



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**  
**City of Tacoma**

**For the period January 1, 2017 through December 31, 2017**

**Published September 28, 2018**

**Report No. 1022333**





**Office of the Washington State Auditor  
Pat McCarthy**

September 28, 2018

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Tacoma's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy  
State Auditor  
Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## City of Tacoma January 1, 2017 through December 31, 2017

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Tacoma are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

#### Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

## Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	CDBG – Entitlement Grants Cluster – Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

## SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2017-001.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-002 and 2017-003.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Tacoma

January 1, 2017 through December 31, 2017

**2017-001 The City needs to strengthen its internal controls to ensure accurate reporting of its Police and Firefighter’s Relief and Pension Funds.**

#### *Background*

Management is responsible for designing, implementing and maintaining internal controls to fairly present financial statements and provide reasonable assurance regarding reliability of financial reporting. The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified a significant deficiency in internal controls over accounting and financial reporting that hampered the City’s ability to produce reliable financial statements.

Governmental Accounting Standards Board (GASB) Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68* establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

#### *Description of Condition*

In 2016, the City implemented the provisions of GASB Statement No. 73 that were effective for fiscal year 2016. However, the City did not implement the provisions of the Statement that were effective for fiscal year 2017. As a result, the City under-reported the total pension liability of its Police and Firefighter’s Relief and Pension Funds.

#### *Cause of Condition*

Before the preparation of the 2017 Comprehensive Annual Financial Report (CAFR), there was a transition in key staff responsible for the CAFR preparation and review. Based on the explanation contained in the 2016 CAFR, it appeared the entire GASB statement had been implemented with no mention of additional requirements outstanding. Therefore, the second year implementation was overlooked.

## ***Effect of Condition***

The City reported a net pension obligation of \$10,093,000 instead of a Total Pension Liability of \$44,317,000.

The City did not include the required pension disclosures in the notes to the financial statements and required supplementary information. This resulted in a material misstatement in the financial statements, which the City has subsequently corrected.

## ***Recommendation***

We recommend the City establish a formal process for technical review of the financial statements to ensure accurate preparation and reporting in accordance with generally accepted accounting principles and reporting requirements.

## ***City's Response***

*The City of Tacoma holds their responsibility for enabling internal controls to ensure accurate financial reporting at the highest regard. The implementation of GASB Statement No. 73 spanned two years. With transition in key staff responsible for CAFR preparation coupled with the verbiage contained in the 2016 CAFR, it appeared the entire GASB statement had been implemented with no mention of additional requirements outstanding. The City appropriately implemented three additional standards with the preparation of the 2017 CAFR. Looking forward, the City recognizes the need to involve additional members of management and staff in the implementation of GASB standards each year. This would ensure that valuable information regarding the implementation of accounting standards would carry forward from year-to-year should there be a transition amongst key staff. To achieve this, the City will:*

- 1. Provide external training opportunities on new and upcoming GASB's to all accounting managers, as well as, other key staff.*

*Engage all accounting managers and other key City staff in the implementation of new GASB standards. This would include:*

- a. Holding regular meetings to discuss implementation,*
  - b. Reviewing and assigning individual tasks included on the checklist for implementation of new accounting standards,*
  - c. Creating and documenting a plan for implementation, and*
  - d. Updating the year-end checklist to reflect important milestones to the GASB implementation.*
- 2. Provide internal training to staff on the change in accounting standard.*

### ***Auditor's Remarks***

We appreciate the City's commitment to improve their processes and resolve this issue. We thank the City for its cooperation and assistance during the audit. We will review the new process in the next audit.

### ***Applicable Laws and Regulations***

Government Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265

Statement No. 73 of the Governmental Accounting Standards Board: *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68.*

*Budgeting, Accounting and Reporting System Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND  
QUESTIONED COSTS**

**City of Tacoma  
January 1, 2017 through December 31, 2017**

**2017-002 The City did not have adequate internal controls to ensure compliance with federal requirements regarding matching and reporting.**

<b>CFDA Number and Title:</b>	14.239 HOME Investment Partnership Program
<b>Federal Grantor Name:</b>	Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	M-11-DC-56-0206 M-12-DC-53-0206 M-13-DC-53-0206 M-14-DC-53-0206 M-15-DC-53-0206 M-16-DC-53-0206 M-17-DC-53-0206
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

***Background***

The City of Tacoma administers the HOME Investment Partnership Program (Program) spent \$1,321,601 in grant funds during fiscal year 2017. One of the main objectives of HOME is to expand the supply of decent and affordable housing, particularly for low- and very-low-income households. The Program supports construction, acquisition or rehabilitation of affordable housing units and creates rental and home-ownership opportunities.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure program funds are spent in accordance with the program’s requirements. These controls include knowledge of grant requirements and monitoring of program compliance.

## *Description of Condition*

### **Reporting**

Program regulations require each recipient that administers covered public and Tribal housing assistance, regardless of the amount spent, and each recipient that administers covered housing and community development assistance exceeding \$200,000 in a program year, must annually submit HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* using the automated Section 3 Performance Evaluation and Registry System.

The City did not have controls in place or a process to ensure the HUD 60002 report was prepared and submitted annually to the federal granting agency.

We consider this internal control deficiency to be a material weakness.

This condition was not reported as a finding in the prior audit.

### **Matching**

Under federal regulations, the City must provide eligible matching contributions of 25 percent of Program funds spent during the fiscal year. The match must be provided by the end of the fiscal year. To demonstrate compliance with matching requirements, the City must maintain records, including individual project records and a running log of match obligations and match credits as they are generated.

The City did not have a process in place to identify, calculate or report its compliance with Program matching requirements.

We consider this internal control deficiency to be a material weakness.

This condition was not reported as a finding in the prior audit.

## *Cause of Condition*

### **Reporting and Matching**

The City experienced turnover in key personnel responsible for grant management. Department management did not assign to new staff members the responsibilities necessary to ensure compliance with matching and reporting requirements.

## *Effect of Condition and Questioned Costs*

### **Reporting**

The City did not submit its annual HUD 60002 report to the granting agency in accordance with Program requirements.

## **Matching**

The City was reimbursed funds without knowing if it would meet the 25 percent matching funds requirement by the end of the year. The City used a report from the federal Integrated Disbursement and Information System (IDIS) website to show it complied with the matching funds requirement. However, it had no knowledge of how the amounts reported were populated.

## ***Recommendation***

We recommend the City establish and follow internal controls to ensure it reviews projects and documents how, and how much, each project provides in matching funds and prepares and submits its required reports on time.

## ***City of Tacoma's Response***

*City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:*

### ***Reporting***

*As a recipient of HOME grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. The City of Tacoma has not been able to confirm that a former supervisor charged with submitting the report electronically actually did so. To ensure compliance with this requirement, the City will assign the responsibility of submitting the report to an appropriate staff member. This staff member will provide confirmation to management that they have submitted the report.*

### ***Matching***

*As a recipient of HOME grant funds, the City must have a process in place to identify, calculate, monitor and report eligible matching contributions of 25% of HOME funds spent each year. During the review period, the City experienced the departure of a key staff member. Unfortunately, this portion of the staff member's duties was not appropriately re-assigned and the information was not collected. However, because HOME funds are primarily utilized for large affordable housing developments that have a range of funding sources that far exceed a match requirement, City staff believes this requirement was met. To ensure compliance with this requirement, the City will create procedures to appropriately track matching funds. This will include working with grantees,*

*when applicable, to ensure they submit confirmation of matching funds utilized in a funded project.*

### ***Auditor's Remarks***

We appreciate the City's commitment to improve their processes and resolve this issue. We thank the City for its cooperation and assistance during the audit. We will review the new process in the next audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 2 CFR) Part 200, Uniform Guidance, section 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 327, Financial reporting, establishes requirements for reporting financial information related to Federal awards.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 24 CFR Part 92, HOME Investment Partnerships Program, sections 92.218-.222, Matching Contribution Requirement and 92.508, Recordkeeping, describe the program-specific requirements for matching and the records that must be maintained, including individual project records and a running log to demonstrate compliance with matching requirements.

Title 24 CFR Part 135, Economic Opportunities for Low- and Very Low-Income Persons, sections 135.3, Applicability, and 135.90, Reporting, provide the requirements for the applicability of and submitting HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System.

# SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

## City of Tacoma

January 1, 2017 through December 31, 2017

**2017-003** The City did not have adequate internal controls to ensure compliance with federal subrecipient monitoring, earmarking and reporting requirements.

<b>CFDA Number and Title:</b>	14.218 Community Development Block Grant/Entitlement Grants
<b>Federal Grantor Name:</b>	Department of Housing and Urban Development
<b>Federal Award/Contract Number:</b>	B-14-MC-53-0007 B-15-MC-53-0007 B-16-MC-53-0007 B-17-MC-53-0007
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### *Background*

The primary objective of the Community Development Block Grant (Program) is to develop viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. The City spent \$1,572,266 in grant funds during fiscal year 2017.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure program funds are spent in accordance with the program's requirements. These controls include knowledge of grant requirements and monitoring of Program compliance.

## *Description of Condition*

### **Subrecipient Monitoring**

Federal regulations require the City to clearly identify to the subrecipient the award is a subaward and include specific information, or elements, in its contract with subrecipients. The City's controls were not effective in ensuring the contract with its subrecipient included all the elements in accordance with federal requirements.

We consider these internal control deficiencies to be a material weakness.

This condition was not reported as a finding in the prior audit.

### **Earmarking**

Federal regulations require the City to use no less than 70 percent of the Program funds it receives each year. The City must also use that amount over a period of one, two, or three years, as specified by the grantee in its certification. The City is required to use those funds for activities that benefit low- and moderate-income persons.

The City did not have controls in place or a process to monitor its compliance with the 70 percent earmark requirement. City staff could not provide supporting documentation verifying the City complied with earmarking requirements.

We consider this internal control deficiency to be a material weakness.

This condition was not reported as a finding in the prior audit.

### **Reporting**

Program regulations require each recipient that administers covered public and Tribal housing assistance, regardless of the amount spent, and each recipient that administers covered housing and community development assistance exceeding \$200,000 in a program year, must submit HUD 60002 performance report, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* using the automated Section 3 Performance Evaluation and Registry System.

The City did not have controls in place or a process to ensure the HUD 60002 report was prepared and submitted annually to the granting agency as required.

We consider this internal control deficiency to be a material weakness.

This condition was not reported as a finding in the prior audit.

## *Cause of Condition*

The City experienced turnover in key personnel responsible for grant management. Department management did not assign the necessary responsibilities to new staff members or monitor to ensure the City complied with the Program's requirements.

## *Effect of Condition and Questioned Costs*

### **Subrecipient Monitoring**

1. Subrecipient contracts were missing the following information:
  - a. Subrecipients unique entity identifier
  - b. Federal Award Identification Number (FAIN)
  - c. Federal Award Date of the award to the recipient by the Federal agency
  - d. Name of Federal awarding agency, pass through entity, and contact information for awarding official of the pass-through entity.
  - e. CFDA Number and name, the pass through entity must identify the dollar amount made available under each federal award and the CFDA number at the time of Disbursement.
  - f. Identification of whether the award is for research and development
  - g. Indirect cost rate for the federal award
2. Subrecipient contracts from 2010 to 2017, did not obtain the subrecipients DUNS number.

### **Earmarking**

By not having a process in place to verify that its earmarking requirements were met, the City of Tacoma could fail to spend the 70 percent required on these grant funds for low- to moderate-income objectives as required.

### **Reporting**

The City did not comply with the Program requirement to submit its report to the granting agency.

## *Recommendation*

### **Subrecipient Monitoring**

We recommend the City of Tacoma review subrecipient contracts to ensure each contain all contracting elements required by federal regulations.

### **Earmarking and Reporting**

We recommend the City assign the responsibilities of ensuring earmarking and reporting requirements are met as required by the Program. We also recommend the City monitor whether it is meeting the conditions required by the Program.

## ***City of Tacoma's Response***

*City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:*

### ***Subrecipient Monitoring***

*Federal regulations require the City to include specific information within its contracts with subrecipients and to obtain the subrecipients DUNS numbers. To ensure the contracts include all required information, the City will work with its attorneys to ensure all required items are included in applicable contract templates. In addition, to ensure DUNS numbers are obtained from subrecipients, the City will ensure the contract includes the required DUNS number prior to fully executing a contract.*

### ***Earmarking***

*As a recipient of CDBG grant funds, the City must have a process in place to ensure that not less than 70 percent of the funds must be used over a period of one, two, or three years for activities that benefit low- and moderate-income persons. Although the City was in compliance with that requirement as indicated through the annual reporting process in HUD's Integrated Disbursement and Information System (IDIS), controls were not in place to verify and document the review of the earmarking requirements. To ensure compliance with this requirement, the City will:*

- 1. Create procedures to ensure to verify and document the review of the earmarking requirements.*
- 2. Require the staff member responsible for this task to create a checklist to make sure all appropriate information is gathered and input into the system.*

### ***Reporting***

*As a recipient of CDBG grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. The City of Tacoma has not been able to confirm that a former supervisor charged with submitting the report electronically actually did so. To ensure compliance with this requirement, the City will assign the responsibility of submitting the report to an appropriate staff member. This staff member will provide confirmation to management that they have submitted the report.*

## ***Auditor's Remarks***

We appreciate the City's commitment to improve their processes and resolve this issue. We thank the City for its cooperation and assistance during the audit. We will review the new process in the next audit.

## ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, section 303 Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 2 CFR Part 200, Uniform Guidance, section 302, Financial management, establishes requirements for financial management systems and reporting accurate, current and complete financial results of Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 327, Financial reporting, establishes requirements for reporting financial information related to Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 516 Audit findings, establishes reporting requirements for audit findings.

Title 24 CFR Part 91, *Consolidated Submission for Community Planning and Development Programs*, section 225, Certifications, establishes criteria for how Program funds are to be used during a period of one, two, or three consecutive program years, benefitting low- and moderate-income families in a manner that ensures at least 70 percent of the amount is spent for activities that benefit those families during the Program period.

Title 24 CFR Part 135, Economic Opportunities for Low- and Very Low-Income Persons, sections 135.3, Applicability, and 135.90, Reporting, provide the requirements for the applicability of and submitting HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System.

Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, Section 331, Requirements for pass-through entities, establishes sub-recipient monitoring and management requirements for pass-through entities.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Tacoma  
January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tacoma, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 27, 2018.

Our report includes a reference to other auditors who audited the financial statements of the Power, Sewer, Water, Solid Waste, and Tacoma Rail funds, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 that we consider to be significant deficiencies.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to the management of the City in a separate special investigation letter dated October 18, 2017.

## **CITY'S RESPONSE TO FINDINGS**

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

July 27, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Tacoma  
January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Tacoma, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

The City's basic financial statements include the operations of the Tacoma Community Redevelopment Authority, which expended \$4,544,841 in federal awards and which is not included in the Schedule of Expenditures of Federal Awards for the year ended December 31, 2017. Our audit, described below, did not include the operations of the Tacoma Community Redevelopment Authority because it has arranged for a separate audit of its federal awards in accordance with Uniform Guidance.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government*

*Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance

requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2017-002 and 2017-003 to be material weaknesses.

### **City's Response to Findings**

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

September 27, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Tacoma January 1, 2017 through December 31, 2017

Mayor and City Council  
City of Tacoma  
Tacoma, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tacoma, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 28.

#### 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Power, Sewer, Water and Solid Waste funds, which are presented as major funds and collectively represent 91 percent, 90 percent and 90 percent, respectively, of all the assets, net position, and revenues of the business-type activities. We also did not audit the financial statements of the Tacoma Rail fund which represents one percent, one percent, and four percent, respectively, of the assets, net position and revenues of the business type activities and two percent, one percent, and six percent, respectively, of the assets, net position and revenues of the aggregate remaining fund information. Those financial statements were audited by

other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Power, Sewer, Water, Solid Waste and Tacoma Rail funds is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 City'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 City'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 opinions.

## **Opinion**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tacoma, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 28 be presented to supplement the basic financial statements. Such information, although not a part

of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

July 27, 2018

## FINANCIAL SECTION

### City of Tacoma January 1, 2017 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet - Governmental Funds - 2017

Reconciliation of the Governmental Balance Sheets to the Government-Wide Statement  
of Net Position – Governmental Funds – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities – Governmental  
Funds – 2017

Statement of Net Position – Proprietary Funds – 2017

Reconciliation of Total Enterprise Net Position to the Government-wide Statement of Net  
Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –  
2017

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Net Position  
of Enterprise Funds to the Statement of Activities – Business Activities – 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017

Notes to Financial Statements – 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Net Pension Liability and Schedule of the City of Tacoma's  
Contributions – LEOFF 1 – 2017

Proportionate Share of Net Pension Liability and Schedule of the City of Tacoma's  
Contributions – LEOFF 2 – 2017  
Proportionate Share of the Net Pension Liability and Schedule of the City of Tacoma's  
Contributions – TERS – 2017  
Schedule of Changes in Total Pension Liability and Related ratios – Firefighters and  
Police Pension Fund – 2017  
Schedule of Funding progress – Other Post Employment Benefit Plans – TERS, LEOFF  
Plan 1, LEOFF Plan 2, Rail – 2017  
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual –  
General Fund – 2017  
Notes to Required Supplemental Information – 2017

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017  
Notes to the Schedule of Expenditures of Federal Awards – 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Tacoma, we offer readers of the City of Tacoma's financial statements this narrative overview and analysis of the financial activities of the City of Tacoma for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages 1-1 to 1-4 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Financial Highlights

- Total assets and deferred outflows of resources exceeded the City's liabilities and deferred inflows of resources by \$2.8 billion. Of this amount, \$233 million is reported as unrestricted net position, representing amounts which are available to meet the City's on-going obligations to citizens and creditors.
- The City's overall net position increased by \$57 million in 2017.
- Tacoma Power's net position for 2017 was \$830.2 million which was an increase of \$8.2 million from 2016.
- Tacoma Water's net position for 2017 was \$556.7 million which was an increase of \$7.1 million from 2016.
- Sewer's net position for 2017 was \$435.4 million which was an increase of \$13.3 million from 2016.

### Overview of the Financial Statements

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

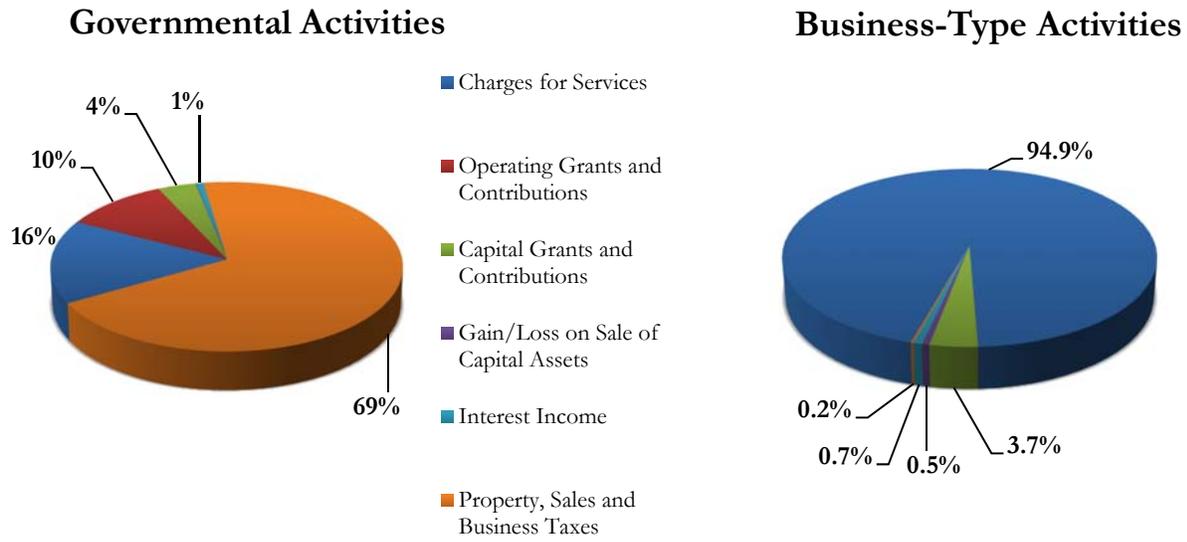
### *Government-wide Financial Statements*

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

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods.

Figure 1. Comparison of Governmental and Business-Type Activity Revenues



Both the Statement of Net Position and the Statement of Activities differentiate the functions of general government from the functions of business-type activities. Governmental activities reflect the City’s basic functions such as general government, public safety, transportation, economic environment, social services, and culture and recreation. Governmental activities are primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover most if not all of their costs through user fees and charges for services. The government-wide financial statements can be found on pages 3-2 to 3-5 of this report.

Figure 2. Governmental Activities Expenditures

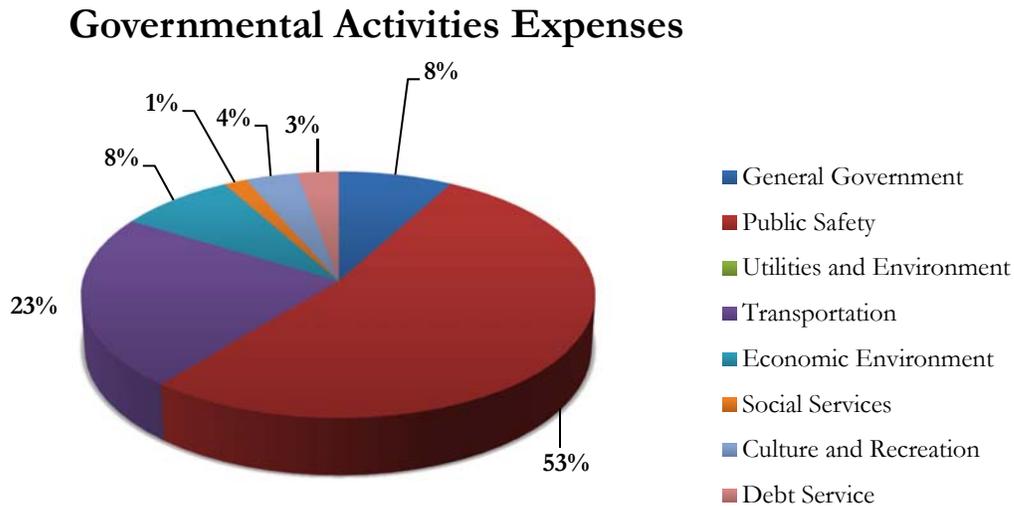
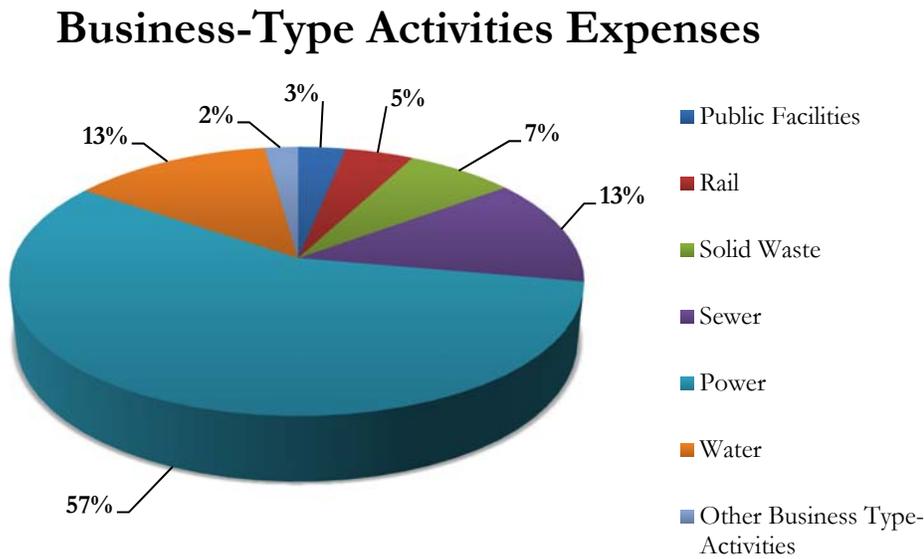


Figure 3. Business-Type Activities Expenses



#### ***Fund Financial Statements***

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

#### ***Governmental Funds***

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

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

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

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

The basic governmental fund financial statements can be found on pages 3-6 to 3-9 of this report.

### ***Proprietary Funds***

There are two types of proprietary funds, internal service and enterprise, both of which the City of Tacoma uses. Internal service funds are used to accumulate and allocate costs internally among the City of Tacoma's various functions. Because these services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. There are two exceptions with the Self Insurance and Utility Fleet funds which only services utilities funds and are included within business-type activities. Enterprise funds account for various utilities which provide services such as power, water, sewer, and solid waste collection. The service area for these utilities is generally broader than the corporate limits of the City. The activities in these funds are primarily supported by user fees and are presented as business-type activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 3-10 to 3-21 of this report.

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Tacoma's programs. The accounting used by the fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund statements can be found on pages 3-22 to 3-23 of this report.

### ***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 3-24 to 3-90 of this report.

### ***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information (RSI) concerning the City of Tacoma's budget. Required supplementary information can be found on pages 4-1 to 4-9 of this report.

### ***Combining Statements – Non-Major funds***

The combining statements referred to earlier in connection with Non-Major governmental funds, internal service funds, and fiduciary funds can be found on pages 5-1 to 5-115 of this report.

### ***Other Supplementary Information***

This section provides statistical information on Local Improvement District assessments. The Other Supplementary Information section can be found on pages 5-117.

### ***Statistical Section***

This section provides financial trends, revenue and debt capacity, and demographic and economic information about the City's operations. The Statistical Section can be found on pages 6-1 to 6-36 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve as a useful indicator of a government's financial position. The City's total assets exceeded total liabilities by \$2.8 billion at December 31, 2017. 81.3% of the total net position reflects the City's investment in capital assets less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; thus, they do not represent resources available for future spending. 8.2% of the City's net position is unrestricted, meaning they are available for meeting the City's ongoing obligations. The remaining 10.5% of net position is restricted for other purposes such as debt redemption and new capital construction. Governmental activities represent 27.0% of total net position and business-type activities represent 73.0% of total net position.

Figure 4. Comparison of Net Position, By Activity Type (Amounts expressed in thousands)

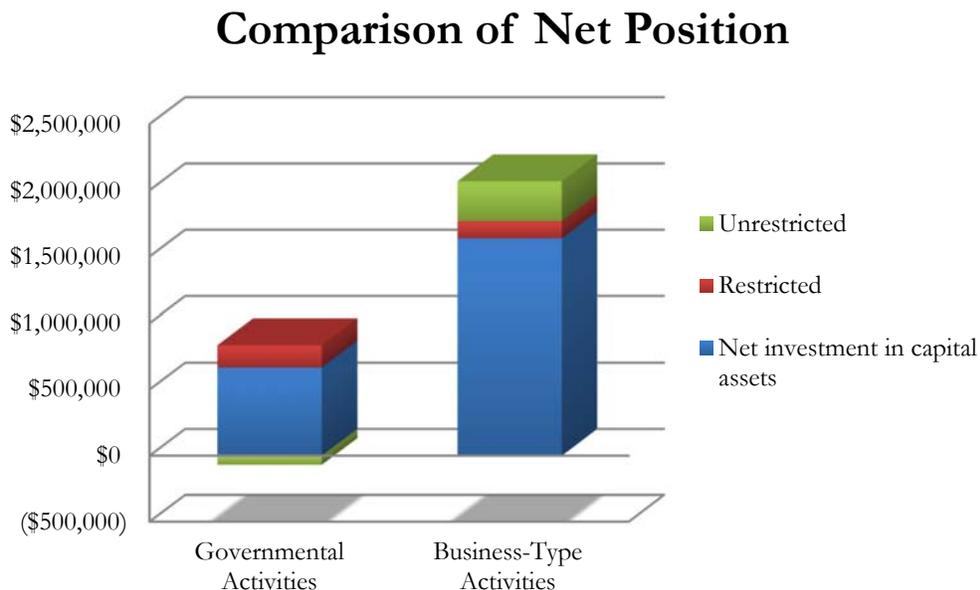


Table 1. Summary Statement of Net Position

Statement of Net Position							
December 31							
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Total		
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$ 401,122	\$ 316,348	\$ 856,424	\$ 877,669	\$ 1,257,546	\$ 1,194,017	
Capital assets	806,327	819,394	2,822,014	2,824,020	3,628,341	3,643,414	
Total assets	\$ 1,207,449	\$ 1,135,742	\$ 3,678,438	\$ 3,701,689	\$ 4,885,887	\$ 4,837,431	
Deferred Outflow of Resources	\$ 37,607	\$ 21,512	\$ 75,168	\$ 77,892	\$ 112,775	\$ 99,404	
Current and other liabilities	\$ 43,991	\$ 33,204	\$ 114,463	\$ 116,117	\$ 158,454	\$ 149,321	
Long-term liabilities outstanding	391,050	332,361	1,441,943	1,518,894	1,832,993	1,851,255	
Total liabilities	\$ 435,041	\$ 365,565	\$ 1,556,406	\$ 1,635,011	\$ 1,991,447	\$ 2,000,576	
Deferred Inflows of Resources	\$ 43,788	\$ 39,876	\$ 129,096	\$ 119,281	\$ 172,884	\$ 159,157	
Net Position:							
Net investment in capital assets	\$ 666,530	\$ 673,093	\$ 1,636,652	\$ 1,613,805	\$ 2,303,182	\$ 2,286,898	
Restricted	168,280	113,897	129,836	124,289	298,116	238,186	
Unrestricted	(68,583)	(35,177)	301,616	287,195	233,033	252,018	
Total net position	\$ 766,227	\$ 751,813	\$ 2,068,104	\$ 2,025,289	\$ 2,834,331	\$ 2,777,102	

In 2017, the City's total net position increased by \$57 million, which was a 2% increase in fund balance from 2016.

Figure 5. Composition of Net Position--Governmental Activities (Amounts expressed in thousands)

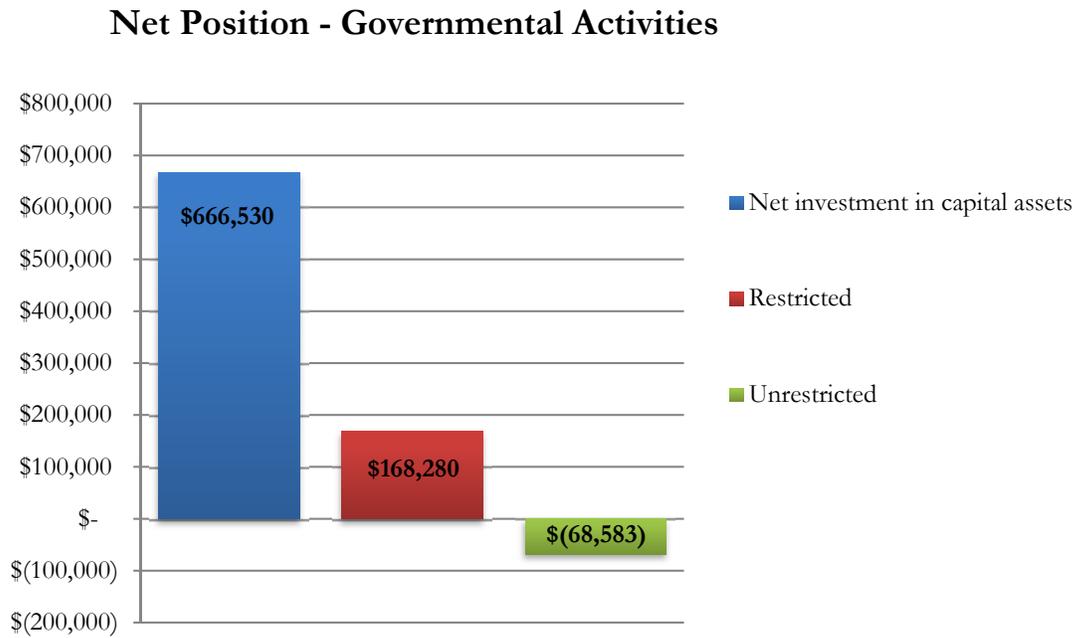
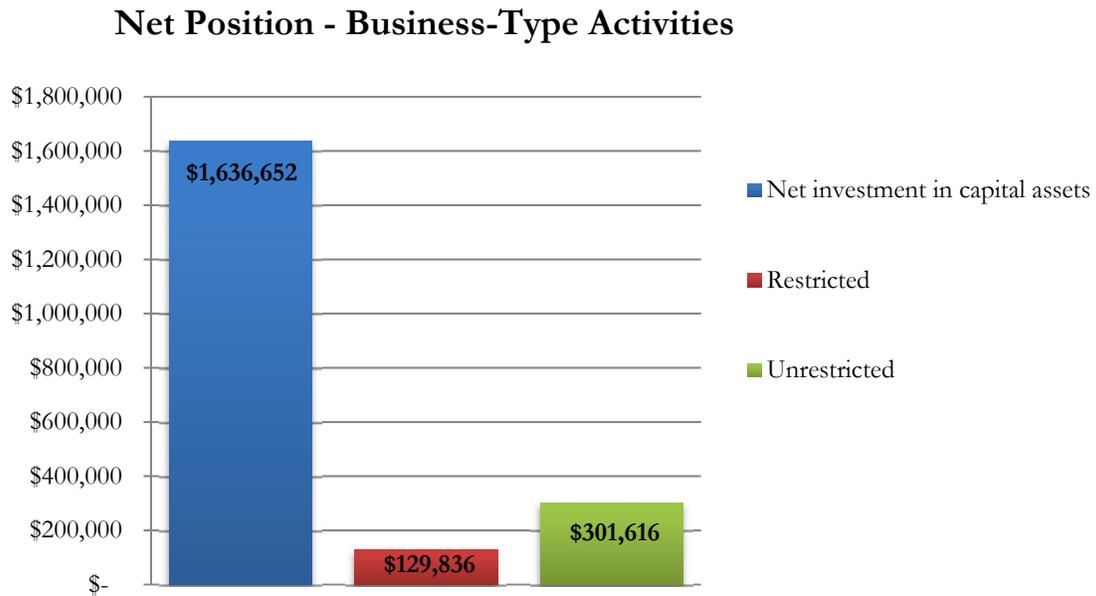


Figure 6. Composition of Net Position—Business-Type Activities (Amounts expressed in thousands)



**Table 2. Changes in Net Position**

City of Tacoma, Washington							
Changes in Net Position							
	Governmental Activities		Business-Type Activities		Total		
	2017	2016	2017	2016	2017	2016	
<i>(Amounts expressed in thousands)</i>							
Revenues:							
Program revenues							
Charges for services	\$ 48,562	\$ 62,782	\$ 791,542	\$ 761,282	\$ 840,104	\$ 824,064	
Operating grants and contributions	31,791	33,903	208	8,392	31,999	42,295	
Capital grants and contributions	11,549	7,392	30,528	21,413	42,077	28,805	
General revenues	-	-	-	-	-	-	
Property taxes	74,479	78,886	-	-	74,479	78,886	
Other taxes	135,558	122,310	1,702	-	137,260	122,310	
Other	2,427	2,316	10,241	7,005	12,668	9,321	
Total revenue	304,366	307,589	834,221	798,092	1,138,587	1,105,681	
Expenses:							
General government	\$ 24,436	\$ 74,293	\$ -	\$ -	\$ 24,436	\$ 74,293	
Public safety	162,416	175,131	-	-	162,416	175,131	
Utilities and environment	-	1	-	-	-	1	
Transportation	69,741	60,881	-	-	69,741	60,881	
Social services	4,908	4,983	-	-	4,908	4,983	
Economic Environment	25,102	36,759	-	-	25,102	36,759	
Culture and recreation	11,187	15,258	-	-	11,187	15,258	
Debt Service	8,837	8,670	-	-	8,837	8,670	
Public assembly facilities	-	-	23,243	20,986	23,243	20,986	
Rail	-	-	33,579	31,571	33,579	31,571	
Solid waste	-	-	52,938	66,661	52,938	66,661	
Waste water	-	-	95,960	92,958	95,960	92,958	
Water	-	-	97,540	95,869	97,540	95,869	
Power	-	-	420,368	404,566	420,368	404,566	
Other business-type funds	-	-	16,326	16,721	16,326	16,721	
Total expenses	306,627	375,976	739,954	729,332	1,046,581	1,105,308	
Increase/(Decrease) in net position before transfers	(2,261)	(68,387)	94,267	68,760	92,006	373	
Transfers	51,452	48,973	(51,452)	(48,973)	-	-	
Increase/(Decrease) in net position	49,191	(19,414)	42,815	19,787	92,006	373	
Net position--January 1	751,813	771,777	2,025,289	2,006,164	2,777,102	2,777,941	
Prior Period Adjustments	1,169	(1,048)	-	(662)	1,169	(1,710)	
Change in accounting principle	(35,946)	498	-	-	(35,946)	498	
Net position--January 1	717,036	771,227	2,025,289	2,005,502	2,742,325	2,776,729	
Net position--December 31	\$ 766,227	\$ 751,813	\$ 2,068,104	\$ 2,025,289	\$ 2,834,331	\$ 2,777,102	

Tacoma's governmental activities reported a combined fund balance of \$766 million, which was an increase of \$14 million from 2016; this increase was due in a large part to an increase in tax revenues and grants received while also reducing general government and public safety expenses. The reduction in expenditures primarily reflects the decreased effect of the net pension liability on the expenditures. In addition general government expenditures decreased by \$69 million, primarily the result of moving support services (finance, legal, human resources, etc.) from the general fund to internal service funds. These expenditures are now reflected in the expenditures of the functions they support.

Business-type activities also saw a positive change, with an ending net position of \$2.07 billion. This is an increase of \$43 million over 2016.

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

## **Financial Analysis of the City's Fund Statements**

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

### ***Governmental Fund Statements***

Fund balance for the City's General Fund was \$80.2 million which decreased by \$134 thousand or less than 1% from 2016. The general funds unassigned fund balance saw a decrease of \$1.4 million; this amount is not restricted for any specific purposes and may be used for spending at the government's discretion. Fund balance for the Transportation Capital and Engineering fund is \$3.8 million which decreased by \$2.7 million (42%) in 2017, caused by an increase in transportation expenditures of \$3.6 million. Fund balance for the Non-Major governmental funds, which include debt service funds, capital projects funds, and special revenue funds, was \$138.2 million. This increase of \$53.1 million (62%) is the result of the issuance of long-term debt of \$27.5 million and the sale of capital assets of \$4.9 million.

### ***Fund Balances***

At December 31, 2017, the City's governmental funds reported combined ending fund balances of \$222 million. Of this amount, \$5.3 million is nonspendable, either due to its form or legal constraints. \$116 million is restricted for specific programs by external constraints. \$8.9 million is committed for specific purposes as approved by City Council. \$24.1 million is assigned to specific purposes by management and the remaining \$67.7 million is unassigned.

### ***Proprietary Fund Statements***

Total net position for enterprise funds increased by \$46.0 million in 2017. Power, Water, Solid Waste and Sewer utilities make up the majority of the proprietary funds and activity in these utilities was the primary driver for the change in the net position. The Power funds net position increased by \$8.4 million, this was a 1% increase from 2016. The Water fund had an increase in their net position of \$7.1 million, a 1.3% increase from 2016. The Sewer fund had an increase in net position of \$13.4 million, or 3.2%. The Solid Waste funds net position had the largest increase of the proprietary funds at \$9.3 million, which was a 34% from 2016. This can be attributed to an average 3.4% rate increase in residential customers in 2017. Revenues from residential customers increased \$856,000 in 2017. Residential collection revenues increased due to the increases in both the number of customer accounts along with the rate increases. Commercial customer revenues increased \$1.7 million due to commercial business improvement and an increase in commercial Drop-off-Box containers. Disposal revenues increased \$1.6 million from continued increase in customer self-hauls and scale house rates increasing from \$15 to \$20 for the first 100 pounds. Salvage revenues increased by \$217,000 due to increases in both volumes and prices of salvaged materials. The non-major Enterprise funds had an ending net position of \$163.6 million which was an increase of \$7.7 million, or 5%. The total net position for internal service funds' was \$102.5 million and increased by \$2.1 million, or 2%, in 2017.

## **General Fund Budgetary Highlights**

The City's budget is a two year biennium budget which begins every odd year, with 2017 being the start of the 2017-2018 biennium budget. The 2017-2018 adopted budget included funding for deferred maintenance such as \$5 million to cover the replacement for the City's fleet vehicles, bonds to cover the updating of the Tacoma Dome, and infrastructure investments to repair and maintain city streets.

## **Capital Assets, Infrastructure, Bond Debt Administration**

### ***Capital Assets***

The City of Tacoma's capital assets net of accumulated depreciation for its governmental and business-type activities as of December 31, 2017 is \$3.6 billion. This investment in capital assets includes land, construction in process, property, plant and equipment, and infrastructure. The vast majority of this amount represents assets held by the City's various utilities and infrastructure.

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

**Table 3. Schedule of Capital Assets**

City of Tacoma, Washington							
Schedule of Capital Assets							
	Governmental Activities		Business-Type Activities		Total		
	2017	2016	2017	2016	2017	2016	
	(Amounts expressed in thousands)						
Land	\$ 36,380	\$ 35,335	\$ 164,293	\$ 163,451	\$ 200,673	\$ 198,786	
Construction in progress	30,800	57,538	53,807	57,691	84,607	115,229	
Property, plant and equipment	275,701	255,700	4,428,165	4,338,447	4,703,866	4,594,147	
Infrastructure	1,410,490	1,373,328	-	-	1,410,490	1,373,328	
Less accumulated depreciation	(947,044)	(902,507)	(1,824,251)	(1,735,569)	(2,771,295)	(2,638,076)	
	<u>\$ 806,327</u>	<u>\$ 819,394</u>	<u>\$ 2,822,014</u>	<u>\$ 2,824,020</u>	<u>\$ 3,628,341</u>	<u>\$ 3,643,414</u>	

Additional information on the City's capital assets can be found in Notes 1-D5 and 4-C of the Notes to the Financial Statements.

### Outstanding Debt

The City's debt at December 31, 2017 was \$1.8 billion. Approximately 87% of the bonded debt is related to utilities with repayment pledged by specific revenue sources generated by the utilities. Of the remaining 13% bonded debt, debt is either secured by voter approved special levies or general government resources. Additional information on the City of Tacoma's long-term debt can be found in Note 4-F and Note 12 of the Notes to the Financial Statements.

**Table 4. Schedule of Long Term Liabilities**

City of Tacoma, Washington							
Schedule of Long Term Liabilities							
	Governmental Activities		Business-Type Activities		Total		
	2017	2016	2017	2016	2017	2016	
	(Amounts expressed in thousands)						
Bonded debt and loans	\$ 196,081	\$ 182,106	\$ 1,317,775	\$ 1,396,763	\$ 1,513,856	\$ 1,578,869	
Capital leases	-	-	-	-	-	-	
Claims and judgments	33,784	27,183	-	-	33,784	27,183	
Accrued land fill liability	-	-	18,080	21,118	18,080	21,118	
Net OPEB Obligation	69,698	62,495	21,656	20,181	91,354	82,676	
Net Pension Obligation	10,093	9,662	-	-	10,093	9,662	
Pension Liability	27,989	25,948	64,891	60,636	92,880	86,584	
Compensated absences	19,181	24,967	19,541	60,636	38,722	45,163	
	<u>\$ 356,826</u>	<u>\$ 332,361</u>	<u>\$ 1,441,943</u>	<u>\$ 1,559,334</u>	<u>\$ 1,798,769</u>	<u>\$ 1,851,255</u>	

The City's debt rating for 2017 is as follows:

Bond	Moody's	S&P	Fitch
GO	Aa2	AA	AA
LTGO	Aa2	AA	AA
Solid Waste	A1	AA	AA-
Sewer	Aa2	AA+	AA+
Water	Aa2	AA	--
RWSS	Aa2	AA	--
Power	Aa3	AA	AA-
Convention Center Revenue	A2	A	A+

## **Economic Factors**

The following economic factors currently affect the City of Tacoma:

- The unemployment rate for the City of Tacoma is 5.4% which is a decrease of 0.6% from 2016.
- Sales tax revenue was \$71.6 million in 2017, which is a \$12.7 million increase over 2016 sales tax revenues.
- Taxable property values have increased by \$2.4 billion over 2016, which is an 11.6% increase.

City of Tacoma voters passed Proposition A and Proposition 3 in November 2015, which went into effect March 1<sup>st</sup>, 2016 and has increase both sales and property taxes in order to fund the repair and maintenance of roads, crosswalks and sidewalks. This will be accomplished through methods including pothole repair, street resurfacing, fixing sidewalk approaches and building missing sidewalks. Proposition A will raise sales tax by 1/10 of 1% over a period of 10 years. Proposition 3 will authorize an additional 1.5% earning tax on natural gas, electric and phone companies, and an increase in the regular property tax levy of \$.20 per \$1,000 of assessed value. The propositions together will provide an estimated \$17-18 million per year over the next ten years, with \$4.5 million from Proposition A and \$13 million from Proposition 3 per year. The City has also committed \$30 million and with matching grants the amount raised should total \$325 million. The City's tax and license department joined with the cities of Seattle, Bellevue and Everett as part of a program called FileLocal. This new website allows businesses to pay both B&O tax and business license fees online. This program is expected to bring in over \$3.8 million in extra revenue over the 2017-2018 biennium.

## **Requests for Information**

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

STATEMENT OF NET POSITION  
December 31, 2017  
(amounts expressed in thousands)  
Page 1 of 2

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	TOTAL
<b>ASSETS</b>			
Cash and cash equivalents	\$ 257,634	\$ 434,124	\$ 691,758
Investments at fair value	5,222	-	5,222
Receivables (net of allowance for uncollectibles)	52,313	104,288	156,601
Due from other governmental units	26,145	1,655	27,800
Internal balances	466	(466)	-
Inventories	3,722	12,110	15,832
Prepays	3,483	9,152	12,635
Other current assets	-	-	-
Temporarily restricted assets:			
Cash and cash equivalents	-	204,928	204,928
Notes and contracts receivable	-	923	923
Contracts, notes, non-current leases	-	18,761	18,761
Capital assets (not being depreciated):			
Land	36,380	164,293	200,673
Art	2,414	-	2,414
Construction in progress	30,800	53,807	84,607
Capital assets:			
Property, plant, and equipment	273,287	4,428,165	4,701,452
Infrastructure	1,410,490	-	1,410,490
Accumulated depreciation	(947,044)	(1,824,251)	(2,771,295)
Non-current assets			
Cash for bond reserve	-	19,058	19,058
Capital assets held for resale	-	-	-
Net Pension Assets	52,137	-	52,137
Other non-current assets	-	51,891	51,891
Total assets	<u>1,207,449</u>	<u>3,678,438</u>	<u>4,885,887</u>
Deferred Outflow of Resources			
Unamortized loss on refunding	4,329	7,199	11,528
Deferred outflow for pensions	33,278	67,969	101,247
Total Deferred Outflow of Resources	<u>37,607</u>	<u>75,168</u>	<u>112,775</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	26,221	65,325	91,546
Deposits payable	76	8,498	8,574
Due to other governments	201	554	755
Unearned revenue	8,579	7,704	16,283
Payable from restricted assets			
current liabilities	-	707	707
Other liabilities	8,914	31,675	40,589
Special assessment debt with governmental commitment	26,257	-	26,257
Total Pension Liability - Police and Firefighters	44,317	-	44,317
Net Pension Liability	27,989	64,891	92,880
Non-current liabilities:			
Due within one year	47,058	51,851	98,909
Due in more than one year	245,429	1,325,201	1,570,630
Total liabilities	<u>435,041</u>	<u>1,556,406</u>	<u>1,991,447</u>
Deferred Inflow of Resources			
Advance payment of Special Assessments	25,850	-	25,850
Regulatory liability - rate stabilization	-	114,575	114,575
Deferred inflows for Pensions	17,938	13,981	31,919
Deferred gain on refunding	-	540	540
Total Deferred Inflow of Resources	<u>43,788</u>	<u>129,096</u>	<u>172,884</u>
<b>NET POSITION</b>			
Net investment in capital assets	666,530	1,636,652	2,303,182
Restricted for:			
Capital purchases	3,922	33,079	37,001
Debt Service	12,063	35,709	47,772
Utilities assurance & system development	-	52,727	52,727
Culture and recreation	7,423	4,405	11,828
Self-insurance	-	1,150	1,150
Environmental services and programs	-	2,467	2,467
Inspections	-	299	299
Pensions	52,480	-	52,480
Public safety	6,606	-	6,606
Transportation	78,137	-	78,137
Grants	95	-	95
Housing & economic development	7,554	-	7,554
Unrestricted	(68,583)	301,616	233,033
Total net position	<u>\$ 766,227</u>	<u>\$ 2,068,104</u>	<u>\$ 2,834,331</u>

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

COMPLEMENT UNITS		
GTRCC		
TCRA	PFD	FWDA
\$ 6,582	\$ 2,079	\$ 1,066
-	-	-
4,509	696	14
-	-	21
-	-	-
-	-	-
11	-	36
7	-	-
-	-	-
1,462	-	7,002
-	-	-
3,787	-	-
6,042	-	22,124
-	-	86
(4,118)	-	(6,107)
-	-	-
1,686	-	-
-	-	-
39,727	-	-
<u>59,695</u>	<u>2,775</u>	<u>24,242</u>
-	-	-
-	-	-
-	-	-
915	-	82
-	-	29
-	2,775	8
-	-	149
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
3,500	-	3,434
<u>4,415</u>	<u>2,775</u>	<u>3,702</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
51,107	-	-
<u>55,280</u>	<u>-</u>	<u>(110)</u>
<u>55,280</u>	<u>2,775</u>	<u>20,539</u>

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

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2017  
(amounts expressed in thousands)

Page 1 of 2

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANT & CONTRIBUTIONS
Primary government:				
Governmental activities:				
General government	\$ 24,436	\$ 23,007	\$ 11,193	\$ -
Public safety	162,416	20,221	5,616	61
Transportation	69,741	1,994	10,717	11,387
Social Services	4,908	-	-	-
Natural & econ environment	25,102	3,145	4,085	-
Culture and recreation	11,187	195	180	101
Interest on long-term debt	8,837	-	-	-
Total governmental activities	<u>306,627</u>	<u>48,562</u>	<u>31,791</u>	<u>11,549</u>
Business-type activities:				
Permit Services	9,236	11,499	-	-
Mountain Rail	3,180	1,489	-	-
Parking Garage	5,626	7,889	-	-
Convention Center	9,752	6,460	-	-
Cheney Stadium	1,836	689	-	-
Tacoma Dome	9,918	9,121	-	-
Performing Arts	1,737	-	-	657
Solid Waste	52,938	67,964	111	-
Waste Water	95,960	111,787	-	4,470
Union Station	1,464	1,459	-	-
Tacoma Rail	30,399	31,757	-	36
Water	97,540	95,085	-	12,721
Power	420,368	446,343	97	12,644
Total business-type activities	<u>739,954</u>	<u>791,542</u>	<u>208</u>	<u>30,528</u>
Total primary government	<u>1,046,581</u>	<u>840,104</u>	<u>31,999</u>	<u>42,077</u>
Component units:				
TCRA	1,178	189	1,807	-
GRGCC PDF	3,826	-	-	-
FWDA	1,526	377	41	-
Total component units	<u>\$ 6,530</u>	<u>\$ 566</u>	<u>\$ 1,848</u>	<u>\$ -</u>

General revenues:  
Property taxes  
Excise taxes  
Sales taxes  
Business taxes  
Unrestricted investment earnings  
Gain on sale of capital assets  
Transfers  
Total general revenues and transfers  
Change in net position  
Net position beginning  
Prior period adjustment  
Change in accounting principle  
Net position beginning (restated)  
Net position ending

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

CHANGES IN NET POSITION			COMPONENT UNITS		
PRIMARY GOVERNMENT					
GOVERNMENTAL	BUSINESS-TYPE				
ACTIVITIES	ACTIVITIES	TOTAL	TCRA	GTRCC PFD	FWDA
\$ 9,764	\$ -	\$ 9,764	\$ -	\$ -	\$ -
(136,518)	-	(136,518)	-	-	-
(45,643)	-	(45,643)	-	-	-
(4,908)	-	(4,908)	-	-	-
(17,872)	-	(17,872)	-	-	-
(10,711)	-	(10,711)	-	-	-
(8,837)	-	(8,837)	-	-	-
<u>(214,725)</u>	<u>-</u>	<u>(214,725)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2,263	2,263	-	-	-
-	(1,691)	(1,691)	-	-	-
-	2,263	2,263	-	-	-
-	(3,292)	(3,292)	-	-	-
-	(1,147)	(1,147)	-	-	-
-	(797)	(797)	-	-	-
-	(1,080)	(1,080)	-	-	-
-	15,137	15,137	-	-	-
-	20,297	20,297	-	-	-
-	(5)	(5)	-	-	-
-	1,394	1,394	-	-	-
-	10,266	10,266	-	-	-
-	38,716	38,716	-	-	-
-	82,324	82,324	-	-	-
<u>(214,725)</u>	<u>82,324</u>	<u>(132,401)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	818	-	-
-	-	-	-	(3,826)	-
-	-	-	-	-	(1,108)
<u>-</u>	<u>-</u>	<u>-</u>	<u>818</u>	<u>(3,826)</u>	<u>(1,108)</u>
\$ 74,479	\$ -	\$ 74,479	\$ -	\$ -	\$ -
12,881	-	12,881	-	-	-
71,634	1,702	73,336	-	3,815	-
51,043	-	51,043	-	-	-
2,134	5,591	7,725	12	11	11
293	4,650	4,943	(55)	-	-
51,452	(51,452)	-	-	-	-
263,916	(39,509)	224,407	(43)	3,826	11
49,191	42,815	92,006	775	-	(1,097)
751,813	2,025,289	2,777,102	54,958	-	22,863
1,169	-	1,169	(453)	-	(1,227)
(35,946)	-	(35,946)	-	-	-
717,036	2,025,289	2,742,325	54,505	-	21,636
<u>\$ 766,227</u>	<u>\$ 2,068,104</u>	<u>\$ 2,834,331</u>	<u>\$ 55,280</u>	<u>\$ -</u>	<u>\$ 20,539</u>

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2017  
(amounts expressed in thousands)

	General Fund #0010	Trans Capital & Engineering #(3)1060	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 60,627	\$ 3,412	\$ 124,278	\$ 188,317
Investments at fair value	-	-	5,222	5,222
Accounts receivables (net)	17,253	1,230	33,663	52,146
Due from other funds	3,960	288	5,888	10,136
Due from other governments	16,429	2,704	6,996	26,129
Inventories	1,160	-	1,649	2,809
Prepayments	7	-	-	7
Advances to other funds	-	-	965	965
<b>TOTAL ASSETS</b>	<b>99,436</b>	<b>7,634</b>	<b>178,661</b>	<b>285,731</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 99,436</b>	<b>\$ 7,634</b>	<b>\$ 178,661</b>	<b>\$ 285,731</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,919	\$ 3,025	\$ 3,971	\$ 10,915
Due to other funds	1,330	754	8,102	10,186
Due to other governments	180	-	21	201
Accrued wages	2,061	-	619	2,680
Accrued taxes	41	-	7	48
Customer deposits	-	-	76	76
Other current liabilities	722	-	-	722
Advances from other funds	-	-	533	533
<b>TOTAL LIABILITIES</b>	<b>8,253</b>	<b>3,779</b>	<b>13,329</b>	<b>25,361</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	10,969	62	27,127	38,158
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>10,969</b>	<b>62</b>	<b>27,127</b>	<b>38,158</b>
<b>FUND BALANCES (DEFICITS)</b>				
Nonspendable	3,630	-	1,685	5,315
Restricted	352	1,098	114,693	116,143
Committed	52	-	8,211	8,263
Committed - Council Contingencies	647	-	-	647
Assigned	7,974	2,695	13,482	24,151
Unassigned	67,559	-	134	67,693
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b>80,214</b>	<b>3,793</b>	<b>138,205</b>	<b>222,212</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 99,436</b>	<b>\$ 7,634</b>	<b>\$ 178,661</b>	<b>\$ 285,731</b>

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

RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEETS  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS

December 31, 2017

(amounts expressed in thousands)

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	222,212
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds balance sheet.		766,289
Internal service funds are used by management to charge the cost of various support services such as information systems, graphic services, communication, fleet and others activities to individual funds. The assets and liabilities of the Internal service funds are included in the government activities in the statement of net position.		103,750
Net Pension Assets and Deferred Outflow for Pensions are not reported in the governmental funds balance sheet.		85,415
Certain taxes will be collected after year-end and will not be available to pay for current year expenditures and are reported as unavailable revenue.		(3,793)
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.		(318,744)
Deferred Inflow of Resources for Pensions are not reported in the governmental funds balance sheet.		(16,596)
Total pension liability is reported as a liability in the governmental activities and is not considered to represent a financial liability, therefore, it is not reported in the governmental funds balance sheet.		(44,317)
Net Pension Liability is reported as a liability in the governmental activities and is not considered to represent a financial liability, therefore, it is not reported in the governmental funds balance sheet.		(27,989)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>766,227</u></u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2017  
(amounts expressed in thousands)

	General Fund #0010	Trans Capital & Engineering #(3)1060	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 161,578	\$ -	\$ 48,392	\$ 209,970
Licenses and permits	7,197	-	4,010	11,207
Intergovernmental revenue	11,347	14,137	15,140	40,624
Charges for goods and services	13,081	706	6,836	20,623
Fines and penalties	1,344	6	5,581	6,931
Interest and other earnings	1,052	22	603	1,677
Miscellaneous revenues	825	147	3,910	4,882
<b>TOTAL REVENUES</b>	<b>196,424</b>	<b>15,018</b>	<b>84,472</b>	<b>295,914</b>
<b>EXPENDITURES</b>				
Current:				
General government	34,195	-	3,764	37,959
Public safety	139,249	-	22,155	161,404
Transportation	368	8,391	31,423	40,182
Economic environment	17,262	-	6,870	24,132
Mental and physical health	-	-	4,712	4,712
Culture and recreation	12,861	-	598	13,459
Debt service:				
Principal payments	-	-	13,805	13,805
Interest and other related costs	-	-	8,837	8,837
Capital outlay	1,280	11,964	9,265	22,509
<b>TOTAL EXPENDITURES</b>	<b>205,215</b>	<b>20,355</b>	<b>101,429</b>	<b>326,999</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(8,791)</b>	<b>(5,337)</b>	<b>(16,957)</b>	<b>(31,085)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of long-term debt	-	-	27,512	27,512
Proceeds from sale of capital assets	-	-	4,852	4,852
Insurance recoveries	59	-	1	60
Transfer in	46,227	4,276	84,490	134,993
Transfer out	(37,647)	(1,977)	(47,679)	(87,303)
<b>TOTAL OTHER FINANCE SOURCES (USES)</b>	<b>8,639</b>	<b>2,299</b>	<b>69,176</b>	<b>80,114</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(152)</b>	<b>(3,038)</b>	<b>52,219</b>	<b>49,029</b>
FUND BALANCE - January 1	80,348	6,519	85,131	171,998
Prior period adjustment	18	312	855	1,185
FUND BALANCE - January 1, Restated	80,366	6,831	85,986	173,183
<b>FUND BALANCE (DEFICIT) - December 31</b>	<b>\$ 80,214</b>	<b>\$ 3,793</b>	<b>\$ 138,205</b>	<b>\$ 222,212</b>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2017  
(amounts expressed in thousands)

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	49,029
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures in the year purchased. The entity wide statement of activities reports capital outlay as depreciation expense over the life of the asset. This is the amount by which capital outlays exceeded depreciation in the current period.		
		(16,629)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Pension Asset		2,656
Property Tax		128
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Net OPEB obligation		(7,203)
Total Pension Liability - Police and Firefighters		877
Compensated absences		5,786
Claims and judgements		(6,601)
Pension Expense		29,519
The net revenue of certain activities of internal service funds is reported with governmental activities:		
Profit Loss reallocation that decrease expenditure		5,003
Debt proceeds provide current financial resources to governmental funds but issuing debt increases non-current liabilities in the statement of net position.		
		(27,512)
Repayment of non-current debt is an expenditure in the governmental funds but on the statement of net position it reduces the liability:		
Bond issuance cost/discount amortization		333
Principal repayment		13,805
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>49,191</u>

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

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 December 31, 2017  
 (amounts expressed in thousands)  
 Page 1 of 4

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300-01	Tacoma Water #4600	Tacoma Power #4700
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 34,179	\$ 98,418	\$ 59,076	\$ 195,176
Accounts receivable (net)	6,789	13,992	10,770	65,695
Due from other funds	67	1	69	1,820
Due from other governments	-	823	299	-
Inventory	-	1,243	2,403	6,987
Prepayments	-	220	1,240	6,808
Current restricted assets:				
Cash and cash equivalents:				
Debt services, deposits and replacements	391	1,058	4,366	21,208
Construction accounts	4,441	57	32,591	7
Other special purposes	75	-	117,005	7,545
Notes and contracts receivable (current)	-	139	-	-
Total restricted assets	<u>4,907</u>	<u>1,254</u>	<u>153,962</u>	<u>28,760</u>
Total current assets	<u>45,942</u>	<u>115,951</u>	<u>227,819</u>	<u>305,246</u>
Noncurrent assets:				
Cash for bond reserves	4,723	14,335	-	-
Notes and contracts receivable	-	706	-	2,625
Other noncurrent assets	-	282	1,810	49,689
Capital assets:				
Land	2,856	23,657	24,687	77,089
Property, plant, and equipment	187,511	819,185	1,074,242	1,978,938
Less: accumulated depreciation	(108,553)	(268,678)	(236,819)	(1,050,225)
Construction work in progress	137	8,033	11,902	32,157
Total capital assets net of accumulated depreciation	<u>81,951</u>	<u>582,197</u>	<u>874,012</u>	<u>1,037,959</u>
Total noncurrent assets	<u>86,674</u>	<u>597,520</u>	<u>875,822</u>	<u>1,090,273</u>
<b>TOTAL ASSETS</b>	<u><u>132,616</u></u>	<u><u>713,471</u></u>	<u><u>1,103,641</u></u>	<u><u>1,395,519</u></u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Unamortized loss on refunding	-	2,904	1,363	-
Deferred outflows related to pensions	5,407	11,071	8,671	38,427
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>	<u>5,407</u>	<u>13,975</u>	<u>10,034</u>	<u>38,427</u>
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOW OF RESOURCES</b>	<u><u>\$ 138,023</u></u>	<u><u>\$ 727,446</u></u>	<u><u>\$ 1,113,675</u></u>	<u><u>\$ 1,433,946</u></u>

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

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 December 31, 2017  
 (amounts expressed in thousands)  
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	BUSINESS-TYPE ACTIVITIES			
	ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300-01	Tacoma Water #4600	Tacoma Power #4700
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,054	\$ 3,265	\$ 1,369	\$ 33,095
Due to other funds	252	732	1,097	68
Due to other governments	-	550	-	-
Advances from other funds	-	-	-	-
Interest payable	-	202	1,860	9,755
Deposits payable	23	-	357	2,791
Accrued wages	488	874	726	3,036
Accrued benefits	-	-	-	-
Accrued taxes	707	862	1,556	8,272
Environmental liability - current	876	886	-	-
Notes, contracts & leases - current	1,888	3,868	2,878	250
Revenue bonds - current	-	4,606	10,681	11,575
Unearned revenue	208	341	-	-
Other	-	-	-	-
Current payables from restricted assets:				
Debt principal payable	172	419	-	-
Debt interest payable	222	640	-	-
Deposits and other payables	74	-	-	-
Total current liabilities	<u>5,964</u>	<u>17,245</u>	<u>20,524</u>	<u>68,842</u>
Noncurrent liabilities:				
Revenue bonds payable (net)	63,453	189,545	377,995	417,800
Unearned revenues	-	-	7,610	-
Compensated absences	1,106	2,979	2,069	9,398
Environmental liability - noncurrent	15,478	840	-	-
Notes, contracts & leases payable - noncurrent	-	40,575	85,624	-
Net OPEB obligation	2,237	2,969	3,542	11,282
Net pension liability	5,162	10,570	8,279	36,687
Other - noncurrent liabilities	-	-	13,957	3,862
Total noncurrent liabilities	<u>87,436</u>	<u>247,478</u>	<u>499,076</u>	<u>479,029</u>
<b>TOTAL LIABILITIES</b>	<u><b>93,400</b></u>	<u><b>264,723</b></u>	<u><b>519,600</b></u>	<u><b>547,871</b></u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred liability - rate stabilization	6,000	25,000	35,575	48,000
Deferred inflows related to pensions	1,112	2,277	1,784	7,905
Deferred gain on refunding	467	73	-	-
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>	<u><b>7,579</b></u>	<u><b>27,350</b></u>	<u><b>37,359</b></u>	<u><b>55,905</b></u>
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOW OR RESOURCES</b>	<u><b>100,979</b></u>	<u><b>292,073</b></u>	<u><b>556,959</b></u>	<u><b>603,776</b></u>
<b>NET POSITION</b>				
Net investment in capital assets	27,775	386,409	445,995	613,307
Restricted:				
Restricted for capital purchases	-	-	-	-
Restricted for debt	4,721	14,335	2,506	11,453
Restricted for waste assurance and systems development	-	-	50,149	-
Restricted for culture and recreation	-	-	-	-
Restricted for self-insurance	-	-	-	-
Restricted for environmental services and programs	-	-	-	-
Restricted for inspections	-	-	-	-
Restricted for reserves	-	-	-	2,578
Unrestricted	4,548	34,629	58,066	202,832
<b>TOTAL NET POSITION</b>	<u><b>\$ 37,044</b></u>	<u><b>\$ 435,373</b></u>	<u><b>\$ 556,716</b></u>	<u><b>\$ 830,170</b></u>

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

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 December 31, 2017  
 (amounts expressed in thousands)  
 Page 3 of 4

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 21,594	\$ 408,443	\$ 94,998
Accounts receivable (net)	7,958	105,204	266
Due from other funds	514	2,471	950
Due from other governments	300	1,422	16
Inventory	1,167	11,800	1,223
Prepayments	884	9,152	3,476
Current restricted assets:			
Cash and cash equivalents:			
Debt services, deposits and replacements	2,694	29,717	-
Construction accounts	-	37,096	-
Other special purposes	13,490	138,115	-
Notes and contracts receivable (current)	-	139	-
Total restricted assets	16,184	205,067	-
Total current assets	48,601	743,559	100,929
Noncurrent assets:			
Cash for bond reserves	-	19,058	-
Notes and contracts receivable	15,430	18,761	-
Other noncurrent assets	110	51,891	-
Capital assets:			
Land	36,004	164,293	357
Property, plant, and equipment	305,794	4,365,670	175,617
Less: accumulated depreciation	(122,734)	(1,787,009)	(114,144)
Construction work in progress	850	53,079	4,188
Total capital assets net of accumulated depreciation	219,914	2,796,033	66,018
Total noncurrent assets	235,454	2,885,743	66,018
<b>TOTAL ASSETS</b>	<b>284,055</b>	<b>3,629,302</b>	<b>166,947</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Unamortized loss on refunding	2,932	7,199	-
Deferred outflows related to pensions	3,477	67,053	7,437
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>	<b>6,409</b>	<b>74,252</b>	<b>7,437</b>
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ 290,464</b>	<b>\$ 3,703,554</b>	<b>\$ 174,384</b>

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

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2017  
(amounts expressed in thousands)  
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LIABILITIES	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current liabilities:			
Accounts payable	\$ 2,071	\$ 40,854	\$ 9,136
Due to other funds	337	2,486	883
Due to other governments	4	554	-
Advances from other funds	432	432	-
Interest payable	634	12,451	-
Deposits payable	5,327	8,498	-
Accrued wages	611	5,735	1,109
Accrued benefits	12	12	6
Accrued taxes	354	11,751	14
Environmental liability - current	-	1,762	-
Notes, contracts & leases - current	-	8,884	-
Revenue bonds - current	8,565	35,427	-
Unearned revenue	1,245	1,794	64
Other	1,876	1,876	34,949
Current payables from restricted assets:			
Debt principal payable	-	591	-
Debt interest payable	-	862	-
Deposits and other payables	-	74	-
Total current liabilities	21,468	134,043	46,161
Noncurrent liabilities:			
Revenue bonds payable (net)	85,177	1,133,970	-
Unearned revenues	-	7,610	-
Compensated absences	1,826	17,378	3,494
Environmental liability - noncurrent	-	16,318	-
Notes, contracts & leases payable - noncurrent	6,043	132,242	-
Net OPEB obligation	1,626	21,656	-
Net pension liability	3,320	64,018	7,099
Other - noncurrent liabilities	6,705	24,524	13,607
Total noncurrent liabilities	104,697	1,417,716	24,200
TOTAL LIABILITIES	126,165	1,551,759	70,361
DEFERRED INFLOW OF RESOURCES			
Deferred liability - rate stabilization	-	114,575	-
Deferred inflows related to pensions	715	13,793	1,529
Deferred gain on refunding	-	540	-
TOTAL DEFERRED INFLOW OF RESOURCES	715	128,908	1,529
TOTAL LIABILITIES & DEFERRED INFLOW OR RESOURCES	126,880	1,680,667	71,890
NET POSITION			
Net investment in capital assets	137,604	1,611,090	66,018
Restricted:			
Restricted for capital purchases	6,803	6,803	26,276
Restricted for debt	2,694	35,709	-
Restricted for waste assurance and systems development	-	50,149	-
Restricted for culture and recreation	4,405	4,405	-
Restricted for self-insurance	-	-	1,150
Restricted for environmental services and programs	2,467	2,467	-
Restricted for inspections	299	299	-
Restricted for reserves	-	2,578	-
Unrestricted	9,312	309,387	9,050
TOTAL NET POSITION	\$ 163,584	\$ 2,022,887	\$ 102,494

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

RECONCILIATION OF TOTAL ENTERPRISE NET POSITION  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

December 31, 2017

(amounts expressed in thousands)

NET POSITION - TOTAL ENTERPRISE FUNDS \$ 2,022,887

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

Internal service fund are used by management to charge the cost of support services to individual enterprise funds. In this case the support service is fleet management. The assets and liabilities of the fleet fund are included in the business activities in the government-wide statement of net position. 45,217

NET POSITION OF BUSINESS ACTIVITIES \$ 2,068,104

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS

For the Year Ended December 31, 2017

(amounts expressed in thousands)

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	BUSINESS-TYPE ACTIVITIES			
	ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300-01	Tacoma Water #4600	Tacoma Power #4700
OPERATING REVENUES				
Charges for goods and services	\$ 67,400	\$ 106,174	\$ 84,584	\$ 428,151
Interfund insurance premiums	-	-	-	-
Miscellaneous revenues	494	3,867	10,060	18,192
TOTAL OPERATING REVENUES	<u>67,894</u>	<u>110,041</u>	<u>94,644</u>	<u>446,343</u>
OPERATING EXPENSES				
Salary and wages	14,112	23,972	18,800	82,123
Personnel benefits	7,997	12,396	9,174	36,979
Supplies	779	4,383	2,428	140,600
Services	21,595	28,936	18,650	65,521
Taxes	986	1,714	4,776	20,756
Depreciation expense	5,474	17,205	24,038	57,231
TOTAL OPERATING EXPENSES	<u>50,943</u>	<u>88,606</u>	<u>77,866</u>	<u>403,210</u>
OPERATING INCOME (LOSS)	16,951	21,435	16,778	43,133
NON-OPERATING REVENUES (EXPENSES)				
Taxes	-	-	-	-
Interest and other earnings	533	1,312	2,469	2,880
Interest and other related costs	(1,995)	(7,354)	(18,321)	(14,077)
Unrealized net gain/loss in FMV of investments	(136)	(378)	(706)	(628)
Operating contributions - interfund	-	-	-	-
Operating contributions - federal/state/local	-	-	-	-
Other non operating revenues (expenses)	70	1,746	440	(1,412)
Gain(loss) on disposition of property	(723)	(18)	846	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(2,251)</u>	<u>(4,692)</u>	<u>(15,272)</u>	<u>(13,237)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	14,700	16,743	1,506	29,896
Capital contributions - federal/state/local	-	4,176	3,582	3,688
Capital contributions - private	-	294	9,139	8,955
Transfer in	-	1,218	51	-
Transfer out	(5,372)	(8,997)	(7,144)	(34,142)
TOTAL CONTRIBUTIONS AND TRANSFERS	<u>(5,372)</u>	<u>(3,309)</u>	<u>5,628</u>	<u>(21,499)</u>
CHANGE IN NET POSITION	9,328	13,434	7,134	8,397
NET POSITION				
NET POSITION - January 1	27,716	421,939	549,582	821,773
Prior period adjustments	-	-	-	-
NET POSITION - January 1, Restated	27,716	421,939	549,582	821,773
NET POSITION - December 31	<u>\$ 37,044</u>	<u>\$ 435,373</u>	<u>\$ 556,716</u>	<u>\$ 830,170</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS

For the Year Ended December 31, 2017

(amounts expressed in thousands)

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	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES			
Charges for goods and services	\$ 63,738	\$ 750,047	\$ 80,921
Interfund insurance premiums	-	-	91,195
Miscellaneous revenues	-	32,613	11
<b>TOTAL OPERATING REVENUES</b>	<b>63,738</b>	<b>782,660</b>	<b>172,127</b>
OPERATING EXPENSES			
Salary and wages	20,051	159,058	34,939
Personnel benefits	9,986	76,532	12,250
Supplies	2,538	150,728	3,543
Services	25,780	160,482	114,577
Taxes	789	29,021	-
Depreciation expense	8,571	112,519	9,813
<b>TOTAL OPERATING EXPENSES</b>	<b>67,715</b>	<b>688,340</b>	<b>175,122</b>
OPERATING INCOME (LOSS)	(3,977)	94,320	(2,995)
NON-OPERATING REVENUES (EXPENSES)			
Taxes	1,702	1,702	10
Interest and other earnings	350	7,544	861
Interest and other related costs	(4,562)	(46,309)	-
Unrealized net gain/loss in FMV of investments	(130)	(1,978)	(358)
Operating contributions - federal/state/local	-	-	-
Other non operating revenues (expenses)	6,625	7,469	65
Gain(loss) on disposition of property	4,057	4,162	781
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>8,042</b>	<b>(27,410)</b>	<b>1,359</b>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	4,065	66,910	(1,636)
Capital contributions - federal/state/local	657	12,103	-
Capital contributions - private	36	18,424	-
Transfer in	8,358	9,627	5,025
Transfer out	(5,424)	(61,079)	(1,263)
<b>TOTAL CONTRIBUTIONS AND TRANSFERS</b>	<b>3,627</b>	<b>(20,925)</b>	<b>3,762</b>
CHANGE IN NET POSITION	7,692	45,985	2,126
NET POSITION			
NET POSITION - January 1	155,892	1,976,902	100,384
Prior period adjustments	-	-	(16)
NET POSITION - January 1, Restated	155,892	1,976,902	100,368
<b>NET POSITION - December 31</b>	<b>\$ 163,584</b>	<b>\$ 2,022,887</b>	<b>\$ 102,494</b>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN NET POSITION OF ENTERPRISE FUNDS  
TO THE STATEMENT OF ACTIVITIES -  
BUSINESS ACTIVITIES

For the Year Ended December 31, 2017  
(amounts expressed in thousands)

NET CHANGES IN NET POSITION - TOTAL ENTERPRISE FUNDS	\$ 45,985
Amounts reported for business activities in the statement of activities are different because:	
The net revenue of certain activities of internal service funds is reported with business activities:	
Profit Loss reallocation that decrease expenditure	(3,170)
CHANGES IN NET POSITION OF BUSINESS ACTIVITIES	<u>\$ 42,815</u>

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

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2017  
 (amounts expressed in thousands)  
 Page 1 of 4

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300/4301	Tacoma Water #4600	Tacoma Power #4700
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 67,089	\$ 109,162	\$ 95,232	\$ 439,258
Receipts from interfund services provided	-	-	-	-
Payments to suppliers	(27,652)	(33,142)	(21,983)	(203,113)
Payments to employees	(20,595)	(33,347)	(26,214)	(113,802)
Payments for taxes	(988)	(1,778)	(4,712)	(19,994)
Payments for interfund services used	-	-	-	-
Other operating or non-operating revenues (expenses)	66	1,489	-	(83)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>17,920</u>	<u>42,384</u>	<u>42,323</u>	<u>102,266</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	350	-	-
Transfers (to) other funds	(5,385)	(8,934)	(7,093)	(34,242)
Advances (to) other funds	-	-	-	-
Grants received	-	45	-	-
Debt service related to environmental	(332)	(2,379)	-	-
Contributions and Donations	-	-	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(5,717)</u>	<u>(10,918)</u>	<u>(7,093)</u>	<u>(34,242)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	868	-	-
Transfers (to) funds	-	(61)	-	-
Acquisition and construction of capital assets	(7,779)	(23,830)	(14,042)	(60,000)
Proceeds from issuance of long-term debt	-	-	1,575	-
Proceeds from capital debt	-	-	-	70,575
Proceeds from the sale of capital assets	16	36	-	-
Proceeds from leased property	-	-	-	-
Lease and leaseback	-	-	-	-
Principal paid on capital debt	(4,645)	(8,060)	(13,339)	(117,030)
Interest and issuance costs paid on capital debt	(2,571)	(6,530)	(20,054)	(19,667)
Premium from capital debt	-	-	-	9,881
Capital lease obligation	-	-	-	-
Other long-term liabilities	-	-	-	1,110
Contributions and donations	3	4,625	9,093	12,494
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>(14,976)</u>	<u>(32,952)</u>	<u>(36,767)</u>	<u>(102,637)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends received	538	1,320	1,763	2,251
Investment long-term	(142)	(386)	1,216	(1,284)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>396</u>	<u>934</u>	<u>2,979</u>	<u>967</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(2,377)	(552)	1,442	(33,646)
CASH & CASH EQUIVALENTS, JANUARY 1	46,186	114,420	211,596	257,582
CASH, RESTRICTED CASH & CASH EQUIVALENTS, DECEMBER 31	<u><u>43,809</u></u>	<u><u>113,868</u></u>	<u><u>213,038</u></u>	<u><u>223,936</u></u>

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

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2017  
 (amounts expressed in thousands)  
 Page 2 of 4

	BUSINESS-TYPE ACTIVITIES			
	ENTERPRISE FUNDS			
	Solid Waste #4200	Wastewater & Surface Water #4300/4301	Tacoma Water #4600	Tacoma Power #4700
<b>RECONCILIATION OF OPERATING INCOME</b>				
<b>(LOSS) TO NET CASH PROVIDED (USED)</b>				
<b>BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 16,951	\$ 21,435	\$ 16,778	\$ 43,133
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	5,474	17,205	24,038	57,231
(increase) decrease in accounts receivable	(322)	(220)	(476)	(7,169)
(Increase) decrease in intergovernmental receivables	-	-	-	-
(Increase) decrease in due from other funds	(9)	84	39	406
(Increase) decrease in inventories	-	(214)	(62)	58
(Increase) decrease in prepaid items	-	99	(122)	-
(Increase) decrease in other current assets	113	-	-	-
Increase (decrease) in deposits payable	(9)	-	7	19
Increase (decrease) in accounts payable	(988)	(172)	64	1,270
Increase (decrease) in accrued wages payable	101	24	45	124
Increase (decrease) in compensated absences	88	88	(539)	(284)
Increase (decrease) in intergovernmental payables	-	(678)	-	-
Increase (decrease) in due to other funds	(566)	(1,120)	(582)	(2,073)
Increase (decrease) in unearned revenues	10	17	-	-
Increase (decrease) in other current liabilities	(550)	-	-	-
Increase (decrease) in notes, contracts, and leases payable	-	-	-	-
Increase (decrease) in other long-term liabilities	(2,440)	3,974	-	9,551
Prior period adjustments	-	-	-	-
Miscellaneous non-operating revenues (expenditures)	67	1,862	3,133	-
Total adjustments	969	20,949	25,545	59,133
<b>NET CASH PROVIDED (USED) BY</b>				
<b>OPERATING ACTIVITIES</b>	<u>\$ 17,920</u>	<u>\$ 42,384</u>	<u>\$ 42,323</u>	<u>\$ 102,266</u>
<b>NONCASH INVESTING, CAPITAL, AND</b>				
<b>FINANCING ACTIVITIES</b>				
Contributions of capital assets	-	1,251	3,628	149

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2017  
(amounts expressed in thousands)  
Page 3 of 4

	BUSINESS-TYPE ACTIVITIES		
	ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 63,703	\$ 774,444	\$ 24,260
Receipts from interfund services provided	(498)	(498)	62,145
Contributions received - employee/employer	-	-	89,109
Payments to suppliers	(26,840)	(312,730)	(105,498)
Payments to employees	(29,311)	(223,269)	(44,997)
Payments to insurance carriers	-	-	-
Payments for taxes	(909)	(28,381)	(1,584)
Payments for interfund services used	(4,934)	(4,934)	(4,359)
Other operating or non-operating revenues (expenses)	4,737	6,209	88
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>5,948</b>	<b>210,841</b>	<b>19,164</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Transfers from other funds	3,188	3,538	4,975
Transfers (to) other funds	(2,907)	(58,561)	(738)
Advances (to) other funds	(431)	(431)	-
Grants received	2,270	2,315	-
Debt service related to environmental	(174)	(2,885)	-
Contributions and Donations	(1)	(1)	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,945</b>	<b>(56,025)</b>	<b>4,237</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>			
Transfers from other funds	5,168	6,036	150
Transfers (to) funds	(2,525)	(2,586)	(625)
Acquisition and construction of capital assets	(2,585)	(108,236)	(12,438)
Proceeds from issuance of long-term debt	-	1,575	-
Proceeds from capital debt	4,051	74,626	-
Proceeds from the sale of capital assets	5,931	5,983	-
Proceeds from leased property	-	-	-
Lease and leaseback	-	-	-
Principal paid on capital debt	(7,560)	(150,634)	-
Interest and issuance costs paid on capital debt	(4,551)	(53,373)	-
Premium from capital debt	-	9,881	-
Capital lease obligation	-	-	-
Other long-term liabilities	-	1,110	-
Contributions and donations	2,017	28,232	-
<b>NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES</b>	<b>(54)</b>	<b>(187,386)</b>	<b>(12,913)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest and dividends received	355	6,227	875
Investment long-term	(133)	(729)	(369)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>222</b>	<b>5,498</b>	<b>506</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>8,061</b>	<b>(27,072)</b>	<b>10,994</b>
<b>CASH &amp; CASH EQUIVALENTS, JANUARY 1</b>	<b>29,717</b>	<b>659,501</b>	<b>84,004</b>
<b>CASH, RESTRICTED CASH &amp; CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 37,778</b>	<b>\$ 632,429</b>	<b>\$ 94,998</b>

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

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2017  
 (amounts expressed in thousands)  
 Page 4 of 4

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (3,977)	\$ 94,320	\$ (2,995)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	8,571	112,519	9,813
(increase) decrease in accounts receivable	(34)	(8,221)	123
(Increase) decrease in intergovernmental receivables	(300)	(300)	(8)
(Increase) decrease in due from other funds	(498)	22	4,920
(Increase) decrease in inventories	(142)	(360)	(192)
(Increase) decrease in prepaid items	1,192	1,169	(2,560)
(Increase) decrease in other current assets	(57)	56	287
Increase (decrease) in deposits payable	(2,091)	(2,074)	(52)
Increase (decrease) in accounts payable	(1,523)	(1,349)	6,851
Increase (decrease) in accrued wages payable	82	376	320
Increase (decrease) in compensated absences	645	(2)	(262)
Increase (decrease) in deferred credits	-	-	-
Increase (decrease) in intergovernmental payables	2	(676)	(8)
Increase (decrease) in due to other funds	(322)	(4,663)	317
Increase (decrease) in unearned revenues	(246)	(219)	65
Increase (decrease) in other current liabilities	(140)	(690)	(168)
Increase (decrease) in notes, contracts, and leases payable	-	-	-
Increase (decrease) in other long-term liabilities	50	11,135	2,543
Prior period adjustments	-	-	95
Miscellaneous non-operating revenues (expenditures)	4,736	9,798	75
Total adjustments	9,925	116,521	22,159
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 5,948	\$ 210,841	\$ 19,164
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Contributions of capital assets	-	5,028	-

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

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 December 31, 2017  
 (amounts expressed in thousands)

		TOTAL PENSION AND EMPLOYEE TRUST FUNDS #6050-6100, 6450
<b>ASSETS</b>		
Cash and cash equivalents	\$	7,909
Investments at fair value		32,707
Equities		945,893
Fixed income		576,353
Real estate		70,971
Venture capital and partnerships		134,143
Securities lending collateral		41,990
Due from other funds		1
Due from other governments		868
Interest and dividends		2,490
Investment sales		1,965
Capital assets - net of accumulated depreciation		10
<b>TOTAL ASSETS</b>		<u>1,815,300</u>
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>		<u>-</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable		5,617
Accrued wages and benefits payable		1,438
Due to the governmental units		3
Investments purchase payable		84,883
Other current liabilities		5
Total current liabilities		<u>91,946</u>
Non-current liabilities:		
Accrued employee leave benefits		96
Total non-current liabilities		<u>96</u>
<b>TOTAL LIABILITIES</b>		<u>92,042</u>
<b>TOTAL DEFERRED INFLOW OF RESOURCES</b>		<u>-</u>
<b>NET POSITION</b>		
Net position restricted for pensions and other purposes	\$	<u>1,723,258</u>

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

FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended December 31, 2017  
(amounts expressed in thousands)

	TOTAL PENSION AND EMPLOYEE TRUST FUNDS #6050-6100, 6450
<b>ADDITIONS</b>	
Employer contributions	\$ 26,091
Member contributions	23,009
Other contributions	160
Total contributions	49,260
Investment income:	
Net appreciation (depreciation) in fair value of investments	180,406
Interest & dividends	32,058
Total investment income	212,464
Less investment expenses:	
Investment management fees	(6,276)
Securities lending - agent fees	(81)
Securities lending - broker rebates	(490)
Total investment expense	(6,847)
Net investment income	205,617
<b>TOTAL ADDITIONS</b>	254,877
 <b>DEDUCTIONS</b>	
Wages and benefits	934
Benefit payments	75,047
Refunds of contributions	2,421
Administrative expense	926
<b>TOTAL DEDUCTIONS</b>	79,328
 <b>NET INCREASE (DECREASE)</b>	 175,549
 <b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	
Net position - beginning	1,547,709
Net position - ending	\$ 1,723,258

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Tacoma’s financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Effective for the fiscal year 2017, the City implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions administered through a trust. There is no material impact to the City in implementing this standard.

GASB Statement No. 80 - *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. There is no material impact to the City implementing this standard.

GASB Statement No. 82 - *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The purpose of this statement is to address certain issues that have been raised with respect to GASB statements No. 67, No. 68 and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**A. Reporting Entity**

The City of Tacoma is a municipal corporation incorporated January 7, 1884. The City operates under a Council-Manager form of government, and under its charter has all powers granted by the constitution and laws of the State of Washington. The City provides the full range of services contemplated by statute or charter. Areas under City Council include:

1. Governmental functions: City Attorney, Community & Economic Development, Environmental Policy & Sustainability, Environmental Services, Finance, Fire, Governmental Relations, Hearing Examiner, Human Resources, Information Technology, Library, Municipal Court, Media & Communications, Neighborhood & Community Services, Office of Management and Budget, Planning & Development Services, Police, Tacoma Venues and Events, and Public Works; and,
2. Utility functions: Power, Rail, and Water.

The accompanying financial statements present the City and its component units.

Component units are required to be blended if the component unit’s governing body is substantively the same as the governing body of the primary government and (1) there is a financial benefit/burden relationship between the primary government and the component unit or (2) management of the primary government has operational responsibility for the component unit. Additionally, per GASB Statement No. 80 a component unit should be included using blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member. A component unit should be presented as blended when the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Discretely presented component units are separate legal entities for which the City is financially accountable and there is a financial benefit/burden relationship with the City. Exclusion of these entities would cause the City's financial statements to be misleading or incomplete. To be presented as a discretely presented component unit all of the following criteria must be met:

1. The economic resources received or held by the organization are almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization of the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

For related party transactions refer to Note 4 Section H.

*Blended Component Units:*

**Tacoma Transportation Benefit District (TBD)** is governed by a Board, comprised of Tacoma City Councilmembers acting ex officio and independently of their elected position, as required by the authorizing state law. Though it is legally separated from the City the TBD is reported as if it was part of the primary government because its sole purpose is to acquire, construct, improve, and provide funding for transportation improvements for the benefit of the City and City management has operational responsibility and services are provided entirely to the City. The authority to form a TBD was granted under Washington State RCW 35.21.225 and RCW 36.73.020. During 2012 City Council created the TBD, by ordinance No. 28099 and RCW 82.80.140 gives the TBD the authority to impose taxes, fees, charges, and tolls. The TBD approved Resolution No. TBD001 imposing a \$20 vehicle registration fee within the district's boundaries, effective for 2013.

Financial statements for the TBD can be found in the Combining Statements located in the Financial Section of this report.

*Discretely presented Component Units:*

**Tacoma Community Redevelopment Authority (TCRA)** is a separate public development authority established through City ordinances and the laws of the State of Washington. TCRA was created to administer Housing and Urban Development (HUD) and Economic Development Administration (EDA) funds assisting the City in housing rehabilitation and business economic development projects. The Tacoma Community Redevelopment Authority is governed by a 10-member board appointed by the Tacoma City Council. Although it is legally separated from the City, the Tacoma Community Redevelopment Authority is a component unit of the primary government because its sole purpose is to finance and provide housing rehabilitation and community & economic development loans to residents and businesses in the City of Tacoma. The City has operational responsibility and exercises oversight responsibility for administration and contract approval.

Separate financial statements for TCRA can be obtained from: TCRA, 747 Market Street, Room 132, Tacoma, Washington 98402.

**The Greater Tacoma Regional Convention Center Public Facilities District (the District)** is a public corporation organized under the Laws of Washington, Chapter 165, 1999 Regular Session, Sections 1 through 23 and pursuant to an interlocal agreement between the Cities of Tacoma, Fife, University Place, Lakewood and Pierce County. Liability of the District is limited to the District's assets with no recourse to the City of Tacoma assets or property. Although it is legally separated from the City, the District is a component unit of the primary government because its sole purpose is to assist finance, and otherwise facilitate the construction and operation of a Convention Center. The City appoints the a voting majority of the board and has exercised oversight responsibility for administration for the debt service on bonds issued by the City for the construction of the Convention Center. The

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

District imposed the 0.033 percent sales and use tax authorized by RCW 82.08 and 82.12. The District pays these revenues to the City of Tacoma primarily for the debt service for bond issued by the City of Tacoma to fund the design, development, construction and operation of Convention Center inclusive of real property, buildings, fixtures, furnishings, appurtenances and improvements.

Separate financial statements for the District can be obtained from: GTRCC PFD, c/o the City of Tacoma Finance Department, 747 Market Street, Room 132, Tacoma, Washington 98402.

**The Foss Waterway Development Authority (FWDA or Authority)** is a separate legal entity and a component unit of the primary government because its sole purpose is to manage the redevelopment of property within and along the Thea Foss Waterway for the City's benefit. The City provides contributions, as necessary, to support FWDA activities. The Authority was created on October 1, 1996 by Resolution No. 33513. Under the terms of an agreement between the City and the Authority, the Authority serves to improve the environment, and along with the City, is taking steps to enhance the Waterway.

Separate financial statements for the Authority can be obtained from: Foss Waterway Development Authority, c/o the City of Tacoma Finance Department, 747 Market Street, Room 132, Tacoma, Washington 98402.

*Joint Ventures:*

The City participates in two joint ventures: the South Sound 911 and the Tacoma-Pierce County Health Department.

**South Sound 911**

On November 8, 2011, voters in Pierce County approved a county-wide one-tenth of one percent local sales and use tax to fund costs associated with regional 911 system and facility improvements. Development of the regional system is being managed by South Sound 911, an interlocal agency created by Pierce County, the City of Tacoma, the City of Lakewood, the City of Fife and West Pierce Fire and Rescue pursuant to RCW 39.34. All services previously provided by the Law Enforcement Support Agency (LESA) are now being provided by South Sound 911. On December 17, 2012, all LESA employees were transitioned to the new agency. All assets and liabilities were transferred to South Sound 911 on the official transition date of January 1, 2013. During the next few years, Public Safety Answering Points (PSAP's) managed by the City of Tacoma, City of Fife and West Pierce Fire and Rescue will transition to South Sound 911.

In 2012, South Sound 911 established its first Policy Board consisting of nine voting members.

Members of the Policy Board include:

- One member of the Pierce County Council;
- The Pierce County Executive;
- The Mayor of Tacoma;
- One member of the Tacoma City Council;
- The Mayor or one member of the Lakewood City Council;
- The Pierce County Sheriff;
- The Mayor or one member of the Fife City Council;
- One Fire Commissioner of West Pierce Fire & Rescue;
- One Mayor or Councilmember of a city or town within Pierce County with a population under (50,000) fifty-thousand residents, provided that such city or town contracts with South Sound 911 or a Member Agency. Such position shall be filled for a two-year term by appointment through a vote of the Policy Board.

South Sound 911 also established an Operations Board under the authority of the Policy Board. The members of the Operations Board are the members of the Law Enforcement Services and Fire Services Committees. Each

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

committee will have (1) one vote. If the Operations Board cannot reach consensus, the deciding vote will be cast by the Policy Board.

**Tacoma-Pierce County Health Department**

The Health Department is a joint venture of the City and County providing personal and environmental health services throughout the County. The Department provides community leadership in protecting the public's health, preventing health problems, and promoting healthy and safe living. The Health Department was created pursuant to the provisions of Chapter 70.08 of the Revised Code of Washington (RCW) to serve the needs of the constituents of the City of Tacoma, Pierce County, and other cities and towns within the County. The operations of the Health Department are governed by an agreement, dated May 23, 2006, between the City of Tacoma and Pierce County. The Health Department is managed by the Board of Health, which consists of the Pierce County Executive or a duly designated representative, three members of the County Council, Mayor of the City of Tacoma or a duly designated representative, one member of the City Council, one member representing Pierce County Cities and Towns Association, and one member-at-large appointed by the first six representatives. The City of Tacoma and Pierce County are responsible for its debts and are entitled to the surplus.

Financial information for both entities is included in Note 8 Section F. The City of Tacoma however, does not report an equity interest in the Government-wide financial statements.

**B. Government-wide and fund financial statements**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The City uses encumbrance accounting. Purchase orders, contracts and other commitments are recorded as encumbrances. Encumbrances at year-end are no longer specifically reported as reservations of fund balances for governmental type funds. They are included in the restricted, committed, or assigned fund balance as defined by GASB Statement No. 54. Encumbrances outstanding at the end of the biennium are re-appropriated at the beginning of the next biennium. The amount of encumbrances, expressed in thousands, needed to pay commitments related to purchase orders and contracts that remain unperformed at year-end are as follows:

Transportation					
Capital &					
General Fund	Engineering		Non-major Funds		
\$	4,917	\$	27,448	\$	6,667

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

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Deferred Inflows of Resources includes property taxes that were not available to finance expenditures of the current period and grant revenues received in advance. Detailed information on property taxes is contained in the Statistical Section, Table 8. All other revenue items are considered to be measurable and available only when cash is received by the government.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. In addition, the City has two Internal Service Funds that provides 100% support to business-type activities only. A reconciliation is provided to explain the adjustment needed to transform the fund based financial statements into the business-type column of the government-wide presentation. These reconciliations are included as part of the basic financial statements.

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

The City reports the following major governmental funds:

- The General fund (#0010) is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Transportation Capital and Engineering fund (#3-1060) accounts for maintenance, engineering, and construction of city streets.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The City reports the following major proprietary funds:

- The Solid Waste fund (#4200) provides solid waste collection and disposal services for residential and commercial customers. Services include recycling, long-haul to an outside landfill, and disposal in the City owned landfill.
- The Wastewater and Surface Water (Sewer) fund (#4300-01) accounts for the planning, design, construction, operation, and maintenance of the wastewater and surface water facilities owned by the City.
- The Tacoma Water fund (#4600) accounts for the activities of the City's water distribution system.
- The Tacoma Power fund (#4700) accounts for the activities of the City's electric production and distribution operations.

Additionally, the City reports the following non-major fund types:

Special Revenue Funds:

- Courts Special Revenue fund (#1020) accounts for costs associated with the Court system.
- Council Contingency fund (#1030) establishes reserves for Council contingencies. This fund is reported within the General fund.
- Transportation Revenue fund (#1050)
- Street fund (#1065) accounts for street engineering and administration services.
- Transportation Benefit District (#1070) accounts for revenues and disbursement to the City of funds collected within the Transportation Benefit District. These funds are transferred to the Public Works Street fund for the maintenance of City streets.
- 2% Gross Earnings Tax Fund (#1080) accounts for the street maintenance funded through gross earnings taxes.
- Streets Initiative Fund (#1085) accounts for resources collected from Propositions 3 & A and expenditures for street repairs identified in the Infrastructure Maintenance Plan.
- Fire Special Revenue fund (#1090) accounts for expenditures related to the specific revenues or grants for fire services.
- Property Management/Street Vacation fund (#1100) accounts for costs associated with Public Works facilities and street rights-of-way.
- Local Improvement District Guarantee fund (#1110) provides for the guarantee of Local Improvement Bond obligations.
- Paths and Trails fund (#1140) was created for the purpose of creating and maintaining paths and trails within the City of Tacoma.
- Building and Land Use Services fund (#1145) was created for the purpose of managing code violations and preserving historical buildings.
- Fire Department EMS fund (#1155) accounts for costs associated with the emergency management.
- Tourism fund (#1180) was created to promote use of the convention center and to promote tourism for the City.
- Neighborhood and Community Services fund (#1185) accounts for neighborhood and community services to protect human rights and provide services to improve neighborhoods and households.
- Community and Economic Development fund (#1195) was created to promote economic development for the City.
- Library fund (#1200) accounts for costs associated with the operation of the Library system.
- Historically Underutilized Business (HUB) fund (#1236) accounts for activities which provide opportunities to qualified small businesses doing business with the City.
- Police Special Revenue fund (#1267) accounts for cost related to specific special revenues or grants for police services.
- Municipal Cable fund (#1431) supports the accounting for TV Tacoma, the City's television station.
- Local Employment Apprenticeship Program (LEAP) fund (#1500) accounts for activities within the human resources department related to LEAP.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

- Traffic Enforcement, Engineering and Education fund (#1650) manages the “red light” traffic camera program.
- Unclaimed Property fund (#1-6330) accounts for assets held by the City (primarily uncashed checks) until owners can be located.

Debt Service Funds:

- Voted Bonds fund (#2010) accounts for the debt service of unlimited general obligation bonds issued by the City of Tacoma.
- Non-voted Bonds fund (#2035) accounts for the debt service of limited general obligation bonds issued by the City of Tacoma.
- PWTF Loans fund (#2038) accounts for the debt service of obtaining public works trust fund loans.
- 2001 LTGO Refunding fund (#2039) accounts for the debt service of the 2001 LTGO refunding bonds.
- 2009 LTGO Bonds Series A-F fund (#2040) accounts for the debt service of the 2009 LTGO bonds.
- 2010 LTGO Bonds fund (#2041) accounts for the debt service of the 2010 LTGO bonds.
- 2013 LTGO Bonds (#2042) accounts for the debt service of the 2013 LTGO Bonds.
- 2017 LTGO Bonds (#2043) accounts for debt service for the 2017 LTGO Bonds.
- Consolidated LID Bond Redemption fund (#2-7999) accounts for the debt service related to LIDs.

Capital Project Funds:

- 1997 Bond Issue fund (#3209) accounts for the capital expenditures associated with the proceeds obtained from the 1997 Bond Issue.
- Capital Revenue (#3210) accounts for capital revenues
- Capital Projects fund (#3211) accounts for the various capital expenditures.
- 2002 Police Facility fund (#3216) accounts for the construction costs associated with the construction of the police facility.
- 2009 LTGO Capital Projects fund (#3218) accounts for the capital expenditures associated with the proceeds obtained from the 2009 LTGO Bond Issue.
- 2010 LTGO Capital Projects fund (#3220) accounts for various capital expenditures funded by the 2010 LTGO bond issue.
- LID Interim Financing fund (#3-7070) is used to provide interim financing during the formation and construction of local improvement district projects.

Enterprise Funds:

- Permit Services fund (#4110) was created to track the revenues generated from permits and expenditures incurred directly related to the permitting process.
- Tacoma Rail Mountain Division fund (#4120) accounts for operation costs of the rail system.
- Parking Operating fund (#4140) accounts for the City’s parking facilities.
- Convention Center fund (#4165) accounts for activities associated with operating the Convention Center.
- Cheney Stadium fund (#4170) accounts for activities associated with operating Cheney Stadium.
- Tacoma Dome fund (#4180) accounts for activities associated with operating the Tacoma Dome.
- Performing Arts fund (#4190) was created to track costs associated with the Performing Arts Center, Rialto Theater, Broadway Theater District and Pantages.
- Union Station fund (#4450) accounts for the thirty year lease with the Federal Government who uses Union Station as a Federal Courthouse.
- Tacoma Rail Belt Line Division fund (#4500) accounts for costs for the operations of the rail system between Tacoma and the Olympia area.
- Low Income Assistance fund (#4805) was created to accept voluntary donations to help low income customers pay utility bills.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Internal Service Funds:

- Finance Department fund (#5007) accounts for the operation of the Finance Division.
- BSIP Project fund (#5027) accounts for the Business Systems Improvement Project.
- Graphic Services fund (#5042) accounts for the general government leased copiers.
- TPU Fleet Services fund (#5050) accounts for costs of maintaining and replacing City vehicles for business-type activities.
- Tacoma Training & Employment Program (TTEP) fund (#5086) accounts for program costs to assist residents of the City ages 18-24 gain the necessary work ethics for sustainable employment.
- Public Works Equipment Rental fund (#5400) accounts for costs of maintaining and replacing City vehicles for General Government activities.
- Asphalt Plant fund (5453) accounts for the manufacturing of asphalt sold to other funds within the City of Tacoma.
- Communications Equipment – Replacement Reserves fund (#5540) accounts for radio communication equipment.
- Third Party Liability Claims fund (#5550) was created to track costs related to our self-insurance program.
- Unemployment Compensation fund (#5560) accounts for the City’s self-insurance unemployment compensation costs.
- Worker’s Compensation fund (#5570) accounts for the City’s self-insurance worker’s compensation costs.
- Facilities fund (#5700) accounts for maintenance and operation cost associated with all City of Tacoma buildings.
- General Government Internal Service fund (#5800) provides computer and system support for all City departments.
- Health Benefits Trust fund (#5-64xx) provides accounting for self-insurance to all City’s cost for healthcare.
- Self-Insurance Claims fund (#5-4800) provides accounting for self-insurance to business-type activities of the City of Tacoma departments including provisions for losses on property, liability, workers compensation, unemployment compensation.

Fiduciary Funds:

- Deferred Compensation fund (#6050) accounts for activities related to mandatory and optional payroll deductions.
- Tacoma Employee Retirement Systems (TERS) fund (#6100) accounts for the activities of the City’s retirement system, which accumulates resources for pension benefit payments to qualified City employees.

**D. Assets, liabilities and net position or fund balances**

**1. Cash and investments**

The City’s cash and cash equivalents include cash on hand, cash working fund, restricted cash, short term investments with original or remaining maturities of three months or less when purchased, and cash and investments in the City-wide investment pool. Investments, including equity in pooled cash and investments are stated at fair value, except for the Pension trust fund which is reported on a trade date basis, at fair value. No direct investments restricted or otherwise, are considered to be cash equivalents. The City uses a pooled investment portfolio. Each fund receives interest based on a pro-rata share of its cash balance to the total cash invested. Portfolio earnings are distributed monthly based on average daily cash balances of the participating funds.

**2. Receivables and payables**

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

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Advances between funds, as reported in the governmental fund financial statements, are included in the non-spendable classification in fund balance unless the proceeds from collection are restricted, committed, or assigned.

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

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

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

**3. Inventories and prepaid items**

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items accounted for under the consumption method and are expensed over the period the services are provided rather than when purchased.

**4. Restricted assets**

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

**5. Capital assets**

Capital assets; which include land, property, plant, equipment, and work in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated life in excess of one year except for land, easements, rights-of-way, infrastructure and buildings and improvements. Land, easements, and rights-of-way are capitalized regardless of cost. Infrastructure capitalization threshold is \$5,000 or more. Building and infrastructure improvements are capitalized when the cost is greater than \$5,000 and increases its useful life or service capacity. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value or the life of the asset are expensed. The interest on bond proceeds for constructed capital assets in the utility funds is capitalized during the construction phase.

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

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

The estimated useful lives for all City funds are:

Property, plant, and equipment	3-100 years
Water Plant	200 years
Parks	33 years
Library materials	5 years
Intangibles	3-25 years
Infrastructure	5-60 years

**6. *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. An employee is entitled to 100% of the value of the vacation leave; 25% of the value of the sick leave at retirement or death, or 10% of the value of the sick leave upon termination for any other reason. Under a revised City policy, employees earn Personal Time off (PTO) without distinction between vacation and sick leave with a maximum accrual of 960 hours. Employees who worked for the City prior to the change, or are covered by a collective bargaining agreement that provides only for vacation and sick leave could choose to stay with the original policy or may opt to convert to the new policy. The amount of leave earned is based on years of service. The Tacoma Public Library has slightly different rules governing sick leave and vacation leave, but these differences are not considered material to the City's financial statements.

**7. *Pensions***

For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and the Tacoma Employees Retirement System (TERS) sponsored pension plan and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the respective sponsors. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**8. *Long-term obligations***

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method or weighted average of the bonds outstanding. Bonds payable are reported net of the applicable bond premium or discount.

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**9. Fund equity**

***Fund balance***

The City of Tacoma implemented Governmental Accounting Standards Board (GASB) Statement No. 54 in 2011. For governmental fund financial statements fund balances are reported in five classifications.

1. **Nonspendable:** Includes amounts that are not in a spendable form, such as inventories, prepaid items, long-term interfund receivables, and amounts that are legally or contractually required to be maintained intact or required to be retained in perpetuity, such as the principal of an endowment fund.
2. **Restricted:** Includes amounts that can be spent only for the specific purposes stipulated by external resource providers. Amounts should be reported as restricted when constraints placed on use of resources 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.
3. **Committed:** Fund Balance can only be used for specific purposes as determined by formal action by the City Council. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation. The amount committed in the General Fund is accounted for under Fund 1030 Contingency Fund.
4. **Assigned:** Includes amounts that have been allocated by the General Fund through the encumbrance process, previously classified as unassigned. The authority to assign funds is delegated to City Management through the adoption of the biennium budget by the City Council. Fund balances of special revenue funds, debt service funds, capital project funds, that are not classified as nonspendable, restricted, or committed will be classified as assigned for the purpose of the fund. The authority to create funds is determined by formal action by the City Council, by adoption of an ordinance, or by state statute.
5. **Unassigned:** Includes amounts that do not fall into one of the above four categories. The General Fund is the only fund that should report this category as a positive fund balance. In other governmental funds, if the expenditures incurred for specific purposes exceeds the amounts, restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

It is the policy of the City of Tacoma to spend funds in the following order:

1. Restricted
2. Committed
3. Assigned
4. Unassigned

Use of resources will be spent in the following hierarchy:

1. Bond Proceeds
2. Federal Funds
3. State Funds
4. Local Non-city Funds
5. City Funds

For detailed information on fund balances of governmental funds, please refer to Note 4 Section J.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

***Net position***

Proprietary fund financial statements report reservations of net position amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Restricted net position is subject to restrictions by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Note 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

One element of the reconciliation explains:

“Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

The details of these dollar differences are as follows: (amounts expressed in thousands)

Bonds and leases payable	\$ (229,021)
Discount on bond issuance	53
Premium on bond issuance	(897)
Net other post employment benefits obligation	(69,698)
Compensated absences	(19,181)
Sub-total	<u>(318,744)</u>
Net pension obligation	9,662
Total pension liability	(44,317)
Net pension liability	(27,989)
Net adjustment to reduce fund balance for total governmental funds to arrive at net position for governmental activities	<u><u>\$ (381,388)</u></u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of the reconciliation explains:

“Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The details of these dollar differences are as follows: (amounts expressed in thousands)

Capital Outlay	\$	22,509
Depreciation Expense		<u>(39,138)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$	<u>(16,629)</u>

**Note 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

The Tacoma City Council adopts a biennial budget using an appropriation ordinance. While not legally required by law, the City also adopts budgets for debt service funds, capital projects, proprietary funds, and some selected trust funds. In 2017, the 2% Gross Earnings Tax Fund (1080) had overspent their appropriation by \$512,000 as a result of moving the remaining cash to close out the fund.

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

For budgetary tracking purposes, in the General Fund, assessments are budgeted as negative revenues. These negative revenues are considered a budgetary authority increase to both revenues and expenditures for reporting purposes in the original and final adopted budgets. The budgeted amount totaled \$1,453,673 for 2017.

**B. Deficits in fund balances or net position**

The following governmental and proprietary funds had deficit net position.

The \$4.5 million deficit in the Convention Center fund resulted from cumulative expenses exceeding revenues/transfers. The fund balance has increased by \$1.9 million over the previous year. Operating losses were \$4.2 million for the year as compared to \$3.9 million for the prior year. The fund is reviewed periodically to determine the necessary transfer amounts the General Fund needs to contribute.

The Third Party Liability Claims Fund has a net position deficit of \$24.0 million, a decrease of \$9.6 million over the prior year, due to an increase in claims.

The Worker’s Compensation Fund has a net position deficit of \$230 thousand due to insufficient contributions from the departments and an excess of accrued and IBNR claims over total assets. The Worker’s Compensation fund has a positive net change in 2017, which increased net position by \$2.0 million.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The City continues studying these programs to ensure that future claims are fully funded.

**Net Deficit**  
(amounts expressed in thousands)

FUND	AMOUNT
Convention Center (#4165)	\$ (4,518)
Third Party Liability Claims (#5550)	(24,011)
Worker's Compensation (#5570)	(230)
	\$ (28,759)

**C. Legal and contractual compliance**

The City has complied, to the best of its knowledge, with all material finance related legal and contractual provisions.

**Note 4 – DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

**1. Legal, Contractual and Administrative Provisions**

***Certificates of deposit (CDs) and Demand Deposits:*** The City places certificates of deposit and demand deposits only with State of Washington banks and savings and loan institutions approved as qualified public depositories under chapter 39.58 RCW by the Washington State Public Deposit Protection Commission (WSPDPC). Qualified public depositories are limited to banks operating within Washington State, which have executed a Deposit Pledge Agreement with the WSPDPC. Until July 1, 2009, the WSPDPC maintained a multiple financial institution collateral pool wherein the qualified public depositories pledge and transmit to a third party trustee, securities through the execution of the pledge agreement, providing common collateral for their deposits of public funds. The assets of the pool and the power to make additional assessments against the members of the pool insured there would be no loss of public funds because of default of a member. Effective July 1, 2009, the WSPDPC required public depositories to fully collateralize their uninsured public deposits at 100%. The WSPDPC allows for deposits up to the net worth of a qualified institution.

At year-end, the carrying amount of the City's deposits was \$42,215,953.

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

The City sustained no investment losses during 2017, there was no significant loss potential, and there were no significant or recurring violations of administrative, legal or contractual provisions.

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

1. **Bankers Acceptances:** City investment policy allows for purchases of bankers acceptances from the top 50 world banks as published by American Banker. Portfolio mix guidelines suggest a maximum of 20% of the total portfolio with no more than 5% of the total portfolio in any one bank.
2. **U.S. Treasury Bills, Certificates, Notes and Bonds:** Portfolio mix guidelines allow for a maximum of 100% of the total portfolio to be invested in these securities.

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NOTES TO THE FINANCIAL STATEMENTS  
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3. U.S. Government Agency Securities: Portfolio mix guidelines suggest a maximum of 90% of the total portfolio with no more than 50% of the total portfolio per agency.
4. Commercial Paper: Portfolio mix guidelines require the highest rating by at least two nationally recognized rating agencies for purchase with no more than 10% of the portfolio invested in commercial paper with an additional limit of no more than 5% in any one issuer.
5. Repurchase Agreements: Portfolio mix guidelines suggest repurchase agreements be limited to maximum of 25% of the total portfolio. The market value of collateral must exceed the dollar amount of the repurchase agreement by 2% over the term of the agreement. The collateral must be an investment instrument which the City is authorized to purchase.
6. Reverse Repurchase Agreements: The City did not participate in any reverse repurchase agreements in 2016.
7. Municipal Bonds: Portfolio mix guidelines allow 30% of the portfolio to be invested in municipal bonds with no more than 5% of the portfolio being invested in bonds of any one municipal bond issuer. The maximum maturity for investments in municipal bonds shall be limited to five years.
8. Certificates of Deposit (CDs): The percentage of CDs may not exceed 25% of the total assets of the portfolio with the percentage limited to 3% for any single bank or savings and loan association. Maturities shall not exceed one year.
9. Local Government Investment Pools: A maximum of 25% of the portfolio may be invested in local government investment pools.

**2. Deposits and investments – December 31, 2017**

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

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

All certificates of deposit held by the City are in the City's name and are insured by FDIC up to \$250,000 and by the Washington State Public Deposit Protection Commission (WSPDPC) for amounts over \$250,000. Under Washington State statute, members of the WSPDPC, a multiple financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss.

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NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

At December 31, 2017, the City's total deposits and investments consisted of the following:

Schedule of Deposits and Investments  
December 31, 2017  
(amounts expressed in thousands)

Reconciliation of Cash and Investments:

Investments (less Component Units)	\$	2,688,716
Certificates of Deposit		4,051
Treasurer's Cash, net		37,890
Petty Cash Funds		275
Sub-total		2,730,932
Component Units:		
Tacoma Community Redevelopment Authority (TCRA)		1,564
TCRA - External Cash		5,018
Foss Waterway Development Authority (FWDA)		798
FWDA - External Cash		268
Public Facilities District (PFD)		2,079
Sub-total (Component Units)		9,727
Total	\$	2,740,659

Reconciliation of cash, cash equivalents, deposits and investments to Statement of Net Position:

		Amounts expressed in thousands
From Statement of Net Position		
Cash and cash equivalents	\$	691,758
Investments at fair value		5,222
Restricted cash and cash equivalents		223,986
Total Primary Government		920,966
Component Units		
TCRA		6,582
GTRCC PFD		2,079
FWDA		1,066
Total Component Units		9,727
Fiduciary Funds		
Cash and cash equivalents		7,909
Investments at fair value		32,707
Pension Trust		1,769,350
Total Fiduciary Funds		1,809,966
Total cash and investments	\$	2,740,659

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NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

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

Investments:	Fair Value at 12/31/17
Financial Institutions	
WA State Local Government Investment Pool	\$ 86,977
Government Agencies (various)	796,215
Equity in Pool Transferred to Component Units	<u>(4,442)</u>
Total Investments with Financial Institutions	878,750
Pension Trust	
Equities	945,893
Fixed Income	576,353
Real Estate	70,971
Venture Capital & Partnerships	134,143
Short Term Bill & Notes	5,597
Cash and Cash Equivalents	35,019
Securities Lending Collateral	<u>41,990</u>
Total Other Investments - Pension Trust	1,809,966
Total	<u>\$ 2,688,716</u>

**3. GASB 40 - General Disclosure and Disclosure Relating to Interest Rate Risk/Segmented Time Distribution Method**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. City of Tacoma Investment Policy allows for authorized investments up to 60 months in maturity. One way the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations. The city has deposits of \$86,435,508 with the State Treasurer's Local Government Investment Pool, \$4,050,526 in an interest bearing certificate of deposit with a commercial bank and \$43,940,057 in the city's deposit accounts with commercial banks. The monies from these accounts are available immediately.

Investment Type	Par	Maturing (in months)				
		Less than 12	13-24	25-36	37-48	49-60
Main Bank Demand Deposits	\$ 43,940,057	\$ 43,940,057	-	-	-	-
Bank Demand Deposits & State Pool	91,027,472	91,027,472	-	-	-	-
Fixed Rate Non-Callable Municipal Securities	40,760,728	25,286,879	13,216,790	2,257,059	-	-
Fixed Rate Non-Callable Agency Securities	450,819,476	174,447,223	170,840,533	56,026,293	34,552,807	14,952,620
Fixed Rate Callable Agency Securities	66,526,343	42,326,458	14,828,040	9,371,845	-	-
Totals	<u>\$ 693,074,076</u>	<u>\$ 377,028,089</u>	<u>\$ 198,885,363</u>	<u>\$ 67,655,197</u>	<u>\$ 34,552,807</u>	<u>\$ 14,952,620</u>
Percent of Total		54.40%	28.70%	9.76%	4.99%	2.16%

**4. GASB 40 - Disclosure Relating to Credit Risk**

**Credit risk** is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by state statute, which is the same in the City Investment policy and the actual rating as of the end of the year 2017 for each type of investment. AAA is the

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highest rating for bonds. The Bank Certificates of Deposit and Demand Deposit Accounts are protected by the Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State Public Deposit Protection Commission (PDPC) of the State of Washington. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. It constitutes fully insured or fully collateralized pool. The WA State Treasurers Local Government Investment Pool (LGIP) is authorized by the Revised Code of Washington (RCW) 43.250. The LGIP operates like a 2A7 fund and is collateralized by short term legal investments.

Investment Type	Par	Minimum Legal Requirement	FDIC and PDPC	AAA	AA	A
Bank Demand Deposits & State Pool	\$ 134,967,529	FDIC & PDPC	\$ 134,967,529	\$ -	\$ -	\$ -
Fixed Rate Non-Callable Municipal Securities	40,760,728	A	-	2,385,115	35,419,219	2,956,394
Fixed Rate Non-Callable Agency Securities	450,819,476	AAA	-	440,856,806	9,962,670	-
Fixed Rate Callable Agency Securities	66,526,343	AAA	-	66,526,343	-	-
Total	<u>\$ 693,074,076</u>		<u>\$ 134,967,529</u>	<u>\$ 509,768,264</u>	<u>\$ 45,381,889</u>	<u>\$ 2,956,394</u>

#### 5. GASB 40 - Concentration of Credit Risk

**Concentration Risk** disclosure is required for all investments in any one issuer that is 5% or more of the total of the City's investments.

The following, which are more than 5%, are Financial, State Government, or Government Sponsored Agencies.

Issuer	Investment Type	Amount Reported	Percentage
Washington State	Municipal Securities	\$ n/a	n/a
Federal Farm Credit Bank	Agency Securities	52,303,448	9.5%
Federal Home Loan Bank	Agency Securities	262,239,191	29.7%
Federal Home Mortgage Corporation	Agency Securities	106,484,721	18.0%
Federal National Mortgage Association	Agency Securities	96,318,458	15.1%
Total		<u>\$ 517,345,818</u>	

#### 6. Disclosure of Custodial Credit Risk

Custodial Credit Risk – Investment

The city policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

#### 7. Investments Measured at Fair Value

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

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- Level 2 – Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- Level 3– Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data’s evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

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

Data regarding the City’s investments, valued and categorized according to the above outlined levels is included below:

Debt Securities	As of			
	12/31/2017	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 218,142,864	\$ -	\$ 218,142,864	\$ -
Supranational Securities	19,966,040	-	19,966,040	-
Municipal Bonds	40,760,727	-	40,760,727	-
Agency Securities	517,345,818	-	517,345,818	-
<b>Total</b>	<b>\$ 796,215,449</b>	<b>\$ -</b>	<b>\$ 796,215,449</b>	<b>\$ -</b>

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

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For the Year Ended December 31, 2017

**B. Receivables**

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

(amounts expressed in thousands)

Accounts Receivable (amounts expressed in thousands)	General Fund	Trans Capital & Engineering Fund	Non-Major Governmental Funds	Solid Waste Fund	Waste Water Fund
Accounts Receivable (net short-term)	\$ 17,253	\$ 1,230	\$ 33,663	\$ 6,789	\$ 13,992
Due from other Funds	3,960	288	5,888	67	1
Advances to other Funds	-	-	965	-	-
Due from Other Governments	16,429	2,704	6,996	-	823
Interest Receivable (net short-term)	-	-	-	-	-
Notes and Contracts Receivable (net short-term)	-	-	-	-	139
Notes and Contracts Receivable (net long-term)	-	-	-	-	706
<b>TOTAL</b>	<b>\$ 37,642</b>	<b>\$ 4,222</b>	<b>\$ 47,512</b>	<b>\$ 6,856</b>	<b>\$ 15,661</b>

Accounts Receivable (amounts expressed in thousands)	Water Fund	Power Fund	Non-Major Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
Accounts Receivable (net short-term)	\$ 10,770	\$ 65,695	\$ 7,958	\$ 266	\$ -	\$ 157,616
Due from other Funds	69	1,820	514	950	1	13,558
Advances to other Funds	-	-	-	-	-	965
Due from Other Governments	299	-	300	16	868	28,435
Interest Receivable (net short-term)	-	-	-	-	2,490	2,490
Notes and Contracts Receivable (net short-term)	-	-	-	-	1,965	1,965
Notes and Contracts Receivable (net long-term)	-	2,625	15,430	-	-	18,761
<b>TOTAL</b>	<b>\$ 11,138</b>	<b>\$ 70,140</b>	<b>\$ 24,202</b>	<b>\$ 1,232</b>	<b>\$ 5,324</b>	<b>\$ 223,790</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**C. Capital assets**

Capital asset activity for the year-ended December 31, 2017 was as follows:

(amounts expressed in thousands)

Governmental activities	Beg Bal	Increases	Decreases	End Bal
Capital assets not being depreciated:				
Land	\$ 35,335	\$ 1,045	\$ -	\$ 36,380
Property, plant, and equipment	2,186	228		2,414
Construction Work in progress	57,538	19,663	(46,401)	30,800
Total Capital assets, not being depreciated	<u>95,059</u>	<u>20,936</u>	<u>(46,401)</u>	<u>69,594</u>
Capital assets, being depreciated				
Property, plant, and equipment	253,514	24,102	(4,329)	273,287
Infrastructure	1,373,328	37,162	-	1,410,490
Total capital assets, being depreciated	<u>1,626,842</u>	<u>61,264</u>	<u>(4,329)</u>	<u>1,683,777</u>
Less Accumulated depreciation:				
Property, plant, and equipment	(139,954)	(13,872)	4,393	(149,433)
Infrastructure	(762,553)	(35,058)	-	(797,611)
Total accumulated depreciation	<u>(902,507)</u>	<u>(48,930)</u>	<u>4,393</u>	<u>(947,044)</u>
Governmental activities, capital assets (net of accumulated depreciation)	<u>\$ 819,394</u>	<u>\$ 33,270</u>	<u>\$ (46,337)</u>	<u>\$ 806,327</u>

Business Type Activities	Beg Bal	Increases	Decreases	End Bal
Capital assets not being depreciated:				
Land	\$ 163,451	\$ 1,577	\$ (735)	\$ 164,293
Construction Work in progress	57,691	140,662	(144,546)	53,807
Total Capital assets, not being depreciated	<u>221,142</u>	<u>142,239</u>	<u>(145,281)</u>	<u>218,100</u>
Capital assets, being depreciated				
Property, plant, and equipment	4,338,447	169,205	(79,487)	4,428,165
Total capital assets, being depreciated	<u>4,338,447</u>	<u>169,205</u>	<u>(79,487)</u>	<u>4,428,165</u>
Less Accumulated depreciation:				
Property, plant, and equipment	(1,735,569)	(116,012)	27,330	(1,824,251)
Total accumulated depreciation	<u>(1,735,569)</u>	<u>(116,012)</u>	<u>27,330</u>	<u>(1,824,251)</u>
Business Type Activities, capital assets (net of accumulated depreciation)	<u>\$ 2,824,020</u>	<u>\$ 195,432</u>	<u>\$ (197,438)</u>	<u>\$ 2,822,014</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General Government	\$ 674
Public Safety	3,609
Transportation	35,825
Economic Environment	111
Culture and Recreation	2,246
Capital Assets held by Internal Services funds which are charged to various functions based on their usage of the assets	<u>6,465</u>
Total depreciation expense - governmental activities	<u><u>\$ 48,930</u></u>

**Business-type activities:**

Permit	\$ 19
Mountain Rail	824
Parking Garage	1,349
Convention Center	1,927
Baseball Park	1,538
Tacoma Dome	538
Performing Arts	732
TPU Fleet *	3,493
Solid Waste	5,474
Waste Water	17,205
Tacoma Rail	1,644
Water	24,038
Power	<u>57,231</u>
Total depreciation expense - business-type activities	<u><u>\$ 116,012</u></u>

\* Internal Service Fund that solely supports business-type activities.

**D. Leases**

There are no capital leases to report for fiscal year 2017.

**E. Short-term debt**

Governmental activities: No short-term debt was issued or outstanding in 2017.

Business-type activities: No short-term debt was issued or outstanding in 2017.

**F. Long-term debt**

***General obligation bonds***

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities. The original borrowing amount of general obligation bonds outstanding issued in prior years is \$258.6 million.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The annual debt service requirements to maturity, including principal and interest, for general obligation bonds as of December 31, 2017, are as follows:

	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2018	\$ 9,424	\$ 5,227	\$ 2,791	\$ 2,402
2019	10,128	7,144	2,597	2,267
2020	10,468	6,712	2,677	2,168
2021	10,852	6,223	2,763	2,043
2022	11,219	5,735	2,861	1,932
2023-2027	38,403	33,890	13,810	7,672
2028-2032	36,195	28,495	17,400	4,194
2033-2037	27,724	9,390	9,880	687
2038-2041	1,460	177	-	-
Total	\$ 155,874	\$ 102,993	\$ 54,778	\$ 23,365

General obligation bonds are direct obligations and pledge the full faith and credit of the government and are being repaid with general governmental revenue sources. General obligation bonds currently outstanding are as follows:

General obligation bonds outstanding  
(amounts expressed in thousands)

	Interest Rates to Maturity	Outstanding December 31, 2017
Governmental activities	2.6323 - 7.2020%	\$ 155,874
Business-type activities	2.7966 - 3.20667%	\$ 54,778

***Special assessment bonds***

The City has issued special assessment bonds for various capital construction purposes. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other foreclosure proceeds are received. As of December 31, 2017, the amount of LID Special Assessment delinquency equals \$360,083. The bond interest rates range from 3.25 to 5.75% and are payable over the next twenty-six years.

Annual debt service requirements to maturity, including principal and interest, for special assessment bonds outstanding at year-end are as follows:

	Governmental activities Special Assessment Bonds (amounts expressed in thousands)		
	Principal	Interest	Total
2018	\$ -	\$ 1,577	\$ 1,577
2019	-	1,577	1,577
2020	-	1,577	1,577
2021	-	1,577	1,577
2022	-	1,577	1,577
2023-2027	307	7,825	8,132
2028-2032	-	7,810	7,810
2033-2037	1,830	7,750	9,580
2038-2042	-	7,512	7,512
2043	24,120	1,502	25,622
Total	\$ 26,257	\$ 40,285	\$ 66,542

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**Revenue Bonds and Loans**

The City also issues bonds where the City pledges income derived from acquired or constructed assets to pay debt service. The original amount of outstanding revenue bonds, Washington State Public Works Trust Fund loans, Washington State Department of Transportation Rail loans, and Drinking Water State Revolving Fund loans issued in prior years was \$1.4 billion. During 2017, new debt issues amounted to \$70.6 million for refunding, construction and capital improvements in the Tacoma Power fund.

Business-type activities Revenue Bonds and Loans (amounts expressed in thousands)			
	Principal	Interest	Total
2018	\$ 41,931	\$ 52,568	\$ 94,499
2019	42,326	51,581	93,907
2020	42,713	49,936	92,649
2021	41,984	48,289	90,273
2022	38,807	46,700	85,507
2018-2022	203,789	212,575	416,364
2023-2027	222,769	168,700	391,469
2028-2032	282,122	98,609	380,731
2033-2041	213,499	39,516	253,015
2042-2047	61,304	4,446	65,750
Total	\$ 1,191,244	\$ 772,920	\$ 1,964,164

Changes in long-term liabilities for the year ended December 31, 2017 are as follows:

**Changes in long-term liabilities**

Governmental activities

Long-term liabilities (amounts expressed in thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Reconcile to Note 12
General obligation bonds	\$ 136,781	\$ 27,511	\$ (8,418)	155,874	\$ 9,424	\$ 155,874
Add: Unamortized premium	1,229	-	(332)	897	-	-
Less: Unamortized discount	(58)	-	5	(53)	-	-
Publicworks trust fund loans	5,645	-	(1,111)	4,534	1,110	4,534
Bond anticipation notes	8,572	-	-	8,572	8,572	8,572
Special assessment debt	29,937	-	(3,680)	26,257	511	26,257
Claims and judgments	27,183	15,310	(8,709)	33,784	26,034	-
Net OPEB obligation	62,495	7,203	-	69,698	-	-
Net pension obligation	9,662	-	(9,662)	-	-	-
Total pension liability-Police and Firefighters'	-	44,317	-	44,317	-	-
Net pension liability	25,948	2,041	-	27,989	-	-
Compensated absences	24,967	5,986	(11,772)	19,181	1,918	-
Total governmental activities - long-term liabilities	\$ 332,361	\$ 102,368	\$ (43,679)	\$ 391,050	\$ 47,569	\$ 195,237

Long-term liabilities are included as part of the above totals for governmental activities. At year-end, \$3.9 million of internal service funds compensated absences were included in the above amounts. Additionally, the governmental activities, claims and judgments, and employee benefits are generally liquidated by the Third Party Claims and Workers' Compensation funds, Information Services fund, and the General fund respectively.

The additions for governmental activities general obligations bonds in the amount of \$27,511 listed above represents the Governmental Funds issuance of long-term debt (\$27,511) reported in the government wide financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Business-Type activities

Long-term liabilities (amounts expressed in thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Revenue Bonds, Public Works Trust Fund loans, Drinking					
Water State Revolving loans, WA DOT Rail loans	\$ 1,189,198	\$ 71,290	\$ (69,244)	\$ 1,191,244	\$ 44,913
Muckleshoot liability	7,130	-	(186)	6,944	181
General obligation bonds	57,435	-	(2,657)	54,778	2,791
Add: Unamortized premium	62,772	9,881	(8,075)	64,578	-
Less: Unamortized discount	(22)	-	3	(19)	-
Revolving line of credit	80,250	-	(80,000)	250	250
Environmental liability	600	1,418	(292)	1,726	886
Landfill postclosure care cost liability	20,518	4,146	(8,310)	16,354	876
Net OPEB obligation	20,181	2,193	(718)	21,656	-
Compensated absences	20,196	17,546	(18,201)	19,541	1,954
Net pension liability	60,636	130,365	(126,110)	64,891	-
Total business-type activities - long-term liabilities	<u>\$ 1,518,894</u>	<u>\$ 236,840</u>	<u>\$ (313,790)</u>	<u>\$ 1,441,943</u>	<u>\$ 51,851</u>

Note 12 summarizes changes in long-term debt.

***Debt issued in 2017***

Governmental activities

On December 12, 2017 the City issued Limited Tax General Obligation Bonds in the amount of \$25,295,000 with an interest rates of 1.80%-3.61% The bonds were issued to finance and/or reimburse the City for a portion of the costs of capital improvements and acquisitions of the City and the construction, improvement, rehabilitation and equipping of public infrastructure and public facilities of the City, including without limitation the Tacoma Dome and other facilities, and to pay costs of issuance for the bonds.

The projects include capital improvements to modernize the Tacoma Dome, such as installing telescopic seating, upgrading and adding additional restrooms, modifying loading docks, renovating backstage offices and dressing rooms, improving the exterior and implementing fire alarm and security advancements.

Business-type activities:

On September 1, 2017, the Electric System Revenue Bonds, Series 2017 were issued in the amount of \$70,575,000 to provide funds (a) to finance and refinance certain capital improvements to the Electric System included in the 2015-2016 and 2017-2018 Capital Improvement Program (including through the refinancing of subordinate obligations) and (b) to pay the costs of issuance of the 2017 Bonds. Included in the 2015-2016 and 2017-2018 Capital Improvement Program are projects involving additions, replacements and improvements to the distribution, transmission, smart grid, telecommunications related to power operations, power supply, utility technology and general plant systems, facilities and equipment and for conservation programs.

In October 2017, Tacoma Power used cash to defease \$24,300,000 of the outstanding 2013 Series A Electric System Revenue and Refunding Bonds to levelize and reduce future debt service payments. This defeasance resulted in a loss of \$1,903,106. The Cash Flow impact of the defeasance was a reduction in principal and interest payments in the amount of \$22,025,000 in 2020 and \$5,130,000 in 2021.

In 2017, Tacoma Rail received \$715,000 in draws from previously awarded Washington State loans from the Department of Transportation for capital track projects. The loan balances outstanding is \$6.0 million as of December 31, 2017.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**G. Restricted assets**

The balance of the current restricted assets accounts in the enterprise funds are as follows:  
(amounts expressed in thousands)

Cash for debt service	\$ 29,717
Cash for bond reserve	19,058
Cash for construction	37,096
Cash for other special purposes	<u>138,115</u>
	<u>\$ 223,986</u>

**H. Related party transactions**

The City of Tacoma's Mayor appoints the Governing Board for the Tacoma Housing Authority, which is not considered a component unit of the City. The City is under no obligation to subsidize, nor does it exercise any other prerequisite for inclusion.

City Officials serve on boards of two organizations, Workforce Central and Pierce Transit. There is no evidence City Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the City. There are no material financial transactions between the City and these organizations and therefore are not included in the reporting entity.

**I. Federal compliance requirements for municipal securities issuers**

Internal Revenue Code Sections 103 and 148-150 and U. S. Treasury Regulation Sections 1.148-1.150 require that most tax-exempt bonds issued after August 31, 1986 are subject to the arbitrage rebate requirement and the tax-exempt proceeds subject to yield restrictions.

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

In May 2015, as part of its examination of the market segment review involving build America Bonds, the Internal Revenue Service sent an Information Document Request (IDR) for records related to the City's \$147,070,000 Electric System Revenue Bonds, Series 2010B (Taxable Build America Bonds). The City cooperated with the request and received correspondence from the IRS in October 2015, reflecting closure of the examination with no-change to the position of the issuer.

In September 2015, as part of its examination of the market segment review involving new clean renewable energy bonds, the Internal Revenue Service sent an Information Document Request (IDR) for records related to the City's \$24,185,000 Electric System Revenue Bonds, Series 2010C (Taxable Clean Renewable Energy Bonds). The City cooperated with the request and received correspondence from the IRS in December 2015, reflecting closure of the examination with no-change to the position of the issuer.

In October 2015, as part of its examination of the advance refunding market segment, the Internal Revenue Service sent an Information Document Request (IDR) for records related to the City's \$12,885,000 Limited Tax General Obligation Refunding Bonds, Series 2006B. The City cooperated with the request by providing the IRS with available documentation. The examination was closed in January 2016 with no change to the position that interest paid to the bondholders is excludable from gross income.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**J. Fund balances**

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Balances previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, and unassigned. Please refer to Note 1 Section C for fund balance descriptions.

The following shows a composition of the fund balances of the governmental funds:

	Major Funds		Non-major Funds			Total Funds
	General Fund	Transp Capital & Engr	Special Revenue	Debt Service	Capital Project	
<b>Fund balances:</b>						
<b>Nonspendable:</b>						
Long-term receivables/advances	\$ 2,463	\$ -	\$ -	\$ -	\$ -	\$ 2,463
Inventory	1,160	-	1,649	-	-	2,809
Prepays	7	-	-	-	-	7
Trust	-	-	36	-	-	36
<b>Total nonspendable</b>	<u>3,630</u>	<u>-</u>	<u>1,685</u>	<u>-</u>	<u>-</u>	<u>5,315</u>
<b>Restricted:</b>						
Business & Training Assistance	-	-	143	-	-	143
Crime Prevention & Safety	-	-	6,606	-	-	6,606
Debt service	-	-	4,623	7,440	-	12,063
Economic development programs	-	-	7,411	-	-	7,411
Grants	-	-	95	-	-	95
Library, Arts & Preservation	-	-	4,650	-	-	4,650
Neighborhoods	-	-	195	-	-	195
Other capital & purchase	-	-	3,922	-	-	3,922
Parks & Recreation	-	700	-	-	2,073	2,773
Paths & Trails	-	-	365	-	-	365
Pensions	343	-	-	-	-	343
Public services	9	-	8,088	-	-	8,097
Public Works projects	-	-	6,565	-	38,725	45,290
Sidewalk & Street projects	-	398	17,010	-	6,782	24,190
<b>Total restricted</b>	<u>352</u>	<u>1,098</u>	<u>59,673</u>	<u>7,440</u>	<u>47,580</u>	<u>116,143</u>
<b>Committed:</b>						
Council contingency*	699	-	-	-	-	699
Neighborhoods	-	-	154	-	-	154
Crime Prevention & Safety	-	-	-	-	615	615
Public Works projects	-	-	-	-	7,442	7,442
<b>Total committed</b>	<u>699</u>	<u>-</u>	<u>154</u>	<u>-</u>	<u>8,057</u>	<u>8,910</u>
<b>Assigned:</b>						
Business & Training Assistance	-	-	252	-	-	252
Demolitions	-	-	2,617	-	-	2,617
Library	-	-	2,191	-	-	2,191
Municipal TV	-	-	545	-	-	545
Neighborhoods	-	-	3,068	-	-	3,068
Open Space Properties	-	-	507	-	-	507
Police activities	-	-	566	-	-	566
Public services	-	2,695	3,174	-	-	5,869
Other purposes	7,974	-	-	-	562	8,536
<b>Total assigned</b>	<u>7,974</u>	<u>2,695</u>	<u>12,920</u>	<u>-</u>	<u>562</u>	<u>24,151</u>
<b>Unassigned:</b>	<u>67,559</u>	<u>-</u>	<u>82</u>	<u>52</u>	<u>-</u>	<u>67,693</u>
<b>Total fund balances:</b>	<u>\$ 80,214</u>	<u>\$ 3,793</u>	<u>\$ 74,514</u>	<u>\$ 7,492</u>	<u>\$ 56,199</u>	<u>\$ 222,212</u>

\* The City Council adopted through Ordinance No. 19315 the establishment of the Council Contingency fund per RCW 35.21.070. This fund rolls into the General Fund for financial reporting purposes. Use of the Contingency Fund requires approval from majority of the City Council through the adoption of an ordinance detailing the facts surrounding its reason for withdrawal.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**K. Restricted net position - governmental activities**

In the government-wide financial statements net position is restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Amounts expressed in thousands.

Purpose	
Capital purchases	\$ 3,922
Debt Service	12,063
Culture and recreation	7,423
Public safety	6,606
Transportation	78,137
Grants	95
Housing and economic development	7,554
Pension	52,480
	\$ 168,280

**Note 5 – PENSION PLANS OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS**

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

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$92,880,524)
Pension assets	\$52,137,467
Deferred outflows of resources	\$101,247,597
Deferred inflows of resources	(\$31,918,776)
Pension expense/expenditures	\$17,949,443

At December 31, 2017, The City reported the aggregate deferred outflows of resources and deferred inflows of resources for all pension plans as follows:

Total - All Plans	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	(\$21,355,514)	\$1,581,138
Changes of assumptions	-	\$30,890,763
Net difference between projected and actual earnings	(\$9,578,414)	\$42,267,470
Contributions made subsequent to the measurement date	n/a	\$26,186,448
Changes in employer proportion	(\$984,848)	\$321,778
Total	(\$31,918,776)	\$101,247,597

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**A. Tacoma Employees' Retirement System fund (TERS)**

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 and can be obtained by writing to:

Tacoma Employee's Retirement System  
3628 South 35<sup>th</sup> Street  
Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at [www.cityoftacoma.org/retirement](http://www.cityoftacoma.org/retirement)

**1. 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 Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still departments of the City of Tacoma 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.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**2. 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, 2016 is as follows:

Retirees and beneficiaries currently receiving benefits	2,303
Terminated vested and other terminated participants	675
Active members:	
City of Tacoma	2,687
South Sound 911	2
Pierce Transit	8
Tacoma-Pierce County Health Department	267
Total active members	2,964
Total membership	5,942

**3. 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 1<sup>st</sup> 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 may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

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

**4. 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 base pay; the employer contributes 10.80%, for a combined total of 20.00%. This is consistent with the Board’s goal of maintaining a contribution rate that is greater than or equal to the normal cost rate of 18.87%. The difference of 1.13% between the contribution rate and the normal cost rate will be used to amortize the unfunded liability of the System. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

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

NOTES TO THE FINANCIAL STATEMENTS  
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5. **Significant Assumptions:** The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2016
Valuation Date	January 1, 2017
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:  <ul style="list-style-type: none"> <li>• Level percent</li> <li>• Open periods</li> <li>• 30 year amortization period at 01/01/2015</li> <li>• 3.75% amortization grown rate</li> </ul>
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service; details in funding valuation report
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, eligibility; details in funding valuation report.
Turnover	Varies by service, gender; details in funding valuation report.
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.
Active Members:	RP-2014 Employee Mortality, sex-distinct.
Male Inactive Members and Male Beneficiaries:	RP-2014 50% Blue Collar/50% White Collar Mortality for Healthy Males, RP-2014 Disabled Mortality for males.
Female Inactive Members and Female Beneficiaries:	RP-2014 Blue Collar Mortality for Healthy Females, RP-2014 Disabled Mortality for females.

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

6. **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, 2016 and January 1, 2017 assumptions were changed.

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Significant Changes in Benefits, Contributions, and Assumptions were as follows:

Valuations as of January 1

- 2017 Nearly all economic and non-economic actuarial assumptions were changed
- 2016 No change
- 2015 No change
- 2014 The discount rate (investment return assumption was lowered)
- 2013 The discount rate (investment return assumption) was lowered, along with price and wage inflation. Most active demographic assumptions were changed. The mortality assumption for contributing members, service retirees, beneficiaries, and disabled members was changed.
- 2012 Contribution rates were increased effective January 1, 2012.
- 2011 Contribution rates were increased effective January 1, 2011.
- 2009 Wage inflation, investment expenses, and all active demographic assumptions were changed. Contribution rates were increased effective February 1, 2009.

**7. Target Allocations:** 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 December 31, 2016. The target asset allocation is based on TERS Investment Policy Statement dated March 2016.

Asset Class	Long-term Expected	
	Target Allocation	Arithmetic Real Rate of Return
Investment grade fixed income	15.0%	1.63%
US inflation-indexed bonds	5.0	1.21
High yield bonds	9.0	5.00
Emerging market debt	5.0	3.74
Global equity	41.5	5.50
Public real estate	2.0	5.80
Private real estate	2.5	3.56
Private equity	10.0	9.04
Master limited partnerships	4.0	4.12
Timber	2.0	3.79
Infrastructure	2.0	5.03
Agriculture	2.0	4.33
Assumed inflation - mean		2.75
Assumed inflation - standard deviation		1.85
Portfolio arithmetic real mean return		4.76
Portfolio median nominal geometric return		6.72
Portfolio standard deviation		11.77
Long-term expected rate of return, net of investment expenses		7.00

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**8. Sensitivity Analysis:** The following presents the employer's proportionate share of the collective net pension liability as of the December 31, 2016 measurement date calculated using the discount rate of 7.00%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Employers proportionate share of the net pension liability	\$297,417,956	\$92,880,523	(\$73,109,413)

**9. The balances of deferred outflows of resources and deferred inflows of resources, presented by source (for example, experience gains and losses, or differences between assumed and actual investment earnings)**

For the measurement period ended December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	(\$19,991,309)	-
Changes of assumptions	-	30,847,444
Net difference between projected and actual earnings	-	42,267,470
Contributions made subsequent to the measurement date	n/a	24,124,140
Changes in employer proportion	(21,312)	45,304
Total	(20,012,621)	97,284,358

**10. Deferred outflows for contributions subsequent to the measurement date of \$24,124,140 will be recognized as a reduction of the net pension liability in 2018.**

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

Year-ended December 31	
2017	\$16,549,478
2018	\$16,549,476
2019	\$19,086,138
2020	(\$718,439)
2021	\$1,680,944
Thereafter	-

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**11. The employer's percentage of the collective net pension liability, how it was determined, and any change in the percentage since the previous measurement.**

The following table is a schedule of the proportionate share by employer. Each employer in TERS contributes at the same rate of payroll. Using the actual contributions for the year provides a reasonable basis for each employer's projected long-term contribution effort.

Employer	2016 Employer Contributions	Rounded Percentage of Total Contributions	Beginning Net Pension Liability *	Ending Net Pension Liability **
City of Tacoma	\$23,616,255	92.48208%	\$86,584,348	\$92,880,523
South Sound 911	34,683	0.13582%	155,932	136,405
Pierce Transit	69,705	0.27297%	206,402	274,143
Health Department	1,815,391	7.10913%	6,530,420	7,139,763
Grand Total	25,536,034	100.00000%	93,477,102	100,430,834

\* Based on unrounded contributions from 2015.

\*\* Based on unrounded contributions from 2016.

**B. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five

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years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.59%</b>	<b>8.41%</b>
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.93%</b>	<b>8.75%</b>

The City of Tacoma’s actual contributions to the plan were \$4,095,315 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For fiscal year ending June 30, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$2,656,554.

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

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**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

**Discount Rate**

The discount rate used to measure the total pension liability for all LEOFF plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. LEOFF 1 uses 7.7 percent. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

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**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**Sensitivity of NPL/(Asset)**

The table below presents the City of Tacoma's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent as well as what the City of Tacoma's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
LEOFF 1	(\$11,989,290)	(\$16,163,187)	(\$19,747,614)
LEOFF 2	\$7,784,780	(\$35,974,279)	(\$71,627,333)

**Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the City of Tacoma reported a total LEOFF pension asset of \$52,137,466 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
LEOFF 1	(\$16,163,187)
LEOFF 2	(\$35,974,279)

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The amount of the liability/ (asset) reported above for LEOFF Plan 1 and 2 reflects a reduction for State pension support provided to the City of Tacoma. The amount recognized by the City of Tacoma as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City of Tacoma were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	(\$16,163,187)	(\$35,974,279)
State's proportionate share of the net pension liability/(asset) associated with the employer	(\$109,327,398)	(\$23,335,843)
TOTAL	(\$125,490,585)	(\$59,310,122)

At June 30, 2017, the City of Tacoma's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
LEOFF 1	1.08%	1.07%	(.01%)
LEOFF 2	2.48%	2.59%	.11%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2017, the City of Tacoma recognized pension expense as follows:

	Pension Expense
LEOFF 1	(\$2,434,676)
LEOFF 2	\$1,189,638
TOTAL	(\$1,245,038)

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**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2017, the City of Tacoma reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$1,501,936)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$0	\$0
<b>TOTAL</b>	<b>\$0</b>	<b>(\$1,501,936)</b>

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$1,581,138	(\$1,364,205)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$8,076,478)
Changes of assumptions	\$43,319	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$276,474	(\$963,536)
Contributions subsequent to the measurement date	\$2,062,308	\$0
<b>TOTAL</b>	<b>\$3,963,239</b>	<b>(\$10,404,219)</b>

Deferred outflows of resources related to pensions resulting from the City of Tacoma's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	LEOFF 1
2018	(\$942,592)
2019	\$254,216
2020	(\$101,514)
2021	(\$712,046)
2022	\$0
Thereafter	\$0

Year ended December 31:	LEOFF 2
2018	(\$3,755,681)
2019	\$794,936
2020	(\$599,678)
2021	(\$3,622,409)
2022	(\$235,796)
Thereafter	(\$1,084,660)

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**C. Police and Firefighter’s Relief and Pension Funds**

The following table represents the aggregate pension amounts for the single plan subject to the requirements of the GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* for the year 2017:

Aggregate Pension Amounts		
	Firefighters’ Pension Fund	Police Pension Fund
<b>Total pension liability</b>	\$28,827,798	\$15,489,578

**1. Plan description:**

The Police Relief and Pension Fund (PRP) and the Fire Relief and Pension Fund (FRP) are single-employer defined-benefit pension plans. These funds were established and administered by the City in accordance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20. Both pension funds were reclassified from a fiduciary fund to the General Fund in 2016, as prescribed by GASB Statement 73, paragraph 115. The City implemented the rest of GASB Statement 73 that became effective in fiscal year 2017.

The plans provide retirement and medical benefits to all police officers, firefighters and their beneficiaries for individuals employed before March 1, 1970, the effective date of LEOFF. The LEOFF laws were subsequently amended by the Pension Reform Act, which took effect October 1, 1977. Through the LEOFF Act, the state undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970. The plans are closed plans that provide pension and medical benefits, some of which can be in excess of LEOFF benefits. There are 0 active Police Officer and 0 active Firefighters with prior rights covered under these plans as of December 31, 2017. Retirees and beneficiaries of deceased retirees eligible to receive pension benefits currently number 128 for the PRP and 174 for the FRP as of December 31, 2017. There are no terminated employees under either plan who are entitled to benefits but not receiving them.

Each retiree receives the greater of the benefit payable under the Washington Law Enforcement Officers’ and Firefighters’ Retirement System and the benefits available under the provisions of prior law. Where benefits under the old law exceed those under the new for any police or firefighter, the excess benefits are paid from the FRP and PRP of the city employment them on March 1, 1970.

The Police Pension Board consists of six members authorized by statute: the Mayor as Chair, the City Clerk, the City Treasurer, and three law enforcement officers (active or retired LEOFF 1 or LEOFF 2 officers), who will serve in the elected capacity for three-year terms.

The Fire Pension Board consists of five members authorized by statute: the Mayor as Chair, the Finance Director, the City Treasurer, and two elected firefighters (active or retired LEOFF 1 or LEOFF 2 firefighters). The two elected firefighters serve two year terms and select a third firefighter who serves as an alternate in the event of an absence of one of the regularly elected firefighters.

**2. Benefit Provisions**

The LEOFF Act requires a varying obligation of the City for benefits paid to police officers and firefighters.

- Pension and medical expenses for police officers and firefighters retired prior to March 1, 1970; continue to be paid in their entirety by the City under the old pension laws.
- Police officers and firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act.

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Any excess of the old benefit over the LEOFF benefit is provided by the City. The City also pays the reasonable cost of necessary medical expenses of the retiree for life.

- For police officers and firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the City is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Police officers and firefighters hired on or after October 1, 1977, are covered entirely by the LEOFF system with no City obligation for either retirement allowance or medical expenses.
- The benefits are directly correlated to the salaries of active employees. Cost of Living Adjustments (COLAs) provided at the state level do not impact the total pension benefits provided to the members. The City's obligation under the Plan consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the City's Plan. There were no changes in benefit provisions in the current year.

### **3. Contributions**

The PRP is funded entirely from annual contributions from the City's General Fund that are budgeted and approved by the City Council. Funding of these benefits is required by RCW 41.20. The FRP contributions are required by RCW 41.18 and are funded from two sources: (1) state contributions of 25% on fire insurance premium collections and is considered a non-employer contributing entity and (2) a property tax levy of up to \$.225 per \$1,000 of assessed valuation. Retirement benefit provisions are established in state statute and may only be amended by the State Legislature. Amendments to each of the Plans are authorized by the separate Police and Fire Pension Boards.

Contributions are determined on a pay-as-you-go basis. There have been no required employee contributions to the police and firefighter's relief and pension plans since March 1, 1970.

The General Fund is responsible for the costs of administering the plans and ensuring that the fund has adequate cash to pay its obligations each year. The total General Fund contributions to the FRP and PRP were \$4.9 million and \$4.5 million for 2017.

The state contributes 25% of taxes on fire insurance premiums to the FRP and the amount contributed in 2017 was \$382,000.

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**4. Actuarial Assumptions**

The total pension liability (TPL) was determined by an actuarial valuation as of January 1, 2017, projected forward to the measurement date of December 31, 2017. The liability was calculated based on the discount rate and other actuarial assumptions below.

	Firefighter Relief and Pension	Police Relief and Pension
Discount Rate		
Municipal bond rate	3.50%	3.50%
Actuarial assumptions		
Valuation date	January 1, 2016	January 1, 2016
Measurement date	December 31, 2017	December 31, 2017
Inflation	2.25%	2.25%
Salary increases including inflation	3.25%	3.25%
Mortality	RP-200 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members.	RP-200 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members.
Actual cost method	Entry Age Normal	Entry Age Normal

**5. Changes in the Total Pension Liability**

	Firefighters' Relief Pension	Police Relief Pension
	Increase (Decrease) Total Pension Liability	Increase (Decrease) Total Pension Liability
<b>Balance as of December 31, 2016</b>	\$ 29,247,618	\$ 15,946,074
<b>Changes for the year:</b>		
Service cost	-	-
Interest	1,057,779	573,069
Effect of plan changes	-	-
Effect of economic/demographic gains or losses	-	-
Effect of assumptions changes or inputs	622,091	311,233
Benefit payments*	(2,099,690)	(1,340,798)
<b>Net changes</b>	<b>(419,820)</b>	<b>(456,496)</b>
<b>Balance as of December 31, 2017</b>	<b>28,827,798</b>	<b>15,489,578</b>

\*Benefit payments are estimated based on expected payouts.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**6. Sensitivity of the Total Pension Liability**

The table below presents the total pension liability calculated using the discount rate of 3.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	<b>1% Decrease (2.5%)</b>	<b>Current Discount Rate (3.5%)</b>	<b>1% Increase (4.5%)</b>
Total pension liability - Fire	\$31,561,914	\$28,827,798	\$26,469,341
Total pension liability - Police	\$16,852,270	\$15,489,578	\$14,307,132

**7. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions**

Pension expense of \$1,297,870 and \$884,302 for was recognized in 2017 for the FRP and PRP. As of December 31, 2017, there are no deferred outflows or deferred inflows of resources related to these pension funds. The effects of changes in assumptions/inputs and economic/demographic gains or losses are recognized over the average remaining service life for all active and inactive members, with immediate recognition when the average remaining service life is less than one. Therefore, the \$622,091 and \$311,233 shown above for the effect of changes in assumptions were expensed in the current year.

**D. Other Post-Employment Benefits (OPEB) Than Pensions**

**1. Plan description:**

The City contributes to: the Tacoma Employees' Retirement System Fund (TERS), a cost sharing-multi employer plan and the Law Enforcement Officers' and Firefighters' Retirement System Plans (LEOFF Plan 1) administered by the City; the Law Enforcement Officers' and Firefighters' Retirement System Plan (LEOFF Plan 2), a cost sharing-multi employer plans administered by Washington State, and the Railroad Retirement System which is an independent agency in the executive branch of the U.S. Government which administers the Railroad Retirement Act. The benefits under the Railroad Retirement Act are not payments under a 'pension plan' but rather are grants under a Federal statute. Railroad benefit amounts are divided into a social security level benefit, staff-type benefits based on a railroad services, and in some instances a dual benefit component. Each plan provides medical benefits to eligible retired City employees and beneficiaries.

Benefit provisions for TERS are established in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code. These statues assign the authority to establish benefit provision for TERS. For LEOFF Plan 2, benefits are established in accordance with RCWs 41.16, 41.18, 41.20 and 41.26. These statues assign the authority to establish benefit provisions. For LEOFF Plan 1, these benefit provision are state statute by the State of Washington through the Department of Retirement Systems, per RCW 41.26. For the Railroad Retirement System, these are administered by Federal statue under the Railroad Retirement Act (45 U.S.C. 231 et seq.) and authority resides by these Federal statutory provisions. Financial reports for the LEOFF Plans and Railroad Retirement System plans are available at the addresses below. These reports may be obtained by writing at the following addresses:

LEOFF Plan 1  
State of Washington  
Office of Financial Management  
P.O. Box 43113  
Olympia, WA 98504-3113

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

U.S. Railroad Retirement Board  
844 North Rush Street  
Chicago, IL 60611-2092

**2. Funding Policy and Annual OPEB Cost:**

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

The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate. The valuation interest rate used is 3.75% based upon the expected return for the short-term fixed income securities. This rate is used, as the required contributions net of benefits paid, are not prefunded.

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

Annual Required Contribution	TERS	LEOFF Plan 1	LEOFF Plan 2	Rail
Normal Cost at Year-end	\$ 2,009,723	\$ -	\$ 761,661	\$ 490,563
Amortization of UAAL	806,116	14,604,638	595,370	261,478
Annual Required Contribution (ARC)	<u>2,815,839</u>	<u>14,604,638</u>	<u>1,357,031</u>	<u>752,041</u>
 Net OPEB Obligation				
Annual Required Contribution (ARC)	2,815,839	14,604,638	1,357,031	752,041
Interest on prior year Net OPEB obligation	1,067,434	1,282,678	510,761	35,066
Less Adjustments to ARC	<u>1,490,210</u>	<u>2,491,390</u>	<u>713,057</u>	<u>48,955</u>
Annual OPEB Cost	2,393,063	13,395,926	1,154,735	738,152
Contributions made	<u>861,224</u>	<u>7,291,397</u>	<u>744,160</u>	<u>114,160</u>
Increase in Net OPEB Obligation	1,531,839	6,104,529	410,575	623,992
 Net OPEB Obligation - Beginning of Year				
	30,498,121	36,647,937	14,593,181	1,001,889
Net OPEB Obligation - End of Year	<u>\$ 32,029,960</u>	<u>\$ 42,752,466</u>	<u>\$ 15,003,756</u>	<u>\$ 1,625,881</u>
Less: Health & Transit (Non-City Participants)	<u>(58,429)</u>	<u></u>	<u></u>	<u></u>
Net OPEB Obligation - End of Year (City)	<u>\$ 32,088,389</u>	<u>\$ 42,752,466</u>	<u>\$ 15,003,756</u>	<u>\$ 1,625,881</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The following table shows the City's GASB 45 liability broken down by the total value of the benefits provided, the member premiums and the City-paid benefits.

Value of Subsidy at 3.50% Interest Rate (Includes Health & Transit)

	Total Value of Benefits	Member Paid Benefits	City-Paid Benefits
Present Value of Benefits	\$ 399,300,824	\$ 110,253,595	\$ 289,047,229
Actuarial Accrued Liability (AAL)	285,825,708	45,375,937	240,449,771
Normal Cost	7,595,595	4,443,955	3,151,640
Annual Benefit Payments	11,674,734	2,663,793	9,010,941

The City's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and each of the two preceding years for each of the plans were as follows:

**TERS**

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	3,742,248	28.9%	28,001,833
12/31/2016	3,663,452	31.9%	30,498,121
12/31/2017	2,393,063	36.0%	32,029,960

**LEOFF Plan 1**

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	10,347,583	67.7%	30,355,166
12/31/2016	12,661,771	50.3%	36,647,937
12/31/2017	13,395,926	54.4%	42,752,466

**LEOFF Plan 2**

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	1,453,442	54.8%	14,076,873
12/31/2016	1,418,466	63.6%	14,593,181
12/31/2017	1,154,735	64.4%	15,003,756

**Rail**

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	411,114	19.1%	695,629
12/31/2016	407,340	24.8%	1,001,889
12/31/2017	738,152	15.5%	1,625,881

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**3. Funding Status and Funding Process:**

The funded statuses of the plans as of January 1, 2017, were as follows:

	TERS w/Health and Transit	LEOFF 1	LEOFF 2	Rail
Annual City Benefit Payments	\$861,224	\$7,291,397	\$744,160	\$114,160
Discount Rate	3.50%	3.50%	3.50%	3.50%
Present Value of Benefits	43,950,832	207,567,000	23,277,740	14,251,657
Actuarial Accrued Liability Assets	15,939,809	207,567,000	11,772,602	5,170,360
Plan Assets	-	-	-	-
Unfunded Actuarial Liability (UAAL)	15,939,809	207,567,000	11,772,602	5,170,360
Funded Ratio	0.0%	0.0%	0.0%	0.0%
Covered Payroll	237,558,151	133,877	79,762,242	11,010,251
UAAL as a % of covered payroll	7%	155043%	15%	47%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as results are compared to previous expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing overtime (based on how OPEB is funded) relative to the actuarial accrued liability for benefits. RSI immediately follow the notes.

The City uses the same premiums for retirees under age 65 as for active employees. Therefore, the retiree premium rates are being subsidized by the inclusion of active lives in the setting non-Medicare retiree rates. (Premiums calculated only based on retiree health claims experience would likely have resulted in higher non-Medicare retiree premiums.) GASB 45 requires that the value of this subsidy be recognized as a liability in valuations of OPEB costs.

To account for the fact that per member health costs vary depending on age (higher health costs at older ages), number of dependents (higher costs for more dependents) and employment status (higher costs for retirees than for active employees), the consulting actuary (Milliman) calculated equivalent Per Member Per Month (PMPM) costs that vary by age based on the age distribution of covered members (employees/retirees and dependents). These costs are based on relative age/gender cost factors were developed from Milliman's Health Cost Guidelines database. Based on the 2017 premium rates and relative age cost factors assumptions, Milliman developed the following age adjusted monthly PMPM health costs for 2017.

**Monthly Medical Claims Costs at Sample Ages (excluding LEOFF 1)**

Age	Retiree		Spouse	
	Male	Female	Male	Female
50	1,136.13	1,368.35	994.25	1,142.88
55	1,211.49	1,300.41	1,132.43	1,252.96
60	1,450.60	1,434.68	1,348.42	1,380.36
64	1,798.71	1,632.79	1,641.18	1,528.12

No retiree contributes toward the cost of retiree medical benefits for LEOFF 1. Based on the City's historical retiree medical cost experience from 2013 through 2015, the relative age cost factors assumptions, Milliman developed age adjusted monthly PMPM health costs for 2016 as follows:

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**Monthly Medical Claims Costs at Sample Ages LEOFF 1**

Age	Police		Fire	
	Male	Female	Male	Female
55	943.97	1,044.64	879.66	973.48
60	1,223.14	1,229.42	1,139.82	1,145.67
64	1,548.97	1,419.08	1,443.40	1,322.41
65	779.06	734.41	725.99	684.38
70	871.68	803.48	812.30	748.75
75	944.37	857.69	880.04	799.27
80	980.77	884.11	913.96	823.88
85	984.05	873.56	917.01	814.06

**4. Actuarial Methods and Assumptions:**

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

Significant methods and assumptions were as follows:

	TERS/LEOFF Plan 2/Rail	LEOFF Plan 1
Valuation Date	January 1, 2017	January 1, 2016
Census Date	January 1, 2017	January 1, 2016
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal
Amortization Method	Level percentage of expected salary	Level dollar amount
Remaining Amortization Period	20 years, dosed	20 years, dosed
Demographic Assumptions	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.	
Actuarial Assumptions:		
Discount Rate	3.50%	3.50%
Health Cost Trend	9.1% in 2017, 6.4% in 2018, 5.8% in 2019, 5.3% in 2020, 5.4% in 2030, 5.5% in 2040, 5.2% in 2050 and grading down to an ultimate of 4.4% in 2073 and beyond.	6% in 2017-2020, 5.9% in 2021-2030, 5.8% in 2031-2040 and grading down to an ultimate of 4.0% in 2071 and beyond.
Projected Payrol Increases	3.75%	3.75%

**5. Excise Tax for High Cost or “Cadillac” Health Plans in 2020 and Beyond:**

An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

The City believes the current provisions of ACA should be reflected in the projection of benefits and therefore, we do include the value of the excise tax in the valuation. The City assumes there will be no changes to the current tax law and that there will be no changes in the plan design to help mitigate the impact of the tax.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

GASB Statement No. 45, as well as GASB 74 and 75, indicate 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, we believe the current provisions of ACA should be reflected in the projection of benefits and therefore, we do include the value of the excise tax in this valuation. The City assumes there will be no changes to the current tax law and that there will be no changes in the plan design to help mitigate the impact of the tax.

**Note 6 – DEFERRED COMPENSATION**

The City offers its employees two deferred compensation plans through a third party created in accordance with Internal Revenue Code Section 457. The plans, available to all City permanent full-time and part-time employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable emergency, but the plan does offer a loan provision. An employee may defer 100% of their salary net of employee pension contributions and any Section 125 deductions. The 2017 contribution limits are \$18,000 for regular deferral, \$36,000 for pre-retirement and \$24,000 for age 50 provision deferrals. The City has agreed through contract negotiation with the Police union and the Fire union to match contributions made by all Police Officers and Fire Officers up to a maximum of \$192 per pay period.

Benefit Plan	Third Party Administrator	Pre-Tax Employer Contributions	Pre-Tax Employee Contributions	After-Tax Employee Contributions	Total by Plan
457 deferred compensation	ICMA	2,113,843	13,444,305	875,677	16,433,825
457 deferred compensation	Nationwide	1,319,848	2,208,620	63,018	3,591,486
Total		<u>\$ 3,433,691</u>	<u>\$ 15,652,925</u>	<u>\$ 938,695</u>	<u>\$ 20,025,311</u>

**Note 7 – INTERFUND ACTIVITY**

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

Due to and Due from balances result when transactions are recorded in the accounting system and payments are made between funds after December 31, 2017.

Due To	Due From									Total
	General Fund	Trans Cap & Engineer Fund	Non-major Governmental Funds	Solid Waste Fund	Waste Water Fund	Tacoma Water Fund	Tacoma Power Fund	Internal Service Funds	Non-major Enterprise Funds	
General Fund	\$ -	\$ -	\$ 1,124	\$ -	\$ -	\$ -	\$ 24	\$ 174	\$ 8	\$ 1,330
Trans Cap & Engineer Fund	-	-	754	-	-	-	-	-	-	\$ 754
Non-major Governmental Funds	3,663	288	3,195	3	1	-	5	598	349	\$ 8,102
Solid Waste Fund	3	-	32	-	-	-	170	47	-	\$ 252
Waste Water Fund	6	-	86	42	-	-	544	54	-	\$ 732
Tacoma Water Fund	-	-	14	22	-	69	979	13	-	\$ 1,097
Tacoma Power Fund	-	-	45	-	-	-	-	23	-	\$ 68
Non-major Enterprise Funds	103	-	9	-	-	-	68	-	157	\$ 337
Internal Service Funds	185	-	629	-	-	-	30	39	-	\$ 883
Total	<u>\$ 3,960</u>	<u>\$ 288</u>	<u>\$ 5,888</u>	<u>\$ 67</u>	<u>\$ 1</u>	<u>\$ 69</u>	<u>\$ 1,820</u>	<u>\$ 948</u>	<u>\$ 514</u>	<u>\$ 13,555</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

The composition of interfund advances to and from other funds balances at December 31, 2017 is as follows:

Interfund Advances to/from Other Funds  
(amounts expressed in thousands)

Interfund Advances from	Interfund Advances to		Total
	Non-Major Governmental	Non-Major Enterprise	
Non-Major Governmental	\$533	\$432	\$965
Total	\$533	\$432	\$965

The information below provides detail of the advances, or interfund payable transactions:

\$431,530 was authorized from the Capital Projects Fund (#3211) to the Tacoma Dome (#4180) to finance various Tacoma Dome projects.

\$533,326 was authorized from the Capital Projects Fund (#3211) to the Fire Department Fund (#1090) to refit and renovate a fireboat.

The composition of interfund transfers for the year ended December 31, 2017 is as follows:

Interfund Transfers  
(amounts expressed in thousands)

	Transfer In							Transfer Out Total
	General Fund	Trans Capital & Engineering	Non-Major Governmental Funds	Wastewater & Surface Water	Tacoma Water	Non-Major Enterprise Funds	Internal Service Funds	
<u>Transfer Out</u>								
General Fund	\$ -	\$ 101	\$ 29,111	\$ -	\$ -	\$ 4,218	\$ 4,217	\$ 37,647
Trans Capital & Engineering	-	-	1,733	193	51	-	-	1,977
Non-Major Governmental Funds	857	4,175	37,085	675	-	4,140	747	47,679
Solid Waste	4,029	-	1,343	-	-	-	-	5,372
Wastewater & Surface Water	6,702	-	2,234	-	-	-	61	8,997
Tacoma Water	5,371	-	1,773	-	-	-	-	7,144
Tacoma Power	27,356	-	6,786	-	-	-	-	34,142
Non-Major Enterprise Funds	1,912	-	3,162	350	-	-	-	5,424
Internal Service Funds	-	-	1,263	-	-	-	-	1,263
Transfer In Total	\$ 46,227	\$ 4,276	\$ 84,490	\$ 1,218	\$ 51	\$ 8,358	\$ 5,025	\$ 149,645

The information below provides detail of the interfund transfer transactions:

\$100,862 was transferred from the General Fund to the Trans Capital & Engineering Fund for capital projects.

\$29,111,371 was transferred from the General Fund to Non-Major Governmental Funds for grant matches, debt service, capital projects, non-capital projects and regular operations.

\$4,217,666 was transferred from the General Fund to Non-Major Enterprise Funds for contributions to support debt service payments, capital projects and regular operations.

\$4,217,293 was transferred from the General Fund to Internal Service Funds for equipment purchases.

\$1,732,928 was transferred from the Trans Capital & Engineering Fund to Non-Major Governmental Funds for capital projects.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

\$193,305 was transferred from the Trans Capital & Engineering Fund to the Wastewater & Surface Water Fund for property acquisition.

\$51,000 was transferred from the Trans Capital & Engineering Fund to the Tacoma Water Fund for property acquisition.

\$857,250 was transferred from the Non-Major Governmental Funds to the General Fund for emergency medical services.

\$4,175,247 was transferred from the Non-Major Governmental Funds to the Trans Capital & Engineering Fund for capital projects.

\$37,084,841 was transferred from the Non-Major Governmental funds to Non-Major Governmental Funds for various capital projects and debt service payments.

\$675,000 was transferred from the Non-Major Governmental Funds to Wastewater & Surface Water Fund for the Streets Initiative Green project.

\$4,139,577 was transferred from the Non-Major Governmental funds to Non-Major Enterprise funds for capital projects and debt service payments.

\$746,722 was transferred from the Non-Major Governmental Funds to Internal Services Funds for equipment.

\$4,028,658 was transferred from the Solid Waste Fund to the General Fund for Gross Earnings Taxes.

\$1,342,886 was transferred from the Solid Waste Fund to Non-Major Governmental Funds to support Proposition 1.

\$6,701,867 was transferred from the Wastewater & Surface Water Fund to the General Fund for Gross Earnings Tax.

\$2,233,956 was transferred from the Wastewater & Surface Water Fund to the Non-Major Governmental Funds to support Proposition 1.

\$61,125 was transferred from the Wastewater & Surface Water Fund to the Internal Service Funds for equipment.

\$5,371,097 was transferred from the Tacoma Water Fund to the General Fund for Gross Earnings Tax.

\$1,772,764 was transferred from the Tacoma Water Fund to the Non-Major Governmental Funds to support Proposition 1.

\$27,356,261 was transferred from the Tacoma Power Fund to the General Fund for Gross Earnings Tax.

\$6,785,614 was transferred from the Tacoma Power Fund to the Non-Major Governmental Funds to support Proposition 1.

\$1,911,719 was transferred from the Non-Major Enterprise Funds to the General Fund for Gross Earnings Tax.

\$3,162,889 was transferred from the Non-Major Enterprise Funds to Non-Major Governmental Funds to support Proposition 1 and for debt service.

\$350,000 was transferred from the Non-Major Enterprise Funds to the Wastewater & Surface Water Fund for services.

\$1,263,188 was transferred from the Internal Service Funds to Non-Major Governmental Funds for capital projects and to support environmental sustainability.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**Note 8 – OTHER INFORMATION**

**A. Accounting changes**

Effective for the fiscal year 2017, the City implemented GASB Statement No. 82 - *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The purpose of this statement is to address certain issues that have been raised with respect to GASB statements No. 67, No. 68 and No. 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standard of Practice for reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City made the required adjustments as prescribed by GASB Statement No. 82.

In addition, the Police and Firefighter's Relief and Pension Funds, which are not administered through a trust, were reclassified from fiduciary funds into the General Fund in 2016, as prescribed by GASB 73, paragraph 115. Effective for the fiscal year 2017, the City fully implemented the remaining portions of GASB 73 in which the net pension obligation/asset was replaced by the total pension liability resulting in a decrease in net position for governmental activities by \$35.9 million.

**B. Risk management**

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

The Self-Insurance Program is maintained in conformity with all laws, rules and regulations pertaining thereto and in accordance with the Revised Code of Washington in RCW 35.21.085(2). The general government of the City carries a supplemental liability policy with a \$20 million limit and a \$3 million self-insured retention, renewable on September 12 of each year. TPU carries separate supplemental liability policies with total limits of \$60,000,000, \$250,000 retention for wrongful acts claims and a \$1,500,000 self-insured retention for all other covered claims, renewable on December 1 of each year. The Belt Line Railroad carries separate Railroad Liability policies with total limits of \$50,000,000 each occurrence and a \$1,000,000 self-insured retention renewable on December 1 of each year. Mountain Rail carries a separate Railroad Liability policy a limit of \$7,000,000 each occurrence and a \$50,000 self-insured retention renewable on December 2 of each year. These policies are provided to supplement the City's current self-insurance risk for settlements in excess of the self-insured retentions.

The City also has a policy to cover extraordinary worker's compensation claims with a statutory liability limit and a \$1 million retention for each occurrence as well as an additional \$250,000 for any one policy year. This policy renews January 1<sup>st</sup> of each year.

The City carries property coverage with a maximum single occurrence limit of \$500,000,000 with sub-limits, and \$150,000 deductible per occurrence, with exceptions. This policy renews July 1<sup>st</sup> of each year. TPU carries separate property coverage with a maximum single occurrence limit of \$150,000,000 with sub-limits, and a \$250,000 deductible per occurrence, with exceptions. This policy renews July 1<sup>st</sup> of each year.

The TPU Self-Insurance Claim Fund was established in 1979 to cover general liability claims of the Light and Water divisions. The Belt Line Railroad became a participant in 1985. Total assets in this fund are \$7.6 million. Settlement payments were within amounts available for coverage for the last three years—2017, 2016, and 2015.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

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

(Amounts expressed in thousands)

	Self Insurance Fund		Worker Compensation Fund		TPU Self Insurance Fund	
	2017	2016	2017	2016	2017	2016
Balance 01/01	\$ 21,502	\$ 18,063	\$ 5,681	\$ 6,418	\$ 4,827	\$ 4,707
New Claims	1,191	585	2,320	2,330	969	72
Adjustments to Claims	10,380	4,708	1,419	1,523	1,499	290
Claims Payment	(4,373)	(1,854)	(4,336)	(4,590)	(1,417)	(242)
Balance 12/31	\$ 28,700	\$ 21,502	\$ 5,084	\$ 5,681	\$ 5,878	\$ 4,827

**C. Prior-Period Adjustments**

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

Subsequent to the issuance of the December 31, 2017 financial statements, prior period adjustments were made.

Governmental Funds:

Fund Name	Description
General Fund #0010	Beginning net position increased by \$18,037 from a misclassification of grant costs, tax expenditures, accruals and revenues.
Transportation Capital and Engin #1060	Beginning net position increased by \$311,503 from a misclassification of expenditures.
Special Funds #1085, 1100,1140, 1195, 1267, 1431 and 1650	Beginning net position increased by \$67,584 from a misclassification of grant costs, recognizing tax expenditures, accruals, labor reconciliation, and revenues.
2010 LTGO Bond #3220	Beginning net position increased by \$191,036 from a correction to capital outlay.
Debt Service #7070	Beginning net position increased by \$596,449 from a revenue correction.

Internal Service Funds:

Fund Name	Description
Graphic Servcie # 5042	Beginning net position increased by \$94,362 from a correction of account payable accruals.
Equipment Rental # 5400	Beginning net position decreased by \$111,379 from a correction to depreciation.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Government-wide Statements  
(amounts expressed in thousands)

The impact of the prior period adjustments on the fund statements detailed above impacted the Government-Wide statements as followed:

Activity	Amount	Description
Governmental	\$ 1,185	General Fund, Trans Capital and Engineering, Street Initiative, ROW, Paths & Trains, CED, Police SR, and Traffic Enforcement
	(17)	Graphic Services and Equipment Rental
<b>Total</b>	<b>\$ 1,168</b>	

**D. Segment Information**

The following are the three segment enterprise funds maintained by the City. Segment information was as follows:

(Amounts expressed in thousands)

CONDENSED STATEMENT OF NET POSITION	Parking Garage Fund #4140	Convention Center Fund #4165	Union Station Fund #4450
<b>Assets:</b>			
Current assets	\$ 2,415	\$ 1,494	\$ -
Accounts receivable (net)	-	308	4,051
Prepayments	17	51	-
Restricted assets	6,230	660	1,993
Capital assets (net)	47,598	58,438	-
Other non-current assets	-	110	15,430
<b>Total assets</b>	<b>56,260</b>	<b>61,061</b>	<b>21,474</b>
Deferred outflow of resources	307	3,395	-
<b>Liabilities:</b>			
Current liabilities	1,950	5,174	4,368
Due to other funds	8	3	-
Net pension liabilities	293	442	-
Non-current liabilities	10,217	63,259	16,179
<b>Total liabilities</b>	<b>12,468</b>	<b>68,878</b>	<b>20,547</b>
Deferred inflow of resources	63	95	-
<b>Net position</b>			
Net investment in capital assets	35,872	(6,102)	-
Restricted	6,230	1,196	1,993
Unrestricted	1,934	389	(1,066)
<b>Total Net Position</b>	<b>\$ 44,036</b>	<b>\$ (4,517)</b>	<b>\$ 927</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

CONDENSED STATEMENT OF REVENUES  
EXPENSES, AND CHANGES IN NET POSITION

	Parking Garage Fund #4140	Convention Center Fund #4165	Union Station Fund #4450
Operating revenues	\$ 7,815	\$ 2,817	\$ -
Depreciation expense	(1,349)	(1,927)	-
Other operating expenses	(3,905)	(5,103)	(5)
Operating income	2,561	(4,213)	(5)
Nonoperating revenues (expenses)			
Tax	-	13	-
Interest revenue	71	27	1
Interest expense	(420)	(2,729)	(1,459)
Other nonoperating revenues(expenses)	4,781	3,643	1,459
Transfers	(1,205)	5,169	-
Change in net position	5,788	1,910	(4)
Beginning net position	38,248	(6,427)	931
Ending net position	\$ 44,036	\$ (4,517)	\$ 927

CONDENSED STATEMENT OF CASH FLOW

	Parking Garage Fund #4140	Convention Center Fund #4165	Union Station Fund #4450
Net cash provided (used) by:			
Operating activities	\$ 3,834	\$ (2,481)	\$ (72)
Noncapital financing activities	-	2,270	-
Capital and related financing activities	2,298	298	72
Investing activities	23	20	1
Net increase (decrease)	6,155	107	1
Beginning cash and cash equivalents	2,490	1,747	1,992
Ending cash and cash equivalents	\$ 8,645	\$ 1,854	\$ 1,993

- Parking Garage fund (#4140) accounts for the City's parking facilities.
- Convention Center fund (#4165) accounts for activities associated with operating the Convention Center.
- Union Station fund (#4450) accounts for the thirty-year lease with the Federal Government who uses Union Station as a Federal Courthouse.

**E. Tax expense – Utility Funds**

The taxes expense shown in the statements for Enterprise Funds consists primarily of an 8.0% tax upon gross earnings for Tacoma Water, Tacoma Rail, Surface Water, Waste Water, and Solid Waste and a 7.5% tax upon gross

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

earnings for Tacoma Power which is paid to the General Fund. Non-governmental utilities also pay gross earnings tax at the following rates: Natural Gas, 7.5%; Cable TV, 8.0%; Electricity, 7.5%; Solid Waste Collection, 8% and Telephone, 7.5%.

**F. Results of operations of joint ventures**

A joint venture is a legal entity or other organization that results from a contractual agreement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an on-going financial interest or (b) on-going financial responsibility.

The City participates in two joint ventures: South Sound 911 and the Tacoma-Pierce County Health Department (Health Department). The City of Tacoma however, does not report an equity interest in the Government-wide financial statements.

Summary financial information on the joint ventures is listed below for the year of the last audited financials. These figures reflect the information as prepared and submitted to the City by the various entities.

Joint Venture (amounts expressed in thousands)	<u>SOUTH SOUND 911</u>	<u>HEALTH DEPARTMENT</u>
	<u>12/31/2016</u>	<u>12/31/2016</u>
Balance Sheet Date	12/31/2016	12/31/2016
Total Assets	\$ 28,802	\$ 12,781
Deferred Outflows	3,188	7,581
Total Liabilities	18,160	10,503
Deferred Inflows	261	503
Total Net Position	13,569	9,356
Non-current Liabilities	15,907	317
Capital Assets (net of accumulated depreciation)	7,533	847
Total Revenues	38,397	34,051
Total Expenditures/Expenses	40,372	32,379
Net Increase/(Decrease) in Net Assets	(1,975)	1,672
City Contribution	11,074	1,165

Additional information about each entity can be obtained from separately published financial statements by each entity by contacting South Sound 911, Budget and Finance Manager, 955 Tacoma Avenue South #102, Tacoma, WA 98402 and the Tacoma/Pierce County Health Department, Christopher Schuler, Business Support Services, 3629 South D Street, Tacoma, WA 98418-6813.

**Note 9 – CLAIMS, JUDGEMENTS AND COMMITMENTS**

**A. Claims**

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

The City has entered into interlocal agreements with the Tacoma-Pierce County Health Department. If, in fact, this entity were to suffer a catastrophic disaster, claim or lawsuit that exceeded the levels of insurance maintained by the Health Department, their self-insurance funds or otherwise resources were to be depleted; the City and other participating jurisdictions may be required to stand behind and make good the excess liability.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

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

**B. Construction Commitments**

The City has various construction projects as of December 31, 2017. The projects include street and capital project constructions for improvements of existing streets and bridges or new bridges. At year-end the City's major commitments with the contractors are as follows: (amounts expressed in thousands)

Project	Authorized	Spent-to-date	Remaining Commitment
Amtrak Station HID	198	-	198
Citywide LED Streetlight Installation	1,548	170	1,378
Historic Water Ditch Trail IV	2,100	1,843	257
Homeless Encampment Civil Site Work	-	142	(142)
Manitou and Station Lofts	114	-	114
Neighborhood District Trash Can Change Out	35	51	(16)
On-Call Building Demolition	255	145	110
On-Call Nuisance Abatement Services	636	-	636
On-Call Securing Properties	424	-	424
Pedestrian Improvements in Hilltop and South Downtown	1,346	1,309	37
Prairie Line Phase 1A	2,953	3,174	(221)
Puyallup River Bridge F-16 A & B	30,650	6,994	23,656
School Speed Zone Beacons	620	551	69
Signals at Marshall Ave	-	104	(104)
South 38th Street Streetscapes	5,680	3,142	2,538
Streets Initiative Package #2	1,994	1,883	111
Streets Initiative Package #3	2,784	1,719	1,065
Streets Initiative Package #4G	1,280	764	516
Streets Initiative Package #5	4,281	3,552	729
Streets Initiative Package #9	1,063	-	1,063
	<u>\$ 57,961</u>	<u>\$ 25,543</u>	<u>\$ 32,418</u>

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

The City entered into an agreement with Sound Transit on March 21, 2017, related to the Tacoma Link Expansion project. The total project costs are estimated to be \$175 million, in which the City's contribution will be approximately \$43.3 million. The City's contribution to this project will be reduced by grant contributions of \$33.1 million and in-kind match which is expected to cover the remaining outstanding balance.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

**C. Tax Abatements**

As of December 31, 2017, the City provides tax abatements for the following programs:

1. Multifamily Housing Property Tax Exemption

The Multifamily Housing Property Tax Exemption Program encourages development of market rate and affordable housing in mixed use areas. This program was established under the Tacoma Municipal Code, Section 6A.110.020.

Criteria: The applicant must be the owner of the property, and the property must be located within the boundaries of a mixed-use center. The Tax Review Committee, made up of City staff from the Community & Economic Development Dept. and the Legal Dept., and a representative from the Pierce County Assessor's Office, approve the request. Once approved, the construction must be completed within 3 years. If the owner sells the property after the tax exemption has been granted, the exemption stays with the property and is transferred to the new owner. The contract includes the agreed upon specifications of the housing improvements. The exemption will begin after the improvements are completed. The City will issue a Final Certificate of Tax Exemption with the Pierce County Assessor's Office and the property owner's assessed value will be adjusted to reflect this exemption. The property tax abatement is determined by a percentage of assessed value. In Pierce County, the tax rate in 2017 is .016075974 of assessed value. The City of Tacoma receives 22.342% of that tax.

2. Special Valuation Property Tax Exemption

This Special Valuation Property Tax Exemption Program encourages the owners of historic properties to invest in the improvement and rehabilitation of historic buildings. This program was established under the Washington State RCW Chapter 84.26, Historic Property.

Criteria: Property owners may obtain a reduced tax assessment by submitting an application at the conclusion of project construction. The applicant must be the owner of the property, and the property must be listed on the Tacoma Register of Historic Places or be a historically contributing property within a local historic overlay zone. In addition, the project must meet the Secretary of Interior's Standards for Rehabilitation of Historic Buildings and must not adversely affect the building's historically significant, character defining elements. Exterior modifications must be approved by the Tacoma Landmarks Preservation Commission. The project investment expenditures must be a minimum of 25% of the assessed value of current improvements on the property over a 24 month consecutive period. The reduced assessment begins the tax year following the approval. This program is jointly processed and administered by the City's Historic Preservation Program and the Pierce County Assessor. The property owner's assessed value will be adjusted to reflect this exemption. The property tax abatement is determined by a percentage of assessed value. In Pierce County, the tax rate in 2017 is .016075974 of assessed value. The City of Tacoma receives 22.342% of that tax.

The City is required to disclose other abatement arrangements entered into by other governments that reduce the City's tax revenues. The State of Washington's tax abatements that affected the City of Tacoma tax revenue are included below:

3. Future churches, parsonages and convents are exempt from property tax based on RCW Chapter 84.36.020(2).
4. Future nonprofit low-income housing exempt from property tax based on RCW Chapter 84.36.560(4).

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

Information relevant to the disclosure of those programs under contract with the City of Tacoma for the fiscal year ended December 31, 2017 is:

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated in Thousands</u>
Multifamily Property Tax Exemption	\$ 975
Special Valuation Tax Exemption	\$ 319
Future Churches, Parsonages, and Convents	\$ 2
Future Nonprofit Low-Income Housing	\$ 1

**D. Solid waste utility—landfill closure and post closure liabilities**

The Division operates a 235-acre landfill site, which became part of the South Tacoma Channel Superfund Site in 1983. In 1991, the City entered a Consent Decree settlement with the United States Environmental Protection Agency (EPA) and the Washington State Department of Ecology (DOE), titled United States et al v. City of Tacoma US District Court Case No. C-89C583T, to “clean-up” the release of hazardous substances at the Landfill. The City completed the majority of the remediation work required by the Consent Decree several years ago. The remaining work mostly involves monitoring the remediation work completed by the City in the 1990s to assure that it continues to protect human health and the environment. The Consent Decree settlement was entered pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. §9601 et seq., and the state Model Toxics Control Act (MTCA), Chapter 70.105D RCW.

The City’s remediation work has included: (1) covering the landfill with a double flexible membrane cap that is impermeable to water; (2) capturing methane gas within and at the landfill perimeter to prevent off-site migration; (3) pumping and treating ground water to remove contamination at the point of compliance and beyond property boundaries; and (4) closing the landfill in accordance with the above-referenced Consent Decree. The City has an obligation under the Consent Decree to monitor the remediation work over the next 20 years, or more years to make sure it continues to be effective at protecting human health and the environment.

The costs for ongoing maintenance of the Tacoma Landfill are not expected to require rate increases above those already projected. The City will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. The City’s on-going monitoring efforts indicate the remedial actions undertaken by the City at the Tacoma Landfill are performing as designed.

In 2014, following closure of the portions of the Tacoma Landfill as required by the Consent Decree, the remaining recovery and transfer facilities continued to be permitted by the Tacoma Pierce County Health Department (TPCHD) through the same permitting process. All closed portions of the Landfill will also be covered by a TPCHD closure permit, which may be incorporated into the overall facility permit. The closure permit will mirror the requirements implemented as a result of the Landfill remedial action. The Tacoma-Pierce County Health Department has determined that the Tacoma Landfill is exempt under RCW 70.105D and WAC 173-351-700(4)(c) from TPCHD closure permit requirements. However, the City and the TPCHD are working cooperatively on an agreement pursuant to which the City will voluntarily comply with the TPCHD closure permit requirements.

Long-term plans for the closed capped areas of the Tacoma Landfill include recreational facilities, such as trails and playgrounds, as well as other governmental facilities, such as greenhouses for grounds maintenance operations. All development on the Tacoma Landfill site must be designed to accommodate differential settlement and allow for continued functioning of the environmental remediation systems.

The City reported \$16,354,014 as landfill post-closure care liability as of December 31, 2017 based on 100% use of the total capacity of the Tacoma Landfill. This compares to \$20,518,000 at December 31, 2016 based on 100% of capacity. Actual care costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The City will be responsible for the costs of additional work if migration of pollutants from the site is

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

not completely controlled by current remedial actions. To meet the previous requirements of State and Federal laws and regulations, contributions were made to a reserve for financing closure costs.

**E. Potential environmental contamination or utility claims or suits**

***Solid Waste (#4200) Landfill Clean Air Act Enforcement Action*** - On July 14, 2010, a complaint was filed against City of Tacoma's Public Works Department by the United States Department of Justice alleging a violation of the Clean Air Act. A Notice of Settlement (Lodging of Consent Decree) was filed simultaneously with the filing of the Complaint in which the Consent Decree settled all the claims alleged in the Complaint. A motion to enter the proposed Consent Decree between the Plaintiff and Defendant City of Tacoma was filed by plaintiff on August 20, 2010, and the Consent Decree was entered on August 25, 2010.

On May 23, 2017, after satisfactorily completing all of the requirements of the Decree, the City requested that the United States consent to terminate the Consent Decree and provide documentation to demonstrate its compliance with the Decree. On July 27, 2017, the United States filed a Joint Motion to terminate the Consent Decree. An Order Terminating Consent Decree was filed on September 27, 2017, ending the City's obligations under the Consent Decree.

The City is subject to various pending and threatened legal actions, which arise in the ordinary course of business. The City believes, based on 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, 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.

**Note 10 – CONTINGENT LIABILITIES**

***Solid Waste (#4200) Long-term Contract – Land Recovery, Inc.*** - - In February 2000, the Division entered into a 20-year contract with Land Recovery, Inc. (LRI) to dispose of all "acceptable waste" collected or handled by the Division (as that term is defined in the agreement), at the 304th Street landfill operated by LRI. The Division entered into this agreement to extend the life of the Tacoma Landfill and to secure a long-term disposal arrangement at a favorable disposal cost. The agreement excludes solid waste that LRI is not authorized by law or permit to receive, or which could create or expose LRI or the Division to potential liability, among other things. Recycling and/or composting waste is not covered by the agreement. The agreement further provides that LRI shall charge a base rate per ton for disposal services, and that said rate shall decrease as the tonnage increases during each contract year. The agreement also provides that the base rate charged by LRI shall increase annually based on the Seattle-Tacoma CPI. The rate per ton is periodically increased by LRI to cover certain increased costs, including the increased cost of landfill closure liabilities. These rate adjustments are part of the existing agreement.

***Solid Waste (#4200) Long-term Contract – Pierce County Recycling, Composting and Disposal*** - In October 2004 the Division entered into a ten (10) year agreement with Pierce County Recycling Composting and Disposal (PCRCDD) LLC to accept organic material collected by the City curbside or delivered to the City's landfill for processing into compost. Under the agreement, which has two 5-year renewal options, PCRCDD will charge a base rate per ton for the organic waste it receives from the City. This price may be adjusted beginning on the second anniversary of the agreement, and thereafter annually based on the Seattle-Tacoma-Bremerton CPI. The agreement also includes a revenue sharing component. The Division entered into this agreement to extend the life of the Tacoma landfill and secure a long-term composting arrangement at a favorable cost through 2030.

***Wastewater and Surface Water (#4300-01) Commencement Bay Natural Resource Damages*** - The City resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree, effective December 30, 1997. The stated value of the City's settlement was approximately \$7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction was completed on four projects and the City made a payment to the Port of Tacoma

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016.

The City provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree were fulfilled. In the Trustees response, they indicated that monitoring of Place of Circling Waters needed to be complete before the Consent Decree could be closed out. Included in the financial statements for the years 2017 and 2016 are liabilities of \$196,673 and \$200,000 respectively. This amount will carry over until the Consent Decree can be closed out. Now that the monitoring was completed, it is currently anticipated the closeout will occur in 2018.

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.

***Wastewater and Surface Water (#4300-01) Olympic View Resource Area*** - In 2001, the City entered into an Administrative Order on Consent for Removal Action at the Olympic View Resource Area (OVRA) with the Environmental Protection Agency (EPA). Contamination identified during construction of the NRDA site in this location led to the need for sediment cleanup work to be performed as a separate action. The cleanup action was completed in 2002, followed by long term monitoring to ensure the protectiveness of the cap. In 2014, results of this monitoring indicated the potential of some loss of the capping material present at the site. This material loss was confirmed by subsequent surveys. A report of these findings was submitted to EPA in early 2017 along with a Contingency Planning Proposal. The City began implementation of this Contingency Planning Proposal in 2017, and it is anticipated that sediment cap replenishment work will occur at the site in 2018.

***Wastewater and Surface Water (#4300-01) Foss Consent Decree*** – The City completed the first ten years of post-construction monitoring under the Foss Consent Decree in 2016 and is currently working with the Environmental Protection Agency to finalize the monitoring plan for the next ten years. Under this Long Term Monitoring Plan developed in accordance with the Foss Consent Decree, the City will have an obligation for continued monitoring until at least 2028. The results of this monitoring may result in additional limited cleanup efforts in the future. Included in the financial statements for the years 2017 and 2016 are liabilities of \$400,000.

***Wastewater and Surface Water (#4300-01) Coal-Gas Site Agreed Order*** - In 1993 the City became a party to an agreed order with the State Department of Ecology under MTCA (RCW 70.105D.050(1)) for the clean-up of the coal-gas properties located at the head of the Foss Waterway just south of the cable stay bridge below the SR 705 spur. The City is one of several potentially liable parties (PLPs) that are signatories to this agreed order. The agreed order, and subsequent amendments, provided for interim measures to control the coal-tar from migrating from this site into the Foss Waterway but did not provide for final clean-up or closure of the site. In early-2016 the other PLPs contacted the City of Tacoma regarding monitoring of the wells on the site, which they subsequently did on several occasions with Ecology authorization.

In mid-2016, Ecology contacted the City and other parties to initiate the negotiations of a new Agreed Order which would address final closure of the Coal Gas Site by completion of a Remedial Investigation/Feasibility Study (RI/FS) and development of a draft Cleanup Plan (dCAP) for the site. The City's role and cost obligation should be limited. This new Agreed Order was being finalized by Ecology for PLP signature in 2018.

***Tacoma Rail (#4500) Linda Wonner, Executrix of the Estate of Robert W. Wonner, Sr. V. Tacoma*** - On February 22, 2018, Linda Wonner filed a lawsuit on behalf of the Estate of Robert Wonner in U.S. District Court, alleging that her husband Robert Wonner was exposed to toxic agents during his 40 years of employment with Tacoma Rail resulting in his death on December 17, 2014. Ms. Wonner seeks damages of \$5 million. The City is currently in the discovery stage.

***Tacoma Rail (#4500), Department of Public Works, Mountain Division*** – Public Works own approximately 142 miles of track, called Mountain Division, which connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2018. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

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

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

***Tacoma Water (#4600) Capital Improvements*** – The financial requirement for Tacoma Water’s 2017-2018 biennial Capital Improvement program is approximately \$48.1 million and Tacoma Water has substantial contractual commitments relating to the program. At December 31, 2017 the remaining financial requirement for Capital Improvement Programs relating to all prior biennia is approximately \$3.8 million.

***Tacoma Water (#4600) Muckleshoot Indian Tribe Settlement*** – A mutually beneficial settlement agreement was reached with the Muckleshoot Indian Tribe in 1995. The settlement package has a cost of approximately \$30 million and includes five basic elements: 1) building a fish restoration facility and annual operation and maintenance of that facility, or in the alternative, providing \$12 million (indexed at 1995 dollars) into a fish restoration fund; 2) providing for enhanced flows in the Green River; 3) transferring certain lands; 4) establishing a trust fund payable over 40 years which is intended to provide for the general welfare, educational and other needs of the Tribe; and 5) limited access into the Green River Watershed. The settlement resolved past damage claims by the Tribe for Tacoma Water’s historical operations on the river, gain the Tribe’s support for the Second Supply Project and provide the basis for a long-term, cooperative working relationship on the Green River. Tacoma Water has been implementing this agreement.

***Tacoma Power (#4700) Capital Improvements*** – The financial requirement for Tacoma Power’s 2017/2018 biennial Capital Improvement Program is approximately \$190.5 million. As of December 31, 2017, the remaining financial requirement for the 2017/2018 biennial Capital budget was approximately \$140.9 million.

***Tacoma Power (#4700) Ted Coates, et al. v. Tacoma*** On June 22, 2017, plaintiffs filed their suit in Pierce County Superior Court, alleging Tacoma Power has been unlawfully subsidizing the capital expenses and the operational and maintenance (O&M) expenses of its commercial telecommunications business (Click!). The plaintiffs have requested an immediate cessation of all such subsidies and to refund to the Tacoma Power electric utility customers funds spent subsidizing these operations for the past three years (alleged to be in excess of \$21 million). The law firm of K&L Gates has been retained by the City to defend Tacoma Power, Click! and the City. On March 2, 2018 the Court granted plaintiffs’ motion for partial summary judgment ordering that Tacoma Power electric utility revenues and funds may not lawfully be used to pay for Click! Network expenses or capital improvements that are attributable or properly allocable to commercial telecommunications service rather than electric utility service. The City is considering pursuing an interlocutory appeal of the Court’s order on partial summary judgment, which, if granted, would stay the underlying proceedings. Trial is scheduled for June 21, 2018. The insurance carrier is currently defending under a reservation of rights letter.

***Grants***

Under the terms of federal and state grants, periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

**Note 11 – SUBSEQUENT EVENTS**

There are no subsequent events for 2017.

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

**CITY OF TACOMA, WASHINGTON**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR DECEMBER 31, 2017

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

NAME OF DEBT ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURITY DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT O/S 01/01/2017	ISSUED 2017	REDEEMED 2017	AMOUNT O/S 12/31/2017	Reconcile to Governmental Fund Statements	Reconciles to Changes in LTD in Notes
<b>GENERAL OBLIGATION BONDS, LOANS, &amp; NOTES</b>											
Unlimited General Obligation Bonds											
Genl Obl Bonds 2010											
	Refunding 2002 Bonds	11/10/10	2011 - 2022	21,870	2.6323	14,120	-	2,105	12,015	-	12,015
Subtotal Unlimited General Obligation Bonds (Voted)						<b>14,120</b>	<b>-</b>	<b>2,105</b>	<b>12,015</b>	<b>-</b>	<b>12,015</b>
Limited General Obligation Bonds											
Ltd. Genl Obl Bonds 1997 Ser B	Capital Improvements	08/05/97	2008 - 2018	16,100	5.4554	1,630	-	847	783	-	783
Ltd. Genl Obl Bonds 1997 Ser B Accreted Interest		08/06/97	2008 - 2019	16,100	5.4554	3,088	267	1,743	1,612	267	1,612
Ltd. Genl Obl Bonds 2007 Parking Structure	Retrofit Parking Structure	12/21/07	2008 - 2027	9,610	5.6328	440	-	440	-	-	-
Ltd. Genl Obl Bonds 2009A Cheney	Capital Improvements	12/17/09	2011 - 2035	15,380	5.8600	14,485	-	250	14,235	-	14,235
Ltd. Genl Obl Bonds 2009B Dock & Salishan	Capital Improvements	12/17/09	2035	3,320	3.5400	3,320	-	-	3,320	-	3,320
Ltd. Genl Obl Bonds 2009C Cheney	Capital Improvements	12/17/09	2034	4,975	4.8800	4,975	-	-	4,975	-	4,975
Ltd. Genl Obl Bonds 2009E Multiple Projects	Capital Improvements	12/17/09	2026 - 2035	13,526	5.7500	13,526	-	-	13,526	-	13,526
Ltd. Genl Obl Bonds 2009F Accreted Interest		12/18/09	2026 - 2036	13,526	5.7500	6,465	1,155	-	7,620	1,155	7,620
Ltd. Genl Obl Bonds 2009F Cheney & Env Remed	Capital Improvements	12/17/09	2023 - 2026	6,681	7.2020	6,681	-	-	6,681	-	6,681
Ltd. Genl Obl Bonds 2009F Accreted Interest		12/18/09	2023 - 2027	6,681	7.2020	4,216	794	-	5,010	-	5,010
Ltd. Genl Obl Bonds 2010B Refunding Bonds	Refund 1997B, 2001, 2004, 2006A LTGO Bonds	11/10/10	2015 - 2022	7,355	2.7966	5,215	-	1,085	4,130	-	4,130
Ltd. Genl Obl Bonds 2010C Refunding Bonds	Refund 2001, 2007, 2009 LTGO Bonds	11/10/10	2015 - 2022	7,355	3.8076	5,685	-	865	4,820	-	4,820
Ltd. Genl Obl Bonds 2010D Bonds	Capital Improvements	11/10/10	2015 - 2033	30,225	5.0399	27,725	-	1,285	26,440	-	26,440
Ltd. Genl Obl Bonds 2010E Bonds	Capital Improvements	11/10/10	2015 - 2040	9,130	5.7155	8,635	-	255	8,380	-	8,380
Ltd. Genl Obl Bonds 2013 Refunding Bonds	Refund 2001 & 2004	03/05/13	2015 - 2034	44,170	3.1768	41,365	-	1,555	39,810	-	39,810
Ltd. Genl Obl Bonds 2015A Refunding Bonds	Ref 2006A, 2006B, & 2007	12/29/15	2016 - 2036	12,735	3.2066	12,720	-	405	12,315	-	12,315
Ltd. Genl Obl Bonds 2015B Refunding Bonds	Ref 2006A, 2006B, & 2007	12/29/15	2016 - 2027	20,215	2.8933	19,925	-	240	19,685	-	19,685
Ltd. Genl Obl Bonds 2017 - Tacoma Dome	Capital Improvements	12/12/17	2018 - 2037	25,295	3.2114	-	25,295	-	25,295	-	25,295
Subtotal Limited General Obligation Bonds(Councilmanic)						<b>180,096</b>	<b>27,511</b>	<b>8,970</b>	<b>198,637</b>	<b>26,717</b>	<b>143,859</b>
Washington State Public Works Trust Fund Loans											
CITED PWTF No. 98-791-065	Capital Improvements	08/17/98	1999 - 2018	9,000	1.0000	1,081	-	540	541	-	541
CITED PWTF No. 04-691-068	Capital Improvements	06/02/04	2004 - 2024	4,500	0.5000	4,564	-	571	3,993	-	3,993
Subtotal Washington State Public Works Trust Fund Loans (Councilmanic)						<b>5,645</b>	<b>-</b>	<b>1,111</b>	<b>4,534</b>	<b>-</b>	<b>4,534</b>
Total General Obligation Bonds, Loans, & Notes						<b>199,861</b>	<b>27,511</b>	<b>12,186</b>	<b>215,186</b>	<b>26,717</b>	<b>160,408</b>
<b>ENTERPRISE REVENUE BONDS, LOANS, &amp; NOTES</b>											
Greater Tacoma Convention Center Bonds											
Tac CC & Parking Rev/Ref Bonds, Series 2010	Refunding 2004 Bonds	11/10/10	2015 - 2024	5,015	3.7656	4,205	-	440	3,765	-	-
Tac CC & Parking Rev/Ref Bonds, Series 2015	Refunding 2004 Bonds	08/14/15	2015 - 2024	20,453	2.3304	16,639	-	1,943	14,696	-	-
Subtotal Greater Tacoma Convention Center Bonds						<b>20,844</b>	<b>-</b>	<b>2,383</b>	<b>18,461</b>	<b>-</b>	<b>-</b>
Wastewater Utility Bonds and Loans											
State Revolving Fund (SRF) Loan #40006A	Treatment Plant Upgrade	09/19/03	2008 - 2028	53,491	1.5000	33,629	-	2,700	30,929	-	-
State Revolving Fund (SRF) Loan #40006B	Treatment Plant Upgrade	09/20/03	2009 - 2028	21,687	2.6000	14,246	-	1,077	13,169	-	-
Sewer Rev & Ref Bonds 2006	Improvements/Refunding	06/29/06	2006 - 2036	55,000	4.8852	5	-	-	5	-	-
Sewer Rev & Ref Bonds 2011	Refunding	10/12/11	2022 - 2031	34,315	3.8768	34,315	-	-	34,315	-	-
Sewer Rev & Ref Bonds 2015	Refunding	03/18/15	2016 - 2045	109,300	3.5358	108,055	-	1,690	106,365	-	-
Sewer Rev & Ref Bonds 2016A	Refunding	06/15/16	2016 - 2038	31,855	2.8277	31,330	-	975	30,355	-	-
Sewer Rev & Ref Bonds 2016B	Refunding	06/15/16	2017 - 2020	11,865	1.3269	11,865	-	2,165	9,700	-	-
Subtotal Wastewater Utility Bonds and Loans						<b>233,445</b>	<b>-</b>	<b>8,607</b>	<b>224,838</b>	<b>-</b>	<b>-</b>

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

NAME OF DEBT ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURITY DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT O/S 01/01/2017	ISSUED 2017	REDEEMED 2017	AMOUNT O/S 12/31/2017	Reconcile to Governmental Fund Statements	Reconciles to Changes in LTD in Notes
Surface Water Utility Loan DOE SFR Loan L-1000007	Sewer Plant Upgrade	02/07/06	2011 - 2030	474	2.9000	366	-	21	345	-	-
						<b>366</b>		<b>21</b>	<b>345</b>		
Subtotal Surface Water Utility Loan											
Solid Waste Utility Bonds											
Solid Waste Rev/Ref Bonds, 2008	Refunding	09/05/08	2013 - 2017	12,055	3.8577	2,685	-	2,685	-	-	-
Solid Waste Revenue Bonds, 2015	Capital Improvements	03/18/15	2017 - 2025	21,095	2.1375	21,095	-	1,960	19,135	-	-
Solid Waste Rev/Ref Bonds, 2016A	Refunding	06/15/16	2031 - 2036	23,200	3.4260	23,200	-	-	23,200	-	-
Solid Waste Rev/Ref Bonds, 2016B	Refunding	06/15/16	2026 - 2031	15,025	2.9985	15,025	-	-	15,025	-	-
						<b>62,005</b>		<b>4,645</b>	<b>57,360</b>		
Subtotal Solid Waste Utility Bonds											
Electric System Bonds											
Electric System 2010B Rev Bonds (BABS)	Capital Improvements	07/27/10	2031 - 2035	147,070	3.9071	147,070	-	-	147,070	-	-
Electric System 2010C Rev Bonds (CREBS)	Capital Improvements	07/27/10	2027	24,185	1.9235	24,185	-	-	24,185	-	-
Electric System 2013A Rev Ref Bonds	Refund & Capital Imp	06/13/13	2014 - 2042	181,610	3.3869	164,190	-	37,030	127,160	-	-
Electric System 2013B Rev Ref Bonds	Refunding	06/13/13	2014 - 2030	35,620	3.3427	35,620	-	-	35,620	-	-
Electric System 2017 Revenue Bonds	Capital Improvements	09/01/17	2022-2046	70,575		-	70,575	-	70,575	-	-
						<b>371,065</b>	<b>70,575</b>	<b>37,030</b>	<b>404,610</b>		
Subtotal Electric System Bonds											
Water System Bonds and Loans											
PW-DWSRF-00-65120-031	Construction	10/07/02	2003 - 2021	3,060	2.5000	805	-	161	644	-	-
PW-00-691-PRE-115	Construction	04/11/01	2003 - 2021	1,000	0.5000	263	-	52	211	-	-
PW-01-691-061	Construction	08/27/01	2003 - 2021	10,000	0.5000	2,667	-	534	2,133	-	-
PW-02-691-PRE-127	Construction	02/15/02	2003 - 2021	1,000	0.5000	271	-	54	217	-	-
PW-02-691-056	Construction	04/15/02	2004 - 2022	10,000	0.5000	3,188	-	532	2,656	-	-
PW-04-691-PRE-101	Construction	03/19/04	2006 - 2024	1,000	0.5000	427	-	53	374	-	-
Water Sys Ref & Rev Bonds 2005	Construction & Refinance	10/11/05	2006 - 2025	46,550	4.6390	5	-	-	5	-	-
PW-06-962-043	Construction	07/18/06	2008 - 2026	7,000	0.5000	3,706	-	371	3,335	-	-
Water Sys Rev Bonds 2009 (Taxable BABS)	Capital Improvements	11/04/09	2033 - 2039	76,775	3.7780	76,775	-	-	76,775	-	-
PC08-951-047	Construction	11/25/09	2010 - 2028	10,000	0.5000	6,550	-	545	6,005	-	-
DM07-952-015	Construction	03/31/10	2010 - 2028	4,040	1.5000	2,581	-	215	2,366	-	-
PW-DWSRF 09-952-074	Construction	04/09/10	2013 - 2032	6,579	1.0000	5,873	-	367	5,506	-	-
Water Sys Rev & Ref Bonds 2010A	Refunding	08/24/10	2012 - 2023	29,100	3.2789	26,395	-	570	25,825	-	-
Water Sys Rev Bonds 2010B (BABS)	Construction	08/24/10	2024 - 2040	74,985	5.5636	74,985	-	-	74,985	-	-
Water RWSS Revenue Bonds 2010A	Construction	08/24/10	2013 - 2024	3,595	3.2460	2,525	-	280	2,245	-	-
Water RWSS Revenue Bonds 2010B (BABS)	Construction	08/24/10	2025 - 2040	44,245	5.5636	44,245	-	-	44,245	-	-
PW-DWSRF 10-952-026	Construction	06/17/11	2015 - 2034	6,060	1.5000	4,848	-	303	4,545	-	-
PW-DWSRF 11-952-035	Construction	06/30/11	2016 - 2035	6,060	1.5000	2,066	-	122	1,944	-	-
PW-DWSRF 11-952-036	Construction	06/30/11	2016 - 2035	6,060	1.5000	5,757	-	303	5,454	-	-
PC 12-951-017	Construction	07/01/11	2011 - 2031	10,000	0.5000	8,333	-	555	7,778	-	-
PW-DWSRF 12-952-088	Construction	01/22/13	2017 - 2036	12,120	1.5000	11,514	-	606	10,908	-	-
Water Sys Rev Ref Bonds 2013 (RWSS)	Refinance	04/16/13	2013 - 2032	64,795	3.1477	60,910	-	745	60,165	-	-
Water Sys Rev Ref Bonds 2013	Refinance	05/07/13	2013 - 2043	78,305	3.8523	74,355	-	-	74,355	-	-
PW-DWSRF-13-952-133	Construction	10/07/13	2018 - 2037	12,120	1.5000	11,514	-	606	10,908	-	-
PW-DWSRF-10-952-031	Construction	03/26/14	2015 - 2034	5,460	1.5000	5,482	-	304	5,178	-	-
PW-DWSRF-13-952-167	Construction	11/06/14	2015 - 2037	4,620	1.5000	11,514	-	606	10,908	-	-
Water Sys Ref Bonds 2015A	Refinance	05/12/15	2017 - 2025	16,645	1.9926	16,645	-	2,845	13,800	-	-
Water Sys Ref Bonds 2015B	Refinance	05/12/15	2016 - 2017	6,365	1.0732	1,785	-	1,785	-	-	-
DM15-952-033	Construction	06/01/14	2016 - 2034	120	1.5000	12,120	-	638	11,482	-	-
						<b>478,104</b>		<b>13,152</b>	<b>464,952</b>		
Subtotal Water System Bonds and Loans											
Tacoma Rail Bonds and Loans											
Rail Revenue Bond 2006 (BoFA)	Capital Improvements	12/21/06	2007 - 2017	2,000	5.3900	64	-	64	-	-	-
WA State Rail Loan RR00407 2009	Capital Improvements	08/04/09	2010 - 2024	26	0.0000	14	-	2	12	-	-
WA State Rail Loan RR00408 2009	Capital Improvements	08/04/09	2011 - 2025	249	0.0000	150	-	17	133	-	-
WA State Rail Loan RRB-1007	Capital Improvements	12/06/11	2013 - 2022	450	0.0000	270	-	45	225	-	-
WA State Rail Loan RRB-1010	Capital Improvements	03/28/12	2013 - 2022	612	0.0000	367	-	61	306	-	-
WA State Rail Loan RRB-1011	Capital Improvements	03/28/12	2013 - 2022	349	0.0000	209	-	35	174	-	-
WA State Rail Loan RRB-1026	Capital Improvements	09/06/12	2014 - 2023	347	0.0000	243	-	35	208	-	-
WA State Rail Loan RRB-1030	Capital Improvements	09/06/12	2014 - 2023	364	0.0000	255	-	37	218	-	-
WA State Rail Loan RRB-1045	Capital Improvements	08/01/13	2015 - 2024	823	0.0000	495	-	62	433	-	-
WA State Rail Loan RRB-1046	Capital Improvements	08/01/13	2015 - 2024	250	0.0000	200	-	25	175	-	-
WA State Rail Loan RRB-1052	Capital Improvements	10/24/13	2016 - 2025	366	0.0000	330	-	37	293	-	-
WA State Rail Loan RRB-1053	Capital Improvements	10/24/13	2016 - 2025	773	0.0000	696	-	78	618	-	-
WA State Rail Loan RRB-1054	Capital Improvements	10/24/13	2016 - 2025	1,015	0.0000	995	-	111	884	-	-
WA State Rail Loan RRB-1055	Capital Improvements	10/08/13	2016 - 2025	516	0.0000	464	-	51	413	-	-
WA State Rail Loan RRB-1086	Capital Improvements	10/27/15	2016 - 2025	1,037	0.0000	819	-	91	728	-	-
						<b>478,104</b>		<b>13,152</b>	<b>464,952</b>		

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

NAME OF DEBT ISSUE	PURPOSE OF ISSUE	DATE OF ISSUE	MATURITY DATES	ORIGINAL AMOUNT	EFFECTIVE INTEREST RATE	AMOUNT O/S 01/01/2017	ISSUED 2017	REDEEMED 2017	AMOUNT O/S 12/31/2017	Reconcile to Governmental Fund Statements	Reconciles to Changes in LTD in Notes
WA State Rail Loan RRB-1108	Capital Improvements	07/03/17	2017 - 2026	308	0.0000	-	311	30	281	-	-
WA State Rail Loan RRB-1109	Capital Improvements	09/29/16	2017 - 2026	121	0.0000	121	-	12	109	-	-
WA State Rail Loan RRB-1110	Capital Improvements	09/08/16	2017 - 2026	406	0.0000	406	-	41	365	-	-
WA State Rail Loan RRB-1111	Capital Improvements	01/06/17	2017 - 2026	370	0.0000	-	370	37	333	-	-
WA State Rail Loan RRB-1112	Capital Improvements	12/06/16	2017 - 2026	150	0.0000	116	34	15	135	-	-
	Subtotal Tacoma Rail Bonds and Loans					<b>6,214</b>	<b>715</b>	<b>886</b>	<b>6,043</b>	-	-
Lease Revenue Bonds						15,295	-	2,240	13,055	-	-
Lease Revenue Bonds 1990	Construction	05/15/90	1992-2022	36,250	9.3476	1,860	-	280	1,580	-	-
Lease Revenue Bonds 1992	Construction	12/15/92	1993-2022	4,695	7.4769	-	-	-	-	-	-
	Subtotal Lease Revenue Bonds					<b>17,155</b>	-	<b>2,520</b>	<b>14,635</b>	-	-
	Total Revenue Bonds and Loans					<b>1,189,198</b>	<b>71,290</b>	<b>69,244</b>	<b>1,191,244</b>	-	-
	Total General Obligation Bonds, Revenue Bonds, and Loans					<b>1,389,059</b>	<b>98,801</b>	<b>81,430</b>	<b>1,406,430</b>	<b>26,717</b>	<b>160,408</b>
<b>SPECIAL ASSESSMENT BONDS</b>											
Local Improvement District Bonds											
District #63 Bonds	Construction	09/29/11	2023	1,557	4.1800	461	-	154	307	-	307
District #64 Bonds	Construction	04/05/16		2,341	3.2500	2,341	-	511	1,830	-	1,830
District #65 Bonds	Construction	04/29/13	2043	30,999	5.7500	27,135	-	3,015	24,120	-	24,120
	Subtotal Local Improvement District Bonds					<b>29,937</b>	-	<b>3,680</b>	<b>26,257</b>	-	<b>26,257</b>
Bond Anticipation Notes											
Revolving Line of Credit	LID Construction	07/01/16	At CLID Issue	\$15mm Max	Floating	8,572	-	-	8,572	-	8,572
	Subtotal Bond Anticipation Notes					<b>8,572</b>	-	-	<b>8,572</b>	-	<b>8,572</b>
	Total Special Assessment Bonds					<b>38,509</b>	-	<b>3,680</b>	<b>34,829</b>	-	<b>34,829</b>
Wells Fargo Revolving Line of Credit	Capital Improvements	05/15/15	5/11/2018	\$100mm Max	0.5000	80,250	-	80,000	250	-	-
	Subtotal Wells Fargo Revolving Line of Credit					<b>80,250</b>	-	<b>80,000</b>	<b>250</b>	-	-
	<b>Total Long Term Debt</b>					<b>1,507,818</b>	<b>98,801</b>	<b>165,110</b>	<b>1,441,509</b>	<b>26,717</b>	<b>195,237</b>

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

Notes related to debt increases:

1. Ltd. Genl Obl Bonds 1997 Ser B - Additions represent accreted interest capitalized to bond principal.
2. Ltd. Genl Obl Bonds 2009E Multiple Projects - Additions represent accreted interest capitalized to bond principal.
3. Ltd. Genl Obl Bonds 2009F Cheney & Env Remed - Additions represent accreted interest capitalized to bond principal.
4. PW-DWSRF & DM - Additions for each of these represent an additional draw from available funds.

**Required Supplementary Information**

**LEOFF 1**

Proportionate Share of the Net Pension Liability  
Last 10 Years\*

	Fiscal Years Ended June 30			
	2017	2016	2015	2014-2008
Employer's proportion of the net pension liability(asset) as a percentage	1.07%	1.08%	1.09%	N/A
Employer's proportion share of net pension liability(asset)	(16,163,187)	(11,098,437)	(13,178,851)	N/A
Employer's Covered payroll (1)	140,884	117,193	206,871	N/A
Employer's proportionate share of net pension liability (asset) as a percentage of its covered payroll	-11472.69%	-9470.22%	-6370.56%	N/A
Plan fiduciary net position as a percentage the total pension liability	135.96%	123.74%	127.36%	N/A

*\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. This table is intended to show ten years of data. As more information becomes available, this table will be updated.*

(1) The covered payroll has been updated per GASB 82 to accurately reflect the covered payroll, which therefore also updated the calculation for the Employer's proportionate share of net pension liability (asset) as a percentage of its covered payroll.

Schedule of the City of Tacoma's Contributions  
Last 10 Fiscal Years\*

	Fiscal Years Ended December 31			
	2017	2016	2015	2014-2008
Contractually required employer contribution	\$0	\$0	\$0	N/A
Contributions in relation to the contractually required employer contribution	0	0	0	N/A
Employer contribution deficiency (excess)	\$0	\$0	\$0	N/A
Employer's covered payroll	\$133,877	\$140,884	\$117,194	N/A
Employer contribution as a percentage of covered payroll	0.00%	0.00%	0.00%	N/A

\*This table is intended to show ten years of data. As more information becomes available, this table will be updated.

**LEOFF 2**

Proportionate Share of the Net Pension Liability  
Last 10 Fiscal Years\*

	Fiscal Years Ended June 30			
	2017	2016	2015	2014-2008
Employer's proportion of the net pension liability(asset) as a percentage	2.59%	2.48%	2.47%	N/A
Employer's proportion share of net pension liability(asset)	(35,974,279)	(14,416,299)	(25,352,743)	N/A
Employer's covered payroll	77,370,718	77,913,214	72,486,494	N/A
Employer's proportionate share of net pension liability (asset) as a percentage of its covered payroll	-46.50%	-18.50%	-34.98%	N/A
Plan fiduciary net position as a percentage the total pension liability	113.36%	106.04%	111.67%	N/A

*\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. This table is intended to show ten years of data. As more information becomes available, this table will be updated.*

(1) The covered payroll has been updated per GASB 82 to accurately reflect the covered payroll, which therefore also updated the calculation for the Employer's proportionate share of net pension liability (asset) as a percentage of its covered payroll.

Schedule of the City of Tacoma's Contributions  
Last 10 Fiscal Years\*

	Fiscal Year Ended December 31			
	2017	2016	2015	2014-2008
Contractually required employer contribution	\$4,025,059	\$4,026,349	\$3,716,978	N/A
Contributions in relation to the contractually required employer contribution	(4,025,059)	(4,026,349)	(3,716,978)	N/A
Employer contribution deficiency (excess)	0	0	0	N/A
Employer's covered payroll	\$79,762,242	\$77,370,718	\$77,913,215	N/A
Employer contribution as a percentage of covered payroll	5.05%	5.20%	4.77%	N/A

\* This table is intended to show ten years of data. As more information becomes available, this table will be updated.

**Tacoma Employee's Retirement System Fund (TERS)**

Proportionate Share of the Net Pension Liability  
Last 10 Fiscal Years\*

	Fiscal Year Ended December 31			
	2017	2016	2015	2014-2008
Employer's proportion of the net pension liability(asset) as a percentage	92.48%	92.63%	92.67%	N/A
Employer's proportion share of net pension liability(asset)	92,880,524	86,584,348	(9,606,514)	N/A
Employer's Covered payroll (1)	230,229,890	231,297,980	216,468,374	N/A
Employer's proportionate share of net pension liability (asset) as a percentage of its covered payroll	40.34%	37.43%	-4.68%	N/A
Plan fiduciary net position as a percentage the total pension liability	93.91%	93.94%	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. This table is intended to show ten years of data. As more information becomes available, this table will be updated.*

(1) The covered payroll has been updated per GASB 82 to accurately reflect the covered payroll, which therefore also updated the calculation for the Employer's proportionate share of net pension liability (asset) as a percentage of its covered payroll.

Schedule of the City of Tacoma's Contributions  
Last 10 Fiscal Years\*

	Fiscal Year Ended December 31			
	2017	2016	2015	2014-2008
Contractually required employer contribution	\$23,616,255	\$22,746,593	\$22,149,246	N/A
Contributions in relation to the contractually required employer contribution	(23,616,255)	(22,746,593)	(22,149,246)	N/A
Employer contribution deficiency (excess)	0	0	0	N/A
Employer's covered payroll	\$237,558,151	\$230,229,890	\$231,291,980	N/A
Employer contribution as a percentage of covered payroll	9.94%	9.88%	9.58%	N/A

\*This table is intended to show ten year of data. As more information becomes available, this table will be updated.

## Firefighters and Police Pension Fund

### SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS

#### Firefighters' Pension Fund

	Fiscal Year Ended December 31	
	2017	2016-2008*
<b>Total Pension Liability</b>		
Service cost	\$ -	N/A
Interest on total pension liability	1,058	N/A
Effect of plan changes	-	N/A
Effect of economic/demographic gains or (losses)	-	N/A
Effect of assumption changes or inputs	622	N/A
Benefit payments	(2,100)	N/A
Net change in total pension liability	(420)	N/A
Total pension liability, beginning	29,248	N/A
Total pension liability, ending	28,828	N/A
Covered payroll	\$ -	N/A
Total pension liability as a % of covered payroll	N/A	N/A

#### Police Relief and Pension Fund

	Fiscal Year Ended December 31	
	2017	2016-2008*
<b>Total Pension Liability</b>		
Service cost	\$ -	N/A
Interest on total pension liability	573	N/A
Effect of plan changes	-	N/A
Effect of economic/demographic gains or (losses)	-	N/A
Effect of assumption changes or inputs	311	N/A
Benefit payments	(1,341)	N/A
Net change in total pension liability	(456)	N/A
Total pension liability, beginning	15,946	N/A
Total pension liability, ending	15,490	N/A
Covered payroll	\$ -	N/A
Total pension liability as a % of covered payroll	N/A	N/A

\*This table is intended to represent 10 years of comparative data. Prior years are not available. As future years become available the table will be updated.

**Other Post Employment Benefit Plan (OPEB)**

SCHEDULE OF FUNDING PROGRESS: (\$ in millions)

**Tacoma Employee's Retirement System Fund (TERS)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2009	-	34.93	34.93	0.0%	NA	NA
1/1/2010	-	34.93	34.93	0.0%	NA	NA
1/1/2011	-	39.30	39.30	0.0%	NA	NA
1/1/2012	-	39.30	39.30	0.0%	210.60	19%
1/1/2013	-	45.50	45.50	0.0%	206.21	22%
1/1/2014	-	45.50	45.50	0.0%	216.47	21%
1/1/2015	-	28.40	28.40	0.0%	231.29	12%
1/1/2016	-	28.40	28.40	0.0%	230.23	12%
1/1/2017	-	15.94	15.94	0.0%	237.56	7%

**Law Enforcement Officers and Fire Fighters Retirement System Plan 1 (LEOFF Plan 1)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2009	-	156.69	156.69	0.0%	NA	NA
1/1/2010	-	156.69	156.69	0.0%	NA	NA
1/1/2011	-	190.57	190.57	0.0%	NA	NA
1/1/2012	-	190.57	190.57	0.0%	1.58	12063%
1/1/2013	-	182.21	182.21	0.0%	0.73	25107%
1/1/2014	-	182.21	182.21	0.0%	0.21	88079%
1/1/2015	-	163.78	163.78	0.0%	0.18	90989%
1/1/2016	-	163.78	163.78	0.0%	0.14	116986%
1/1/2017	-	207.57	207.57	0.0%	0.13	159669%

**Law Enforcement Officers and Fire Fighters Retirement System Plan 2 (LEOFF Plan 2)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2009	-	12.39	12.39	0.0%	NA	NA
1/1/2010	-	12.39	12.39	0.0%	NA	NA
1/1/2011	-	16.88	16.88	0.0%	NA	NA
1/1/2012	-	16.88	16.88	0.0%	70.55	24%
1/1/2013	-	22.64	22.64	0.0%	70.26	32%
1/1/2014	-	22.64	22.64	0.0%	72.49	31%
1/1/2015	-	13.84	13.84	0.0%	77.91	18%
1/1/2016	-	13.84	13.84	0.0%	77.37	18%
1/1/2017	-	11.77	11.77	0.0%	79.76	15%

**Rail**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio	Covered Payroll <sup>(1)</sup> (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2009	-	1.16	1.16	0.0%	NA	NA
1/1/2010	-	1.16	1.16	0.0%	NA	NA
1/1/2011	-	1.82	1.82	0.0%	NA	NA
1/1/2012	-	1.82	1.82	0.0%	8.38	22%
1/1/2013	-	1.43	1.43	0.0%	8.02	17.84%
1/1/2014	-	1.43	1.43	0.0%	9.88	14.47%
1/1/2015	-	2.80	2.80	0.0%	11.60	24.14%
1/1/2016	-	2.80	2.80	0.0%	10.97	25.52%
1/1/2017	-	5.17	5.17	0.0%	11.01	46.96%

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
For the Year Ended December 31, 2017  
(amounts expressed in thousands)

	APPROVED ORIGINAL BUDGET 2017-2018 BIENNIUM	APPROVED REVISED BUDGET 2017-2018 BIENNIUM	ACTUAL BIENNIUM- TO-DATE THRU 12/31/2017	VARIANCE WITH APPROVED REVISED BUDGET OVER (UNDER)
<b>REVENUES</b>				
Taxes	\$ 312,936	\$ 324,640	\$ 161,578	\$ (163,062)
Licenses and permits	12,149	13,292	7,197	(6,095)
Intergovernmental revenue	20,997	22,099	10,965	(11,134)
Charges for goods and services	5,439	5,523	3,665	(1,858)
Fines and penalties	2,996	3,037	1,344	(1,693)
Interest and other earnings	1,442	1,877	1,043	(834)
Miscellaneous revenues	40	78	823	745
<b>TOTAL REVENUES</b>	<b>355,999</b>	<b>370,546</b>	<b>186,615</b>	<b>(183,931)</b>
<b>EXPENDITURES</b>				
Current:				
General government	75,235	78,168	34,052	(44,116)
Public safety	265,463	267,610	129,324	(138,286)
Transportation	758	770	368	(402)
Economic environment	35,531	38,419	17,262	(21,157)
Mental and physical health	-	-	-	-
Culture and recreation	28,585	30,112	12,861	(17,251)
Debt service:				
Principal payments	-	-	-	-
Capital outlay	-	-	1,280	1,280
<b>TOTAL EXPENDITURES</b>	<b>405,572</b>	<b>415,079</b>	<b>195,147</b>	<b>(219,932)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(49,573)</b>	<b>(44,533)</b>	<b>(8,532)</b>	<b>36,001</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	36	36	-	(36)
Insurance recoveries	-	-	59	59
Transfer in	87,312	94,085	45,977	(48,108)
Transfer out	(55,636)	(73,018)	(37,647)	35,371
<b>TOTAL OTHER FINANCE SOURCES (USES)</b>	<b>31,712</b>	<b>21,103</b>	<b>8,389</b>	<b>(12,714)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(17,861)</b>	<b>(23,430)</b>	<b>(143)</b>	<b>23,287</b>
<b>FUND BALANCE - January 1</b>	<b>17,861</b>	<b>23,430</b>	<b>79,297</b>	<b>55,867</b>
Prior period adjustment	-	-	18	18
Change in accounting principle	-	-	-	-
<b>FUND BALANCE - January 1, Restated</b>	<b>17,861</b>	<b>23,430</b>	<b>79,315</b>	<b>55,885</b>
<b>FUND BALANCE (DEFICIT) - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 79,172</b>	<b>\$ 79,172</b>

Perspective Difference Reconciliation:  
ACTUAL FUND BALANCE - GENERAL FUND SCHEDULE OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE

\$ 79,172

The following funds were budgeted as special revenue funds or trust  
funds but do not meet the definition of a special revenue fund or trust  
fund and therefore are accounted for within the General Fund:

Contingency Fund #1030	699
Police Pension Fund #6120	110
Firefighters Pension Fund #6150	233

**TOTAL FUND BALANCE - GENERAL FUND  
BALANCE SHEET FOR GOVERNMENTAL FUNDS**

**\$ 80,214**

## Notes to Required Supplementary Information (RSI)

### Note 1—Budgetary data

#### A. General budget policies

The biennial budget is adopted by appropriation ordinance of the Tacoma City Council and may be amended by subsequent ordinances. Biennial budgets are legally adopted for all governmental fund types. Any comparisons between budget and actual revenues and expenditures are reported under the GAAP basis. The budget is adopted with budgetary control at the fund level, so expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are administratively allowed, but only City Council has the legal authority to increase or decrease a given funds biennial budget. While not required by law, the City adopts budgets for proprietary funds and some selected trust funds. These budgets are "management budgets" and as such, are not reported in the CAFR.

Although the City is not legally responsible for the Tacoma Community Redevelopment Authority (TCRA), the City has included certain financial information pertaining to TCRA. The City is not required to report the TCRA, Foss Waterway Development Authority (FWDA), or the Greater Tacoma Regional Convention Center Public Facilities District (GTRCCPFDD)'s budgets and therefore it is excluded from the budget and actual comparisons.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded, is employed as an extension of formal budgetary control for governmental fund types. Encumbrances outstanding at December 31 are reported as restricted, committed, or assigned fund balances as defined by GASB 54. Encumbrances outstanding at the end of the biennium are re-appropriated at the beginning of the next biennium with budget's approval.

#### B. Budget basis of accounting

All budgets are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).

#### C. The budget process

The budget process begins with the City Council making appropriate revisions to the City's long-term strategic plan, identifying goals, and setting priorities. In early June, the initial revenue forecast is completed by the Office of Management, Budget and Analysis (OMBA) and City departments and agencies begin budget preparation. Budget requests are due to OMBA in late July. OMBA reviews and revises budget requests in August. The revenue forecast is refined in early September and a preliminary budget is presented to the Executive Forum in early October. The preliminary budget is further refined during the month of October.

By Washington State law, the City Council must receive a balanced preliminary budget by November 1st. Public budget hearings are conducted by the City Council in mid-November. Any changes the Council decides to make to the preliminary budget are made after the public hearings and before the reading of the budget ordinance in December. Washington State law requires that the City Council adopt a balanced budget on or before December 31.

Washington State law requires that a mid-biennial review and modification be conducted between September 1 and December 31 of the first year of the biennium. Supplemental budget requests are accepted from departments during the month of August. Revenue estimates for the biennium are reviewed and adjusted in early September. The new revenue estimates and the supplemental requests are submitted to the Budget Committee and the Executive Forum in late September. Preliminary modifications are presented to the City Manager for review and changes in October. Modifications are submitted to the City Council in early November. Public hearings are conducted in November. The City Council adopts the amended biennial budget on or before December 31.

#### D. Funds presented

Budgetary information is displayed for all funds that are subject to the City's biennial budget process. The General Fund's budgetary information is located in the Required Supplementary Information section on page 4-9. All other major funds non-major governmental funds budgetary information are located in the Combining Statements Non-Major Funds section on pages 5-23 to 5-62.

### Note 2 Combining statements

The Non-Major Governmental, Proprietary funds and Internal Service funds are displayed in aggregated columns in the City's fund statements. This section of the report contains combining statements that display the financial information for these funds. There are separate combining statements for Non-Major Governmental funds, Non-Major Enterprise funds and the Internal Service funds.

### **Note 3 Pensions**

Schedule of Changes in the Employer Net Pension Liability or Asset: The total pension liability contained in the schedule was provided by the System's actuary, Milliman. The net pension liability or asset is measured at the total pension liability, less the amount of System's fiduciary net position.

Schedule of Employer Contributions: The required employee contributions and percent of those contributions actually made are presented in the schedule.

Actuarial Assumptions: The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board.

The police and firefighters pension funds are not within the scope of GASB 68 and are not administered through an irrevocable trust. They are required to be reported under the requirements of GASB 73. The assets accumulated for this purpose are recorded in the General Fund.

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Minority Business Development Agency, Department Of Commerce	MBDA Business Center	11.805	MB16OBD8050037	-	571,561	571,561	-	
<b>CDBG - Entitlement Grants Cluster</b>								
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53-0007	-	369,189	369,189	358,839	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0007	-	21,871	21,871	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-53-0007	-	435,159	435,159	426,046	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	E-17-MC-53-0007	-	746,046	746,046	-	
<b>Total CDBG - Entitlement Grants Cluster:</b>				<b>-</b>	<b>1,572,266</b>	<b>1,572,266</b>	<b>784,886</b>	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Emergency Solutions Grant Program	14.231	E-15-MC-53-0007	-	4,784	4,784	4,784	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Emergency Solutions Grant Program	14.231	E-16-MC-53-0007	-	103,368	103,368	91,194	

The accompanying notes are an integral part of this schedule.

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office Of Community Planning And Development, Department Of Housing And Urban Development	Emergency Solutions Grant Program	14.231	E-17-MC-53- 0007	-	111,628	111,628	100,327	
<b>Total CFDA 14.231:</b>				-	<b>219,780</b>	<b>219,780</b>	196,306	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-10-DC-53- 0206	-	36,538	36,538	36,538	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-11-DC-53- 0206	-	223,150	223,150	223,150	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-12-DC-53- 0206	-	172,113	172,113	172,113	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-13-DC-53- 0206	-	161,590	161,590	161,590	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-14-DC-53- 0206	-	148,237	148,237	148,237	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-15-DC-53- 0206	-	363,741	363,741	320,902	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-16-DC-53- 0206	-	183,346	183,346	143,250	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M-17-DC-53- 0206	-	32,885	32,885	-	
		<b>Total CFDA 14.239:</b>			-	<b>1,321,601</b>	<b>1,321,601</b>	1,205,780
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants Section 108 Loan Guarantees	14.248	N/A	-	3,382,000	3,382,000	-	4B
		<b>Total CFDA 14.248:</b>			-	<b>3,382,000</b>	<b>3,382,000</b>	-
Office Of Fair Housing And Equal Opportunity, Department Of Housing And Urban Development	Fair Housing Assistance Program State and Local	14.401	FF-210K-17- 1007	-	48,450	48,450	-	
		<b>Total CFDA 14.401:</b>			-	<b>48,450</b>	<b>48,450</b>	-
Office Of Juvenile Justice And Delinquency Prevention, Department Of Justice (via Seattle Police Department)	Missing Children's Assistance	16.543	2015-MC-FX- K039	14,823	-	14,823	-	
		<b>Total CFDA 16.543:</b>			14,823	-	<b>14,823</b>	-
Violence Against Women Office, Department Of Justice (via Pierce County Sherriff's Department)	Violence Against Women Formula Grants	16.588	N/A	5,758	-	5,758	-	
		<b>Total CFDA 16.588:</b>			5,758	-	<b>5,758</b>	-
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	2014-JUL-WX- 0023	-	583,574	583,574	-	
		<b>Total CFDA 16.710:</b>			-	<b>583,574</b>	<b>583,574</b>	-
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	2015-CK-WX- 0025	-	36,362	36,362	-	
		<b>Total CFDA 16.710:</b>			-	<b>36,362</b>	<b>36,362</b>	-
<b>Total CFDA 16.710:</b>				-	<b>619,936</b>	<b>619,936</b>	-	

The accompanying notes are an integral part of this schedule.

**City of Tacoma  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX- 0242	-	61,185	61,185	-	
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX- 0543	-	29,610	29,610	-	
Bureau Of Justice Assistance, Department Of Justice (via Pierce County Sherriff's Department)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	17,640	-	17,640	-	
Bureau Of Justice Assistance, Department Of Justice (via Pierce County Sherriff's Department)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	72,127	-	72,127	-	
<b>Total CFDA 16.738:</b>				<b>89,767</b>	<b>90,795</b>	<b>180,562</b>	-	
Department of Justice - Federal Bureau of Investigation	Pacific NW FBI Innocence Lost Task Force	16.unkn own	N/A	-	1,268	1,268	-	
Department of Justice - Federal Bureau of Investigation	South Side Gang Task Force (10/1/16 - 9/30/17)	16.unkn own	N/A	-	6,039	6,039	-	
Department of Justice - Federal Bureau of Investigation	South Side Gang Task Force (10/1/17 - 9/30/18)	16.unkn own	N/A	-	1,746	1,746	-	
Department of Justice - Drug Enforcement Administration	DEA - Tacoma Regional Task Force Agreement (10/1/16 - 9/30/17)	16.unkn own	N/A	-	14,011	14,011	-	
Department of Justice - Drug Enforcement Administration	DEA - Tacoma Regional Task Force Agreement (10/1/17 - 9/30/18)	16.unkn own	N/A	-	6,964	6,964	-	
Department of Justice - Drug Enforcement Administration	DEA - Tactical Diversion Task Force Prescription Drug (10/1/16 - 9/30/17)	16.unkn own	N/A	-	3,075	3,075	-	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>Highway Planning and Construction Cluster</b>								
			Total CFDA 16.unknown:	-	33,103	33,103	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPE-1280 (034)	1,151,580	-	1,151,580	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	BHM-3067(001)	3,248	-	3,248	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	BHM-STPUL- 3262(007)	27,286	-	27,286	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	BRM-3246(012)	293,931	-	293,931	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-9927(054)	119,643	-	119,643	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-3298 (003)	76,546	-	76,546	-	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-3200 (002)	1,524,708	-	1,524,708	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-9927(057)	9,892	-	9,892	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-00074(24)	23,947	-	23,947	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPE-1280 (037)	28,541	-	28,541	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-3210 (003)	9,004	-	9,004	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-9927(060)	710,371	-	710,371	-	
Federal Highway Administration (fhw), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-3149 (005)	14,409	-	14,409	-	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-3133(007)	5,903	-	5,903	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-000S (467)	5,256	-	5,256	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8045, GCB2032	16,315	-	16,315	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8045, GCB2151	59,110	-	59,110	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8045, GCB2361	92,500	-	92,500	-	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	LA-8045, GCB2746	18,750	-	18,750	-	
<b>Federal Transit Cluster</b>	<b>Total Highway Planning and Construction Cluster:</b>			<b>4,190,940</b>	<b>-</b>	<b>4,190,940</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Administration (fta), Department Of Transportation (via Sound Transit)	Federal Transit Capital Investment Grants	20.500	WA-2016-007- 00	581,195	-	581,195	-	
<b>Highway Safety Cluster</b>		<b>Total Federal Transit Cluster:</b>		<b>581,195</b>	<b>-</b>	<b>581,195</b>	<b>-</b>	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	5,202	-	5,202	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	1,633	-	1,633	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A	1,995	-	1,995	-	
<b>Total CFDA 20.600:</b>				<b>8,830</b>	<b>-</b>	<b>8,830</b>	<b>-</b>	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	15,369	-	15,369	-	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington State Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	4,332	-	4,332	-	

The accompanying notes are an integral part of this schedule.

**City of Tacoma  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Highway Traffic Safety Administration (nhitsa), Department Of Transportation (via Washington State Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	8,410	-	8,410	-	
National Highway Traffic Safety Administration (nhitsa), Department Of Transportation (via Washington State Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	1,284	-	1,284	-	
National Highway Traffic Safety Administration (nhitsa), Department Of Transportation (via Washington State Traffic Safety Commission)	National Priority Safety Programs	20.616	N/A	586	-	586	-	
				<b>Total CFDA 20.616:</b>	-	<b>29,981</b>	-	
				<b>Total Highway Safety Cluster:</b>	-	<b>38,811</b>	-	
Equal Employment Opportunity Commission	Employment Discrimination Title VII of the Civil Rights Act of 1964	30.001	EEC45015C005 6	-	16,480	16,480	-	
National Endowment For The Arts	Promotion of the Arts Grants to Organizations and Individuals	45.024	16-4292-7102	-	18,000	18,000	-	
Small Business Administration	Growth Accelerator Fund Competition	59.065	Wedge	-	50,000	50,000	-	
Region 10, Environmental Protection Agency (via Washington State Department of Commerce-Public Works Board)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	14-63401-005	44,889	-	44,889	-	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Region 10, Environmental Protection Agency (via Washington State Department of Ecology)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	WQNEP-2016- TacoES-00011	57,428	-	57,428	-	
<b>Total CFDA 66.123:</b>				<b>102,317</b>	<b>-</b>	<b>102,317</b>	<b>-</b>	
Office Of Solid Waste And Emergency Response, Environmental Protection Agency	Environmental Workforce Development and Job Training Cooperative Agreements	66.815	JT-01J23001	-	101,764	101,764	-	
Department of Energy - Bonneville Power Administration	DHP in New Construction Savings and Costs	81.6174 5	Grt # 61745	-	4,515	4,515	-	
Department of Energy - Bonneville Power Administration	DHP Retrofit Study Grant	81.7041 3	Grt # 70413	-	3,281	3,281	-	
Department of Energy - Bonneville Power Administration	Bonneville Power Administration - COMM HVAC CHEPS	81.7651 5	Grt #76515	-	293	293	-	
Department of Energy - Bonneville Power Administration	Bonneville Power Administration - COMMERCIAL HPWH FIELD TEST	81.7734 9	Grt#77349	-	513	513	-	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health-Community Health Systems)	Paul Coverdell National Acute Stroke Program National Center for Chronic Disease Prevention and Health Promotion	93.810	Contract #N22618	6,960	-	6,960	-	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Washington State Department of Health-Community Health Systems)	Paul Coverdell National Acute Stroke Program National Center for Chronic Disease Prevention and Health Promotion	93.810	Contract #GVL22908	900	-	900	-	
<b>Total CFDA 93.810:</b>				<b>7,860</b>	<b>-</b>	<b>7,860</b>	<b>-</b>	
Executive Office Of The President	High Intensity Drug Trafficking Areas Program	95.001	N/A	-	75,970	75,970	-	
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Parks and Recreation Commission)	Boating Safety Financial Assistance	97.012	N/A	12,070	-	12,070	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	National Urban Search and Rescue (US&R) Response System	97.025	EMW-2013-CA- USR-0028	260,601	-	260,601	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	National Urban Search and Rescue (US&R) Response System	97.025	EMW-2017-CA- 00084	3,317	-	3,317	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	National Urban Search and Rescue (US&R) Response System	97.025	EMW-2016-CA- 00030	18,948	-	18,948	-	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	National Urban Search and Rescue (US&R) Response System	97.025	EMW-2013-CA- USR-0028	6,807	-	6,807	-	
<b>Total CFDA 97.025:</b>				<b>289,673</b>	<b>-</b>	<b>289,673</b>	<b>-</b>	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	Emergency Management Performance Grants	97.042	E17-126	86,268	-	86,268	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	Emergency Management Performance Grants	97.042	E18-013	29,062	-	29,062	-	
<b>Total CFDA 97.042:</b>				<b>115,330</b>	<b>-</b>	<b>115,330</b>	<b>-</b>	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	Assistance to Firefighters Grant	97.044	EMW-2015-FO- 04386	185,825	-	185,825	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security	Port Security Grant Program	97.056	EMW-2015-PU- 00600	-	166,231	166,231	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Seattle Police Department)	Port Security Grant Program	97.056	EMW-2016-PU- 00029	10,567	-	10,567	-	
<b>Total CFDA 97.056:</b>				<b>10,567</b>	<b>166,231</b>	<b>176,798</b>	<b>-</b>	

*The accompanying notes are an integral part of this schedule.*

**City of Tacoma**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Pierce County Department of Emergency Management)	Homeland Security Grant Program	97.067	Contract #SC-101081	10,000	-	10,000	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Seattle Police Department)	Homeland Security Grant Program	97.067	EMW-2015-SS-00013-S01	21,077	-	21,077	-	
			<b>Total CFDA 97.067:</b>	<b>31,077</b>	<b>-</b>	<b>31,077</b>	<b>-</b>	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Seattle Police Department)	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00391	53,228	-	53,228	-	
			<b>Total Federal Awards Expended:</b>	<b>5,729,241</b>	<b>8,296,538</b>	<b>14,025,776</b>	<b>2,186,971</b>	

*The accompanying notes are an integral part of this schedule.*

CITY OF TACOMA, WASHINGTON

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017

**NOTE 1 – BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the City of Tacoma's financial statements. Governmental fund financial statements use the modified accrual basis of accounting, and proprietary funds use the accrual basis of accounting.

**NOTE 2 – PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Tacoma's portion, may be more than shown.

**NOTE 3 – INDIRECT COST RATE**

The City of Tacoma has elected not to use the 10% de minimus indirect cost rate allowed under uniform guidance.

**NOTE 4 – DEPARTMENT OF JUSTICE TASK FORCE CFDA NUMBERS** - The City of Tacoma has researched the CFDA numbers for the FBI and DEA task forces reported above. This included contacting the grantor, researching the CFDA website, and contacting the Washington State Auditor's Office. We are reporting the task force revenue under 16.UNKNOWN at this time, but will continue to work on obtaining the correct CFDA numbers.

**NOTE 4B – FEDERAL LOAN GUARANTEES**

(1) Section 108 Loan issued by the U.S. Department of Housing and Urban Development (CFDA 14.248) in the amount of \$3,382,000 to the LeMay Museum. The loan term was amended in 2017 to be extended through August 2029.

(2) Section 108 Loan issued by the U.S. Department of Housing and Urban Development (CFDA 14.248) in the amount of \$3,904,000 to Horizon Holdings has been paid back to HUD. The building was sold in November 2017 and the loan is closed.

(3) The City of Tacoma participates in the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program in order to leverage large economic development projects. Funds must be used for activities that meet national Community Development Block Grant (CDBG) objectives and all applications are reviewed and approved by HUD. The City is able to borrow up to five times its annual CDBG allocation at very low interest rates, and in turn lend the funds for eligible projects. The Block Grant is the source of the guarantee. No City funds are pledged to the 108 loans.

The Bank of New York Mellon serves as the City's Custodian under a Custodial Agreement, disbursing the Section 108 funds to borrowers, receiving loan repayments from the borrowers, and remitting the City's loan repayments to HUD.



City of Tacoma  
Finance Department

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER  
UNIFORM GUIDANCE**

**City of Tacoma  
January 1, 2017 through December 31, 2017**

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

<p><b>Finding ref number:</b> 2017-001</p>	<p><b>Finding caption:</b> The City needs to strengthen its internal controls to ensure accurate reporting of its Police and Firefighter’s Relief and Pension Funds.</p>
<p><b>Name, address, and telephone of City contact person:</b> Paula Barry, Accounting Services Division Manager 747 Market Street; Suite 132 Tacoma, WA 98402 (253) 591-5247</p>	
<p><b>Corrective action the auditee plans to take in response to the finding:</b> <i>City of Tacoma holds their responsibility for enabling internal controls to ensure accurate financial reporting at the highest regard. The implementation of GASB Statement No. 73 spanned two years. With transition in key staff responsible for CAFR preparation coupled with the verbiage contained in the 2016 CAFR, it appeared the entire statement had been implemented with no mention of additional requirements outstanding. The City appropriately implemented three additional standards with the preparation of the 2017 CAFR. Looking forward, the City recognizes the need to involve additional members of management and staff in the implementation of GASB standards each year. This would ensure that valuable information regarding the implementation of accounting standards will carry forward from year-to-year should there be a transition amongst key staff. To achieve this, the City will:</i></p> <ol style="list-style-type: none"> <li><i>1. Provide external training opportunities on new and upcoming GASB’s to all accounting managers, as well as other key staff.</i></li> </ol>	

<p>2. <i>Engage all accounting managers and other key City staff in the implementation of new GASB standards. This would include:</i></p> <ul style="list-style-type: none"> <li>a. <i>Holding regular meetings to discuss implementation,</i></li> <li>b. <i>Reviewing and assigning individual tasks included on the checklist for implementation of new accounting standards,</i></li> <li>c. <i>Creating and documenting a plan for implementation, and</i></li> <li>a. <i>Updating the year-end checklist to reflect important milestones to the GASB implementation.</i></li> </ul> <p>3. <i>Provide internal training to staff on change in accounting standard.</i></p>
<p><b>Anticipated date to complete the corrective action:</b> December 31, 2018</p>

<b>Finding ref number:</b>	<b>Finding caption:</b>
2017-002	The City did not have adequate internal controls to ensure compliance with federal requirements regarding matching and reporting.
<b>Name, address, and telephone of City contact person:</b>	
Paula Barry, Accounting Services Division Manager 747 Market Street; Suite 132 Tacoma, WA 98402 (253) 591-5247	
<b>Corrective action the auditee plans to take in response to the finding:</b>	
<p><i>City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:</i></p> <p><b>Reporting</b></p> <p><i>As a recipient of HOME grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. To ensure compliance with this requirement, the City will:</i></p> <ul style="list-style-type: none"> <li>1. <i>Assign the responsibility of submitting the report to an appropriate staff member, and</i></li> <li>2. <i>Require the assigned staff to provide confirmation to management that the report has been submitted.</i></li> </ul>	

**Matching**

*As a recipient of HOME grant funds, the City must have a process in place to identify, calculate, monitor and report eligible matching contributions of 25% of HOME funds spent each year. During the review period, the City experienced the departure of a key staff member. Unfortunately, this portion of the staff member’s duties was not appropriately re-assigned and the information was not collected. However, because HOME funds are primarily utilized for large affordable housing developments that have a range of funding sources that far exceed a match requirement, City staff believes this requirement was met. To ensure compliance with this requirement, the City will:*

- 1. Create procedures to appropriately track matching funds.
  - a. This includes working with grantees, when applicable, to ensure they submit confirmation of matching funds utilized in a funded project.**

**Anticipated date to complete the corrective action:** December 31, 2018

**Finding ref number:**

2017-003

**Finding caption:**

The City did not have adequate internal controls to ensure compliance with federal subrecipient monitoring, earmarking and reporting requirements.

**Name, address, and telephone of City contact person:**

Paula Barry, Accounting Services Division Manager  
747 Market Street; Suite 132  
Tacoma, WA 98402  
(253) 591-5247

**Corrective action the auditee plans to take in response to the finding:**

*City of Tacoma holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring the City has internal controls and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs. To achieve this, the City will take the following actions in each of the areas listed below:*

***Subrecipient Monitoring***

*Federal regulations require the City to include specific information within its contracts with subrecipients and to obtain the subrecipients DUNS numbers. To ensure the contracts include all required information and the DUNS numbers are obtained, the City will:*

- 1. Work with its attorneys to ensure all required items are included in applicable contracts templates.*

2. *Make the requirement of the DUNS number part of the contract requirements therefore gathering that information prior to fully executing a contract.*

**Earmarking**

*As a recipient of CDBG grant funds, the City must have a process in place to ensure that not less than 70 percent of the funds must be used over a period of one, two, or three years for activities that benefit low- and moderate-income persons. Although the City was in compliance with that requirement, controls were not in place to verify and document the review of the earmarking requirements. To ensure compliance with this requirement, the City will:*

3. *Create procedures to ensure to verify and document the review of the earmarking requirements.*
4. *Require the staff member responsible for this task to create a checklist to make sure all appropriate information is gathered and input into the system.*

**Reporting**

*As a recipient of CDBG grant funds, the City must file annually to the federal granting agency the HUD 60002, Section 3 Summary Report. To ensure compliance with this requirement, the City will:*

1. *Assign the responsibility of submitting the report to an appropriate staff member, and*
2. *Require the assigned staff to provide confirmation to management that the report has been submitted.*

**Anticipated date to complete the corrective action:** December 31, 2018

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>