancement, the City may contract with the entity providing such letter of credit, insurance or other equivalent credit enhancement that the City's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds; provided, that the payments due under such reimbursement agreement are such that if such reimbursement obligation were a series of Future Parity Bonds, such Future Parity Bonds could be issued in compliance with the provisions of Section 17.

Section 19. Sale of Bonds.

(a) Bond Sale. The Bonds shall be sold by negotiated sale to the Underwriter selected by the Designated Representative pursuant to the terms of this ordinance and the Bond Purchase Contract. The Designated Representative is hereby authorized to select the Underwriter that submits the proposal that is in the best interest of the City.

The Council has determined that it would be in the best interest of the City to delegate to the Designated Representative for a limited time the authority to select the Underwriter, approve the selection of the 2006 Bonds to be refunded and approve the final interest rates, maturity dates, aggregate principal amounts, principal amounts of each maturity, and redemption rights for each series of Bonds.

Subject to the terms and conditions set forth in this Section 19, the Designated Representative is hereby authorized to enter into the Bond Purchase Contract with the Underwriter to issue and sell the Bonds upon his or her approval of the final interest rates, maturity dates, aggregate principal amounts, principal maturities, and redemption rights set forth therein for each series of Bonds in accordance with the authority granted by this section so long as:

(1) the aggregate principal amount of the Bonds does not exceed $55,000,000,

(2) the final maturity date for the 2016A Bonds is no later than December 1, 2038,

(3) the final maturity date for the 2016B Bonds is no later than December 1, 2021,

(4) the Bonds are sold (in the aggregate) at a price not less than 97 percent and not greater than 130 percent,

(5) the Bonds are sold for a price that results in an aggregate minimum net present value debt service savings over the Refunded Bonds of at least 5 percent,

(6) the true interest cost for the Bonds (in the aggregate) does not exceed 4.5 percent, and

(7) the Bonds conform to all other terms of this ordinance.

Subject to the terms and conditions set forth in this section, the Designated Representative is hereby authorized to execute one or more Bond Purchase

Contracts to be dated the date of sale of a series of Bonds. The signature of one Designated Representative shall be sufficient to bind the City.

Following the execution of the Bond Purchase Contract, the Designated Representative shall provide a report to the City Council describing the final terms of the Bonds approved pursuant to the authority delegated in this section. The authority granted to the Designated Representative by this Section 19 shall expire 120 days after the effective date of this ordinance. If a Bond Purchase Contract for the Bonds has not been executed within 120 days after the effective date of this ordinance, the authorization for the issuance of the Bonds shall be rescinded and the Bonds shall not be issued nor their sale approved unless such Bonds shall have been reauthorized by ordinance of the City Council. The ordinance reauthorizing the issuance and sale of such Bonds may be in the form of a new ordinance repealing this ordinance in whole or in part or may be in the form of an amendatory ordinance approving a bond purchase contract or establishing terms and conditions for the authority delegated under this Section 19.

(b) Delivery of Bonds; Documentation; Transfer of Title. Upon the passage and approval of this ordinance, the proper officials of the City, including the Finance Director, Treasurer, and City Manager, are authorized and directed to undertake all action necessary for the prompt execution and delivery of the Bonds to the Underwriter and further to execute all closing certificates and documents required to effect the closing and delivery of the Bonds, transfer of title to the Project to the City, and the assignment and termination (within 90 days of such title transfer) of management contracts and other encumbrances on the Project, in accordance with the terms of this ordinance, the Ruling and the Bond Purchase Contract.

Section 20. Approval of Official Statement. The Finance Director is hereby authorized to approve and to deem final the preliminary Official Statement relating to the Bonds for the purposes of the Rule. The Finance Director is further authorized to approve for purposes of the Rule, on behalf of the City, the final Official Statement relating to the issuance and sale of the Bonds and the distribution of the final Official Statement pursuant thereto with such changes, if any, as may be deemed by him or her to be appropriate.

Section 21. Supplemental Ordinances.

(a) The Council from time to time and at any time may pass an ordinance or ordinances supplemental hereto, which ordinance or ordinances thereafter shall become a part of this ordinance, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the City contained in this ordinance other covenants and agreements thereafter to be observed which shall not adversely affect the interests of the owners of any Parity Bonds or to surrender any right or power reserved to or conferred upon the City.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this ordinance or any ordinance authorizing Parity Bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall

not adversely affect the interest of the owners of the Parity Bonds. Any such supplemental ordinance of the City may be passed without the consent of the owners of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of subsection (b) of this section, if the City obtains an opinion of Bond Counsel to the effect that such supplemental ordinance is solely for one or more of the purposes stated above and will not adversely affect the interests of the owners of Parity Bonds.

(b) With the consent of the owners of not less than 51 percent in aggregate Bond Obligations of the Parity Bonds at the time outstanding, the City may pass an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

(1) Extend the fixed maturity of any Parity Bonds, or reduce the rate of interest thereon, or extend the times of payment of interest thereon from their due dates, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each bond so affected; or

(2) Reduce the aforesaid percentage of bondowners required to approve any such supplemental ordinance, without the consent of the owners of all of the Parity Bonds then outstanding.

It shall not be necessary for the consent of bondowners under this subsection (b) to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

(c) Upon the passage of any supplemental ordinance pursuant to the provisions of this section, this ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under this ordinance and of all owners of Parity Bonds outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental ordinance shall be deemed to be part of the terms and conditions of this ordinance for any and all purposes.

Section 22. Bond Insurance.. The Designated Representative is hereby further authorized to solicit proposals from municipal bond insurance companies for the issuance of a bond insurance policy. In the event that the Designated Representative receives multiple proposals in response to a solicitation, the Designated Representative may select the proposal having the lowest cost and resulting in an overall lower interest cost with respect to the Bonds to be insured. The Designated Representative may execute a commitment received from the insurer selected by the Designated Representative. The Council further authorizes all proper officers, agents, attorneys and employees of the City to cooperate with the insurer in preparing such additional agreements, certificates, and other documentation on behalf of the City as shall be necessary or advisable in providing for the bond insurance policy.

Section 23. Ongoing Disclosure.

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

(b) Financial Statements/Operating Data. The City agrees to provide or cause to be provided to the MSRB the following annual financial information and operating data for the prior fiscal year (commencing in 2016 for the fiscal year ended December 31, 2015):

(1) Annual financial statements, which statements may or may not be audited, showing ending fund balances for the System prepared in accordance with Generally Accepted Accounting Principles prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute);

(2) Principal amount of outstanding Parity Bonds and debt service coverage;

(3) Rates for the System substantially as provided in the rate ordinance approved by the Council; and

(4) Number of wastewater and surface water customers.

Items (2)–(4) shall be required only to the extent that such information is not included in the annual financial statements.

The information and data described above shall be provided on or before the last day of the ninth month after the end of the City's fiscal year. The City's current fiscal year ends December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents available to the public on the MSRB's internet website or filed with the Commission.

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

(c) Listed Events. The City agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34 23856, if material, and tender offers;
- Defeasances;

- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the City;
- The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(d) Format for Filings with the MSRB. All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

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

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

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

(g) Bond Owner's Remedies Under This Section. The right of any bondowner or beneficial owner of Bonds to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the City's obligations under this section, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds.

Section 24. Lost or Destroyed Bonds. In case any Bonds shall be lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new Bond(s) of like series, amount, date, tenor, and effect to the owner thereof upon the owner paying the expenses and charges of the City in connection therewith and upon filing with the Bond Registrar evidence satisfactory to the Bond Registrar that

such Bond(s) were actually lost, stolen or destroyed and of ownership thereof, and upon furnishing the City with indemnity satisfactory to both.

Section 25. Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bonds.

Section 26. Effective Date. This ordinance shall take effect and be in force 10 days after its passage, approval and publication as required by law.

Passed ____________________

____
Mayor

Attest:

____
City Clerk

Approved as to form and legality:

Pacifica Law Group LLP
Bond Counsel to the City of Tacoma

By ____________________

EXHIBIT A

UNITED STATES OF AMERICA

No. _____ $____________

STATE OF WASHINGTON
CITY OF TACOMA, WASHINGTON
SEWER REVENUE REFUNDING BOND, 2016[A/B]

INTEREST RATE: % MATURITY DATE: CUSIP NO.:
REGISTERED OWNER: CEDE & CO.
PRINCIPAL AMOUNT:

The City of Tacoma, Washington, a municipal corporation of the State of Washington (the “City”), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest from ________________, 2016, or the most recent date to which interest has been paid or duly provided for until payment of this bond at the Interest Rate set forth above, payable on ______ 1, 20__, and semiannually thereafter on the first days of December and June. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company (“DTC”) referred to in the Blanket Issuer Letter of Representations (the “Letter of Representations”) from the City to DTC.

This bond is one of an authorized issue of bonds of like date and tenor, except as to number, amount, rate of interest, date of maturity and rights of redemption, in the aggregate principal amount of $________, and is issued pursuant to Ordinance No. _______ passed by the Council on __________, 2016 (the “Bond Ordinance”) to provide the funds necessary to defease and/or refund [certain outstanding sewer revenue bonds of the City][the TES Properties Lease Revenue Bonds, 2009 issued on behalf of the City] and to pay costs of issuance. Simultaneously with the issuance of this bond, the City is also issuing its Sewer Revenue Refunding Bonds, 2016[A/B] pursuant to the Bond Ordinance to provide the funds necessary to defease and/or refund [certain outstanding sewer revenue bonds of the City][the TES Properties Lease Revenue Bonds, 2009 issued on behalf of the City] and to pay costs of issuance for such bonds.

The bonds of this issue are subject to redemption at the option of the City as provided in the Bond Ordinance.

As security for the payment of the principal of, premium, if any, and interest on all Parity Bonds the City has pledged in accordance with the provisions of the Bond Ordinance, subject to the provisions of the Bond Ordinance restricting or permitting the application thereof, (a) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance, (b) Net Revenues and ULID Assessments and (c) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom. The pledge of Net Revenues, money and assets credited to the Sewer Fund and the Bond Fund and ULID Assessments constitutes a lien and charge on Net Revenues, said Funds and ULID Assessments superior to all other charges of any kind or nature.

The bonds of this issue are not “private activity bonds” as such term is defined in the Internal Revenue Code of 1986, as amended (the “Code”). The City has not designated the bonds of this issue as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code.

The City hereby irrevocably covenants and agrees with the Registered Owner of this bond that it will keep and perform all the covenants of this bond and of the Bond Ordinance to be by it kept and performed. Reference is hereby made to the Bond Ordinance for a complete statement of such covenants.

Bonds are interchangeable for bonds of any authorized denomination of equal aggregate principal amount and of the same interest rate and maturity upon presentation and surrender to the Bond Registrar.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance until the Certificate of Authentication hereon shall have been manually signed by the Bond Registrar.

It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State of Washington and the charter and ordinances of the City to exist and to have happened, been done and performed precedent to and in the issuance of this bond do exist and have happened, been done and performed and that the issuance of this bond and the bonds of this series does not violate any constitutional, statutory or other limitation upon the amount of bonded indebtedness that the City may incur.

IN WITNESS WHEREOF, the City of Tacoma, Washington, has caused this bond to be signed with the manual or facsimile signature of the Mayor and attested by the manual or facsimile signature of the City Clerk, and the seal of the City to be impressed or a facsimile thereof to be imprinted hereon, as of this ___ day of __________, 2016.

[SEAL]

CITY OF TACOMA, WASHINGTON

By ___/s/ manual or facsimile__________
Mayor

ATTEST:

______/s/ manual or facsimile__________
City Clerk

The Bond Registrar's Certificate of Authentication on the Bonds shall be in substantially the following form:

CERTIFICATE OF AUTHENTICATION

This bond is one of the bonds described in the within-mentioned Bond Ordinance and is one of the Sewer Revenue Refunding Bonds, 2016[A/B] of the City of Tacoma, Washington, dated ____________, 2016.

WASHINGTON STATE FISCAL AGENT,
as Bond Registrar

By ______________________________

EXHIBIT B

FORM OF NOTICE OF SEPARATE RESERVE FUND[*]

CITY OF TACOMA, WASHINGTON
SEWER REVENUE REFUNDING BONDS, 2016A
(date of issuance __________, 2016)
SEWER REVENUE REFUNDING BONDS, 2016B
(date of issuance __________, 2016)

CUSIP No.: _____________

NOTICE IS HEREBY GIVEN that the City of Tacoma, Washington (the "City"), pursuant to Section 10(a)(3)(A) of Ordinance No. ___ adopted by the City Council on April 26, 2016 (the "Bond Ordinance"), has established a separate reserve fund ("Reserve Fund") and a new reserve fund requirement (the "Reserve Fund Requirement") for the above-referenced bonds (the "Bonds"). As of ________, 20__, the Bonds shall no longer be considered "Covered Bonds" as defined in the Bond Ordinance, and principal of and interest on the Bonds shall be secured by the separate Reserve Fund.

The Reserve Fund Requirement for the Bonds as of ___________, 20___ shall be ____________.

[details of Reserve Fund to be added, if needed]

This notice is being given to provide interested parties information regarding the source of security and payment for the Bonds. No further notice or updates will be provided unless the City determines to revise the Reserve Fund Requirement at a later date.

Dated: __________, 20__.

____
Finance Director, City of Tacoma

____
Treasurer, City of Tacoma

____
Environmental Services Director, City of Tacoma

[*] The City shall provide notice of any such separate Reserve Fund and corresponding Reserve Fund Requirement for the Bonds in the same manner as a listed event notice that would be required upon the occurrence of a material "release, substitution, or sale of property securing repayment of the Bonds" in accordance with Section 23(c) of the Bond Ordinance.

CLERK'S CERTIFICATE

I, the undersigned, the duly chosen, qualified City Clerk of the City of Tacoma, Washington, and keeper of the records of the Council (herein called the "Council"), DO HEREBY CERTIFY:

1. That the attached Ordinance No. ____ (herein called the "Ordinance") is a true and correct copy of an Ordinance of the Council, as finally passed at a regular meeting of the Council held on the 26th day of April, 2016, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said Ordinance; that all other requirements and proceedings incident to the proper adoption of said Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City as of this 26th day of April 2016.

____
City Clerk
City of Tacoma, Washington

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APPENDIX B

FORMS OF BOND COUNSEL OPINIONS

June 15, 2016

City of Tacoma, Washington
Tacoma, Washington

J.P. Morgan Securities LLC
Seattle, Washington

Re: City of Tacoma, Washington
Sewer Revenue Refunding Bonds, 2016A — $31,855,000

Ladies and Gentlemen:

We have acted as bond counsel to the City of Tacoma, Washington (the "City"), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Sewer Revenue Refunding Bonds, 2016A, in the principal amount of $31,855,000 (the "Bonds") issued pursuant to Ordinance No. 28355 of the City (the "Bond Ordinance"), to advance refund and defease the outstanding TES Properties Lease Revenue Bonds, 2009 issued to finance the costs of designing and constructing an office and laboratory building for occupancy by the City's Environmental Services Department and other tenants, to make a deposit into the debt service reserve fund, and to pay costs of issuance of the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are subject to redemption prior to maturity as provided in the Bond Ordinance and Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Bond Ordinance and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation. The City has <u>not</u> designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the City, both principal thereof and interest thereon payable solely out of a special fund of the City known as the "Sewer Revenue Bond Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

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

3. The City has pledged and bound itself to pay into the Sewer Fund all of the Gross Revenues derived by the City from the operation of the City's combined municipal sewer system (the "System"). The City has further pledged and bound itself to set aside from the money in the Sewer Fund and to pay into the Bond Fund and the funds and accounts therein certain fixed amounts sufficient to pay the principal, premium, if any, and interest on the Bonds and all other Parity Bonds as the same become due. As security for the payment of the principal of, premium, if any, and interest on all Parity Bonds the City has pledged (i) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance, (ii) Net Revenues and ULID Assessments, if any, and (iii) the money and assets credited to the Sewer Fund and Bond Fund and the income therefrom. The pledge of Net Revenues, money and assets credited to the Sewer Fund and the Bond Fund and ULID Assessments constitutes a lien and charge on the Net Revenues, the funds and ULID Assessments superior to all other charges of any kind or nature. The City has reserved the right to issue Future Parity Bonds and other parity obligations on the terms and conditions set forth in the Bond Ordinance.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated above, we express no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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

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

Very truly yours,
PACIFICA LAW GROUP LLP

September 7, 2016

City of Tacoma, Washington
Tacoma, Washington

J.P. Morgan Securities LLC
Seattle, Washington

Re: City of Tacoma, Washington
Sewer Revenue Refunding Bonds, 2016B — $11,865,000

Ladies and Gentlemen:

We have acted as bond counsel to the City of Tacoma, Washington (the "City"), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Sewer Revenue Refunding Bonds, 2016B, in the principal amount of $11,865,000 (the "Bonds") issued pursuant to Ordinance No. 28355 of the City (the "Bond Ordinance"), to refund on a current basis a portion of the City's outstanding Sewer Revenue and Refunding Bonds, 2006, and to pay costs of issuance of the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are subject to redemption prior to maturity as provided in the Bond Ordinance and Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the City in the Bond Ordinance and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation. The City has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the City, both principal thereof and interest thereon payable solely out of a special fund of the City known as the "Sewer Revenue Bond Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

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

3. The City has pledged and bound itself to pay into the Sewer Fund all of the Gross Revenues derived by the City from the operation of the City's combined municipal sewer system (the "System"). The City has further pledged and bound itself to set aside from the money in the Sewer Fund and to pay into the Bond Fund and the funds and accounts therein certain fixed amounts sufficient to pay the principal, premium, if any, and interest on the Bonds and all other Parity Bonds as the same become due. As security for the payment of the principal of, premium, if any, and interest on all Parity Bonds the City has pledged (i) the proceeds of the sale of Parity Bonds to the extent held in funds established or continued by the Bond Ordinance, (ii) Net Revenues and ULID Assessments, if any, and (iii) the money and assets credited to the Sewer Fund and the Bond Fund and the income therefrom. The

pledge of Net Revenues, money and assets credited to the Sewer Fund and Bond Fund and ULID Assessments constitutes a lien and charge on the Net Revenues, the funds and ULID Assessments superior to all other charges of any kind or nature. The City has reserved the right to issue Future Parity Bonds and other parity obligations on the terms and conditions set forth in the Bond Ordinance.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the City comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Except as expressly stated above, we express no opinion regarding any tax consequences related to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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

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

Very truly yours,
PACIFICA LAW GROUP LLP

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE SYSTEM AS OF DECEMBER 31, 2014

(attached)

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SURFACEWATER SOLIDWASTE WASTEWATER

TACOMA ENVIRONMENTAL SERVICES DEPARTMENT

Wastewater and Surface Water Management
2014 Financial Report

Table of Contents

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Independent Auditor's Report

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and City Council
City of Tacoma, Environmental Services, 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, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

REPORT OF INDEPENDENT AUDITORS (continued)

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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 7 through 13 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 presented on pages 43 through 52 are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Moss Adams LLP

Tacoma, Washington
May 19, 2015

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Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Management's Discussion and Analysis
December 31, 2014 and 2013

Introduction

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Wastewater and Surface Water Management Division (the Division) for the years ended December 31, 2014 and 2013. The MD&A is designed to focus on significant financial transactions and activities and to identify changes in financial position. This information should be read in conjunction with the financial statements taken as a whole. The financial statements are prepared on a full accrual basis of accounting.

Financial Highlights

- Total net position is $396.4 million at December 31, 2014 compared to $386.4 million and $369.5 million at year-end 2013 and 2012, respectively.
- The change in net position is $10.0 million in 2014, $13.9 million in 2013 and $6.6 million in 2012.
- Total assets and deferred outflows of resources are $616.5 million, an increase of $9.9 million in 2014 compared to $606.6 million in 2013, an increase of $12.3 million from $594.2 in 2012.
- Liabilities and deferred inflows of resources are $220.1 million, a decrease of $103,000 in 2014 compared to $220.2 million in 2013, a decrease of $4.6 million from $224.8 million in 2012.

Financial Analysis – Condensed Statements of Net Position

	December 31,		
	2014	2013	2012 (as restated)
Current, restricted, and other assets	$ 79,432,390	$ 96,634,377	$ 121,015,523
Capital assets	535,991,568	508,831,233	472,068,087
Deferred outflows of resources	1,037,058	1,098,362	1,159,666
Total assets and deferred outflows of resources	$ 616,461,016	$ 606,563,972	$ 594,243,276
Current liabilities and liabilities payable from restricted assets	$ 16,344,610	$ 13,474,553	$ 13,993,493
Noncurrent liabilities	178,757,671	181,730,999	185,762,831
Deferred inflows of resources	25,000,000	25,000,000	25,000,000
Total liabilities and deferred inflows of resources	220,102,281	220,205,552	$ 224,756,324
Net investment in capital assets	401,733,880	379,249,919	345,790,613
Restricted for bond reserves	9,691,158	9,573,274	8,227,353
Unrestricted	(15,066,303)	(2,464,773)	15,468,986
Total net position	396,358,735	386,358,420	369,486,952
Total liabilities, deferred inflows of resources and net position	$ 616,461,016	$ 606,563,972	$ 594,243,276

Current, restricted, and other assets

Current, restricted, and other assets decreased $17.2 million in 2014 and $24.4 million in 2013. The primarily reason for the 2014 decrease was a $19.0 million decrease in cash due to capital spending of $36.7 million funded by $7.4 million from the 2006 Sewer Revenue Bonds and $29.3 million from cash generated from operating activities.

In 2013, cash decreased $26.0 million due to capital spending of $39.5 million funded by $7.5 million from the 2006 Sewer Revenue Bonds and $32.0 million from cash generated from operating activities.

Other changes in 2014 include a $470,000 increase in unbilled revenue, which was projected based upon the 2014 billing posted in 2015 at the prior years' unbilled rate. Other noncurrent assets increased $709,000 primarily due to a prepaid rental of $563,000 for a 10 year lease on the Cavanaugh Building for the Tagro operation.

Deferred outflows of resources

Deferred outflows of resources include unamortized refunding costs on the 2006 and 2011 revenue bonds. The same amount of $61,000 was amortized in 2014 and 2013.

Current liabilities and liabilities payable from restricted assets

Total current liabilities including those payables from restricted assets increased $2.9 million in 2014 compared to a $519,000 decrease in 2013. The primarily reason for the 2014 increase was due to a $2.3 million increase in account payable; payments to vendors increased $1.8 million and account payable accrual increased $441,000. The 2013 change was due in part to a $793,000 decrease in accounts payable and a $247,000 increase in due to other funds.

Noncurrent liabilities

Noncurrent liabilities decreased $3.0 million in 2014 and $4.0 million in 2013. The 2014 decrease was primarily due to payments on the State Revolving Funds (SRF) loans of $3.6 million. This decrease was offset in part by a net increase of $883,000 in capital lease obligation due to an allocation rate change based upon actual usage among Wastewater, Surface Water, and Solid Waste for the Urban Waters building; 40.4% from 43% for Wastewater, 44.1% from 37% for Surface Water, and 15.5% from 20% for Solid Waste. The 2013 decrease was primarily due to payments on the SRF loans of $3.5 million.

Deferred inflows of resources

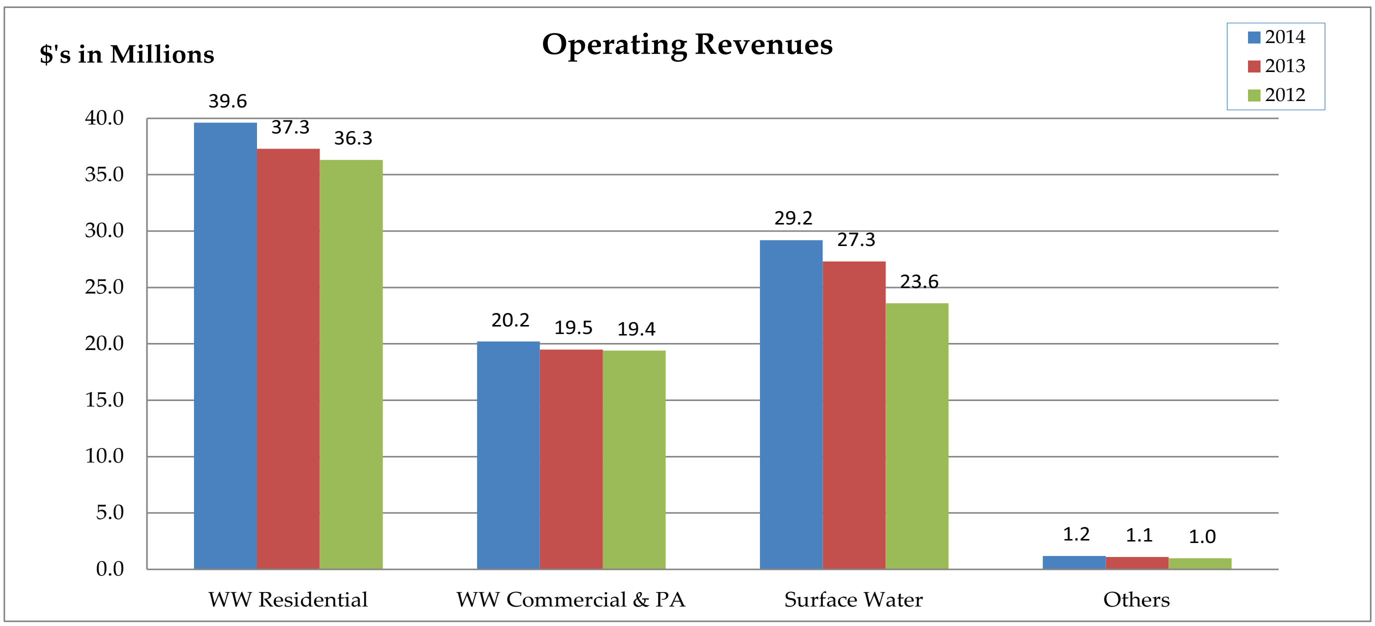
Deferred inflows of resources includes rate stabilization credit of $25.0 million, which has no change in 2014 and 2013.

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

	Year-to-Date December 31,		
	2014	2013	2012 (as restated)
Operating revenues	$ 90,232,247	$ 85,108,081	$ 80,201,594
Operating expenses	74,658,894	68,772,885	68,125,720
Net operating income	15,573,353	16,335,196	12,075,874
Nonoperating revenues (expenses)	(4,435,405)	(5,201,731)	(4,285,494)
Income before contributions and transfers	11,137,948	11,133,465	7,790,380
Contributions	6,234,402	12,431,437	4,872,655
Transfers & gross earnings tax	(7,372,035)	(6,693,434)	(6,016,156)
Change in net position	10,000,315	16,871,468	6,646,879
Total net position - beginning	386,358,420	369,486,952	362,840,073
Total net position - ending	$ 396,358,735	$ 386,358,420	$ 369,486,952

Operating revenues

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

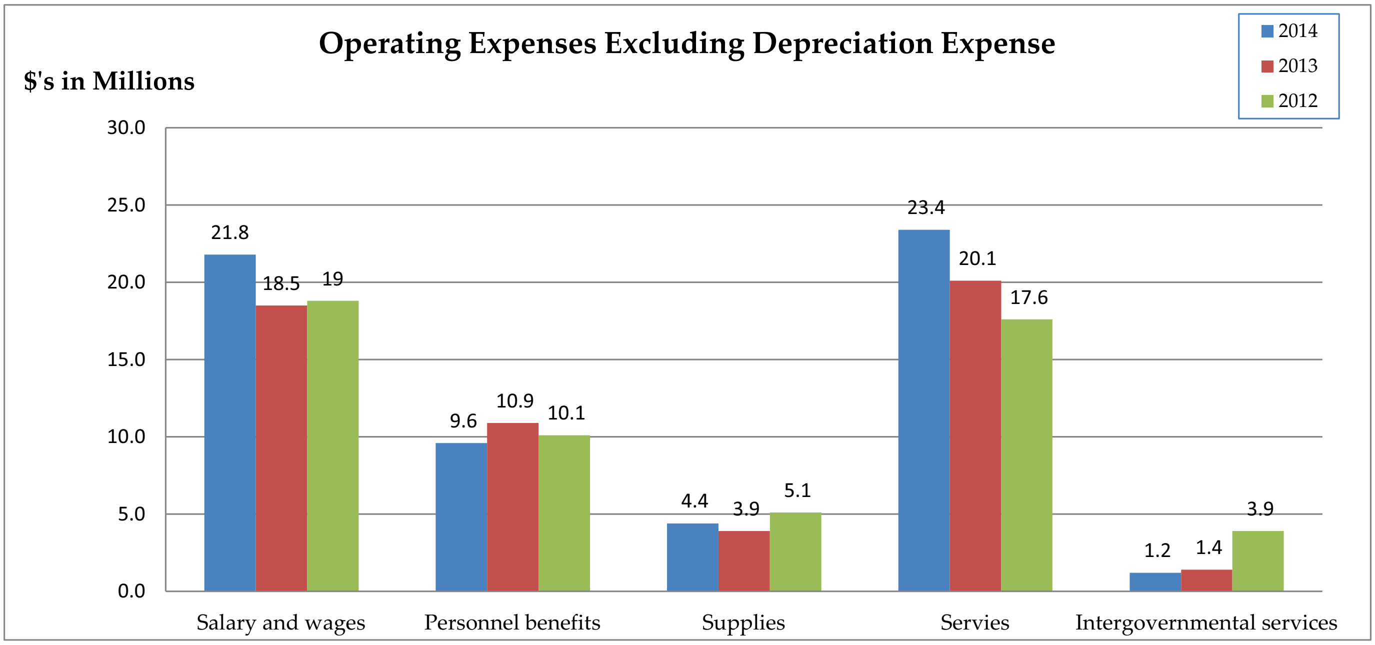


Operating revenues were $90.2 million in 2014 compared to $85.1 million in 2013 and $80.2 million in 2012. The 2012 surface water revenues excluded a transfer of $2.5 million to the Rate Stabilization Fund. The approved average revenue increase for Wastewater was 4.8% for each of the years 2014, 2013, and 2012, and for Surface Water was 6% for each of the years 2014 and 2013, and 5.4% for the year 2012.

The 2014 rate increase went into effect January 1st while the 2013 rate increase went into effect March 1st. Wastewater residential revenues increased $2.3 million (6%) in 2014 compared to $1.0 million (3%) in 2013, and Wastewater commercial and public authority (PA) revenues increased $765,000 (4%) in 2014 compared to $80,000 (0%) in 2013. Surface Water increased $1.9 million (7%) in 2014 compared to $3.8 million (14%) in 2013; however, the actual increase in 2013 was $1.9 million (5%) if the $2.5 million transfer to the Rate Stabilization fund was included in 2012.

Operating expenses

The graph below shows a three year comparison of operating expenses excluding depreciation.



2014 Activity

Operating expenses were $74.6 million in 2014 and $68.8 million in 2013, an increase of $5.8 million.

- Salary and wages increased $3.3 million due in part to $1.7 million reclassification of 30% of the total labor credit to benefit. As a result, personnel benefits decreased $1.3 million. The number of full-time employees increased from 220 to 223 in Wastewater and from 96 to 99 in Surface Water. The retro pay for employees classified under Local 160 and 313 was processed in September and November.
- Supplies increased $445,000 due to increased costs of materials and parts of $229,000 used for repairs and maintenance work on pump stations and treatment plants. Operating supplies increased $176,000 for laboratory work and treatment plants.
- Services increased $3.4 million due to increased external contracts of $1.4 million; the payment to the Washington State Department of Ecology increased $130,000 for maintenance and restoration of the City's habitat restoration sites and open spaces, and a payment of $413,000 for web-based software for processing permits including on-going maintenance. External maintenance services increased $454,000, which included coating, testing, inspection, disposal, asphalt patching, and cleaning. Assessments from other departments increased $1.1 million primarily due to changes in allocating payroll costs of accounting staff, which were charged directly to environmental service cost centers in prior years but now they were charged through assessments. Spending on expense projects of the Hilltop Diversitree and Sprague Enhancement totaled $451,000.
- Intergovernmental services included costs related to the business and occupation taxes, utility taxes, and payments to Pierce Country for wastewater treatment charges. There was no significant change in these activities.

2013 Activity

Operating expenses were $68.8 million in 2013 and $68.1 million in 2012, an increase of $647,000.

- Salary and wages decreased $282,000 while personnel benefits increased $710,000, a net increase of $428,000. The number of full time employees decreased from 222 to 220 in Wastewater and increased from 90 to 96 in Surface Water.
- Supplies decreased $1.2 million primarily due to reduced material costs for maintenance and repairs as a result of the mild winter conditions, an absence of major line failures, and no major maintenance on pumps.

Nonoperating revenues (expenses)

Nonoperating revenues and expenses consist principally of interest income from investments, rental income, operating grant revenues, and interest expense. Net expenses of $4.4 million were reported in 2014, a decrease of $766,000 (15%) from the net expenses of $5.2 million in 2013. Significant changes include:

- Interest and other earnings increased $382,000 primarily due to increased interest income from investments although the cash balance was much less than last year. The reason for this increase was due to the mark to market adjustment at year-end, which increased the investment income by $32,000 compared to a $695,000 decrease in 2013.
- Loss on disposition of property reported $44,000, a decrease of $181,000 from $225,000 in 2013.

Contributions

The Divison reported $2.3 million of capital related grants in 2014, which included the Hood Street Treatment Retrofit and "A" Street Storm-water Retrofit projects from the State of Washington Ecology Department. In 2013, $1.2 million was reported as capital related grants mainly for the Cheney Stadium Storm-water LID Retrofit project from the State of Washington Ecology Department.

Donated lines were recorded for $3.5 million in 2014 compared to $1.0 million in 2013 and $3.6 million in 2012. Transfers from the City's General Fund were $211,000 in 2014 compared to $8.4 million in 2013 for land designated as "Open Space".

Transfers

Transfers include both capital and operating transfers, and gross earnings tax. Capital related transfer occurred in 2014 for an additional fund of $116,000 transferred to Fleet for vehicle purchases. In 2013, capital related transfer was $1.9 million; $1.5 million from Public Works for the Pacific Avenue Streetscape Project and $314,000 from Public Assembly Facilities for land designated as "Open Space". Gross earnings tax was reported $7.4 million in 2014 compared to $7.1 million in 2013.

Capital Assets

Capital assets increased $27.2 million compared to $36.8 million in 2013. (See Note 3.)

2014 Activity

Capital assets increased $27.2 million over the prior year. Land and easements increased $366,000 due to recording "Open Space" land transferred and donated easements. Capital lease building increased $1.5 million due to the TES allocation rate change. Machinery and equipment increased $9.2 million primarily due to the capitalization of the Lincoln & Alexander Pump Station and Pump Station Control Panel upgrade projects. Transmission lines and other improvements increased $27.7 million: 7,096 feet of donated lines were recorded for $3.3 million, 20,085 feet of old lines were retired at the historical cost of $255,000, and 26.695 feet of new replacement lines and extended sewer lines were recorded for $21.0 million. Other improvements reported $3.7 million including the Cheney Stadium LID Retrofit project recorded for $2.5 million of which $1 million was grant funded. Accumulated depreciation increased $14.0 million and construction in progress increased $1.9 million.

2013 Activity

Capital assets increased $36.8 million over the prior year. Land increased $8.9 million mainly due to recording "Open Space" land transferred to Surface Water. Machinery and equipment increased $10.1 million primarily due to the capitalization of the Lincoln & Marine View Drive Pump Station and High Purity Oxygen Generation Facility projects. Transmission lines and other improvements increased $27.5 million: 4,146 feet of donated lines were recorded for $1.0 million, 66,452 feet of old lines were retired at the historical cost of $255,000, and 76,156 feet of new replacement lines and extended sewer lines were recorded for $18.7 million. Other improvements include the Pacific Avenue Streetscape Project recorded for the value of $4.0 million of which $1.5 million was grant funded. Accumulated depreciation increased $13.8 million and construction in progress increased $3.4 million.

Debt Administration
At December 31, 2014, the Division had $148.8 million outstanding in long-term debt: $55.6 million of this is junior lien debt consisting of SRF loans and $89.3 million is senior parity bond debt. This compares to $152.7 million in 2013 and $156.6 million in 2012. 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.

Debt Service Coverage
The bond coverage ratio is calculated by dividing net revenue by debt service as defined by bond covenants. The SRF loans are junior lien debt and excluded from the debt service in the bond coverage ratio calculation. However, 100% of the capital lease obligation on the Urban Waters building was included as parity debt although 20% for 2014 and 15.5% for 2015 onwards are expected to be received from the Solid Waste Division.

The bond coverage ratio is 4.43 at the end of 2014 from a ratio of 4.46 at the end of 2013 and 2.75 at the end of 2012. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

Summary
This Management Discussion and Analysis should be read in conjunction with the accompanying financial statements and notes. This report is prepared by our Financial Services Team. Moss Adams LLP independently audited the financial statements and notes. Environmental Services and Finance are jointly responsible for the information contained in this report, including the financial statements and notes.

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Financial Statements

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

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents (C&CE)	$ 49,138,289	$ 60,770,595
Accounts receivable (net)	12,146,221	11,348,546
Due from other funds	444,580	108,426
Due from other governments	1,205,554	1,086,120
Inventory	1,014,100	894,085
Prepayments	290,854	573,806
Current restricted assets:		
C&CE - debt service, deposits and replacements	10,055,911	9,938,025
C&CE - construction accounts	911,262	8,293,031
Customer deposits - detention ponds	-	104,678
Total restricted assets	10,967,173	18,335,734
Total current assets	75,206,771	93,117,312
Non-current assets:		
Other non-current assets	4,225,619	3,517,065
Capital assets:		
Land and easements	19,621,412	19,255,327
Property, plant, and equipment	714,533,859	675,605,874
Less: accumulated depreciation	(221,487,000)	(207,463,950)
Construction work in progress	23,323,297	21,433,982
Total capital assets net of depreciation	535,991,568	508,831,233
Total non-current assets	540,217,187	512,348,298
TOTAL ASSETS	615,423,958	605,465,610
DEFERRED OUTFLOW OF RESOURCES		
Unamortized loss on refunding	1,037,058	1,098,362
TOTAL DEFERRED OUTFLOW OF RESOURCES	1,037,058	1,098,362
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 616,461,016	$ 606,563,972

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

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

	December 31, 2014	December 31, 2013
LIABILITIES		
Current liabilities:		
Accounts payable	$ 5,911,913	$ 3,624,854
Due to other funds	1,783,425	1,320,027
Due to other governments	490,403	490,971
Interest payable	253,002	269,220
Accrued wages	1,392,489	1,246,815
Accrued benefits	294,019	298,235
Accrued taxes	730,886	689,760
Environmental liability - current	604,346	678,580
Notes & leases - current	4,323,757	4,198,773
Unearned revenue	195,619	187,889
Current payables from restricted assets:		
Debt interest payable	364,751	364,751
Deposits and other payables	-	104,678
Total current liabilities	16,344,610	13,474,553
Non-current liabilities:		
Revenue bonds payable (net)	93,183,227	93,502,552
Compensated absences	2,646,180	2,684,113
Environmental liability - non-current	400,000	500,000
Notes & leases - non-current	80,296,661	83,076,692
Net OPEB obligation	2,231,603	1,967,642
Total non-current liabilities	178,757,671	181,730,999
TOTAL LIABILITIES	195,102,281	195,205,552
DEFERRED INFLOW OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
TOTAL DEFERRED INFLOW OF RESOURCES	25,000,000	25,000,000
NET POSITION		
Net investment in capital assets	401,733,880	379,249,919
Restricted for debt	9,691,158	9,573,274
Unrestricted	(15,066,303)	(2,464,773)
TOTAL NET POSITION	396,358,735	386,358,420
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES RESOURCES, AND NET POSITION	$ 616,461,016	$ 606,563,972

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 Revenues, Expenses, and Changes in Net Position

	Year Ended December 31, 2014	2013
OPERATING REVENUES		
Wastewater residential	$ 39,575,060	$ 37,259,592
Wastewater commercial and public authorities	20,231,739	19,466,323
Surface water	29,188,607	27,331,797
Other revenues	1,236,841	1,050,369
TOTAL OPERATING REVENUES	90,232,247	85,108,081
OPERATING EXPENSES		
Salary and wages	21,862,742	18,524,269
Personnel benefits	9,532,902	10,851,033
Supplies	4,364,643	3,919,531
Services	23,436,690	20,050,094
Intergovernmental taxes	1,214,261	1,447,144
Depreciation	14,247,656	13,980,814
TOTAL OPERATING EXPENSES	74,658,894	68,772,885
OPERATING INCOME	15,573,353	16,335,196
NON-OPERATING REVENUES (EXPENSES)		
Interest and other earnings	618,519	237,027
Interest and other related costs	(5,684,999)	(5,856,182)
Amortization of bond premium and loss on refunding	258,021	258,029
Other non revenues and (expenses)	417,414	384,797
Loss on disposition of property	(44,360)	(225,402)
NON OPERATING REVENUE NET OF EXPENSE	(4,435,405)	(5,201,731)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	11,137,948	11,133,465
Capital contributions - interfund	211,165	9,905,696
Capital contributions - federal/state/local	5,814,669	2,419,084
Capital contributions - private	208,568	106,657
Transfer in	750	395,595
Transfer (out) & gross earnings tax	(7,372,785)	(7,089,029)
Total contributions and transfers	(1,137,633)	5,738,003
CHANGES IN NET POSITION	10,000,315	16,871,468
NET POSITION		
NET POSITION - JANUARY 1	386,358,420	369,486,952
NET POSITION - DECEMBER 31	$ 396,358,735	$ 386,358,420

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

	Year Ended December 31, 2014	2013
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipt from customer and users	$ 89,289,492	$ 84,727,955
Receipts from interfund services provided	(336,154)	(93,167)
Payment to suppliers	(15,790,241)	(15,971,857)
Payments to employees	(31,028,158)	(28,622,928)
Payments for interfund services used	(9,932,923)	(9,394,969)
Payments for taxes	(1,214,075)	(1,435,574)
Other operating or non-operating revenue	415,881	(331,925)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	31,403,822	28,877,535
CASH FLOWS FROM NONCAPAL FINANCING ACTIVITIES		
Transfer from (to) other funds	(7,214,723)	(7,053,353)
Grant received	10,978	580
Debt service related to environmental	(1,915,194)	(1,915,194)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(9,118,939)	(8,967,967)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other fund	94,795	10,307,904
Acquisition and construction of capital assets	(41,458,101)	(50,969,364)
Proceeds from sale of capital assets	5,750	-
Principal paid on capital debt	(3,596,773)	(3,532,270)
Interest and Issuance costs paid on capital debt	(3,786,024)	(3,252,428)
Capital lease obligation	941,726	(578,000)
Contributions and donations	5,892,825	1,885,432
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(41,905,802)	(46,138,726)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends received	610,838	838,040
Investment others	9,214	(601,021)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	620,052	237,019
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(19,000,867)	(25,992,139)
CASH & CASH EQUIVALENTS, JANUARY 1	79,106,329	105,098,468
CASH & CASH EQUIVALENTS, DECEMBER 31	$ 60,105,462	$ 79,106,329

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

	Year Ended December 31, 2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income	$ 15,573,353	$ 16,335,196
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	14,247,656	13,980,814
(Increase) decrease in accounts receivable	(942,754)	(380,125)
(Increase) decrease in due from other funds	(336,154)	(93,167)
(Increase) decrease in inventory	(120,015)	(37,640)
(Increase) decrease in prepayments	(280,521)	(460,331)
Increase (decrease) in deposits and other payables	(104,678)	(5,584)
Increase (decrease) in accounts payable	2,287,242	(780,983)
Increase (decrease) in accrued wages and benefits	141,458	215,988
Increase (decrease) in compensated absences	226,028	536,273
Increase (decrease) in due to other funds	462,830	247,216
Increase (decrease) in unearned revenue	7,730	8,832
Increase (decrease) in other current liabilities	(74,234)	(307,029)
Increase (decrease) in long term liabilities	(100,000)	(50,000)
Miscellaneous non-operating revenues	415,881	(331,925)
Total adjustments	15,830,469	12,542,339
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 31,403,822	$ 28,877,535
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated fixed assets	$ 3,314,367	$ 9,615,554
Transfers - capital related	-	1,856,869
	$ 3,314,367	$ 11,472,423

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

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Notes to Financial Statements

City of Tacoma, Washington
Environmental Services Department
Wastewater & Surface Water Management
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

NOTE 1 OPERATIONS

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CASH AND CASH EQUIVALENTS - 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 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).

Wastewater & Surface Water Management
Notes to Financial Statements Continued

Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the TIP in the Washington State LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2014 and 2013 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

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's Investment Policy allows for authorized investments up to 60 months to maturity. One method 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. The minimum legal requirement is AAA for bankers acceptance notes, and fixed rate callable and non-callable agency securities, and A for fixed rate non-callable municipal securities. The Bank Certificates of Deposit (CD) and Demand Deposit Accounts (DDA) are protected by the FDIC insurance up to $250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State PDPC. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. The State Treasurers LGIP is authorized by RCW 43.250 and operates like a 2A7 fund and is collateralized by short term legal investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Concentration risk disclosure is required for all investments in a single issuer that is 5% or more of the total of the City's investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Custodial credit risk is the risk of unauthorized transactions by the custodian of investments. The City policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

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 doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed, which is included in account receivable.

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. The Division estimated $3.7 million for uncollectible accounts receivable in 2014 compared to $4.4 million in 2013.

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

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

Wastewater & Surface Water Management
Notes to Financial Statements Continued

RESTRICTED CASH AND EQUITY IN POOLED INVESTMENTS - In accordance with bond resolutions, 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 REFUNDING COSTS - Bond premium is amortized over the life of the bonds using the weighted average of the bonds outstanding. Bond refunding costs are amortized on a straight-line basis over the applicable bond period.

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:

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

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

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

CONTRIBUTED CAPITAL - Capital grants and contributed capital assets are recorded as capital contributions.

Wastewater & Surface Water Management
Notes to Financial Statements Continued

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%. The liability and expense for accumulated unused PTO is adjusted each year based on each employee’s current compensation level.

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. The accrued liability for earned vacation is computed at 100% and earned sick leave is computed at 10%, which is considered the amount vested. The liability and expense for accumulated unused vacation and sick leave is adjusted each year based on each employee’s current compensation level.

Liability and expense for compensated absences are recorded including 100% of compensated time earned based on each employee’s current compensation level.

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 bond requirements.

The City has a parity bond 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 bond fund, 2) the proper operation and maintenance of the utility, 3) the payment of any and all amounts that the City may now or hereafter become obligated to pay from gross revenues.

Wastewater & Surface Water Management
Notes to Financial Statements Continued

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 in 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 financial and capital resources. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

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

Restricted for bond reserves are restricted when constraints placed on 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 are not "net investment in capital assets" or "restricted for bond reserves".

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.

Wastewater & Surface Water Management
Notes to Financial Statements Continued

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, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities 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 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2014 and 2013 follows:

	2013	Additions	Retirements	Transfers	2014
Nondepreciable:					
Land and easements	$ 19,255,327	$ 366,085	$ -	$ -	$ 19,621,412
Buildings	151,293,170	-	-	419,793	151,712,963
Buildings - capital lease	30,272,000	-	-	1,541,726	31,813,726
Machinery and equipment	152,561,487	-	(197,721)	9,425,309	161,789,075
Transmission lines and other improvements	333,647,503	3,314,367	(76,994)	24,453,849	361,338,725
Computer software	7,831,714	-	-	47,656	7,879,370
Assets in service	694,861,201	3,680,452	(274,715)	35,888,333	734,155,271
Accumulated depreciation	(207,463,950)	(14,248,093)	225,043	-	(221,487,000)
Assets in service, net	487,397,251	(10,567,641)	(49,672)	35,888,333	512,668,271
Construction work in progress	21,433,982	36,235,922	-	(34,346,607)	23,323,297
Total capital assets	$ 508,831,233	$ 25,668,281	$ (49,672)	$ 1,541,726	$ 535,991,568

	2012	Additions	Retirements	Transfers	2013
Nondepreciable:					
Land and easements	$ 10,321,617	$ 8,933,710	$ -	$ -	$ 19,255,327
Buildings	151,378,623	165,165	(250,618)	-	151,293,170
Buildings - capital lease	30,272,000	-	-	-	30,272,000
Machinery and equipment	142,498,431	-	-	10,063,056	152,561,487
Transmission lines and other improvements	306,140,187	1,421,993	(254,736)	26,340,059	333,647,503
Computer software	7,165,274	666,440	-	-	7,831,714
Assets in service	647,776,132	11,187,308	(505,354)	36,403,115	694,861,201
Accumulated depreciation	(193,705,228)	(14,002,662)	243,940	-	(207,463,950)
Assets in service, net	454,070,904	(2,815,354)	(261,414)	36,403,115	487,397,251
Construction work in progress	17,997,183	39,839,914	-	(36,403,115)	21,433,982
Total capital assets	$ 472,068,087	$ 37,024,560	$ (261,414)	$ -	$ 508,831,233

Wastewater & Surface Water Management
Notes to Financial Statements Continued

NOTE 4 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2014 and 2013 follows:

	2013	Additions	Payments	2014	Due within One Year
Revenue bonds	$ 89,265,000	$ -	$ -	$ 89,265,000	$ -
Plus: Unamortized premium	4,237,552	-	(319,325)	3,918,227	-
State Revolving Fund loans	59,229,465	-	(3,596,774)	55,632,691	3,662,544
Long-term debt	$ 152,732,017	$ -	$ (3,916,099)	$ 148,815,918	$ 3,662,544
Capital lease	28,046,000	2,133,089	(1,191,362)	28,987,727	661,213
Total long-term debt	$ 180,778,017	$ 2,133,089	$ (5,107,461)	$ 177,803,645	$ 4,323,757

	2012	Additions	Payments	2013	Due within One Year
Revenue bonds	$ 89,265,000	$ -	$ -	$ 89,265,000	$ -
Plus: Unamortized premium	4,556,885	-	(319,333)	4,237,552	-
State Revolving Fund loans	62,761,734	-	(3,532,269)	59,229,465	3,596,773
Long-term debt	$ 156,583,619	$ -	$ (3,851,602)	$ 152,732,017	$ 3,596,773
Capital lease	28,624,000		(578,000)	28,046,000	602,000
Total long-term debt	$ 185,207,619	$ -	$ (4,429,602)	$ 180,778,017	$ 4,198,773

Wastewater & Surface Water Management
Notes to Financial Statements Continued

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

	2014	2013
Parity bonds, senior lien:		
2006 Revenue & Refunding Bonds, with interest rates ranging from 4.5% to 5.125%, due in yearly installments of $470,000 to $6,890,000 between 2016 and 2036. Original par value $55,000,000 with a call date of December 1, 2016. Purpose was to fund a portion of the capital improvement plan, refund certain maturities of the 2001 Series A bonds, and pay the costs of issuance.	$ 54,950,000	$ 54,950,000
2011 Refunding Bonds, with interest rates ranging from 4.00% to 5.00%, due in yearly installments of $2,765,000 to $4,205,000 between 2022 and 2031. Original par value $34,315,000 with a call date of December 1, 2021. Purpose was to refund the 2001 Series A bonds and pay the costs of issuance.	34,315,000	34,315,000
Total parity bonds, senior lien	89,265,000	89,265,000
Junior lien debt:		
State Revolving Fund loans A & B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of $3,450,000 to $4,500,000 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 Treatement Plant Upgrade project.	55,225,478	58,802,532
State Revolving Fund loan 2011, with an interest rate of 2.9% in semi-annual installments of $16,017 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.	407,213	426,933
Total junior lien debt	55,632,691	59,229,465
Total outstanding debt	144,897,691	148,494,465
Less:		
Current portion	(3,662,544)	(3,596,773)
Plus: Unamortized premium	3,918,227	4,237,552
Total long-term debt	$ 145,153,374	$ 149,135,244

Annual debt service requirement to maturity follows:

	Principal	Interest on Debt	Total Debt Service
2015	$ 3,662,544	$ 5,384,298	$ 9,046,842
2016	6,349,610	5,317,231	11,666,841
2017	6,548,001	5,117,842	11,665,843
2018	6,757,742	4,910,601	11,668,343
2019	6,968,863	4,694,980	11,663,843
2020-2024	37,511,526	20,048,536	57,560,062
2025-2029	36,138,059	13,947,924	50,085,983
2030-3034	27,506,346	7,732,013	35,238,359
2035-2036	13,455,000	1,034,475	14,489,475
	$ 144,897,691	$ 68,187,900	$ 213,085,591

The carrying amounts of the State Revolving Fund loans approximate the fair value since such loans are exclusive and have not market.

The Division's current underlying credit ratings are Aa2, AA+, and AA+ from Moody's, Standard and Poor's, and Fitch, respectively.

Defeased and outstanding 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 therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of December 31, 2014, no bonds were defeased and outstanding.

The Division's revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2014 or 2013.

NOTE 5 CAPITAL LEASE

By Ordinance No. 27783 passed on January 20, 2009, the City approved a property agreement and project lease with TES Properties and issuance by TES Properties of $37,840,000 aggregate principal amount of its Lease Revenue Bonds, 2009 (Bonds). TES Properties is a single purpose Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation. The Environmental Services Department determined the appropriate pro-rata share for the Environmental Services divisions to share in all revenue, costs and cash requirements based on usage of the Urban Waters building to be: Wastewater (43%), Surface Water (37%) and Solid Waste (20%).

Environmental service department changed the percentage split based on the floor space utilization of the Center for Urban Water building as Wastewater (40.4%), Surface Water (44.1%) and Solid Waste (15.5%) effective date December 31, 2014 which resulted in the change in the future capital lease obligation and associated capital asset of $1.5 million.

The three divisions have included their pro-rata share of the capital lease and lease obligation for the building in their respective financial statements. The building has a useful life of 50 years and the lease agreement is for 29 years which exactly matches the debt service schedule of the Bonds. The land on which the building was constructed has been transferred to TES Properties and reclassified on the divisions' statements of net position in other noncurrent assets. All assets revert to the City at the end of the lease.

The future payments of the lease obligation as of December 31, 2014 total $62,642,038. The Division's portion of the future lease payments is presented in the following table:

Years	Capital Lease Payments
2015	2,205,307
2016	2,204,293
2017	2,206,490
2018	2,207,504
2019	2,205,476
2020-2024	11,024,530
2025-2029	11,031,058
2030-3034	11,028,042
2035-2038	8,764,897
	$ 52,877,597
Less interest	23,889,870
Principal	$ 28,987,727

The sub-lease agreements for the space in the Urban Waters building include agreements with two tenants: the University of Washington Tacoma (UWT) and the Puget Sound Partnership (PSP). Both are for ten year periods effective in 2010 with the possibility of five year extensions. The revenue are shared across the utilities on the same prorate basis as the building lease. The UWT agreement provides revenue of $293,640 per year, adjusted annually for inflation, and the PSP agreement provides a total of $1,615,000 in revenue spread over the ten year lease period.

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 $211,399 for 2014 and 2013. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City maintains an excess general liability policy with limits of $15 million, subject to a self-insured retention of $3 million and a $30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with a $1 million self-insured retention plus a $250,000 of total loss each 12 month policy period. The City carries property insurance coverage with a maximum single occurrence limit of $500,000,000 with a $150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies $253,165 in 2014 and $240,859 in 2013.

NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

Employees of the Division are covered by the Tacoma Employees' Retirement System (the System), an actuarially funded system operated by the City. The following information is provided on a city-wide basis.

This note emphasizes the employer disclosures and detailed information presented in an independent CAFR issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 3628 South 35th Street, Tacoma, Washington 98409.

PLAN DESCRIPTION - The 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, Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,166 retirees and beneficiaries currently receiving benefits, 459 vested terminated members entitled to future benefits and 2,884 active members of the Tacoma Employees' Retirement System, as of December 31, 2014.

BASIS OF ACCOUNTING - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

METHOD USED TO VALUE INVESTMENTS - Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by our custodian bank utilizing standard industry practices. Private equity investments are reported by the managers subject to their fair value policies. No investment in any one corporation or organization exceeded five percent of net assets available for benefits.

INVESTMENTS AND CONTRACTS - The System has no securities of the employer and related parties included in the plan assets. The System has not made any loans to the employer in the form of notes, bonds, or other instruments.

BENEFITS - There are two formulas that are used for calculating retirement benefits. The benefit will be determined 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 determined based on the member's age and years of service. Several options are available for the retiree to provide for their beneficiaries. The System also provides death and disability retirement.

Wastewater & Surface Water Management
Notes to Financial Statements Continued

CONTRIBUTIONS - Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage.

The contribution rates are provided in the following table:

Applicable Period	Employer Rate	Member Rate	Total Rate
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

FUNDING STATUS AND PROGRESS - Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2014, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Funding Progress ($ in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabililty (AAL) (b)	Unfunded AAL (UAAL) (c) = (b)-(a)	Funded Ratio (d) = (a) / (b)	Covered Payroll (e)	UAAL as of Percentage of Covered Payroll (f) = (c) / (e)
1/1/2012	$ 1,068.3	$ 1,185.5	$ 117.2	90.1%	$ 219.4	53.4%
1/1/2013	1,187.1	1,306.6	119.5	90.9%	210.6	56.7%
1/1/2014	1,297.0	1,400.0	103.0	92.6%	213.8	48.2%

Both the City and employees made 100% of the required contributions. The City's required contributions for the years ended December 31st were:

2012	$ 20,919,787
2013	21,188,984
2014	22,144,662

ACTUARIAL METHODS AND SIGNIFICANT ACTUARIAL ASSUMPTIONS

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Assets are valued at market value, with a four year smoothing of all market value gains and losses.
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION - The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. GAAP requires that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

FUNDING POLICY - The City uses pay as you go funding; contributions to a separate trust are not required.

ANNUAL OPEB COST AND NET OPEB OBLIGATION - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year 2014 under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2014 is 23 years.

Wastewater & Surface Water Management
Notes to Financial Statements Continued

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2014 as the City has not set aside funds for OPEB.

EXCISE TAX FOR HIGH COST OR "CADILLAC" HEALTH PLANS IN 2018 AND BEYOND – An excise tax for high cost health coverage or "Cadillac" health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds for qualified retirees aged 55-64 are $11,850 for single coverage and $30,950 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of the Patient Protection and Affordable Care Act (PPACA) should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

SUMMARY OF CHANGES – As of January 1, 2011 (the date of the prior valuation), the AAL was $248,571,791. The expected value as of January 1, 2013, based on the 2011 valuation, was $260,708,000. The total AAL of $251,839,846 was 3% lower than expected primarily due to lower than expected medical costs partially offset by the new excise tax for "Cadillac" health plans, demographic experience and assumptions, and economic assumptions.

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	January 1, 2011	January 1, 2013
Total membership:		
Active employees	3,675	3,335
Terminated vested employees	363	394
Retired employees & Dependents	790	846
Total	4,828	4,575
Annual Benefit Payments	$ 9,569,648	$ 9,887,335
Discount rate	4.00%	3.75%
Present Value of Benefits	$ 319,550,419	$ 326,742,538
Actuarial Accrued Liability	$ 248,571,791	$ 251,839,846
Assets	$ -	$ -
Unfunded Actuarial Accrued Liability	$ 248,571,791	$ 251,839,846
Normal Cost	$ 5,559,351	$ 5,484,587
Annual Required Contribution	$ 19,734,041	$ 20,058,760

Wastewater & Surface Water Management
Notes to Financial Statements Continued

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2013.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits	$ 488,143,650	$ 161,401,112	$ 326,742,538
Actuarial Accrued Liability	$ 331,339,973	$ 79,500,127	$ 251,839,846
Normal Cost	$ 11,227,919	$ 5,743,332	$ 5,484,587
Annual Benefit Payments	$ 13,500,240	$ 3,612,905	$ 9,887,335

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2014.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	$ 5,484,587	$ 308,092
Amortization of UAAL	14,574,173	114,129
Annual Required Contribution	$ 20,058,760	$ 422,221
Determination of Net OPEB Obligation:		
Annual Required Contribution	$ 20,058,760	$ 422,221
Interest on prior year Net OPEB Obligation	2,104,155	73,786
Adjustments to ARC	(2,842,971)	(83,304)
Annual OPEB Cost	19,319,944	412,703
Actual benefits paid	9,292,539	148,742
Increase in Net OPEB Obligation	10,027,405	263,961
Net OEPB Obligation - beginning of year	56,110,801	1,967,642
Net OPEB Obligation - end of year	$ 66,138,206	$ 2,231,603

FUNDED STATUS AND FUNDING PROGRESS -
The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 4.00% interest rate for 2011 and 2013 and 3.75% for 2014.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Division	City	Division	City	Division
12/31/2012	$ 19,469,178	$ 469,633	$ 9,393,431	$ 151,023	$ 46,469,368	$ 1,671,120
12/31/2013	$ 19,528,767	$ 417,168	$ 9,887,334	$ 120,646	$ 56,110,801	$ 1,967,642
12/31/2014	$ 19,319,944	$ 412,703	$ 9,292,539	$ 148,742	$ 66,138,206	$ 2,231,603

As of January 1, 2014, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 3.75% interest rate, the actuarial accrued liability for benefits was $251.8 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of $251.8 million.

Wastewater & Surface Water Management
Notes to Financial Statements Continued

ACTUARIAL METHODS AND ASSUMPTIONS - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the UAAL. In determining the ARC, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 23 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date ....January 1, 2013
Census Date ....January 1, 2013
Actuarial Cost Method: ....Entry Age
Amortization Method: ....Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period: ....24 years, closed
Demographic Assumptions:..................Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:
Discount Rate...3.75% for pay-as-you-go funding
Medical Cost Trend.................................

2013	8.9%
2014	6.5%
2015	5.8%
2020	6.0%
2030	5.9%
2040	5.6%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. 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).......................................3.75%

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):

- Age 55 with 10 years of service
- 20 years of service

NOTE 9 ENVIRONMENTAL LIABILITIES

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City has resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree that became effective on December 30, 1997. The stated value of the City's settlement is approximately $7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction has been completed on four projects and the City made a payment to the Port of Tacoma of $134,692 to construct the fifth project.

The City closed out the Consent Decree in 2014. Ongoing monitoring and maintenance of the various projects will continue through 2014. Included in the financial statements for are liabilities of $198,000 for 2014 and $272,234 for 2013. Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources. The City's understanding is a Thea Foss Waterway NRDA settlement between non-City parties and the Commencement Bay Natural Resource Trustees could be reached in 2015.

HYLEBOS WATERWAY CONSENT DECREE - In 2003 the City of Tacoma – General Government entered a Consent Decree settlement with EPA to resolve any liability it may have had for sediment contamination in the Hylebos Waterway. The majority of the City's potential liability was attributed to municipal storm water discharges. Under the terms of its settlement, the City paid $459,663 to "cash-out" its liability. This amount included a 50 percent premium, which obligated the City to pay a small percentage (i.e., 0.4397%) of any cost overruns if the remedial action work exceeded the project estimate of $56,056,407 to complete such work. On January 11, 2012 the City was notified by the Hylebos Performing Party Group that the cost of the Hylebos Waterway remedial action project totaled $110,991,511. This number has since been adjusted downward, setting the City's share of cost overruns at $224,683. The City also anticipates making an additional payment to the Hylebos Performing Party Group for around $63,317, which would fully and finally resolve the City's liability for any post-2013 costs overruns under its 2003 Hylebos Waterway Consent Decree settlement with EPA. The City recorded an expense and liability of $306,346 as of December 31, 2014.

FOSS CONSENT DECREE – The City has an obligation under the Foss Consent Decree for continued monitoring until at least 2016. The results of this monitoring may result in additional cleanup efforts in the future. Obligations for future monitoring costs of $500,000 in 2014 and $600,000 in 2013 have been recognized in the financial statements as environmental liabilities.

NOTE 10 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 11 SUBSEQUENT EVENTS

March 18, 2015 the Division issued 30 year 2015 Sewer Revenue and Refunding Bonds in the amount of $109,300,000 for a true interest cost of approximately 3.54% in order to provide funds necessary to finance a portion of the capital improvement plan and to refund the outstanding 2006 Sewer Revenue and Refunding Bonds of $39.4 million.

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Unaudited Supplemental Information

City of Tacoma, Washington Revenue and Refunding Bonds, Series 2006
TES Properties Lease Revenue Bonds, 2009
City of Tacoma, Washington Refunding Bonds, Series 2011

The following continuing disclosure information for 2014 is provided in accordance with SEC Rule 15c2-12(b)(5)

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

Outstanding Sewer Bonds
Reference Note 4 in Notes to Financial Statements

Debt Service Coverage

	2013	2014
Parity Bond Debt Service Coverage Ratio	4.46	4.43
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.67	2.65

Number of Customers by Type of Service
The System's number of customers by type of service is shown in the table below.

	Wastewater				Surface Water		
Year	Residential	Commercial/ Industrial	Contract[1]	Total	Residential	Commercial/ Industrial	Total
2013	57,030	3,728	13,618	74,376	59,381	11,078	70,459
2014	57,599	3,749	13,592	74,940	59,425	11,087	70,512

(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.

Top Ten Customers

The System's ten largest customers for 2014 are shown in the following table.

Customer Name	Amount	Percent of 2014 Combined Gross Revenues[1]
Port of Tacoma	$ 1,747,225	1.94%
Tacoma School District	1,414,415	1.57
City of Tacoma	1,066,534	1.18
Darling International Inc.	693,471	.77
Tacoma Metropolitan Park District	686,966	.76
Puyallup Tribe of Indians	569,023	.63
Pierce County Facilities Management	776,374	.86
BNSF Railway Company	452,754	.50
The Geo Group Inc.	412,538	.46
MultiCare Health Systems	411,442	.45
	$ 8,230,742	9.12%

(1) Based on combined 2014 Gross Revenues for the wastewater and surface water utilities in the amount of $90,232,247.

Revenues by Service

The Systems revenues for 2013 and 2014 are shown in the following table.

	2013	2014
Wastewater:		
Residential	$ 37,259,592	$ 39,575,060
Commercial and public authorities	19,466,323	20,231,739
Other revenues	826,395	1,063,296
Surface Water:		
Unmetered services	27,331,797	29,188,607
Other revenues	223,974	173,545
Total operating revenues	$ 85,108,081	$ 90,232,247

Wastewater and Surface Water Rates

Wastewater Rates

The 2015 and 2016 monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

	2015[1]	2016[1]
Residential		
Monthly fixed charge	$ 21.50	$ 22.79
Flow charge[2]	4.05	4.30
Commercial		
Monthly fixed charge	$ 10.22	$ 10.84
Flow charge[3]	5.40-12.35	5.73-13.10

(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 2015 and 2016 monthly rates for surface water service, as adopted by the Council, are shown in the following table.

	2015[(1)]		**2016[(1)]**	
Category of Development	**Monthly Fixed Charge**	**Rate per 500 Square Feet of Premises Area**	**Monthly Fixed Charge**	**Rate per 500 Square Feet of Premises Area**
Waterfront/Direct Discharge Parcels				
Undeveloped-first acre or less	$ 6.37	$ 0.1253	$ 6.73	$ 0.1322
Undeveloped-area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.3755	6.73	0.3962
Moderate development	6.37	0.5228	6.73	0.5516
Heavy development	6.37	0.7508	6.73	0.7921
Very Heavy development	6.37	1.0009	6.73	1.0560
All Other Parcels				
Undeveloped area – one acre or less	$ 6.37	$ 0.2572	$ 6.73	$ 0.2714
Undeveloped area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.7714	6.73	0.8139
Moderate development	6.37	1.0507	6.73	1.1085
Heavy development	6.37	1.5426	6.73	1.6275
Very Heavy development	6.37	2.0568	6.73	2.1700

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

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

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

	Wastewater		Surface Water	
	December 31,		December 31,	
	2014	2013	2014	2013
ASSETS				
Current Assets:				
Cash and cash equivalents (C&CE)	$ 25,937,866	$ 37,697,586	$ 23,200,423	$ 23,073,009
Accounts receivable (net)	8,225,917	7,826,453	3,920,304	3,522,093
Due from other funds	141,870	64,552	302,710	43,874
Due from other governments	-	-	1,205,554	1,086,120
Inventory	1,014,100	894,085	-	-
Prepayments	229,939	541,120	60,915	32,686
Current restricted assets:				
C&CE - debt service, deposits and replacements	6,380,728	6,448,596	3,675,183	3,489,429
C&CE - construction accounts	720,589	848,582	190,673	7,444,449
Customer deposits - detention ponds	-	-	-	104,678
Total restricted assets	7,101,317	7,297,178	3,865,856	11,038,556
Total current assets	42,651,009	54,320,974	32,555,762	38,796,338
Non-current assets:				
Other non-current assets	2,954,565	2,246,011	1,271,054	1,271,054
Capital assets:				
Land and easements	7,561,938	7,488,228	12,059,474	11,767,099
Property, plant, and equipment	523,192,092	505,926,018	191,341,767	169,679,856
Less: accumulated depreciation	(179,357,928)	(168,441,556)	(42,129,072)	(39,022,394)
Construction work in progress	19,464,273	15,697,075	3,859,024	5,736,907
Total capital assets net of depreciation	370,860,375	360,669,765	165,131,193	148,161,468
Total non-current assets	373,814,940	362,915,776	166,402,247	149,432,522
TOTAL ASSETS	416,465,949	417,236,750	198,958,009	188,228,860
DEFERRED OUTFLOW OF RESOURCES				
Unamortized loss on refunding	309,553	327,852	727,505	770,510
TOTAL DEFERRED OUTFLOW OF RESOURCES	309,553	327,852	727,505	770,510
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 416,775,502	$ 417,564,602	$ 199,685,514	$ 188,999,370

Supplemental (Unaudited)

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

	Wastewater December 31, 2014	Wastewater December 31, 2013	Surface Water December 31, 2014	Surface Water December 31, 2013
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,788,954	$ 1,972,677	$ 3,122,959	$ 1,652,177
Due to other funds	893,336	718,333	890,089	601,694
Due to other governments	490,403	490,971	-	-
Interest payable	253,002	269,220	-	-
Accrued wages	944,106	847,966	448,383	398,849
Accrued benefits	219,731	225,063	74,288	73,172
Accrued taxes	497,444	458,516	233,442	231,244
Environmental liability - current	-	-	604,346	678,580
Notes & leases - current	3,958,374	3,900,628	365,383	298,145
Unearned revenue	134,398	129,087	61,221	58,802
Current payables from restricted assets:				
Debt interest payable	122,880	122,880	241,871	241,871
Deposits and other payables	-	-	-	104,678
Total current liabilities	10,302,628	9,135,341	6,041,982	4,339,212
Non-current liabilities:				
Revenue bonds payable (net)	30,741,356	30,816,817	62,441,871	62,685,735
Compensated absences	1,977,586	2,025,564	668,594	658,549
Environmental liability - non-current	-	-	400,000	500,000
Notes & leases - non-current	65,126,325	69,976,629	15,170,336	13,100,063
Net OPEB obligation	1,761,706	1,516,485	469,897	451,157
Total non-current liabilities	99,606,973	104,335,495	79,150,698	77,395,504
TOTAL LIABILITIES	109,909,601	113,470,836	85,192,680	81,734,716
DEFERRED INFLOW OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
TOTAL DEFERRED INFLOW OF RESOURCES	17,000,000	17,000,000	8,000,000	8,000,000
NET POSITION				
Net investment in capital assets	272,064,463	257,152,125	129,669,417	122,097,794
Restricted for debt	6,257,846	6,325,716	3,433,312	3,247,558
Unrestricted	11,543,592	23,615,925	(26,609,895)	(26,080,698)
TOTAL NET POSITION	289,865,901	287,093,766	106,492,834	99,264,654
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES RESOURCES, AND NET POSITION	$ 416,775,502	$ 417,564,602	$ 199,685,514	$ 188,999,370

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

	Wastewater Year Ended December 31, 2014	Wastewater Year Ended December 31, 2013	Surface Water Year Ended December 31, 2014	Surface Water Year Ended December 31, 2013
OPERATING REVENUES				
Wastewater residential	$ 39,575,060	$ 37,259,592	$ -	$ -
Wastewater commercial and public authorities	20,231,739	19,466,323	-	-
Surface water	-	-	29,188,607	27,331,797
Other revenues	1,063,296	826,395	173,545	223,974
TOTAL OPERATING REVENUES	60,870,095	57,552,310	29,362,152	27,555,771
OPERATING EXPENSES				
Salary and wages	15,491,518	13,500,043	6,371,224	5,024,226
Personnel benefits	7,018,143	7,539,400	2,514,759	3,311,633
Supplies	3,373,929	3,043,620	990,714	875,911
Services	15,280,509	11,643,039	8,156,181	6,037,055
Intergovernmental taxes	792,107	3,410,617	422,154	406,527
Depreciation	10,941,728	10,558,559	3,305,928	3,422,255
TOTAL OPERATING EXPENSES	52,897,934	49,695,278	21,760,960	19,077,607
OPERATING INCOME	7,972,161	7,857,032	7,601,192	8,478,164
NON-OPERATING REVENUES (EXPENSES)				
Interest and other earnings	351,073	107,572	267,446	129,455
Interest and other related costs	(2,618,402)	(2,567,819)	(3,066,597)	(3,288,363)
Amortization of bond premium and loss on refunding	57,162	57,166	200,859	200,863
Other non revenues and (expenses)	230,423	246,535	186,991	138,262
Loss on disposition of property	(28,369)	(191,558)	(15,991)	(33,844)
NON OPERATING REVENUE NET OF EXPENSE	(2,008,113)	(2,348,104)	(2,427,292)	(2,853,627)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	5,964,048	5,508,928	5,173,900	5,624,537
Capital contributions - interfund	-	-	211,165	9,905,696
Capital contributions - federal/state/local	1,662,475	145,725	4,152,194	2,273,359
Capital contributions - private	92,628	-	115,940	106,657
Transfer in	-	-	750	395,595
Transfer (out) & gross earnings tax	(4,947,016)	(4,835,499)	(2,425,769)	(2,253,530)
Total contributions and transfers	(3,191,913)	(4,689,774)	2,054,280	10,427,777
CHANGES IN NET POSITION	2,772,135	819,154	7,228,180	16,052,314
NET POSITION				
NET POSITION - JANUARY 1	287,093,766	286,274,612	99,264,654	83,212,340
NET POSITION - DECEMBER 31	$ 289,865,901	$ 287,093,766	$ 106,492,834	$ 99,264,654

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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES:				
Receipt from customer and users	$ 60,325,553	$ 57,387,001	$ 28,963,939	$ 27,340,954
Receipts from interfund services provided	(77,318)	(60,071)	(258,836)	(33,096)
Payment to suppliers	(12,273,071)	(13,909,615)	(3,517,170)	(2,062,242)
Payments to employees	(22,221,610)	(20,490,063)	(8,806,548)	(8,132,865)
Payments for interfund services used	(5,757,655)	(5,455,346)	(4,175,268)	(3,939,623)
Payments for taxes	(786,134)	(1,049,562)	(427,941)	(386,012)
Other operating or non-operating revenue	228,933	(1,831)	186,948	(330,094)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	19,438,698	16,420,513	11,965,124	12,457,022
CASH FLOWS FROM NONCAPAL FINANCING ACTIVITIES				
Transfer from (to) other funds	(4,840,929)	(4,816,419)	(2,373,794)	(2,236,934)
Grant received	-	-	10,978	580
Debt service related to environmental	-	-	(1,915,194)	(1,915,194)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,840,929)	(4,816,419)	(4,278,010)	(4,151,548)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES				
Transfer from (to) other fund	(73,130)	10,263	167,925	10,297,641
Acquisition and construction of capital assets	(21,160,705)	(26,838,039)	(20,297,396)	(24,131,325)
Proceeds from sale of capital assets	-	-	5,750	-
Principal paid on capital debt	(3,577,053)	(3,513,112)	(19,720)	(19,158)
Interest and Issuance costs paid on capital debt	(2,634,621)	(2,347,615)	(1,151,403)	(904,813)
Capital lease obligation	(1,215,505)	(310,675)	2,157,231	(267,325)
Contributions and donations	1,755,103	168,822	4,137,722	1,716,610
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(26,905,911)	(32,830,356)	(14,999,891)	(13,308,370)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends received	348,442	491,320	262,396	346,720
Investment others	4,119	(383,757)	5,095	(217,264)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	352,561	107,563	267,491	129,456
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(11,955,581)	(21,118,699)	(7,045,286)	(4,873,440)
CASH & CASH EQUIVALENTS, JANUARY 1	44,994,764	66,113,463	34,111,565	38,985,005
CASH & CASH EQUIVALENTS, DECEMBER 31	$ 33,039,183	$ 44,994,764	$ 27,066,279	$ 34,111,565

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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income	$ 7,972,161	$ 7,857,032	$ 7,601,192	$ 8,478,164
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	10,941,728	10,558,559	3,305,928	3,422,255
(Increase) decrease in accounts receivable	(544,542)	(165,307)	(398,212)	(214,818)
(Increase) decrease in due from other funds	(77,318)	(60,071)	(258,836)	(33,096)
(Increase) decrease in inventory	(120,015)	(37,640)	-	-
(Increase) decrease in prepayments	(252,292)	(432,421)	(28,229)	(27,910)
Increase (decrease) in deposits and other payables	-	-	(104,678)	(5,584)
Increase (decrease) in accounts payable	822,246	(1,948,160)	1,464,996	1,167,177
Increase (decrease) in accrued wages and benefits	90,808	128,424	50,650	87,564
Increase (decrease) in compensated absences	197,243	420,843	28,785	115,430
Increase (decrease) in due to other funds	174,435	114,429	288,395	132,787
Increase (decrease) in unearned revenue	5,311	5,918	2,419	2,914
Increase (decrease) in other current liabilities	-	(19,262)	(74,234)	(287,767)
Increase (decrease) in long term liabilities	-	-	(100,000)	(50,000)
Miscellaneous non-operating revenues	228,933	(1,831)	186,948	(330,094)
Total adjustments	11,466,537	8,563,481	4,363,932	3,978,858
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 19,438,698	$ 16,420,513	$ 11,965,124	$ 12,457,022
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated fixed assets	$ 1,588,765	$ 145,725	$ 1,725,602	$ 9,469,829
Transfers - capital related	-	-	-	1,856,869
	$ 1,588,765	$ 145,725	$ 1,725,602	$ 11,326,698

APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE SYSTEM AS OF DECEMBER 31, 2015

(attached)

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SURFACEWATER SOLIDWASTE WASTEWATER

TACOMA ENVIRONMENTAL SERVICES DEPARTMENT

Wastewater and Surface Water Management
2015 Financial Report

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Table of Contents

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Independent Auditor's Report

REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and City Council
City of Tacoma, Environmental Services, 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, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2015 and 2014, 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.

Auditors' 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. Those standards require that we plan and perform the audits 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.

REPORT OF INDEPENDENT AUDITORS (continued)

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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2015, the Division adopted requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The beginning net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 8 through 13, schedule of Division's proportionate share of net pension liability (asset), and schedule of Division's contributions on page 47 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 presented on pages 51 through 58 is not a required part of the financial statements, but is supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Moss Adams LLP

Tacoma, Washington
April 25, 2016

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Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Management's Discussion and Analysis
December 31, 2015 and 2014

Introduction

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Wastewater and Surface Water Management Division (the Division) for the years ended December 31, 2015 and 2014. The MD&A is designed to focus on significant financial transactions and activities and to identify changes in financial position. This information should be read in conjunction with the financial statements taken as a whole. The financial statements are prepared on a full accrual basis of accounting.

As further described in Note 2, the Division implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the 2015 beginning net position has been adjusted to conform to the new reporting and accounting requirements. The year 2014 has not been restated due to the unavailability of the historic information from the plan.

Financial Highlights

- Total net position is $409.3 million at December 31, 2015 compared to $396.4 million and $386.4 million at year-end 2014 and 2013, respectively.
- The change in total net position is $12.9 million in 2015, $10.0 million in 2014 and $16.9 million in 2013.
- Total assets and deferred outflows of resources are $700.8 million, an increase of $84.3 million in 2015 compared to $616.5 million in 2014, an increase of $9.9 million from $606.6 in 2013.
- Liabilities and deferred inflows of resources are $291.5 million, an increase of $71.4 million in 2015 compared to $220.1 million in 2014, a decrease of $103,000 from $220.2 million in 2013.

Financial Analysis – Condensed Statements of Net Position

		December 31,	
	2015	2014	2013
Current and restricted assets	$ 133,065,175	$ 75,206,771	$ 93,117,312
Noncurrent assets	5,206,451	4,225,619	3,517,065
Capital assets	556,525,347	535,991,568	508,831,233
Deferred outflows of resources	5,989,822	1,037,058	1,098,362
Total assets and deferred outflows of resources	$ 700,786,795	$ 616,461,016	$ 606,563,972
Current liabilities and liabilities payable from restricted assets	$ 17,006,452	$ 16,344,610	$ 13,474,553
Noncurrent liabilities	248,294,752	178,757,671	181,730,999
Deferred inflows of resources	26,181,543	25,000,000	25,000,000
Total liabilities and deferred inflows of resources	291,482,747	220,102,281	$ 220,205,552
Net investment in capital assets	392,427,935	401,733,880	379,249,919
Restricted for:			
Debt service	14,594,770	9,691,158	9,573,274
Net pension asset	1,119,219	-	-
Unrestricted	1,162,124	(15,066,303)	(2,464,773)
Total net position	409,304,048	396,358,735	386,358,420
Total liabilities, deferred inflows of resources and net position	$ 700,786,795	$ 616,461,016	$ 606,563,972

Current and restricted assets

Current and restricted assets increased $57.9 million in 2015, as compared to a decrease of $17.9 million in 2014. The primary reason for the 2015 increase was a $57.0 million increase in cash due to cash proceeds of $75.2 million from 2015 Sewer Revenue and Refunding bonds issued in March. Capital spending on projects reached $36.6 million of which $30.1 million was funded from the 2015 Sewer Revenue Bonds and $6.5 million from cash generated from operating activities. Due from other governments increased $625,000 primarily due to the $1.2 million receivable recorded for the second reimbursement submitted to Metro Parks Tacoma for the Schuster Parkway Promenade project.

In 2014, cash decreased $19.0 million due to capital spending of $36.7 million funded by $7.4 million from the 2006 Sewer Revenue Bonds and $29.3 million from cash generated from operating activities.

Noncurrent assets

Noncurrent assets include prepaid rental, conservation loans, capital deferred debits, and net pension assets. As a result of implementation of GASB 68 in 2015, the Division is reporting $1.1 million for net pension asset. Please refer to Note 2 for the additional details.

Deferred outflows of resources

Deferred outflows of resources include unamortized loss on refunding and deferred outflow of resources related to pensions. Unamortized loss on refunding increased by $2.3 million after reporting all transactions associated with the issuance of the 2015 Sewer Revenue and Refunding Bonds. To comply with GASB 68, a deferred outflow of resources related to pensions was calculated and reported at $2.7 million in 2015.

Current liabilities and liabilities payable from restricted assets

Total current liabilities including payables from restricted assets increased $662,000 in 2015 compared to a $2.9 million increase in 2014. The primary reason for the 2015 increase was a $3.5 million increase in bond principal payable on the 2006 and 2015 Sewer Revenue and Refunding bonds. This increase was offset in part by a $1.9 million decrease in accounts payable and a $949,000 decrease in accrued wages and benefits payable.

Noncurrent liabilities

Noncurrent liabilities increased by $69.5 million from 2014. In 2015, the City issued $109.3 million in new sewer revenue and refunding bonds to finance a portion of the cost of the capital improvement program. Additionally, a portion of the proceeds amounting to $39.3 million was used to advance refund and defease a portion of the 2006 Bonds leaving $15.6 million in aggregate principal amount outstanding.

Deferred inflows of resources

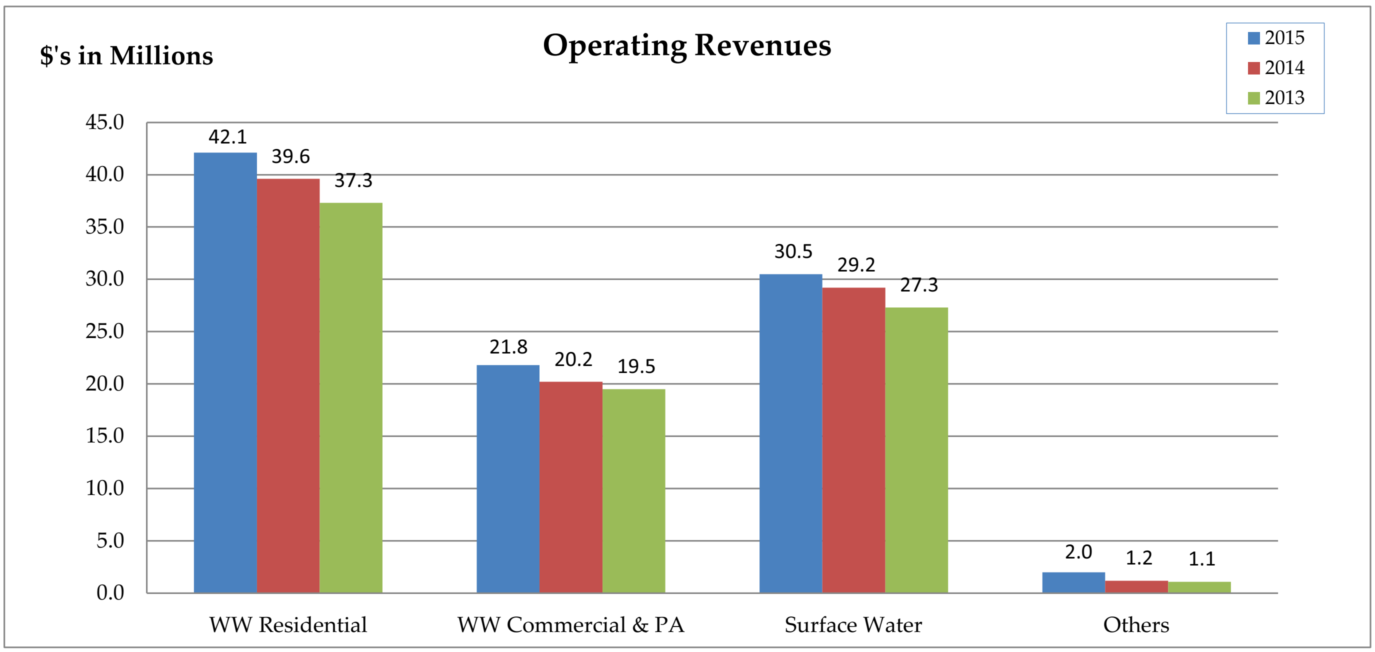
Deferred inflows of resources include rate stabilization and deferred inflows related to pensions. There is no change in rate stabilization which is $25.0 million in 2015 and 2014. Due to the implementation of GASB 68, the Division reported $1.2 million of deferred inflow of resources related to pensions.

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

	Year-to-Date December 31,		
	2015	2014	2013
Operating revenues	$ 96,399,523	$ 90,232,247	$ 85,108,081
Operating expenses	76,456,455	74,658,894	68,772,885
Net operating income	19,943,068	15,573,353	16,335,196
Nonoperating revenues (expenses)	(6,474,992)	(4,435,405)	(5,201,731)
Income before contributions and transfers	13,468,076	11,137,948	11,133,465
Contributions	5,642,860	6,234,402	12,431,437
Transfers & gross earnings tax	(7,541,902)	(7,372,035)	(6,693,434)
Change in net position	11,569,034	10,000,315	16,871,468
Net position - beginning of year	396,358,735	386,358,420	369,486,952
Accumulated adjustment for change in accounting principle	1,376,279	-	-
Net position - beginning of year, adjusted	397,735,014	386,358,420	369,486,952
Net position - ending	$ 409,304,048	$ 396,358,735	$ 386,358,420

Operating revenues

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

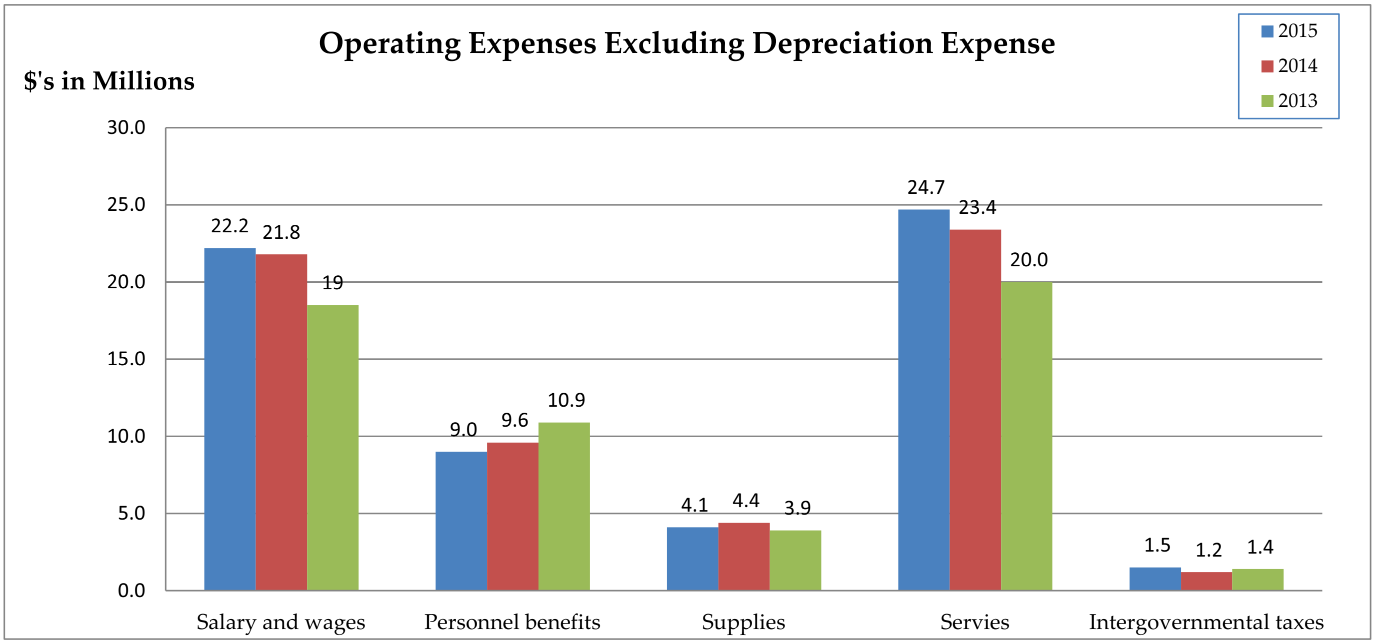


Operating revenues were $96.4 million in 2015 compared to $90.2 million in 2014, and $85.1 million in 2013. The approved average rate increase for Wastewater was 6% for 2015 and 4.8% for each of the years 2014 and 2013, and for Surface Water was 5.5 % for 2015 and 6% for 2014 and 2013. The 2015 and 2014 rate increase went into effect January 1st while the 2013 rate increase went into effect March 1st.

Wastewater residential revenues increased $2.5 million (6%) in 2015 compared to $2.3 million (6%) in 2014, and Wastewater commercial and public authority (PA) revenues increased $1.6 million (8%) in 2015 compared to $765,000 (4%) in 2014. Surface Water increased $1.3 million (5%) in 2015 compared to $1.9 million (7%) in 2014. Other revenues increased $722,000 (58%) in 2015 due to revenues from septic tank disposals and taking leachates from Yelm, Thurston County, and Darigold.

Operating expenses

The graph below shows a three year comparison of operating expenses excluding depreciation.



2015 Activity

Operating expenses were $76.5 million in 2015 and $74.7 million in 2014, an increase of $1.8 million.

- Salary and wages increased $362,000 while personnel benefits decreased by $545,000. The number of full-time employees reflected the same number of 223 for Wastewater compared to last year. Surface Water decreased one employee, 98 from 99 in 2014. Personnel benefits decreased mainly due to the GASB 68 adjustment reported for $1.2 million. This decrease was offset in part by increases in benefit accounts associated with medical and pension.
- Services increased $1.2 million. The significant changes include $466,000 for the expensed capital project of Energy Management System in November. Additional rental costs for the Center for Urban Water building increased $268,000 after a new maintenance agreement finalized. The payment to Pierce Co. for the wastewater treatment charges increased $241,000. Bad debt expenses increased $216,000, which is adjusted based upon the actual aged accounts.
- Intergovernmental taxes increased $285,000 due to the State Business and Occupation, and Utility tax adjustment that occurred in 2014 according to the audit results by the Department of Revenue.

2014 Activity

Operating expenses were $74.6 million in 2014 and $68.8 million in 2013, an increase of $5.8 million.

- Salary and wages increased $3.3 million due in part to $1.7 million reclassification of 30% of the total labor credit to benefit. As a result, personnel benefits decreased $1.3 million. The number of full-time employees increased from 220 to 223 in Wastewater and from 96 to 99 in Surface Water. The retro pay for employees classified under Local 160 and 313 was processed in September and November.
- Supplies increased $445,000 due to increased costs of materials and parts of $229,000 used for repairs and maintenance work on pump stations and treatment plants. Operating supplies increased $176,000 for laboratory work and treatment plants.
- Services increased $3.4 million due to increased external contracts of $1.4 million; the payment to the Washington State Department of Ecology increased $130,000 for maintenance and restoration of the City's habitat restoration sites and open spaces, and a payment of $413,000 for web-based software for processing permits including on-going maintenance. External maintenance services increased $454,000, which included coating, testing,

inspection, disposal, asphalt patching, and cleaning. Assessments from other departments increased $741,000. Spending on expense projects of the Hilltop Diversitree and Sprague Enhancement totaled $451,000.

- Intergovernmental taxes included the State Business and Occupation taxes and Utility taxes. There was no significant change in these activities.

Nonoperating revenues (expenses)

Nonoperating revenues and expenses consist principally of interest income from investments, rental income, operating grant revenues, and interest expense. Net expenses of $6.5 million were reported in 2015 and $4.4 million for 2014. Significant changes include a $2.8 million increase in interest and other related costs primarily due to debt issuance costs and increased interest expenses for the new debt.

Capital contributions

The Division reported $5.6 million of capital related grants in 2015 compared to $6.0 million in 2014 from the State of Washington Ecology Department. The grants received in 2015 were primarily for the Pt. Defiance Regional Treatment Project and Asotin Court Levy Improvement District (LID) Retrofit project while the 2014 grants were for the Hood Street Treatment Retrofit and "A" Street Storm-water Retrofit projects. The Pierce County Flood Control Zone District took a part of costs incurred for the Central Treatment Plant's Flood Protection Improvement project per an inter-local agreement and $2 million was recorded as a capital contribution.

The Division recorded $1.8 million in capital contributions related to donated sewer lines in 2015, which is a decrease from $3.5 million in 2014.

Capital Assets

Capital assets increased $20.5 million compared to $27.2 million in 2014. (See Note 3.)

2015 Activity

Capital assets increased $20.5 million over the prior year. Buildings increased $10.3 million for the Central Treatment Plant Solids Dewatering Facility Upgrade project and Point Defiance Regional Treatment Facility project. Transmission lines and other improvements increased $22.0 million: 8,177 feet of donated lines were recorded for $1.8 million, 11,473 feet of old lines were retired at the historical cost of $44,000, and 10,019 feet of new replacement lines and extended sewer lines were recorded for $10.8 million. Other improvements reported $9.3 million for the Central Treatment Plant's Flood Protection Improvement project. Accumulated depreciation increased $14.6 million and construction in progress increased $1.2 million.

2014 Activity

Capital assets increased $27.2 million over the prior year. Land and easements increased $366,000 due to recording "Open Space" land transferred and donated easements. Capital lease building increased $1.5 million due to the TES allocation rate change. Machinery and equipment increased $9.2 million primarily due to the capitalization of the Lincoln & Alexander Pump Station and Pump Station Control Panel upgrade projects. Transmission lines and other improvements increased $27.7 million: 7,096 feet of donated lines were recorded for $3.3 million, 20,085 feet of old lines were retired at the historical cost of $255,000, and 26.695 feet of new replacement lines and extended sewer lines were recorded for $21.0 million. Other improvements reported $3.7 million including the Cheney Stadium LID Retrofit project recorded for $2.5 million of which $1 million was grant funded. Accumulated depreciation increased $14.0 million and construction in progress increased $1.9 million.

Debt Administration

At December 31, 2015, the Division had $222.9 million outstanding in long-term debt: $52.0 million of this is junior lien debt consisting of SRF loans and $159.2 million is senior parity bonds debt. This compares to $148.8 million in 2014 and $152.7 million in 2013. 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.

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. However, 100% of the capital lease obligation on the Urban Waters building was included as parity debt although 15.5% of total debts were allocated to the Solid Waste Division.

The bonds coverage ratio is 4.18 at the end of 2015 from a ratio of 4.41 at the end of 2014 and 4.46 at the end of 2013. A bonds coverage ratio of 1.3 is required by bonds covenants for the Division.

Summary
This Management Discussion and Analysis should be read in conjunction with the accompanying financial statements and notes. This report is prepared by our Accounting Services Team. Moss Adams LLP independently audited the financial statements and notes. Environmental Services and Finance are jointly responsible for the information contained in this report, including the financial statements and notes.

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Financial Statements

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

	December 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents (C&CE)	$ 59,970,143	$ 49,138,289
Accounts receivable (net)	12,445,650	12,146,221
Due from other funds	401,047	444,580
Due from other governments	1,830,582	1,205,554
Inventory	1,012,955	1,014,100
Prepayments	226,460	290,854
Current restricted assets:		
C&CE - debt service, deposits and replacements	15,497,951	10,055,911
C&CE - construction accounts	41,680,387	911,262
Total restricted assets	57,178,338	10,967,173
Total current assets	133,065,175	75,206,771
Non-current assets:		
Net pension asset	1,119,219	-
Other non-current assets	4,087,232	4,225,619
Total non-current assets	5,206,451	4,225,619
Capital assets:		
Land and easements	19,628,654	19,621,412
Property, plant, and equipment	748,486,505	714,533,859
Less: accumulated depreciation	(236,073,097)	(221,487,000)
Construction work in progress	24,483,285	23,323,297
Total capital assets, net of depreciation	556,525,347	535,991,568
Total non-current assets	561,731,798	540,217,187
TOTAL ASSETS	694,796,973	615,423,958
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding	3,332,605	1,037,058
Deferred outflow - pensions	2,657,217	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,989,822	1,037,058
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 700,786,795	$ 616,461,016

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

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

	December 31, 2015	December 31, 2014
LIABILITIES		
Current liabilities:		
Accounts payable	$ 4,030,803	$ 5,911,913
Due to other funds	1,310,794	1,783,425
Due to other governments	528,849	490,403
State Revolving Loan interest payable	236,465	253,002
Accrued wages and benefits payable	737,650	1,686,508
Accrued taxes	653,731	730,886
Environmental liability - current	648,000	604,346
Notes & leases - current	4,414,062	4,323,757
Revenue bonds - current	3,542,917	-
Unearned revenue	-	195,619
Current payable from restricted assets:		
Debt principal payable	322,083	-
Debt interest payable	581,098	364,751
Total current liabilities	17,006,452	16,344,610
Non-current liabilities:		
Revenue bonds payable (net)	167,051,061	93,183,227
Compensated absences	2,691,710	2,646,180
Environmental liability - non-current	150,000	400,000
Notes & leases - non-current	75,882,600	80,296,661
Net OPEB obligation	2,519,381	2,231,603
Total non-current liabilities	248,294,752	178,757,671
TOTAL LIABILITIES	265,301,204	195,102,281
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
Deferred inflow - pensions	1,181,543	-
TOTAL DEFERRED INFLOWS OF RESOURCES	26,181,543	25,000,000
NET POSITION		
Net investment in capital assets	392,427,935	401,733,879
Restricted for:		
Debt service	14,594,770	9,691,160
Net pension asset	1,119,219	-
Unrestricted	1,162,124	(15,066,304)
TOTAL NET POSITION	409,304,048	396,358,735
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES RESOURCES, AND NET POSITION	$ 700,786,795	$ 616,461,016

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 Revenues, Expenses, and Changes in Net Position

	Year Ended December 31, 2015	2014
OPERATING REVENUES		
Wastewater residential	$ 42,086,028	$ 39,575,060
Wastewater commercial and public authorities	21,850,624	20,231,739
Surface water	30,504,327	29,188,607
Other revenues	1,958,544	1,236,841
Total operating revenues	96,399,523	90,232,247
OPERATING EXPENSES		
Salary and wages	22,225,184	21,862,742
Personnel benefits	8,988,049	9,532,902
Supplies	4,100,443	4,364,643
Services	24,686,417	23,436,690
Intergovernmental taxes	1,498,801	1,214,261
Depreciation	14,957,561	14,247,656
Total operating expenses	76,456,455	74,658,894
Net operating income	19,943,068	15,573,353
NONOPERATING REVENUES (EXPENSES)		
Interest and other earnings	631,313	618,519
Interest and other related costs	(8,526,797)	(5,684,999)
Amortization of bond premium and loss on refunding	671,737	258,021
Operating contributions - federal/state/local	267,610	-
Other non revenues	511,307	417,414
Loss on disposition of property	(30,162)	(44,360)
Total nonoperating revenues (expenses)	(6,474,992)	(4,435,405)
Net income before contributions and transfers	13,468,076	11,137,948
Capital contributions - interfund	-	211,165
Capital contributions	5,642,860	6,023,237
Transfer in	282,399	750
Transfer out & gross earnings tax	(7,824,301)	(7,372,785)
Total contributions and transfers	(1,899,042)	(1,137,633)
CHANGES IN NET POSITION	11,569,034	10,000,315
NET POSITION, BEGINNING OF YEAR	396,358,735	-
Accumulated adjustment for change in accounting principle	1,376,279	-
NET POSITION - BEGINNING OF YEAR, ADJUSTED	397,735,014	386,358,420
NET POSITION - ENDING	$ 409,304,048	$ 396,358,735

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

	Year Ended December 31, 2015	2014
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipt from customer and users	$ 96,144,570	$ 89,289,492
Receipt from interfund services provided	43,533	(336,154)
Payment to suppliers	(22,922,509)	(15,790,241)
Payments to employees	(31,828,783)	(31,028,158)
Payments for interfund services used	(10,864,017)	(9,932,923)
Payments for taxes	(1,515,351)	(1,214,075)
Other operating or non-operating revenue	511,307	415,881
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	29,568,750	31,403,822
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer from (to) other funds	(7,991,246)	(7,214,723)
Grant received	317,610	10,978
Debt service related to environmental clean-up	(1,616,044)	(1,915,194)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(9,289,680)	(9,118,939)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:		
Transfer from (to) other fund	388,740	94,795
Acquisition and construction of capital assets	(35,521,502)	(41,458,101)
Proceeds from sale of capital assets	-	5,750
Principal paid on capital debt	(41,807,544)	(3,596,773)
Interest and issuance costs paid on capital debt	(6,710,943)	(3,786,024)
Proceeds from the issuance of revenue and refunding bonds	114,254,023	-
Capital lease obligation	(661,212)	941,726
Contributions and donations	6,191,073	5,892,825
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	36,132,635	(41,905,802)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	631,314	620,052
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	631,314	620,052
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	57,043,019	(19,000,867)
CASH & CASH EQUIVALENTS, JANUARY 1	60,105,462	79,106,329
CASH & CASH EQUIVALENTS, DECEMBER 31	$ 117,148,481	$ 60,105,462

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

	Year Ended December 31, 2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income	$ 19,943,068	$ 15,573,353
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	14,957,561	14,247,656
(Increase) decrease in accounts receivable	(254,955)	(942,754)
(Increase) decrease in intergovernmental receivable	(1,223,240)	
(Increase) decrease in due from other funds	43,533	(336,154)
(Increase) decrease in inventory	1,145	(120,015)
(Increase) decrease in prepayments	158,306	(280,521)
(Increase) decrease in other assets	(3,776,436)	-
Increase (decrease) in deposit and other payables	-	(104,678)
Increase (decrease) in accounts payable	(1,897,660)	2,287,242
Increase (decrease) in accrued wages and benefits	(948,858)	141,458
Increase (decrease) in compensated absences	333,308	226,028
Increase (decrease) in due to other funds	(434,186)	462,830
Increase (decrease) in unearned revenue	(195,619)	7,730
(Increase) decrease in other current liabilities	43,654	(74,234)
(Increase) decrease in long term liabilities	2,307,822	(100,000)
Miscellaneous non-operating revenues	511,307	415,881
Total adjustments	9,625,682	15,830,469
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 29,568,750	$ 31,403,822
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	$ 1,800,071	$ 3,314,367

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

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Notes to Financial Statements

NOTE 1 OPERATIONS

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CHANGE IN ACCOUNTING PRINCIPLE – Effective for fiscal year 2015 reporting, the Division implemented new accounting standards issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan. Upon adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current year pension contributions are reported subsequent to the measurement date. The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the adjustment of 2015 beginning net position balances by $1,376,279 for the Division's portion of the net pension liability incurred in prior years. See Note 7 for further details.

Wastewater and Surface Water Management
Notes to Financial Statements

CASH AND CASH EQUIVALENTS - 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 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 TIP in the Washington State LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2015 and 2014 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

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's Investment Policy allows for authorized investments up to 60 months to maturity. One method 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. The minimum legal requirement is AAA for bankers acceptance notes, and fixed rate callable and non-callable agency securities, and A for fixed rate non-callable municipal securities. The Bank Certificates of Deposit (CD) and Demand Deposit Accounts (DDA) are protected by the FDIC insurance up to $250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State PDPC. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. The State Treasurers LGIP is authorized by RCW 43.250 and operates like a 2A7 fund and is collateralized by short term legal investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Concentration risk disclosure is required for all investments in a single issuer that is 5% or more of the total of the City's investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Custodial credit risk is the risk of unauthorized transactions by the custodian of investments. The City policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

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 doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed, which is included in accounts receivable.

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.

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

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

RESTRICTED CASH AND EQUITY IN POOLED INVESTMENTS - In accordance with bonds resolutions, 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 bonds construction, reserve and debt service funds, and customer deposits.

BONDS PREMIUM AND LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Losses on bond refunding are amortized on a straight-line basis over the applicable bond period.

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:

	Years
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.

Wastewater and Surface Water Management
Notes to Financial Statements

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

CONTRIBUTED CAPITAL - Capital grants and contributed capital assets 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%. The liability and expense for accumulated unused PTO is adjusted each year based on each employee's current compensation level.

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. The accrued liability for earned vacation is computed at 100% and earned sick leave is computed at 10%, which is considered the amount vested. The liability and expense for accumulated unused vacation and sick leave is adjusted each year based on each employee's current compensation level.

Liability and expense for compensated absences are recorded including 100% of compensated time earned based on each employee's current compensation level.

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.

Wastewater and Surface Water Management
Notes to Financial Statements

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

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

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

NET POSITION - The Statement of Net Position reports all financial and capital resources. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the 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), self-insurance liabilities, net pension asset 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.

Wastewater and Surface Water Management
Notes to Financial Statements

NOTE 3 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2015 and 2014 follows:

	2014	Additions	Retirements	Transfers	2015
Nondepreciable:					
Land and easements	$ 19,621,412	$ 7,242	$ -	$ -	$ 19,628,654
Buildings	151,712,963	-	-	10,282,769	161,995,732
Buildings - capital lease	31,813,726	-	-	-	31,813,726
Machinery and equipment	161,789,075	-	(345,525)	1,943,355	163,386,905
Transmission lines and other improvements	361,338,725	1,792,829	(43,979)	20,213,493	383,301,068
Computer software	7,879,370	-	-	109,704	7,989,074
Assets in service	734,155,271	1,800,071	(389,504)	32,549,321	768,115,159
Accumulated depreciation	(221,487,000)	(14,957,561)	371,464	-	(236,073,097)
Assets in service, net	512,668,271	(13,157,490)	(18,040)	32,549,321	532,042,062
Construction work in progress	23,323,297	34,630,899	-	(33,470,911)	24,483,285
Total capital assets	$ 535,991,568	$ 21,473,409	$ (18,040)	$ (921,590)	$ 556,525,347

	2013	Additions	Retirements	Transfers	2014
Nondepreciable:					
Land and easements	$ 19,255,327	$ 366,085	$ -	$ -	$ 19,621,412
Buildings	151,293,170	-	-	419,793	151,712,963
Buildings - capital lease	30,272,000	-	-	1,541,726	31,813,726
Machinery and equipment	152,561,487	-	(197,721)	9,425,309	161,789,075
Transmission lines and other improvements	333,647,503	3,314,367	(76,994)	24,453,849	361,338,725
Computer software	7,831,714	-	-	47,656	7,879,370
Assets in service	694,861,201	3,680,452	(274,715)	35,888,333	734,155,271
Accumulated depreciation	(207,463,950)	(14,248,093)	225,043	-	(221,487,000)
Assets in service, net	487,397,251	(10,567,641)	(49,672)	35,888,333	512,668,271
Construction work in progress	21,433,982	36,235,922	-	(34,346,607)	23,323,297
Total capital assets	$ 508,831,233	$ 25,668,281	$ (49,672)	$ 1,541,726	$ 535,991,568

NOTE 4 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2015 and 2014 follows:

	2014	Additions	Reductions	2015	Due within One Year
Revenue bonds	$ 89,265,000	$ 109,300,000	$ (39,390,000)	$ 159,175,000	$ 3,865,000
Plus: Unamortized premium	3,918,227	9,177,376	(1,354,542)	11,741,061	-
State Revolving Fund loans	55,632,691	3,662,543	-	51,970,148	3,729,611
Long-term debt	$ 148,815,918	$ 122,139,919	$ (40,744,542)	$ 222,886,209	$ 7,594,611
Capital lease	28,987,727	661,213	-	28,326,514	684,451
Total long-term debt	$ 177,803,645	$ 122,801,132	$ (40,744,542)	$ 251,212,723	$ 8,279,062

	2013	Additions	Payments	2014	Due within One Year
Revenue bonds	$ 89,265,000	$ -	$ -	$ 89,265,000	$ -
Plus: Unamortized premium	4,237,552	-	(319,325)	3,918,227	-
State Revolving Fund loans	59,229,465	-	(3,596,774)	55,632,691	3,662,544
Long-term debt	$ 152,732,017	$ -	$ (3,916,099)	$ 148,815,918	$ 3,662,544
Capital lease	28,046,000	2,133,089	(1,191,362)	28,987,727	661,213
Total long-term debt	$ 180,778,017	$ 2,133,089	$ (5,107,461)	$ 177,803,645	$ 4,323,757

Wastewater and Surface Water Management
Notes to Financial Statements

The Division's long-term debt at December 31, 2015 and 2014 consists of the following payable from revenues of the Division.

	2015	2014
Parity bonds, senior lien:		
2006 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of $2,345,000 to $2,840,000 between 2016 and 2021. Purpose was to fund a portion of the capital improvement plan, refund certain maturities of the 2001 Series A bonds, and pay the costs of issuance. Original par value $55,000,000 with a call date of December 1, 2016. Portions of the bonds with a par value of $39,390,000 were called for redemption in advance of their scheduled maturities and retired with the proceeds of the 2015 Revenue and Refunding Bonds.	$ 15,560,000	$ 54,950,000
2011 Refunding Bonds, with interest rates ranging from 4.00% to 5.00%, due in yearly installments of $2,765,000 to $4,205,000 between 2022 and 2031. Original par value $34,315,000 with a call date of December 1, 2021. Purpose was to refund the 2001 Series A bonds and pay the costs of issuance.	34,315,000	34,315,000
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 finance a portion of the costs of the City's capital improvement program, (b) to refund a portion of the City's 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.	109,300,000	-
Total parity bonds, senior lien	159,175,000	89,265,000
Junior lien debt:		
State Revolving Fund loans A & B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of $3,450,000 to $4,500,000 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 Treatement Plant Upgrade project.	51,583,235	55,225,478
State Revolving Fund loan 2011, with an interest rate of 2.9% in semi-annual installments of $16,017 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.	386,913	407,213
Total junior lien debt	51,970,148	55,632,691
Total outstanding debt	211,145,148	144,897,691
Less:		
Current portion	(7,594,611)	(3,662,544)
Plus: Unamortized premium	11,741,061	3,918,227
Total long-term debt	$215,291,598	$145,153,374

Annual debt service requirements to maturity are as follows:

	Principal	Interest on Debt	Total Debt Service
2016	$ 7,594,611	$ 7,913,390	$ 15,508,001
2017	7,833,001	7,676,650	15,509,651
2018	8,092,742	7,422,059	15,514,801
2019	8,368,863	7,139,688	15,508,551
2020	8,636,393	6,875,741	15,512,134
2021-2025	46,666,398	29,858,145	76,524,543
2026-2030	42,523,140	22,143,156	64,666,296
2030-2035	41,550,000	13,381,331	54,931,331
2035-2040	21,680,000	5,750,256	27,430,256
2041-2045	18,200,000	2,241,000	20,441,000
	$ 211,145,148	$ 110,401,416	$ 321,546,564

The carrying amounts of the State Revolving Fund loans approximate the fair value since such loans are exclusive and have not market.

The Division's current underlying credit ratings are Aa2, AA+, and AA+ from Moody's, Standard and Poor's, and Fitch, respectively.

ADVANCED REFUNDING – During 2015 the Division issued $109,300,000 in revenue and refunding bonds with interest rates ranging from 3.0% to 5.0%. A portion of the proceeds were used to advance refund $39,390,000 of outstanding 2006 Sewer Revenue and Refunding bonds which had interest rates ranging from 4.5% to 5%. A portion of net proceeds in the amount of $42,950,043 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of 2006 Sewer Revenue and Refunding bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $2,776,067. This amount is presented as a deferred outflow of resources and amortized over the remaining life of the refunding debt. The Division advance refunded a portion of the 2006 Sewer Revenue and Refunding bonds to reduce its total debt service payments over 20 years by $5,910,280 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $4,428,064.

Defeased and outstanding 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 therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of December 31, 2015, no bonds were defeased and outstanding.

The Division's revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bonds construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2015 or 2014.

NOTE 5 CAPITAL LEASE

By Ordinance No. 27783 passed on January 20, 2009, the City approved a property agreement and project lease with TES Properties and issuance by TES Properties of $37,840,000 aggregate principal amount of its Lease Revenue Bonds, 2009 (Bonds). TES Properties is a single purpose Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation. The Environmental Services Department determined the appropriate pro-rata share for the Environmental Services divisions to share in all revenue, costs and cash requirements based on usage of the Urban Waters building to be: Wastewater (43%), Surface Water (37%) and Solid Waste (20%).

Environmental service department changed the percentage split based on the floor space utilization of the Center for Urban Water building as Wastewater (40.4%), Surface Water (44.1%) and Solid Waste (15.5%) effective date December 31, 2014 which resulted in the change in the future capital lease obligation and associated capital asset of $1.5 million. The three divisions have included their pro-rata share of the capital lease and lease obligation for the building in their respective financial statements. The building has a useful life of 50 years and the lease agreement is for 29 years which exactly matches the debt service schedule of the Bonds. The land on which the building was constructed has been transferred to TES Properties and reclassified on the divisions' statements of net position in other noncurrent assets. All assets revert to the City at the end of the lease.

The future payments of the lease obligation as of December 31, 2015 total $62,642,038. The Division's portion of the future lease payments is presented in the following table:

Years	Capital Lease Payments
2016	2,204,293
2017	2,206,490
2018	2,207,504
2019	2,205,476
2020	2,204,484
2021-2025	11,025,375
2026-2030	11,031,206
2031-2035	11,026,326
2036-2038	6,559,024
	$ 50,670,176
Less interest	22,343,662
Principal	$ 28,326,514

The sub-lease agreements for the space in the Urban Waters building include agreements with two tenants: the University of Washington Tacoma (UWT) and the Puget Sound Partnership (PSP). Both are for ten year periods effective in 2010 with the possibility of five year extensions. The revenue are shared across the utilities on the same prorate basis as the building lease. The UWT agreement provides revenue of $293,640 per year, adjusted annually for inflation, and the PSP agreement provides a total of $1,615,000 in revenue spread over the ten year lease period.

Wastewater and Surface Water Management
Notes to Financial Statements

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 $378,274 for 2015 compared to $211,399 for 2014. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City maintains an excess general liability policy with limits of $15 million, subject to a self-insured retention of $3 million and a $30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with a $1 million self-insured retention plus a $250,000 of total loss each 12 month policy period. The City carries property insurance coverage with a maximum single occurrence limit of $500,000,000 with a $150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies $223,286 in 2015 and $253,165 in 2014.

NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

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

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

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

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

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. The breakdown of membership as of January 1, 2015 is as follows:

Retirees and beneficiaries currently receiving benefits		2,167
Terminated vested and other terminated participants		627
Active members:		
City of Tacoma	2,622	
South Sound 911	4	
Pierce Transit	6	
Tacoma-Pierce County Health Department	252	
Total active members		2,884
Total membership		5,678

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

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

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

Wastewater and Surface Water Management
Notes to Financial Statements

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. Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the UAAL of the System if future experience follows all actuarial assumptions. 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, 2014
Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows: · Level percent · Open periods · 30 year amortization period at 01/01/2015 · 4% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	4% general wage increase assumption
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.13%
Retirement Age	Varies by age, gender, eligibility
Turnover	Varies by age, gender, eligibility
Mortality	RP-2000 mortality for healthy and disabled annuitants, with age adjustments

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. Between January 1, 2014 and January 1, 2015 no assumptions were changed.

TARGET ALLOCATION - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of June 30, 2014. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment grade fixed income	15.0%	2.03%
US inflation-indexed bonds	5.0	1.41
High yield bonds	9.0	4.49
Emerging market debt	5.0	5.05
Global equity	41.5	6.02
Public real estate	2.0	6.38
Private real estate	2.5	3.72
Private equity	10.0	9.02
Master limited partnerships	4.0	4.46
Timber	2.0	3.84
Infrastructure	2.0	5.88
Agriculture	2.0	4.38
Assumed inflation - mean		3.00
Assumed inflation - standard deviation		1.85
Portfolio arithmetic real mean return		5.11
Portfolio median nominal geometric return		7.21
Portfolio standard deviation		12.02
Long-term expected rate of return, net of investment expenses		7.25

SENSITIVITY ANALYSIS - The following presents the Division's proportionate share of the net pension asset of the System, calculated using the discount rate of 7.25%, as well as what the Division's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) that the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability (asset)	$ 19,256,477	$ (1,119,219)	$ (18,268,537)

Detailed information about the pension plan's fiduciary net position is available in the separately issued TERS CAFR.

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

		Deferred Inflows of Resources		Deferred Outflows of Resources
Differences between actual and expected experience		(1,551,159)		-
Changes in proportionate share		-		7,096
Net differences between projected and actual earnings		369,616		-
Contributions made subsequent to the measurement date		-		2,650,121
Total	$	(1,181,543)	$	2,657,217

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

Amounts will be recognized in pension expense as follows:

Year ended December 31	
2016	(370,037)
2017	(370,037)
2018	(370,037)
2019	(61,674)
Thereafter	-

The Division's proportionate share of the collective net pension liability is 11.65%. Each employer in TERS contributes at the same rate of payroll. The proportionate share is based on actual contributions for the year, which provides a reasonable basis for each employer's projected long-term contribution effort.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION - The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. GAAP requires that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

FUNDING POLICY - The City uses pay as you go funding; contributions to a separate trust are not required.

ANNUAL OPEB COST AND NET OPEB OBLIGATION - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded. For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the 2014 year under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2015 is 22 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2015 as the City has not set aside funds for OPEB.

EXCISE TAX FOR HIGH COST OR "CADILLAC" HEALTH PLANS IN 2018 AND BEYOND –An excise tax for high cost health coverage, or "Cadillac" health plans was included in the Patient Protection and Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds are $10,200 for single coverage and $27,500 or a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of Patient Protection and Affordable Care Act (PPACA) should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB released two new statements for Post Employment Benefits Other than Pension Plans, or OPEB. The new GASB Statements 74 and 75 were released in June 2015 and will replace GASB 43 and 45. The statements are available via the GASB website. GASB 74 is effective for fiscal years beginning after June 15, 2016, and GASB 75 is effective for fiscal years beginning June 15, 2017. These statements will mean fundamental changes in financial reporting for OPEB.

SUMMARY OF CHANGES – As of the January 1, 2015 valuation, the total AAL of $208,814,312 was 20% lower than expected. The City experienced a liability gain since the last valuation caused by numerous factors, including a clarification in spouse benefits, which cease once a member attains age 65. It was also caused by smaller than expected changes in medical costs, demographic experience, and a change to the assumption for future medical trends.

Wastewater and Surface Water Management
Notes to Financial Statements

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	January 1, 2013		January 1, 2015	
Total Membership:				
Active employees		3,335		3,404
Terminated vested employees		394		442
Retired employees and Dependents		846		744
Total		4,575		4,590
Annual City Benefit Payments	$	9,887,335	$	8,963,089
Discount rate		3.75%		3.75%
Present Value of Benefits	$	326,742,538	$	262,184,195
Actuarial Accrued Liability	$	251,839,846	$	208,814,312
Assets		-		-
Unfunded Actuarial Accrued Liability	$	251,839,846	$	208,814,312
Normal Cost (End of year)	$	5,484,587	$	3,832,131
Annual Required Contribution	$	20,058,760	$	16,966,964

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits		Member Paid Premiums		City Paid Benefits	
Present Value of Benefits	$	420,832,932	$	158,648,737	$	262,184,195
Actuarial Accrued Liability	$	291,228,295	$	82,413,983	$	208,814,312
Normal Cost	$	9,501,758	$	5,669,627	$	3,832,131
Annual Benefit Payments	$	12,325,369	$	3,362,280	$	8,963,089

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of January 1, 2015.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	$ 3,832,131	$ 289,506
Amortization of UAAL	13,134,833	98,165
Annual Required Contribution	$ 16,966,964	$ 387,671
Determination of Net OPEB Obligation:		
Annual Required Contribution	$ 16,966,964	$ 387,671
Interest on prior year Net OPEB Obligation	2,480,183	83,685
Adjustment to ARC	(3,492,760)	(98,894)
Annual OPEB Cost	15,954,387	372,463
Actual benefits paid	8,963,091	84,685
Increase in Net OPEB Obligation	6,991,296	287,778
Net OEPB Obligation - beginning of year	66,138,206	2,231,603
Net OPEB Obligation - end of year	$ 73,129,502	$ 2,519,381

FUNDED STATUS AND FUNDING PROGRESS - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 3.75% interest rate.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Division	City	Division	City	Division
12/31/2013	$ 19,528,767	$ 417,168	$ 9,887,334	$ 120,646	$ 56,110,801	$ 1,967,642
12/31/2014	$ 19,319,944	$ 412,703	$ 9,292,539	$ 148,742	$ 66,138,206	$ 2,231,603
12/31/2015	$ 15,954,387	$ 372,463	$ 8,963,091	$ 84,685	$ 73,129,502	$ 2,519,381

As of January 1, 2015, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 3.75% interest rate, the actuarial accrued liability for benefits was $208,814,312, and the actuarial value of assets was zero, resulting in an unfunded accrued liability of $208,814,312.

The Division has included the liability in the other long term liabilities on the Statement of Net Position.

ACTUARIAL METHODS AND ASSUMPTIONS - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the UAAL. In determining the ARC, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 22 years.

Wastewater and Surface Water Management
Notes to Financial Statements

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2015
Census Date	January 1, 2015
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	22 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate	3.75% for pay-as-you-go funding
Medical Cost Trend	2015 6.9%
	2016 6.6%
	2017 5.9%
	2020 5.5%
	2030 5.9%
	2040 5.7%
	The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. 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)	3.75%
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):
	• Age 55 with 10 years of service
	• Age 40 with 20 years of service

NOTE 9 ENVIRONMENTAL LIABILITIES

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City has resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree that became effective on December 30, 1997. The stated value of the City's settlement is approximately $7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction has been completed on four projects and the City made a payment to the Port of Tacoma of $134,692 to construct the fifth project.

The City provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree had been fulfilled. In the Trustees response, they indicated that monitoring of a related project needed to be complete before the Consent Decree could be closed out. Included in the financial statements for the years 2015 and 2014 were liabilities of $198,000. This amount will carry over until the Consent Decree can be closed out. Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980's and early 1990's. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources.

HYLEBOS WATERWAY CONSENT DECREE - In 2003 the City of Tacoma – General Government entered a Consent Decree settlement with EPA to resolve any liability it may have had for sediment contamination in the Hylebos Waterway. The majority of the City's potential liability was attributed to municipal storm water discharges. Under the terms of its settlement, the City paid $459,663 to "cash-out" its liability. This amount included a 50 percent premium, which obligated the City to pay a small percentage (i.e., 0.4397%) of any cost overruns if the remedial action work exceeded the project estimate of $56,056,407 to complete such work. On January 11, 2013 the City was notified by the Hylebos Performing Party Group that the cost of the Hylebos Waterway remedial action project totaled $110,991,511. This number has since been adjusted downward, setting the City's share of cost overruns at $224,683. The City also anticipates making an additional payment to the Hylebos Performing Party Group for around $63,317, which would fully and finally resolve the City's liability for any post-2013 costs overruns under its 2003 Hylebos Waterway Consent Decree settlement with EPA. The City recorded an expense of $296,346 as of December 31, 2015 and there is no liability remaining for this decree in 2016.

FOSS CONSENT DECREE – The City has an obligation under the Foss Consent Decree for continued monitoring until at least 2016. The results of this monitoring may result in additional cleanup efforts in the future. Obligations for future monitoring costs of $600,000 in 2015 and $500,000 in 2014 have been recognized in the financial statements as environmental liabilities.

NOTE 10 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.

Required Supplementary Information

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Wastewater and Surface Water Management
Required Supplementary Information

Schedule of the Division's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	Fiscal Year Ended December 31, 2015	2014-2006
Division's proportion of the net pension liability (asset)	11.65%	N/A
Division's proportionate share of the net pension liability (asset)	$ (1,119,219)	N/A
Division's covered-employee payroll	$ 26,960,556	N/A
Division's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-4.15%	N/A
Plan fiduciary net postion as a percentage of the total pension liability	100.71%	N/A

** The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year*

Schedule of Division Contributions
Last 10 Fiscal Years

	Fiscal Year Ended December 31, 2015	2014-2006
Contractually required contribution	$ 2,650,121	N/A
Contributions in relation to the contracturally required contribution	(2,650,121)	N/A
Contribution deficiency (excess)	$ -	N/A
Division's covered-employee payroll	$ 26,960,556	N/A
Contribution as a percentage of covered-employee payroll	9.83%	N/A

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Unaudited Supplemental Information

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Wastewater and Surface Water Management
Unaudited Supplemental Information

City of Tacoma, Washington Revenue and Refunding Bonds, Series 2006
TES Properties Lease Revenue Bonds, 2009
City of Tacoma, Washington Refunding Bonds, Series 2011
City of Tacoma, Washington Revenue and Refunding Bonds, Series 2015

The following continuing disclosure information for 2014 is provided in accordance with SEC Rule 15c2-12(b)(5)

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

Outstanding Sewer Bonds
Reference Note 4 in Notes to Financial Statements

Debt Service Coverage

	2014	2015
Parity Bonds Debt Service Coverage Ratio	4.41	4.18
Parity Bonds and Subordinate Lien Debt Service Coverage Ratio	2.64	2.73

Number of Customers by Type of Service
The System's number of customers by type of service is shown in the table below.

	Wastewater				Surface Water		
Year	Residential	Commercial/ Industrial	Contract[1]	Total	Residential	Commercial/ Industrial	Total
2014	57,599	3,749	13,592	74,940	59,425	11,087	70,512
2015	58,156	3,763	13,813	75,732	59,518	11,093	70,611

(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.

Top Ten Customers

The System's ten largest customers for 2015 are shown in the following table.

Customer Name	Amount	Percent of 2015 Operating Revenues (1)
Port of Tacoma	$ 2,140,606	2.22%
Tacoma School District	1,517,837	1.57%
City of Tacoma	1,187,500	1.23%
Puyallup Tribe	827,594	0.86%
Darling International Inc	754,151	0.78%
Pierce County Facilities	622,029	0.65%
Metro Parks	517,273	0.54%
St Joseph Hospital	486,010	0.50%
Burlington Northern Railroad	419,958	0.44%
Westridgets Apartments	413,992	0.43%
Total	$ 8,886,952	9.22%
(1) Total system revenue	$ 96,399,525	

Revenues by Service

The Systems revenues for 2014 and 2015 are shown in the following table.

	2014	2015
Wastewater:		
Residential	$ 39,575,060	$ 42,086,028
Commercial and public authorities	20,231,739	21,850,624
Other revenues	1,063,296	1,732,666
Surface Water:		
Unmetered services	29,188,607	30,504,327
Other revenues	173,545	225,878
Total operating revenues	$ 90,232,247	$ 96,399,523

Wastewater and Surface Water Rates

<u>Wastewater Rates</u>

The 2015 and 2016 monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

	2015[(1)]	2016[(1)]
Residential		
Monthly fixed charge	$ 21.50	$ 22.79
Flow charge[(2)]	4.05	4.30
Commercial		
Monthly fixed charge	$ 10.22	$ 10.84
Flow charge[(3)]	5.40-12.35	5.73-13.10

(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 2015 and 2016 monthly rates for surface water service, as adopted by the Council, are shown in the following table.

	2015[1]		2016[1]	
Category of Development	**Monthly Fixed Charge**	**Rate per 500 Square Feet of Premises Area**	**Monthly Fixed Charge**	**Rate per 500 Square Feet of Premises Area**
Waterfront/Direct Discharge Parcels				
Undeveloped-first acre or less	$ 6.37	$ 0.1253	$ 6.73	$ 0.1322
Undeveloped-area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.3755	6.73	0.3962
Moderate development	6.37	0.5228	6.73	0.5516
Heavy development	6.37	0.7508	6.73	0.7921
Very Heavy development	6.37	1.0009	6.73	1.0560
All Other Parcels				
Undeveloped area – one acre or less	$ 6.37	$ 0.2572	$ 6.73	$ 0.2714
Undeveloped area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.7714	6.73	0.8139
Moderate development	6.37	1.0507	6.73	1.1085
Heavy development	6.37	1.5426	6.73	1.6275
Very Heavy development	6.37	2.0568	6.73	2.1700

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

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

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

	Wastewater		Surface Water	
	December 31,		December 31,	
	2015	2014	2015	2014
ASSETS				
Current Assets:				
Cash and cash equivalents (C&CE)	$ 32,995,067	$ 25,937,866	$ 26,975,076	$ 23,200,423
Accounts receivable (net)	8,564,036	8,225,917	3,881,614	3,920,304
Due from other funds	121,540	141,870	279,507	302,710
Due from other governments	-	-	1,830,582	1,205,554
Inventory	1,012,955	1,014,100	-	-
Prepayments	213,018	229,939	13,442	60,915
Current restricted assets:				
C&CE - debt service, deposits and replacements	10,209,691	6,380,728	5,288,260	3,675,183
C&CE - construction accounts	31,595,476	720,589	10,084,911	190,673
Total restricted assets	41,805,167	7,101,317	15,373,171	3,865,856
Total current assets	84,711,783	42,651,009	48,353,392	32,555,762
Non-current assets:				
Net pension asset	766,219	-	353,000	-
Other non-current assets	2,816,178	2,954,565	1,271,054	1,271,054
Total non-current assets	3,582,397	2,954,565	1,624,054	1,271,054
Capital assets:				
Land and easements	7,572,520	7,561,938	12,056,134	12,059,474
Property, plant, and equipment	548,951,489	523,192,092	199,535,016	191,341,767
Less: accumulated depreciation	(190,226,348)	(179,357,928)	(45,846,749)	(42,129,072)
Construction work in progress	16,904,275	19,464,273	7,579,010	3,859,024
Total capital assets, net of depreciation	383,201,936	370,860,375	173,323,411	165,131,193
Total non-current assets	386,784,333	373,814,940	174,947,465	166,402,247
TOTAL ASSETS	471,496,116	416,465,949	223,300,857	198,958,009
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding	1,151,431	309,553	2,181,174	727,505
Deferred outflow - pensions	1,819,135	-	838,082	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,970,566	309,553	3,019,256	727,505
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 474,466,682	$ 416,775,502	$ 226,320,113	$ 199,685,514

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

	Wastewater December 31, 2015	Wastewater December 31, 2014	Surface Water December 31, 2015	Surface Water December 31, 2014
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,047,344	$ 2,788,954	$ 1,983,459	$ 3,122,959
Due to other funds	700,678	893,336	610,116	890,089
Due to other governments	528,849	490,403	-	-
State Revolving Loan interest payable	236,465	253,002	-	-
Accrued wages and benefits payable	524,461	1,163,837	213,189	522,671
Accrued taxes	437,706	497,444	216,025	233,442
Environmental liability - current	-	-	648,000	604,346
Notes & leases - current	4,035,955	3,958,374	378,107	365,383
Revenue bonds - current	1,812,773	-	1,730,144	-
Unearned revenue	-	134,398	-	61,221
Current payable from restricted assets:				
Debt principal payable	164,797	-	157,286	-
Debt interest payable	284,314	122,880	296,784	241,871
Total current liabilities	10,773,342	10,302,628	6,233,110	6,041,982
Non-current liabilities:				
Revenue bonds payable (net)	83,409,156	30,741,356	83,641,905	62,441,871
Compensated absences	2,021,343	1,977,586	670,367	668,594
Environmental liability - non-current	-	-	150,000	400,000
Notes & leases - non-current	61,090,370	65,126,325	14,792,230	15,170,336
Net OPEB obligation	2,036,203	1,761,706	483,178	469,897
Total non-current liabilities	148,557,072	99,606,973	99,737,680	79,150,698
TOTAL LIABILITIES	159,330,414	109,909,601	105,970,790	85,192,680
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflow - pensions	808,886	-	372,657	-
TOTAL DEFERRED INFLOWS OF RESOURCES	17,808,886	17,000,000	8,372,657	8,000,000
NET POSITION				
Net investment in capital assets	265,600,589	272,064,462	126,827,346	129,669,417
Restricted for:				
Debt service	9,760,580	6,257,848	4,834,190	3,433,312
Net pension asset	766,219	-	353,000	-
Unrestricted	21,199,994	11,543,591	(20,037,870)	(26,609,895)
TOTAL NET POSITION	297,327,382	289,865,901	111,976,666	106,492,834
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES RESOURCES, AND NET POSITION	$ 474,466,682	$ 416,775,502	$ 226,320,113	$ 199,685,514

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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
OPERATING REVENUES				
Wastewater residential	$ 42,086,028	$ 39,575,060	$ -	$ -
Wastewater commercial and public authorities	21,850,624	20,231,739	-	-
Surface water	-	-	30,504,327	29,188,607
Other revenues	1,732,666	1,063,296	225,878	173,545
Total operating revenues	65,669,318	60,870,095	30,730,205	29,362,152
OPERATING EXPENSES				
Salary and wages	15,380,698	15,491,518	6,844,486	6,371,224
Personnel benefits	6,338,517	7,018,143	2,649,532	2,514,759
Supplies	3,260,708	3,373,929	839,735	990,714
Services	16,275,107	15,280,509	8,411,310	8,156,181
Intergovernmental taxes	1,047,734	792,107	451,067	422,154
Depreciation	11,224,784	10,941,728	3,732,777	3,305,928
Total operating expenses	53,527,548	52,897,934	22,928,907	21,760,960
Net operating income	12,141,770	7,972,161	7,801,298	7,601,192
NONOPERATING REVENUES (EXPENSES)				
Interest and other earnings	392,468	351,073	238,845	267,446
Interest and other related costs	(4,402,079)	(2,618,402)	(4,124,718)	(3,066,597)
Amortization of bond premium and loss on refunding	321,372	57,162	350,365	200,859
Operating contributions - federal/state/local	-	-	267,610	-
Other non revenues	290,774	230,423	220,533	186,991
Loss on disposition of property	(12,256)	(28,369)	(17,906)	(15,991)
Total nonoperating revenues (expenses)	(3,409,721)	(2,008,113)	(3,065,271)	(2,427,292)
Net income before contributions and transfers	8,732,049	5,964,048	4,736,027	5,173,900
Capital contributions - interfund	-	-	-	211,165
Capital contributions	2,908,306	1,755,103	2,734,554	4,268,134
Transfer in	211,026	-	71,373	750
Transfer out & gross earnings tax	(5,332,103)	(4,947,016)	(2,492,198)	(2,425,769)
Total contributions and transfers	(2,212,771)	(3,191,913)	313,729	2,054,280
CHANGES IN NET POSITION	6,519,278	2,772,135	5,049,756	7,228,180
NET POSITION, BEGINNING OF YEAR	289,865,901	-	106,492,834	-
Accumulated adjustment for change in accounting principle	942,203	-	434,076	-
NET POSITION - BEGINNING OF YEAR, ADJUSTED	290,808,104	287,093,766	106,926,910	99,264,654
NET POSITION - ENDING	$ 297,327,382	$ 289,865,901	$ 111,976,666	$ 106,492,834

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

	Wastewater Year Ended December 31, 2015	Wastewater Year Ended December 31, 2014	Surface Water Year Ended December 31, 2015	Surface Water Year Ended December 31, 2014
CASH FLOW FROM OPERATING ACTIVITIES:				
Receipt from customer and users	$ 65,375,674	$ 60,325,553	$ 30,768,896	$ 28,963,939
Receipt from interfund services provided	20,330	(77,318)	23,203	(258,836)
Payment to suppliers	(14,678,546)	(12,273,071)	(8,243,963)	(3,517,170)
Payments to employees	(22,040,336)	(22,221,610)	(9,788,447)	(8,806,548)
Payments for interfund services used	(6,609,779)	(5,757,655)	(4,254,238)	(4,175,268)
Payments for taxes	(1,059,956)	(786,134)	(455,395)	(427,941)
Other operating or non-operating revenue	290,774	228,933	220,533	186,948
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	21,298,161	19,438,698	8,270,589	11,965,124
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer from (to) other funds	(5,094,795)	(4,840,929)	(2,896,451)	(2,373,794)
Grant received	-	-	317,610	10,978
Debt service related to environmental clean-up	-	-	(1,616,044)	(1,915,194)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(5,094,795)	(4,840,929)	(4,194,885)	(4,278,010)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:				
Transfer from (to) other fund	(73,797)	(73,130)	462,537	167,925
Acquisition and construction of capital assets	(23,578,601)	(21,160,705)	(11,942,901)	(20,297,396)
Proceeds from sale of capital assets	-	-	-	5,750
Principal paid on capital debt	(19,201,710)	(3,577,053)	(22,605,834)	(19,720)
Interest and issuance costs paid on capital debt	(4,257,182)	(2,634,621)	(2,453,761)	(1,151,403)
Proceeds from the issuance of revenue and refunding bonds	69,684,330	-	44,569,693	-
Capital lease obligation	(316,130)	(1,215,505)	(345,082)	2,157,231
Contributions and donations	2,908,306	1,755,103	3,282,767	4,137,722
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	25,165,216	(26,905,911)	10,967,419	(14,999,891)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	392,469	352,561	238,845	267,491
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	392,469	352,561	238,845	267,491
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	41,761,051	(11,955,581)	15,281,968	(7,045,286)
CASH & CASH EQUIVALENTS, JANUARY 1	33,039,183	44,994,764	27,066,279	34,111,565
CASH & CASH EQUIVALENTS, DECEMBER 31	$ 74,800,234	$ 33,039,183	$ 42,348,247	$ 27,066,279

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

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Net operating income	$ 12,141,770	$ 7,972,161	$ 7,801,298	$ 7,601,192
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	11,224,784	10,941,728	3,732,777	3,305,928
(Increase) decrease in accounts receivable	(293,646)	(544,542)	38,691	(398,212)
(Increase) decrease in intergovernmental receivable	-		(1,223,240)	
(Increase) decrease in due from other funds	20,330	(77,318)	23,203	(258,836)
(Increase) decrease in inventory	1,145	(120,015)	-	-
(Increase) decrease in prepayments	110,833	(252,292)	47,473	(28,229)
(Increase) decrease in other assets	(2,585,354)	-	(1,191,082)	-
Increase (decrease) in deposit and other payables	-	-	-	(104,678)
Increase (decrease) in accounts payable	(753,832)	822,246	(1,143,828)	1,464,996
Increase (decrease) in accrued wages and benefits	(639,375)	90,808	(309,483)	50,650
Increase (decrease) in compensated absences	318,254	197,243	15,054	28,785
Increase (decrease) in due to other funds	(154,213)	174,435	(279,973)	288,395
Increase (decrease) in unearned revenue	(134,398)	5,311	(61,221)	2,419
(Increase) decrease in other current liabilities	-	-	43,654	(74,234)
(Increase) decrease in long term liabilities	1,751,089	-	556,733	(100,000)
Miscellaneous non-operating revenues	290,774	228,933	220,533	186,948
Total adjustments	9,156,391	11,466,537	469,291	4,363,932
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 21,298,161	$ 19,438,698	$ 8,270,589	$ 11,965,124
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	$ 719,758	$ 1,588,765	$ 1,080,313	$ 1,725,602

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APPENDIX E

ECONOMIC AND DEMOGRAPHIC INFORMATION

The City, the county seat of Pierce County (the "County"), is located in the west-central part of Washington State near the southern tip of Puget Sound. It is the third largest city in the State with a 2010 US Census population of 198,397. The City is located 32 miles south of Seattle and 28 miles northeast of Olympia, the State capital.

Settled originally because of its natural deep harbor and its abundant natural resources of timber, fish and agriculture, the City is now a world-class port city. Various major downtown redevelopment projects have been undertaken over the last decade, and the City is experiencing a diversification of its economic base. A light rail system connects the Tacoma Dome Station with downtown businesses and passes the University of Washington's Tacoma campus, museums, the Convention Center and retail businesses.

Following are economic indicators for the City and Pierce County.

Population. The historical population of the City and Pierce County is shown in the following table.

POPULATION
CITY OF TACOMA AND PIERCE COUNTY

Year	Tacoma	Pierce County
2015	202,300	830,120
2014	200,900	821,300
2013	200,400	814,500
2012	199,600	808,200
2011	198,900	802,150
2010	198,397	795,225

Source: Washington State Office of Financial Management estimates

Income. Historic personal income and per capita income levels for the County and the State are shown below:

	Pierce County		State of Washington	
Year	Total Personal Income (in thousands)[1]	Per Capita Income[1]	Total Personal Income (in thousands)[2]	Per Capita Income[2]
2014	$ 36,282,818	$ 43,613	$ 350,321,729	$ 49,610
2013	34,134,693	41,617	331,031,362	47,468
2012	33,446,136	41,171	326,496,701	47,344
2011	32,121,956	39,978	305,628,042	44,800
2010	30,852,767	38,787	288,694,995	42,821

(1) Estimates for 2010-2014 reflect county population estimates available as of March 2015.
(2) Estimates for 2010-2014 use state population estimates released as of December 2014.
Source: U.S. Department of Commerce, Bureau of Economic Analysis County data as of November 19, 2015. State data as of September 30, 2015

Median Household Income. Median household income estimates for the County and the State are provided in the following table:

Year	Pierce County	State of Washington
2015[1]	$ 61,485	$ 62,108
2014[2]	59,998	60,153
2013	57,238	57,284
2012	57,162	56,444
2011	56,114	55,500

(1) Projected. The Revenue Forecast Council's November 2015 forecast of the state personal income is used in the projection of 2015 median household income.
(2) Preliminary estimate.
Source: Office of Financial Management, March 2016

Taxable Retail Sales. Taxable retail sales reflect only those sales subject to retail sales tax. Historic taxable retail sales for the County and the City are shown below:

Taxable Retail Sales

	Pierce County	City of Tacoma
2015[1]	$ 10,201,076,723	$ 3,415,608,845
2014	12,736,324,142	4,317,891,441
2013	12,189,183,093	4,280,299,531
2012	11,520,820,885	4,046,579,862
2011	10,624,267,732	3,826,546,602

(1) Through third quarter 2015. Through third quarter in 2014, taxable retail sales for the County and City, respectively, were $9,406,090,159 and $3,170,607,682.
Source: Washington State Department of Revenue, March 2016

Building Permits. The number and valuation of new single-family and multi-family residential building permits in the County are listed below:

Pierce County
Residential Building Permits[1]

	New Single Family Units		New Multi-Family Units		Total
Year	Number	Construction Cost	Number	Construction Cost	Construction Cost
2015	2,265	$ 659,214,682	652	$ 75,127,456	$ 734,342,138
2014	2,371	663,531,092	1,406	163,645,690	827,176,782
2013	2,369	636,063,255	523	53,729,873	689,793,128
2012	2,009	514,883,902	470	47,924,264	562,808,166
2011	1,494	360,963,607	1,072	119,788,982	480,752,589
2010	1,708	398,553,753	192	22,130,123	420,683,876

(1) Average; through March.
Source: U.S. Bureau of the Census, April 2015

Employment. Major employers located within the County include the following:

Pierce County
2014 Major Employers

Employer	Type of Business	Number of Employees
US Joint Base Lewis-McChord	Military	66,054
Local Public Schools	Education	13,408
Multicare Health System	Healthcare	6,904
Washington State	Government	6,455
Franciscan Health System	Healthcare	5,338
Pierce County Government	Government	2,979
Washington State Higher Education	Education	2,566
Fred Meyer Stores	Retail & Distribution	2,560
State Farm Insurance Companies	Insurance	2,206
The City	**Government**	**2,078**
Emerald Queen Casino	Gaming	2,061
The Boeing Company	Aerospace Manufacturing	1,670
US Postal Service	Government	1,464
Tacoma Public Utilities	Utility Services	1,334
Wal-Mart	Retail	1,304
Safeway Stores, Inc.	Retail	1,297
Costco	Retail	1,205
YMCA Of Tacoma-Pierce County	Fitness & Recreation	1,057
Comcast Cable*	Media	1,046
Puyallup Tribe	Government	981

* Non responsive to survey. Used 2013 figures.
Source: Tacoma News Tribune, Economic Development Board for Tacoma-Pierce County, September 2014

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Employment within the County is described in the following table.

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

Pierce County
Nonagricultural Wage & Salary Workers
and Labor Force and Employment Data

	Annual Average				
	2016(1)	**2015**	**2014**	**2013**	**2012**
Civilian Labor Force	406,278	391,963	385,101	383,472	386,760
Total Employment	379,503	367,136	358,258	351,230	351,028
Total Unemployment	26,775	24,827	26,842	32,242	35,732
Unemployment Rate	6.6%	6.3%	7.0%	8.4%	9.2%

NAICS INDUSTRY	**2016(1)**	**2015**	**2014**	**2013**	**2012**
Total Nonfarm	300,700	296,900	288,800	280,000	274,100
Total Private	242,700	239,400	231,900	223,900	217,200
Goods Producing	37,700	37,400	36,300	35,300	33,600
Mining and Logging	300	300	300	300	300
Construction	20,400	19,900	18,600	17,700	16,500
Specialty Trade Contractors	12,700	12,800	11,900	11,100	10,400
Manufacturing	16,900	17,200	17,300	17,200	16,700
Service Providing	263,100	259,500	252,500	244,700	240,600
Trade, Transportation, and Utilities	63,700	62,600	60,200	58,000	56,500
Wholesale Trade	13,100	13,100	12,600	12,000	11,300
Retail Trade	37,600	36,400	34,200	32,800	32,000
Food and Beverage Stores	6,000	6,000	5,700	5,900	5,800
General Merchandise Stores	8,800	8,900	8,500	8,300	8,100
Transportation and Utilities	12,900	13,200	13,500	13,200	13,200
Information	3,000	2,900	2,900	2,800	2,800
Financial Activities	14,500	13,800	13,500	13,000	12,700
Professional and Business Services	27,000	27,100	25,400	24,100	23,300
Admin., Support, Waste Mgmt., and Remed.	16,700	16,900	15,500	14,800	14,100
Administrative and Support Services	15,100	15,400	14,100	13,500	12,800
Education and Health Services	52,100	51,500	51,400	50,400	49,500
Ambulatory Health Care Services	15,200	15,200	14,700	14,500	14,400
Hospitals	11,600	11,300	11,300	11,500	11,100
Leisure and Hospitality	31,100	30,600	29,000	27,500	26,000
Food Services and Drinking Places	25,100	24,800	23,400	21,900	20,400
Other Services	13,600	13,700	13,300	12,900	13,000
Government	58,100	57,500	56,900	56,100	56,900
Federal Government	11,400	11,700	11,800	12,300	12,800
State Government	11,900	11,900	11,500	10,700	10,500
State Government Educational Services	3,800	3,800	3,900	3,900	3,700
Local Government	34,800	33,900	33,700	33,100	33,600
Local Government Educational Services	19,300	18,600	18,400	18,000	18,100
Workers in Labor/Management Disputes	0	0	0	0	0

(1) Average; through March.
Source: Washington State Employment Security Department, April 2016

APPENDIX F

BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike-through~~ has been deleted as permitted by DTC as it does not pertain to the Bonds.

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

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

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

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

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

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

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

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX G

FORM OF DELAYED DELIVERY CONTRACT

[Date]

J.P. Morgan Securities LLC

Re: $__________
City of Tacoma, Washington
Sewer Revenue Refunding Bonds, 2016B
(the "Bonds")

Ladies and Gentlemen:

The undersigned (the "Purchaser") hereby agrees to purchase from J.P. Morgan Securities LLC (the "Underwriter"), as the underwriter named in the Forward Delivery Purchase Contract (defined below), when, as, and if issued and delivered to the Underwriter by the City of Tacoma, Washington (the "City"), and the Underwriter agrees to sell to the Purchaser:

Par Amount	Maturity Date	Interest Rate	CUSIP Number	Yield	Price

of the above-referenced Bonds (the "Purchased Bonds") offered by the City under the Preliminary Official Statement relating to the Bonds dated April 27, 2016, and the Official Statement relating to the Bonds dated May 4, 2016 (the "Official Statement"), at the purchase price and with the interest rates, principal amounts, and maturity dates set forth above, and on the further terms and conditions set forth in this Delayed Delivery Contract. The Bonds are being purchased by the Underwriter pursuant to a Forward Delivery Bond Purchase Contract relating to the Bonds between the City and the Underwriter (the "Forward Delivery Purchase Contract"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Forward Delivery Purchase Contract or the Official Statement.

The Purchaser hereby confirms that it has reviewed the Preliminary Official Statement and the Official Statement (including without limitation the section entitled "DELAYED DELIVERY OF THE 2016B BONDS" therein), has considered the risks associated with purchasing the Purchased Bonds and is duly authorized to purchase the Purchased Bonds. The Purchaser further acknowledges and agrees that the Purchased Bonds are being sold on a "forward" basis, and the Purchaser hereby purchases and agrees to accept delivery of the Purchased Bonds from the Underwriter on or about September 7, 2016 (the "Settlement Date") as they may be issued and delivered in accordance with the Forward Delivery Purchase Contract.

Payment for the Purchased Bonds shall be made to the Underwriter or upon its order on the Settlement Date upon delivery to the Purchaser of the Purchased Bonds through the book-entry system of The Depository Trust Company. The Purchaser agrees that in no event shall the Underwriter be responsible or liable for any claim or loss, whether direct or consequential, which the Purchaser may suffer in the event the City does not for any reason issue and deliver the Purchased Bonds.

Upon Settlement (as defined in the Forward Delivery Purchase Contract), the obligation of the Purchaser to take delivery of the Purchased Bonds hereunder shall be unconditional. The Purchaser may terminate its obligation to purchase the Purchased Bonds in the event that between Closing (as defined in the Forward Delivery Purchase Contract) and Settlement, one or more of the following events shall have occurred after the later of Closing or the date hereof and the Purchaser has notified the Underwriter in writing as provided herein:

(1) any Change in Law shall have occurred (defined below);

(2) the Official Statement, as amended (if applicable), between the date of this Delayed Delivery Contract to and including the date that is 30 days after the Closing Date (as defined in the Forward Delivery Purchase Contract),

or the Updated Official Statement (as defined in the Forward Delivery Purchase Contract), as amended (if applicable), between the date of delivery of the Updated Official Statement to and including the Settlement Date, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, requiring the preparation and publication of a supplement or amendment to the Official Statement or Updated Official Statement (whether or not the Official Statement or Updated Official Statement is actually prepared and delivered);

(3) Bond Counsel does not deliver an opinion on the Settlement Date either (i) substantially in the form and to the effect set forth in Appendix B to the Official Statement or (ii) which states that, notwithstanding a Change in Law that prevents Bond Counsel from issuing an opinion substantially in the form and to the effect set forth in Appendix B to the Official Statement, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations;

(4) an event of default has occurred and is continuing, technical or otherwise, on the Settlement Date under the Bond Ordinance; or

(5) any rating of the Bonds by a national rating agency rating the Bonds has been withdrawn or suspended.

A "Change in Law" means (i) any change in or addition to applicable federal or State law, whether statutory or as interpreted by the courts, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or State agencies, (ii) any legislation enacted by the Congress of the United States or introduced therein or recommended for passage by the President of the United States (if such enacted, introduced or recommended legislation has a proposed effective date that is on or before the Settlement Date), (iii) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date that is on or before the Settlement Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in the case of any of (i), (ii), (iii) or (iv) would, as to the Underwriter, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriter from purchasing the Bonds as provided in the Forward Delivery Purchase Contract or selling the Bonds or beneficial ownership interests therein to the public or, as to the City, would make the issuance, sale or delivery of the Bonds illegal (or have the retroactive effect of making such issuance, sale or delivery illegal, if enacted, adopted, passed or finalized); provided, however, that such change in or addition to law, legislation, law, rule or regulation or judgment, ruling or order shall have become effective, been enacted, introduced or recommended, been proposed or enacted or been issued as the case may be, after the date of the Forward Delivery Purchase Contract.

If the Change in Law involves the enactment of legislation which only diminishes the value of, as opposed to eliminating the exclusion from gross income for federal income tax purposes of interest payable on "state or local bonds," the City may, nonetheless, be able to satisfy the requirements for the delivery of the Bonds. In such event, the Underwriter would be obligated to purchase the Bonds from the City and the Purchaser would be required to accept delivery of the Purchased Bonds from the Underwriter.

The Purchaser acknowledges and agrees that the Bonds are being sold on a "forward" or "delayed delivery" basis for delivery on the Settlement Date and that the Purchaser is obligated to take up and pay for the Purchased Bonds on the Settlement Date unless the Underwriter terminates the Forward Delivery Purchase Contract or the Purchaser terminates its obligation to purchase the Purchased Bonds as described herein. To effect a termination by the Purchaser, the Purchaser acknowledges and agrees that it must give written notice of termination of this Delayed Delivery Contract to the Underwriter before Settlement. The Purchaser understands and agrees that no termination of the obligation of the Purchaser may occur after Settlement. The Purchaser is not a third-party beneficiary under the Forward Delivery Purchase Contract and has no rights to enforce, or cause the Underwriter to enforce, any of the terms thereof. The Purchaser acknowledges that it will not be able to withdraw its order except as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Purchased Bonds on the Settlement Date because of market or credit changes, including specifically, but not limited to (a) changes in the ratings assigned to the Bonds between Closing and Settlement or changes in the credit associated with the Bonds generally, and (b) changes in the financial condition, operations, performance, properties or prospects of the City from Closing to Settlement. The Purchaser acknowledges and agrees that it will remain obligated to purchase the Purchased Bonds in accordance with the terms hereof, even if the Purchaser decides to sell Purchased Bonds following the date hereof, unless the Purchaser sells Purchased Bonds to another institution with the prior written consent of the Underwriter and such institution provides a written acknowledgment of confirmation of purchase order and a delayed delivery contract in the same respective forms as that executed by the Purchaser.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Purchased Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other.

The Purchaser acknowledges that the Underwriter is entering into the Forward Delivery Purchase Contract with the City to purchase the Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument under the laws of the State of New York.

It is understood that the acceptance by the Underwriter of any Delayed Delivery Contract (including this one) is in the Underwriter's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Underwriter, it is requested that the Underwriter sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Underwriter and the Purchaser when such counterpart is so mailed or delivered by the Underwriter. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

Purchaser

____
Address

____
Telephone

By: __________________________________

Name: __________________________________

Title: __________________________________

Accepted: J.P. Morgan Securities LLC

Name: __________________________________

Title: __________________________________

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CITY OF TACOMA, WASHINGTON • SEWER REVENUE REFUNDING BONDS, 2016A AND 2016B

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