



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

August 5, 2019

Mayor and City Council
City of Tacoma
Tacoma, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Rail division, a division of the City of Tacoma's Department of Public Utilities, for the fiscal year ended December 31, 2018. The City contracted with the CPA firm for this audit and requested we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

ANNUAL

TACOMA RAIL

2018

**FINANCIAL
REPORT**



Public Utility Board

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Chair

KAREN LARKIN

Vice-Chair

BRYAN FLINT

Secretary

MARK PATTERSON

Member

CHRISTINE COOLEY

Member

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Rail Superintendent

ANDREW CHERULLO

Finance Director

DEPARTMENT OF PUBLIC UTILITIES

CITY OF TACOMA

Report of Independent Auditors 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*

The Chair and Members of the Public Utilities Board
City of Tacoma, Washington, Department of Public Utilities, Rail Division
Tacoma, Washington

We have audited, in accordance with the 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 City of Tacoma, Department of Public Utilities, Rail Division (the Division), which comprise the statement of net position as of December 31, 2018, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 the entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the of City of Tacoma, Department of Public Utilities, Rail Division's financial statements are free from material misstatement, we performed tests of its 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, appearing to read "Moss Adams LLP", with a stylized flourish at the end.

Tacoma, Washington
May 28, 2019

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES

TACOMA RAIL

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FINANCIAL DATA

Report of Independent Auditors

The Chair and Members of the Public Utility Board
City of Tacoma, Department of Public Utilities, Rail Division
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Department of Public Utilities, Rail Division (the Division), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Tacoma, Department of Public Utilities, Rail Division as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the Rail Division adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective December 31, 2017. Financial statements as of and for the year ended December 31, 2017, have been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The statistical data on pages 39 through 49 and the superintendent's report on pages 50 through 51 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of City of Tacoma, Department of Public Utilities, Rail Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Mass Adams LLP

Tacoma, Washington
May 28, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of Tacoma Rail's financial performance provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

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

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of Tacoma Rail's assets and liabilities, with the difference between the two reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, capital and related financing, non-capital financing and investing activities.

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

Financial Highlights

Tacoma Rail continued to meet its goal of providing efficient, cost-effective rail service in its service territory. Doing so requires a continued investment in infrastructure and enforcing a disciplined tactical plan to respond to growth in local, national and world economies as they pertain to the rail industry.

The operating results for Tacoma Rail in 2018 indicate an increase in both intermodal and non-intermodal traffic. Tacoma Rail's agreement with the Union Pacific to assemble 10,000-foot intermodal trains on a daily basis proved a major success in 2018. An increase of more than 10,100 domestic intermodal railcars were handled by Tacoma Rail on behalf of Union Pacific. Unit trains were up versus the prior year, otherwise the commercial business was flat. Locomotive servicing revenues continue to

increase due to the inherent value the service provides to the Union Pacific and BNSF operations.

Overview of the Financial Statements

Tacoma Rail is reporting a change in net position of \$2.0 million in 2018, compared to (\$10.2) million in 2017, an increase of \$12.1 million. The increase in net position is predominately due to an increase of \$2.4 million in operating revenues, offset with a decrease of \$9.1 million in operating expenses, an increase of \$0.8 million in non-operating revenues, and an increase of \$76,000 in contributions.

In 2017, Tacoma Rail realized a change in net position of (\$10.2) million, compared to \$2.0 million in 2016, a decrease of \$12.1 million. The decrease in net position was due to a decrease of \$0.1 million in operating revenues, an increase of \$10.2 million in operating expenses, and a decrease in non-operating revenue of \$1.0 million. As a result of the implementation of GASB 75, the net OPEB Liability was restated and greatly contributed to the overall decrease in net position.

The following table highlights Tacoma Rail's past three years' operating results.

OPERATING RESULTS (in thousands)					
<u>Description</u>	<u>2018</u>	<u>2017 As Restated</u>	<u>2016</u>	<u>18/17 Increase (Decrease)</u>	<u>17/16 Increase (Decrease)</u>
Operating Revenues	\$ 33,165	\$ 30,717	\$ 30,827	\$ 2,448	\$ (110)
Operating Expenses	29,786	38,837	28,608	(9,051)	10,229
Operating Income (Loss)	3,379	(8,120)	2,219	11,499	(10,339)
Net Non-Operating Revenues	1,215	458	1,425	757	(967)
Contributions	112	36	939	76	(903)
Transfers Out	(2,751)	(2,549)	(2,591)	(202)	42
Change in Net Position	\$ 1,955	\$ (10,175)	\$ 1,992	\$ 12,130	\$ (12,167)

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

As a result of the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Net OPEB Obligation was replaced by the Total OPEB Liability resulting in a restatement of the December 31, 2017 net position in the amount of \$9.3 million.

STATEMENTS OF NET POSITION
(in thousands)

<u>Description</u>				18/17	17/16
	<u>2018</u>	<u>2017</u> <u>As Restated</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Capital Assets (Net)	\$ 26,113	\$ 26,706	\$ 28,217	\$ (593)	\$ (1,511)
Current and Other Assets	18,694	13,964	14,026	4,730	(62)
Deferred Outflows	994	114	-	880	114
Total Assets and Deferred Outflows	\$ 45,801	\$ 40,784	\$ 42,243	\$ 5,017	\$ (1,459)
Invested in Capital Assets, Net of Related Debt	\$ 20,890	\$ 20,662	\$ 22,003	\$ 228	\$ (1,341)
Restricted Net Position	-	-	65	-	(65)
Unrestricted Net Position	(76)	(1,803)	6,966	1,727	(8,769)
Total Net Position	20,814	18,859	29,034	1,955	(10,175)
Long-Term Debt	4,403	5,223	5,397	(820)	(174)
Current Liabilities	3,421	2,241	3,794	1,180	(1,553)
Long-Term Liabilities	16,873	14,461	4,018	2,412	10,443
Total Liabilities	24,697	21,925	13,209	2,772	8,716
Deferred Inflows	290	-	-	290	-
Total Net Position, Liabilities and Deferred Inflows	\$ 45,801	\$ 40,784	\$ 42,243	\$ 5,017	\$ (1,459)

Revenues

2018 Compared to 2017

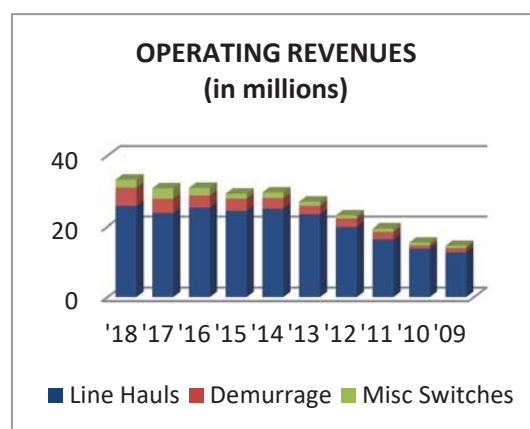
In 2018, Tacoma Rail operating revenues of \$33.2 million were \$2.5 million higher than the \$30.7 million in 2017. Overall switching revenues increased \$1.3 million (4.8%), from 2017. The following table summarizes the switching revenues by activity type for the last two years.

Activity Types	Rail Cars				Switching Revenues (in thousands)			
	2018	2017	Var	%Chg	2018	2017	Var	%Chg
Intermodal Line Hauls	66,661	61,300	5,361	8.7%	\$ 11,265	\$ 10,544	721	6.8%
Commercial Line Hauls	28,264	27,762	502	1.8%	14,029	12,875	1,154	9.0%
Capital Div. Line Hauls	753	686	67	9.8%	419	286	133	46.5%
Miscellaneous Switches	13,041	17,382	(4,341)	-25.0%	2,220	2,944	(724)	-24.6%
Total Line Hauls	108,719	107,130	1,589	1.5%	\$ 27,933	\$ 26,649	\$ 1,284	4.8%

Demurrage and other operating revenues increased \$1.2 million. Demurrage revenue increased by \$218,000 and locomotive servicing revenue and other revenue increased \$1.0 million. This is due to increased locomotive servicing, increase in fuel price and allowing customers railcars to dwell in transit longer than in 2017.

2017 Compared to 2016

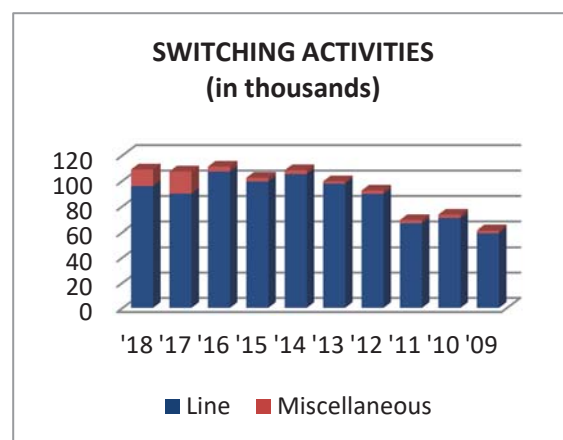
In 2017, Tacoma Rail operating revenues of \$30.7 million were \$0.1 million lower than the \$30.8 million in 2016. Overall switching revenues decreased \$0.8 million (2.8%), from 2016.



Switching Activities

Switching activities increased in 2018 by 1,589 cars (1.5%) to 108,719, from 107,130 in 2017. The most significant increase in switching activity can be seen in intermodal line-hauls which were up by 5,361 cars (8.7%) due to an increase in intermodal line haul rail traffic. The average number of cars switched over the last ten years is 93,162.

During 2017, total switching activities decreased by 3,792 cars (3.4%) from 2016. The decrease in intermodal line haul rail traffic was the dominant factor. Intermodal line-hauls were down by 15,414 cars (20.1%) in 2017.



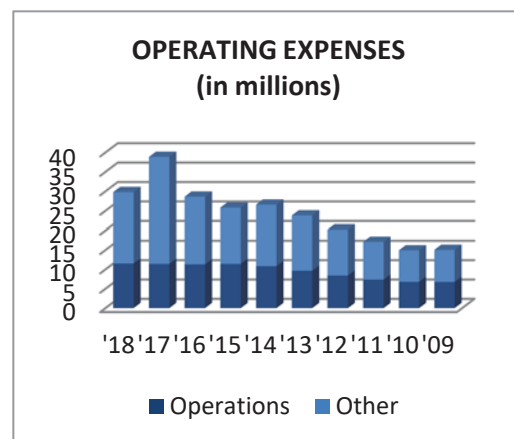
The table below shows the changes in switching volumes for the last three years.

SWITCHING ACTIVITIES			18/17	17/16
			Increase	Increase
<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Line Hauls	95,678	89,748	5,930	(17,311)
Miscellaneous Switches	13,041	17,382	(4,341)	13,519
Total Cars Switched	108,719	107,130	1,589	(3,792)

Expenses

2018 Compared to 2017

In 2018, Tacoma Rail operating expenses of \$29.8 million were \$9.0 million lower than the \$38.8 million in 2017. Repair and maintenance materials and services increased \$2.4 million due to more heavy track maintenance activities. An increase in fuel prices of \$0.6 million also contributed to higher expenses. These increases were off-set with IBNR claims credit adjustment of \$1.7 million and a decrease in volume incentive of \$1.0 million. Due to the implementation of GASB 75 in 2017, Administration expenses decreased \$12.7 million in 2018.



2017 Compared to 2016

In 2017, Tacoma Rail operating expenses of \$38.8 million were \$10.2 million higher than the \$28.6 million in 2016. This was primarily due to an increase of \$0.4 million in salaries and wages, an increase of \$0.4 million in supplies and expenses, and the implementation of GASB 75 in the amount of \$9.3 million. Depreciation also increased \$0.1 million due to an increase in depreciable assets compared to the same period.

Capital Assets

Total Capital Assets decreased \$0.6 million during 2018. The decrease was primarily due to the accumulated depreciation of \$1.7 million off-set with the additions of \$0.6 million in road and equipment property in service and \$0.5 million of new activity in Construction Work In Progress. \$0.6 million additions included the new railroad at-grade crossing on Alexander Ave, including a new switch and lead, to accommodate secondary access into the future Wallenius Wilhelmsen Logistics auto terminal facility. In 2018, Construction Work in Progress additions were \$1.1 million versus \$0.8 million in 2017.

During 2017, total Capital Assets decreased \$1.5 million. This decrease was reflected primarily in \$1.0 million in retirements and a decrease in the amount of new activity in Construction Work in Progress. Road property plant increased \$1.2 million for track upgrades and rehabilitation projects such as Taylor Way Wye Track, Transfer Yard Connection and West End Configuration.

The following table summarizes Tacoma Rail's capital assets, net of accumulated depreciation, for the last three years.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
(in thousands)

<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>18/17</u>	<u>17/16</u>
				<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Land	\$ 160	\$ 160	\$ 167	\$ -	\$ (7)
Road Property Plant	15,733	16,165	14,928	(432)	1,237
Building	1,772	1,932	2,040	(160)	(108)
Machinery Equipment	7,649	8,176	8,702	(527)	(526)
Office and Fixture	64	95	126	(31)	(31)
Construction Work In Progress	735	178	2,254	557	(2,076)
Total Net Capital Assets	<u>\$ 26,113</u>	<u>\$ 26,706</u>	<u>\$ 28,217</u>	<u>\$ (593)</u>	<u>\$ (1,511)</u>

Additional information on Tacoma Rail's capital assets can be found in Note 4 to the Financial Statements.

Debt Administration

In 2018, no new Washington State loans from the Department of Transportation were obtained.

In 2017, no new Washington State loans from the Department of Transportation were obtained for Tacoma Rail. Draws were taken in 2017 on Transfer Yard Connection (Phase 3), West Lead High Side Rebuild and Taylor Wye Rehabilitation in the amounts of \$33,821, \$369,519 and \$311,457 respectively.

The following table shows the outstanding long-term debt balances for the past three years. Additional information on Tacoma Rail's long-term debt can be found in Note 5 to the Financial Statements.

LONG-TERM DEBT
(in thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>18/17</u>	<u>17/16</u>
				<u>Increase</u> <u>(Decrease)</u>	<u>Increase</u> <u>(Decrease)</u>
Long-Term Debt Balance, December 31	\$5,223	\$6,044	\$6,213	(\$821)	(\$169)

Debt Service Coverage

Tacoma Rail is required by its bond covenants to maintain a 1.25 times debt service coverage. In 2018 and 2017, Tacoma Rail had no bonds, only interest free loans. In 2016, principal and interest were covered 19.68 times.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray Tacoma Rail's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information.

The financial statements have been independently audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

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

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF NET POSITION

	DECEMBER 31,	
	2018	2017 (As Restated)
ASSETS		
CAPITAL ASSETS		
Road and Equipment Property	\$47,174,783	\$46,585,758
Less Accumulated Depreciation	(21,796,237)	(20,058,523)
Total	25,378,546	26,527,235
Construction Work in Progress	734,853	178,476
Net Capital Assets	26,113,399	26,705,711
CURRENT ASSETS		
Cash & Equity in Pooled Investments	12,686,178	8,729,263
Customer Accounts Receivable	3,472,293	3,222,019
(Net of Allowance for Doubtful Accounts of \$163,474 in 2018 and \$157,883 in 2017)		
Interfund Receivable	16,786	157,958
Prepayments	1,305,685	688,313
Materials and Supplies Inventory	1,212,852	1,166,772
Total Current Assets	18,693,794	13,964,325
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for OPEB	993,546	114,073
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$45,800,739	\$40,784,109

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

	DECEMBER 31,	
	2018	2017 (As Restated)
NET POSITION AND LIABILITIES		
NET POSITION		
Net Investment in Capital Assets.....	\$20,889,915	\$20,661,984
Unrestricted	(76,202)	(1,803,072)
TOTAL NET POSITION	20,813,713	18,858,912
LONG-TERM DEBT, NET OF CURRENT MATURITIES		
State Loans.....	4,403,234	5,223,477
Total Long-Term Debt	4,403,234	5,223,477
CURRENT LIABILITIES		
Accounts Payable	1,273,977	753,674
Wages Payable and Compensated Absences	373,678	315,741
Unemployment and Other Tax Payables	334,953	289,858
Volume Incentive Payable	291,668	-
Current Portion of Long-Term Debt	820,250	820,250
Interfund Payable	326,936	60,733
Total Current Liabilities	3,421,462	2,240,256
LONG-TERM LIABILITIES		
On the Job Injury Reserve	810,912	829,761
Long-Term Portion of Compensated Absences	1,064,965	1,011,762
Pension Withdrawal Liability	2,320,000	-
OPEB Liability	12,179,967	11,048,417
Incurred but not Reported Claims	496,684	1,571,524
Total Long-Term Liabilities	16,872,528	14,461,464
TOTAL LIABILITIES	24,697,224	21,925,197
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows for OPEB	289,802	-
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS		
	<u>\$45,800,739</u>	<u>\$40,784,109</u>

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CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	YEAR ENDED DECEMBER 31,	
	2018	2017 (As Restated)
OPERATING REVENUES		
Switching Revenues	\$27,933,469	\$26,648,873
Demurrage and Other Operating Revenues	5,231,761	4,068,008
Total Operating Revenues	33,165,230	30,716,881
OPERATING EXPENSES		
Maintenance of Way and Structures	3,358,643	2,202,950
Mechanical	7,505,089	5,227,384
Operations	11,517,919	11,429,489
Administration	5,201,024	17,901,356
Taxes - State	465,808	432,081
Depreciation	1,737,714	1,644,373
Total Operating Expenses	29,786,197	38,837,633
Net Operating Income	3,379,033	(8,120,752)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	152,072	68,420
Loss from Disposition of Property	-	(649,715)
Miscellaneous	1,062,250	1,039,772
Interest Expense	-	(6)
Total Non-Operating Revenues	1,214,322	458,471
Contributions - Grants	112,306	-
Contributions - Others	-	36,254
Total Contributions	112,306	36,254
Transfers		
City of Tacoma Gross Earnings Tax	(2,750,860)	(2,548,959)
Total Transfers	(2,750,860)	(2,548,959)
CHANGE IN NET POSITION	1,954,801	(10,174,986)
TOTAL NET POSITION - BEGINNING OF YEAR	18,858,912	29,033,898
TOTAL NET POSITION - END OF YEAR	<u>\$20,813,713</u>	<u>\$18,858,912</u>

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

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

STATEMENTS OF CASH FLOWS

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from Customers	\$33,056,128	\$30,469,510
Cash Paid to Suppliers	(7,679,348)	(11,134,999)
Cash Paid to Employees	(17,609,274)	(15,866,186)
Taxes Paid	(420,713)	(432,233)
Net Cash From Operating Activities	7,346,793	3,036,092
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	(2,750,860)	(2,548,959)
Net Cash From Financing Activities	(2,750,860)	(2,548,959)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures, Net	(1,145,403)	(133,340)
Principal Payments on Long-Term Debt	(820,243)	(884,488)
Interest Paid	-	(872)
Proceeds from Capital Contributions	112,306	36,254
Proceeds from Long-Term Debt	-	714,797
Proceeds from Other Non-Operating Revenues	1,062,250	390,057
Net Cash Used in Capital and Related Financing Activities	(791,090)	122,408
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	152,072	68,420
Net Cash From Investing Activities	152,072	68,420
Net Increase (Decrease) in Cash and Equity in Pooled Investments	3,956,915	677,961
Cash & Equity in Pooled Investments at January 1	8,729,263	8,051,302
Cash & Equity in Pooled Investments at December 31	<u>\$12,686,178</u>	<u>\$8,729,263</u>

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

	YEAR TO DATE	
	DECEMBER 31, 2018	DECEMBER 31, 2017 (As Restated)
Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities:		
Operating Income	\$3,379,033	(\$8,120,752)
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities:		
Depreciation	1,737,714	1,644,373
Other Contingent Liability	2,320,000	-
Net OPEB Liability (credit)	541,879	9,932,455
Cash provided from changes in operating assets and liabilities:		
Accounts Receivable	(250,274)	(88,740)
Interfund Receivable	141,172	(148,131)
Materials and Supplies Inventory	(46,079)	(142,439)
Prepayments	(617,372)	1,118,897
Accounts Payable	520,303	(132,016)
Customer Deposits	-	(10,500)
Unemployment and other Tax Payables	45,095	(152)
Wages Payable and Compensated Absences.....	57,937	35,919
Volume Incentive Payable	291,668	(1,249,999)
Interfund Payable	266,203	(199,785)
Long-Term Portion of Compensated Absences	53,203	8,118
On the Job Injury Reserve	(18,849)	56,354
Incurred but not Reported Claims	(1,074,840)	332,490
Total Adjustments	3,967,760	11,156,844
Net Cash From Operating Activities	<u>\$7,346,793</u>	<u>\$3,036,092</u>

**CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1 OPERATIONS

OPERATIONS OF TACOMA RAIL - Tacoma Rail (the Division) is a division of the City of Tacoma, Department of Public Utilities, which also operates the Power and the Water Divisions and is included as an enterprise fund in the Comprehensive Annual Financial Report (CAFR) of the City. Tacoma Rail provides rail switching services to the Port of Tacoma and major Tacoma industries under its Tidelands Division. Tacoma Rail also provides rail service from its Capital Division. The Capital Division interchanges rail cars with BNSF in East Olympia. No traffic for the Capital Division enters Tacoma Rail's Tidelands infrastructure. In addition, Tacoma Rail manages the Mountain Division which is a reporting unit within Public Works and is included in the City's CAFR. Tacoma Rail is reimbursed for direct expenses. An operating agreement between Tacoma Rail and the Mountain Division is in place through 2019.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with GAAP issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

CHANGE IN ACCOUNTING PRINCIPLE – Effective for the fiscal year 2018, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. Specifically, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. Requirements were also established for note disclosures and required supplemental information. The Division has made the required adjustments as prescribed by GASB Statement No. 75. As a result of this implementation the Net OPEB Obligation was replaced by the total OPEB Liability resulting in a restatement of the December 31, 2017 balances. For further information please see Note 12 Restatements of 2017 Balances.

GASB Statement No. 85 – *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (both pensions and other postemployment benefits other than pensions). Where applicable, the Division has made the required adjustments as prescribed by GASB Statement No. 85.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which existing resources are placed into an irrevocable trust for the sole purpose of extinguishing debt. It improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and improves the required note disclosures for debt that is defeased in substance. The Division has made the required adjustments as prescribed by GASB Statement No. 86.

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

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in certificates of deposit with East West Bank, Opus Bank and Home Street Bank.

The Division's equity in that portion of City Tacoma Investment Pool held in qualified public depositories at December 31, 2018 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to \$250,000. All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

CUSTOMER ACCOUNTS RECEIVABLE - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally accounts receivable are considered past due after 30 days.

INTERFUND TRANSACTIONS - Unsettled transactions between funds at year-end are recorded as due to or due from other funds.

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

SPECIAL FUNDS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. As of fiscal year end 2018, there were zero funds in special funds.

CAPITAL ASSETS AND DEPRECIATION – Capital assets are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method at the beginning of the year and based on estimated economic lives of operating assets placed in service as follows:

Roads RR & bridges	7 – 20 years
Building	10 – 25 years
Machinery Equipment	10 – 25 years
Office and Fixture	5 – 20 years

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

CONTRIBUTIONS - In accordance with Generally Accepted Accounting Principles, Accounting and Financial Reporting for Non-exchange Transactions, grants and contributions are recorded as contribution revenue.

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

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

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

OPERATING REVENUES - Service rates are authorized by the Tacoma City Council. Revenues are recognized as earned and include an estimate of revenue earned but not billed to customers as of year-end. Revenues are based on services rendered through the end of the year.

NON-OPERATING REVENUES AND EXPENSES - These are items that do not qualify as operating defined above.

TAXES – The City charges the Division Gross Earnings Tax at the rate of 8.0%. In addition, the Division pays business and occupation tax to the State at the rate of 1.5% on service revenues. The Division is exempt from payment of federal income tax.

NET POSITION – The Statement of Net Position reports all financial and capital resources. The difference between assets and deferred outflows and liabilities and deferred inflows is net position. There are three components of net position: net investment in capital assets, restricted and unrestricted.

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

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

Unrestricted net position components are those that are not “net investment in capital assets” or “restricted”.

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

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

ON THE JOB INJURY RESERVE - Liabilities for claims are initially recorded when the expected loss is both probable and reasonably estimated. Subsequent adjustments to initial estimates are recorded as necessary based upon additional information developed in subsequent periods. Liabilities recorded for unasserted on the job injury claims are based on information currently available. Estimates of liabilities for on the job injury claims are undiscounted.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, general economic conditions, fuel supply availability and rising fuel prices, weather and natural disaster-related disruptions, collective bargaining labor disputes, federal government regulations such as Federal Railroad Administration and Environmental Protection Agency or orders concerning the operation, maintenance and/or licensing of facilities, transportation of chemicals and other hazardous materials, acts of terrorism, war, or risk of war.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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.
- 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.

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 below:

	As of			
Debt Securities	12/31/2018	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 282,822,308	\$ -	\$ 282,822,308	\$ -
U.S. Agency Securities	447,015,280	-	447,015,280	-
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Corporate Securities	24,607,491	-	24,607,491	-
	<u>\$ 810,007,826</u>	<u>\$ -</u>	<u>\$ 810,007,826</u>	<u>\$ -</u>

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

Tacoma Rail's share of the City Investments shown in the table above is 1.20% and 0.94% as of December 31, 2018 and 2017.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2018 and 2017 follows:

	Balance December 31, 2017	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2018
Land	\$ 160,456	\$ -	\$ -	\$ -	\$ 160,456
Road Property Plant	28,421,562	589,025	-	-	29,010,587
Building	4,504,209	-	-	-	4,504,209
Machinery Equipment	12,813,816	-	-	-	12,813,816
Office and Fixture	685,715	-	-	-	685,715
Total Capital Asset In Service	46,585,758	589,025	-	-	47,174,783
Less Accumulated Depreciation	(20,058,523)	(1,737,714)	-	-	(21,796,237)
	26,527,235	(1,148,689)	-	-	25,378,546
Construction Work in Progress	178,476	1,148,422	-	(592,045)	734,853
Net Capital Assets	<u>\$ 26,705,711</u>	<u>\$ (267)</u>	<u>\$ -</u>	<u>\$ (592,045)</u>	<u>\$ 26,113,399</u>

	Balance December 31, 2016	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2017
Land	\$ 167,256	\$ -	\$ -	\$ (6,800)	\$ 160,456
Road Property Plant	26,685,617	2,818,803	(1,082,858)	-	28,421,562
Building	4,457,044	40,003	-	7,162	4,504,209
Machinery Equipment	12,814,201	-	-	(385)	12,813,816
Office and Fixture	685,642	-	-	73	685,715
Total Capital Asset In Service	44,809,760	2,858,806	(1,082,858)	50	46,585,758
Less Accumulated Depreciation	(18,847,293)	(1,644,373)	433,143	-	(20,058,523)
	25,962,467	1,214,433	(649,715)	50	26,527,235
Construction Work in Progress	2,254,277	798,362	-	(2,874,163)	178,476
Net Capital Assets	<u>\$ 28,216,744</u>	<u>\$ 2,012,795</u>	<u>\$ (649,715)</u>	<u>\$ (2,874,113)</u>	<u>\$ 26,705,711</u>

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 LONG-TERM DEBT

Long-term debt activities for 2018 and 2017 were as follows:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Department of Transportation State Loans	6,043,727	-	(820,243)	5,223,484	820,250
Total Long-Term Debt	<u>\$ 6,043,727</u>	<u>\$ -</u>	<u>\$ (820,243)</u>	<u>\$ 5,223,484</u>	<u>\$ 820,250</u>

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Revenue Bonds	\$ 64,238	\$ -	\$ (64,238)	\$ -	\$ -
Department of Transportation State Loans	6,149,180	714,797	(820,250)	6,043,727	820,250
Total Long-Term Debt	<u>\$ 6,213,418</u>	<u>\$ 714,797</u>	<u>\$ (884,488)</u>	<u>\$ 6,043,727</u>	<u>\$ 820,250</u>

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

JUNIOR LIEN DEBT

**Washington State Department of Transportation Loans
(WSDOT)**

	2018	2017
2009 WSDOT loan for locomotive idling improvement, with 0% interest, due in yearly installments of \$1,759 from 2010 through 2024	10,554	12,313
2009 WSDOT loan for locomotive servicing facility upgrades, with 0% interest, due in yearly installments of \$16,630 from 2011 through 2025	116,412	133,042
2011 WSDOT loan for locomotive repower, with 0% interest, due in yearly installments of \$45,000 from 2013 through 2022	180,000	225,000
2012 WSDOT loan for Tacoma Rail Annie Tracks 1&2 Rail Relay, with 0% interest, due in yearly installments of \$61,200 from 2013 through 2022	244,800	306,000
2012 WSDOT loan for Yard Tracks 2, 3 & 4, with 0% interest, due in yearly installments of \$34,859 from 2013 through 2022	139,437	174,296
2013 WSDOT loan for East 11th Street Crossing, with 0% interest, due in yearly installments of \$34,732 from 2014 through 2023	173,660	208,392
2013 WSDOT loan for Yard Tracks 5 & 6, with 0% interest, due in yearly installments of \$36,394 from 2014 through 2023	181,968	218,362
2013 WSDOT loan for Yard Tracks 8 & 9, with 0% interest, due in yearly installments of \$61,863 from 2015 through 2024	371,174	433,037
2013 WSDOT loan for Port Pass West, with 0% interest, due in yearly installments of \$25,000 from 2015 through 2024	149,997	174,997
2013 WSDOT loan for N. Intermodal Yard lead track, with 0% interest, due in yearly installments of \$36,639 from 2016 through 2025	256,470	293,109
2013 WSDOT loan for East Loop 17th St., with 0% interest, due in yearly installments of \$77,307 from 2016 through 2025	541,149	618,456
2013 WSDOT loan for Taylor Way Track Rehabilitation, with 0% interest, due in yearly installments of \$110,506 from 2016 through 2025	773,540	884,046
2013 WSDOT loan for West Loop, with 0% interest, due in yearly installments of \$51,577 from 2016 through 2025	361,039	412,616
2014 WSDOT loan for SR509 Track Improvements, with 0% interest, due in yearly installments of \$91,000 from 2016 through 2025	637,005	728,005
2015 WSDOT loan for Edwards Crossover Rehabilitation, with 0% interest, due in yearly installments of \$12,112 from 2017 through 2026	96,896	109,007
2015 WSDOT loan for East Lead Low Side Rebuild, with 0% interest, due in yearly installments of \$40,574 from 2017 through 2026	324,599	365,171

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Junior Lien Debt continued	2018	2017
2015 WSDOT loan for Transfer Yard Connection (Phase 3), with 0% interest, due in yearly installments of \$15,000 from 2017 through 2026	120,000	135,000
2015 WSDOT loan for West Lead High Side Rebuild, with 0% interest, due in yearly installments of \$36,952 from 2017 through 2026	295,617	332,567
2015 WSDOT loan for Taylor Wye Rehabilitation, with 0% interest, due in yearly installments of \$31,146 from 2017 through 2026	249,167	280,311
Subtotal Junior Lien Debt	5,223,484	6,043,727
Less Current Portion of Debt	(820,250)	(820,250)
Long-term Portion of Junior Lien Debt	<u>\$ 4,403,234</u>	<u>\$ 5,223,477</u>

Scheduled principal maturities on junior lien debts and interest payments are as follows:

	Principal	Interest
2019	\$ 820,250	\$ -
2020	\$ 820,250	\$ -
2021	\$ 820,250	\$ -
2022	\$ 820,250	\$ -
2023	\$ 694,183	\$ -
2024-2026	\$ 1,248,301	\$ -
	<u>\$ 5,223,484</u>	<u>\$ -</u>

Tacoma Rail's revenue bonds are secured by the net revenue of Tacoma Rail and all cash and investments held in the bond fund. The junior lien debt is subject to certain financial and non-financial covenants.

NOTE 6 SIGNIFICANT CUSTOMER

Tacoma Rail's predominate sources of revenue are Union Pacific (UP) and Burlington Northern Santa Fe (BNSF). Revenue from UP and BNSF represented 34% and 42% of total revenues, respectively, in 2018. Revenue in 2017 was 32% and 46%, respectively. Accounts receivable from UP and BNSF in 2018 represented 35% and 44% of total customer accounts receivable, respectively. Accounts receivable in 2017 was 37% and 35%, respectively.

NOTE 7 FLEET SERVICES FUND

The Department of Public Utilities has established a Fleet Services Fund to perform scheduled maintenance, repair and replacement of the Department vehicles and related equipment. Tacoma Rail pays the Fleet Services Fund for the use of the vehicles and equipment to cover fleet operating expenses. Payments made by Tacoma Rail in 2018 and 2017 were \$627,082 and \$526,433, respectively.

NOTE 8 SELF-INSURANCE FUND

The Department of Public Utilities maintains a self insurance program and insurance policies. The Department has established a self-insurance fund to insure Tacoma Rail and other divisions within the Department for certain losses arising from personal and property damage claims by third parties. The major risks to Tacoma Rail are flooding, wind damage, chemical spills and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

Tacoma Rail is required to make payments to the Self-Insurance Fund to cover claims incurred by Tacoma Rail and administrative expenses of the Fund. Tacoma Rail's premium payments totaled \$600,000 in 2018 and \$266,667 in 2017. Assets in the Self-Insurance Fund total \$7.9 million which exceeds accrued and incurred but not reported (IBNR) liabilities. Equity in the Self-Insurance Fund is transferred to the appropriate operating divisions in accordance with GASB 10. Management believes Tacoma Rail's investment in the Self-Insurance Fund is more than adequate to settle all its known or estimated claims.

The City purchased a \$15 million Fiduciary Liability Policy with a \$100,000 deductible that provides for wrongful acts arising out of the administration of the City's employee benefit programs and a Crime policy with a \$1 million limit and \$75,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities and property.

Other insurance policies presently in effect include coverage on the Department's buildings and fleet vehicles as well as general liability and public official's liability. The current property insurance policy has a deductible of \$250,000 for buildings and property within buildings and \$10,000 per vehicle. General government obtains coverage on general government's buildings and property within buildings with a limit of \$500,000 and a retention of \$150,000 with exceptions. For the Department, there is a self-insured retention of \$1.5 million for general liability. The public official liability policy has a \$250,000 deductible. The Department's total liability limit is \$60 million any one occurrence and \$60 million annual aggregate.

The general government general liability and public official liability policies provide \$20 million of excess coverage with a \$3 million retention. The City has a policy to cover extraordinary worker's compensation claims with a statutory limit and a self-insured retention of \$1 million per occurrence and an additional \$250,000 for each 12 month policy period.

NOTE 9 PENSION PLAN

Employees of Tacoma Rail are members of the United States Railroad Retirement System, in lieu of participating in Social Security and Tacoma Employees' Retirement System. The Railroad Retirement System is a payroll-based system. In 2018 and 2017, Tacoma Rail contributed \$2,169,591 and \$2,140,844 respectively, per structures set forth by the United States Railroad Retirement Board shown as follows:

	<u>EARNINGS BASE</u>	
	<u>2018</u>	<u>2017</u>
Employer Tier I	\$ 128,400	\$ 127,200
Employer Tier II	95,400	94,500
Employer Medicare	No Limit	No Limit
	<u>TAX RATE</u>	
	<u>2018</u>	<u>2017</u>
Employer Tier I	6.20%	6.20%
Employer Tier II	13.10%	13.10%
Employer Medicare	1.45%	1.45%

Information was unavailable to determine if an actuarial liability exists for the City, but the entire Federal system has an unfunded actuarial liability of \$51.3 billion as of December 31, 2016. There is currently no schedule to amortize the unfunded liability and the system is currently functioning on a pay-as-you-go basis. Rates are determined based on actuarial valuations, which occur every three years. The City's obligation is to pay, in full, the payroll withholdings to the system.

NOTE 10 WESTERN METAL INDUSTRY PENSION FUND

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

In 2018, Rail Mechanics and Rail Track Workers elected to withdraw from the Plan effective December 31, 2018. Rail Yard Clerks are the only remaining members for the Rail Division. The Collective Bargaining Unit Agreement between the City of Tacoma and the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma Yard Clerk Unit is effective through December 31, 2019. For the year ending December 31, 2018 the Rail Division had 26 employees participating in the Plan. Effective, January 1, 2019, five Tacoma Rail employees will remain in the Plan. The Trustees have adopted the "free look" rule set forth in subsection 4210(a) of ERISA related to withdrawal liabilities. Please see Note 12 Commitments and Contingencies for further information regarding the withdrawal.

Information was unavailable to determine if an actuarial liability exists for the City in 2018, however, the Plan was in "critical" status in the Plan Year ended December 31, 2017. The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010 and subsequently updated it on July 24, 2012 and December 9, 2016.

The Rehabilitation Plan consists of reductions in adjustable benefits including early retirement benefits and retirement payment options, and contribution increases of 16% per year for up to 11 years over the current contribution level. These contribution increases do not translate into additional benefit accruals but instead are directed solely toward improving the Plan's funded status.

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

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

The contributions rates for 2017 and 2018 by classification were as follows:

	Contribution Rates		
	July 1, 2016 - June 30, 2017	July 1, 2017 - June 30, 2018	July 1, 2018 - June 30, 2019
Mechanics	\$229.60 every two weeks	\$252 every two weeks	\$274.40 every two weeks
Track Workers	6.56% of gross wages	7.20% of gross wages	\$213.64 per pay period
Yard Clerks	\$1.26 per compensable hour	\$1.37 per compensable hour	\$1.48 per compensable hour

In 2017 and 2018 Tacoma Rail contributed \$132,371 and \$143,604, respectively.

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

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Benefits payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2017 for non-LEOFF 1 members includes 3,490 active participants, 476 deferred retirees, 150 retirees, and 105 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 retirees.

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

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS - The Valuation Date is January 1, 2017 for non-LEOFF 1 members and January 1, 2018 for LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement Date is December 31, 2017. This is the date as of which the total OPEB liability is determined. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2017 and January 1, 2018 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date: January 1, 2017
Census Date: January 1, 2017
Actuarial Cost Method: Individual Entry Age Normal Cost Method
Demographic Assumptions: Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate: 3.44% for pay-as-you-go funding

Medical Cost Trend:

2017	9.10%
2018	6.40%
2019	5.80%
2020	5.30%
2030	5.40%
2040	5.50%
2050	5.20%

Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -
Discount Rate (Liabilities):

3.44%

Demographic Assumptions:

Eligibility:

Disability - Five years of service are required for non-service connected disability.

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

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

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

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

Rail - Certain Rail employees and their spouses are entitled to employer-paid retiree medical benefits until age 65 when retiring at age 60 with 30 years of service.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

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

CHANGES OF ASSUMPTIONS – The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOW OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2018 the Division reporting a liability of \$12,179,967 for its proportionate share of the collective total OPEB liability of \$220.8 million. The OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017. At December 31, 2016 the participating Division's proportion was 5.28058% as compared to 5.51599% at December 31, 2017. For the year ended December 31, 2018 Tacoma Rail recognized an OPEB expense of \$541,879.

At December 31, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ -
Changes of assumptions	-	417,842
Changes in Employer Proportion	-	411,797
Differences in Contributions	(289,802)	-
Contributions Made Subsequent to the Measurement Date	-	163,907
Total	\$ (289,802)	\$ 993,546

The Division reported \$163,907 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	\$ 137,569
2020	\$ 137,569
2021	\$ 137,569
2022	\$ 137,569
2023	\$ 137,569
Thereafter	\$ 13,754
	<u>\$ 701,599</u>

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

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.44%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.44%) or one percentage point higher (4.44%) than the current rate.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

	1% Decrease 2.44%	Current Discount Rate 3.44%	1% Increase 4.44%
Net OPEB liability	\$ 13,851,142	\$ 12,179,967	\$ 10,794,564

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

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

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB liability	\$10,717,322	\$ 12,179,967	\$ 13,930,805

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.

GASB Statement No. 75, indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

There is significant uncertainty with respect to the excise tax at this time. President Trump recently signed an executive order which gives instruction to the leaders of the new administration to unwind certain aspects of the ACA, especially those components deemed "burdensome." It remains unclear how this would be implemented, especially due to the interconnected nature of the ACA. The City has continued to value the excise tax as it currently appears in the tax code, but will monitor this situation carefully going forward.

NOTE 12 RESTATEMENTS OF 2017 BALANCES

Due to the Divisions adoption of GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, the 2017 financial statements and its net position as of December 31, 2017 were restated to conform to the reporting requirements.

TACOMA RAIL NOTES TO FINANCIAL STATEMENTS (continued)

Revised balances are shown in the following schedule:

	As Previously Reported	Restatement Adjustment	As Restated
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows for OPEB	\$ -	\$ 114,073	\$ 114,073
NONCURRENT LIABILITIES			
OPEB Liability	1,625,881	9,422,536	11,048,417
NET POSITION - End of year	28,167,375	(9,308,463)	18,858,912
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Administration	\$ 8,592,893	\$ 9,308,463	\$ 17,901,356

NOTE 13 COMMITMENTS AND CONTINGENCIES

CLAIMS STEMMING FROM THE AMTRAK DERAILMENT ON DECEMBER 18, 2017, IN DUPONT, WASHINGTON:

Five individuals filed claims and all were denied, for an unspecified amount for alleged damages arising from a derailment of an Amtrak passenger train in DuPont, Washington on December 18, 2017. It is alleged that Tacoma Rail owned, planned, built, financed, approved, inspected, maintained or repaired the tracks. To date, no lawsuits have been filed. Amtrak has agreed to indemnify Tacoma Rail and has accepted Tacoma Rail's tender of these claims.

GENERAL LEGAL MATTERS - Tacoma Rail is involved in various litigations in the normal course of business. In the opinion of management, the ultimate outcome of these claims will not have a material effect on Tacoma Rail's financial position beyond amounts already accrued as of December 31, 2018.

TACOMA RAIL OPERATION OF CITY OF TACOMA, DEPARTMENT OF PUBLIC WORKS ("PUBLIC WORKS"), MOUNTAIN DIVISION - Public Works owns approximately 142 miles of track, called Mountain Division, that connects to Tacoma Rail track in Tacoma, Washington. Tacoma Rail is under contract with Public Works to perform as its operator through 2019. The agreement states that Public Works would fund Tacoma Rail for any operations on the Mountain Division.

WESTERN METAL INDUSTRY PENSION FUND (WMIPF) WITHDRAWAL

On December 11, 2018 the Tacoma City Council approved the collective bargaining agreements for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma Rail Mechanics and Track Workers. Contained in these agreements were a call for cessation of the participation in the Western Metal Industry Pension Fund (WMIPF). The contributions submitted for the December 31, 2018, payroll was the final contributions made on behalf of the employees in those two units.

WMIPF remains in “critical” status in the Plan Year ended December 31, 2017 after being certified as “critical” in the 2010 Plan Year. WMIPF provided the City of Tacoma with a Partial Withdrawal Liability Estimate for the Rail Mechanics and Track Workers. Because the withdrawal of these two bargaining units constitutes a partial withdrawal of the City of Tacoma controlled group, a final partial withdrawal liability assessment cannot be completed until made available by WMIPF in 2020. The cause of the delay is due to the calculation requiring the use of contributory base unit data for the 2019 Plan Year.

The Rail Division has recognized a Partial Withdrawal Liability in the amount of \$2,320,000 as the expected loss is both probable and reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2018	2017
Employer's proportion of the collective OPEB liability as a percentage	5.52%	5.28%
Employer's proportion share of collective OPEB liability	\$12,179,967	\$11,048,417
Employer's covered-employee payroll	\$11,191,578	\$11,033,203
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	108.83%	100.14%

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

**Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2018**

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

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

Changes of Assumptions: The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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STATISTICAL DATA (Unaudited)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR FINANCIAL REVIEW

	2018	2017 (As Restated)	2016	2015
STATEMENTS OF NET POSITION				
ASSETS				
Railway Plant - Net	\$26,113,399	\$26,705,711	\$28,216,744	\$24,748,388
Other Property and Special Funds	-	-	64,974	64,861
Current and Accrued Assets	18,693,794	13,964,325	13,960,977	14,843,745
Deferred Outflows	993,546	114,073	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS ..	45,800,739	40,784,109	42,242,695	39,656,994
LIABILITIES				
Long-Term Debt	4,403,234	5,223,477	5,397,028	5,556,302
Current and Accrued Liabilities ..	3,421,462	2,240,256	3,793,795	3,443,589
Long-Term Liabilities	16,872,528	14,461,464	4,017,974	3,615,442
Total Liabilities	24,697,224	21,925,197	13,208,797	12,615,333
Deferred Inflows	289,802	-	-	-
NET POSITION	20,813,713	18,858,912	29,033,898	27,041,661
TOTAL LIABILITIES AND NET POSITION AND DEFERRED INFLOWS	\$45,800,739	\$40,784,109	\$42,242,695	\$39,656,994
STATEMENTS OF INCOME				
OPERATING REVENUES				
Switching Revenues	\$27,933,469	\$26,648,873	\$27,417,653	\$25,690,797
Other Operating Revenues	5,231,761	4,068,008	3,409,347	3,474,443
Total Operating Revenues	33,165,230	30,716,881	30,827,000	29,165,240
OPERATING EXPENSES				
Operation and Maintenance	27,582,675	36,761,179	26,696,068	24,168,168
Taxes	465,808	432,081	439,317	417,135
Depreciation	1,737,714	1,644,373	1,472,955	1,220,882
Total Operating Expenses	29,786,197	38,837,633	28,608,340	25,806,185
NET OPERATING INCOME (LOSS)	3,379,033	(8,120,752)	2,218,660	3,359,055
NON-OPERATING REVENUES (EXPENSE)				
Net Other Income	1,174,556	426,311	2,287,330	1,878,109
Interest Earned on Investments ...	152,072	68,420	86,126	51,379
Interest on Unfunded Debt	-	(6)	(8,542)	(21,678)
Total Non-Operating Revenues ...	1,326,628	494,725	2,364,914	1,907,810
TRANSFERS OUT				
City Gross Earnings Tax	2,750,860	2,548,959	2,591,337	2,410,016
Transfers to Other Funds	-	-	-	45,378
CHANGE IN NET POSITION	\$1,954,801	(\$10,174,986)	\$1,992,237	\$2,811,471

In accordance with Governmental Accounting Standards Board Statement No. 65 both 2012 and 2011 were restated for comparative purposes. Years prior to 2011 are shown as originally reported.

2014	2013	2012	2011	2010	2009
<u>\$21,058,809</u>	<u>\$18,015,675</u>	<u>\$16,258,926</u>	<u>\$13,958,818</u>	<u>\$9,446,780</u>	<u>\$9,813,322</u>
65,104	65,110	397,381	399,607	400,792	406,268
15,964,236	12,961,818	11,397,915	8,867,794	8,686,413	8,474,144
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,103</u>	<u>7,121</u>
37,088,149	31,042,603	28,054,222	23,226,219	18,540,088	18,700,855
4,482,801	2,764,959	2,166,751	2,001,568	2,101,571	2,641,116
4,096,245	3,232,279	3,920,067	1,762,532	1,602,400	1,569,847
<u>4,278,913</u>	<u>2,827,186</u>	<u>1,617,434</u>	<u>1,315,320</u>	<u>1,226,721</u>	<u>1,634,512</u>
12,857,959	8,824,424	7,704,252	5,079,420	4,930,692	5,845,475
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
24,230,190	22,218,179	20,349,970	18,146,799	13,609,396	12,855,380
\$37,088,149	\$31,042,603	\$28,054,222	\$23,226,219	\$18,540,088	\$18,700,855
\$26,495,108	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092
<u>2,962,289</u>	<u>2,372,435</u>	<u>2,250,434</u>	<u>2,153,392</u>	<u>898,739</u>	<u>1,212,804</u>
29,457,397	26,943,302	23,043,798	19,403,619	15,479,597	14,577,896
25,063,534	22,348,268	18,962,149	16,117,560	13,942,626	14,235,461
429,875	437,282	404,105	339,525	261,854	214,935
<u>1,069,265</u>	<u>996,782</u>	<u>824,549</u>	<u>641,315</u>	<u>706,323</u>	<u>577,643</u>
26,562,674	23,782,332	20,190,803	17,098,400	14,910,803	15,028,039
2,894,723	3,160,970	2,852,995	2,305,219	568,794	(450,143)
1,830,033	1,004,957	1,282,274	3,836,348	1,524,627	1,678,847
72,535	21,155	81,907	132,196	74,327	139,662
<u>(34,122)</u>	<u>(45,941)</u>	<u>(62,090)</u>	<u>(80,959)</u>	<u>(102,293)</u>	<u>(133,177)</u>
1,868,446	980,171	1,302,091	3,887,585	1,496,661	1,685,332
2,440,631	2,240,525	1,931,338	1,632,180	1,311,439	1,244,359
<u>310,527</u>	<u>32,407</u>	<u>20,577</u>	<u>13,049</u>	<u>-</u>	<u>-</u>
\$2,012,011	\$1,868,209	\$2,203,171	\$4,547,575	\$754,016	(\$9,170)

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TEN-YEAR SWITCHING STATISTICS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
SWITCHING REVENUES				
Line Hauls	\$25,713,116	\$23,704,622	\$25,683,614	\$24,334,649
Local and Miscellaneous	<u>2,220,353</u>	<u>2,944,251</u>	<u>1,734,039</u>	<u>1,356,148</u>
TOTAL SWITCHING REVENUES	\$27,933,469	\$26,648,873	\$27,417,653	\$25,690,797
NUMBER OF CARS SWITCHED				
Line Hauls	95,678	89,748	107,059	99,277
Local and Miscellaneous	<u>13,041</u>	<u>17,382</u>	<u>3,863</u>	<u>2,896</u>
TOTAL NUMBER OF CARS SWITCHED..	108,719	107,130	110,922	102,173
SWITCHING STATISTICS (AVERAGE)				
Revenue/Line Haul Car	\$268.75	\$264.12	\$239.90	\$245.12
Revenue/Local & Miscellaneous Car	\$170.26	\$169.39	\$448.88	\$468.28

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$24,933,732	\$23,358,089	\$19,913,410	\$16,395,640	\$13,744,377	\$12,735,114
<u>1,561,376</u>	<u>1,212,778</u>	<u>879,954</u>	<u>854,587</u>	<u>836,481</u>	<u>629,978</u>
\$26,495,108	\$24,570,867	\$20,793,364	\$17,250,227	\$14,580,858	\$13,365,092
105,079	97,536	89,554	66,440	70,574	58,892
<u>3,058</u>	<u>1,830</u>	<u>2,563</u>	<u>2,513</u>	<u>2,601</u>	<u>2,032</u>
108,137	99,366	92,117	68,953	73,175	60,924
\$237.29	\$239.48	\$222.36	\$246.77	\$194.75	\$216.25
\$510.59	\$662.72	\$343.33	\$340.07	\$321.60	\$310.03

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

COMPARISON OF CARS SWITCHED AND SWITCHING REVENUES

	December 2018	December 2017	YEAR ENDED DECEMBER 31, December 31, 2018	December 31, 2017
SWITCHING REVENUES				
LINE HAULS--INTERMODAL	\$1,113,244	\$792,840	\$11,265,293	\$10,543,023
LINE HAULS--COMMERCIAL	1,358,800	1,137,010	14,028,690	12,875,290
LINE HAULS--CAPITAL DIVISION	30,210	25,042	419,133	286,309
MISCELLANEOUS SWITCHES	<u>169,274</u>	<u>264,463</u>	<u>2,220,353</u>	<u>2,944,251</u>
TOTAL SWITCHING REVENUES	<u>\$2,671,528</u>	<u>\$2,219,355</u>	<u>\$27,933,469</u>	<u>\$26,648,873</u>
 SWITCHING ACTIVITIES (CARS)				
LINE HAULS--INTERMODAL	6,698	4,716	66,661	61,300
LINE HAULS--COMMERCIAL	3,104	2,204	28,264	27,762
LINE HAULS--CAPITAL DIVISION	53	60	753	686
MISCELLANEOUS SWITCHES	<u>720</u>	<u>2,060</u>	<u>13,041</u>	<u>17,382</u>
TOTAL CARS SWITCHED	<u>10,575</u>	<u>9,040</u>	<u>108,719</u>	<u>107,130</u>

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

FUNDS AVAILABLE FOR DEBT SERVICE

	2018	2017 (As Restated)	2016	2015	2014
Total Income	\$ 34,379,552	\$ 31,175,358	\$ 32,260,821	\$ 30,248,665	\$ 30,482,258
Less: Operating Exp	<u>28,048,483</u>	<u>37,193,260</u>	<u>27,135,385</u>	<u>24,585,303</u>	<u>25,493,409</u>
Income Available for Debt Service	<u>\$ 6,331,069</u>	<u>\$ (6,017,902)</u>	<u>\$ 5,125,436</u>	<u>\$ 5,663,362</u>	<u>\$ 4,988,849</u>
Bond Redemption	\$ -	\$ -	\$ 248,525	\$ 235,569	\$ 223,288
Bond Interest	-	-	11,891	24,847	37,127
Debt Service Payable ...	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,416</u>	<u>\$ 260,416</u>	<u>\$ 260,415</u>
Time Debt Service Covered	-	-	19.68	21.75	19.16

CITY OF TACOMA, WASHINGTON
DEPARTMENT OF PUBLIC UTILITIES
TACOMA RAIL

TAXES AND EMPLOYEE WELFARE CONTRIBUTIONS
FOR THE YEAR 2018

FEDERAL

Railroad Retirement	\$2,169,591	
Railroad Unemployment Insurance	<u>45,946</u>	
Total		2,215,537

STATE OF WASHINGTON

Retail Sales & Use Tax	524,508	
Utility and Business Occupation Tax	<u>465,809</u>	
Total		990,317

CITY OF TACOMA

Gross Earnings Tax		<u>2,750,860</u>
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TOTAL TAXES		<u><u>\$5,956,714</u></u>
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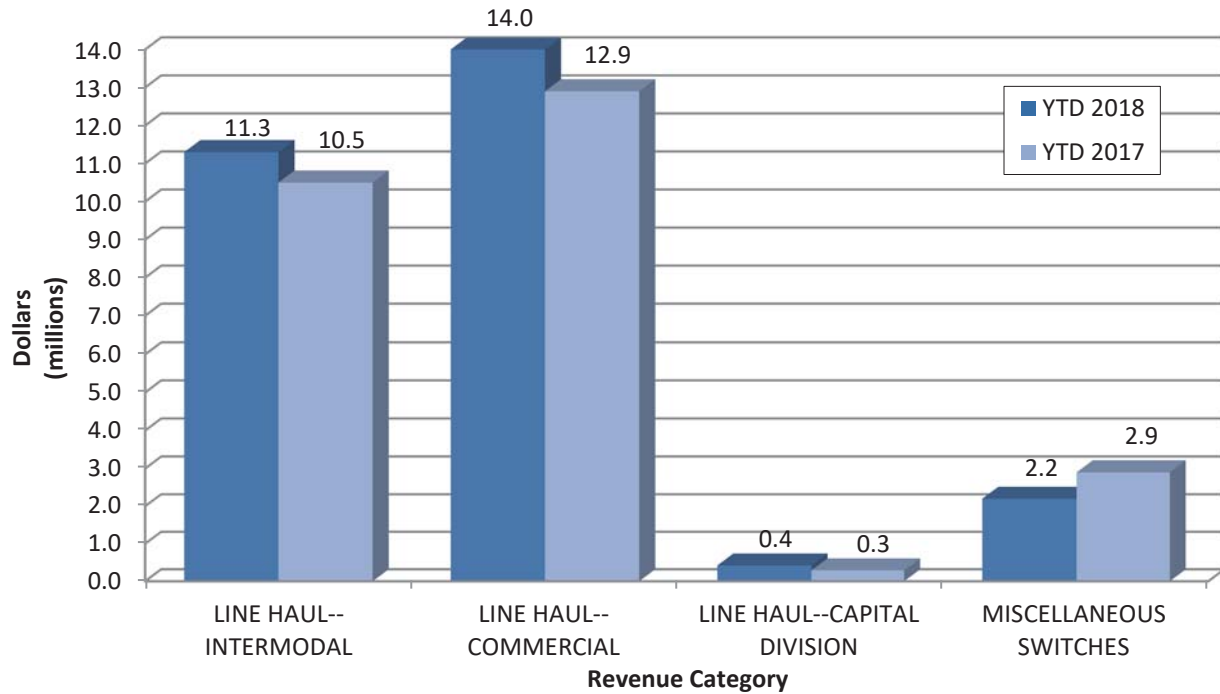
Taxes as a % of Total Operating Revenues of \$33,165,230		17.96%
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EMPLOYEE WELFARE CONTRIBUTIONS

Pierce County Medical Bureau	\$1,986,782	
Washington Dental Service	175,227	
Other Contributions	<u>452,390</u>	
TOTAL EMPLOYEE WELFARE CONTRIBUTIONS		<u><u>\$2,614,399</u></u>

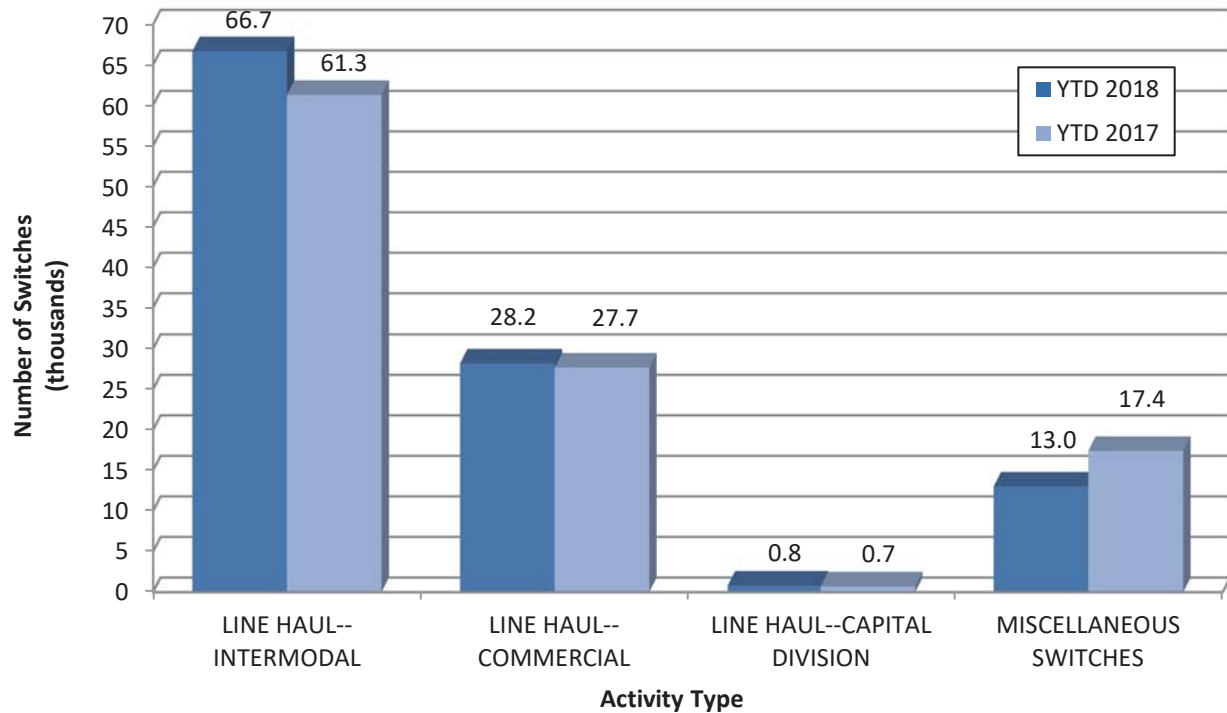
SWITCHING REVENUES

Year to Date - December 2018 & 2017

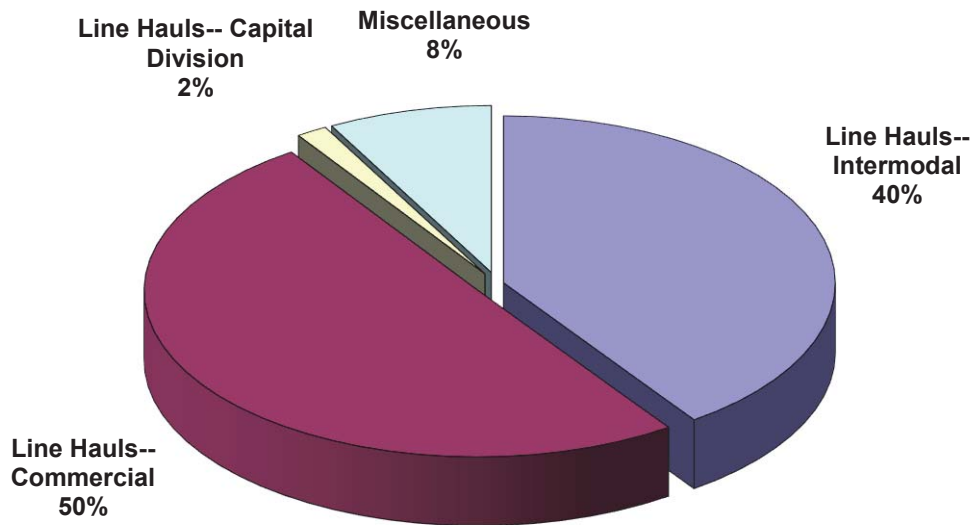


SWITCHING ACTIVITIES

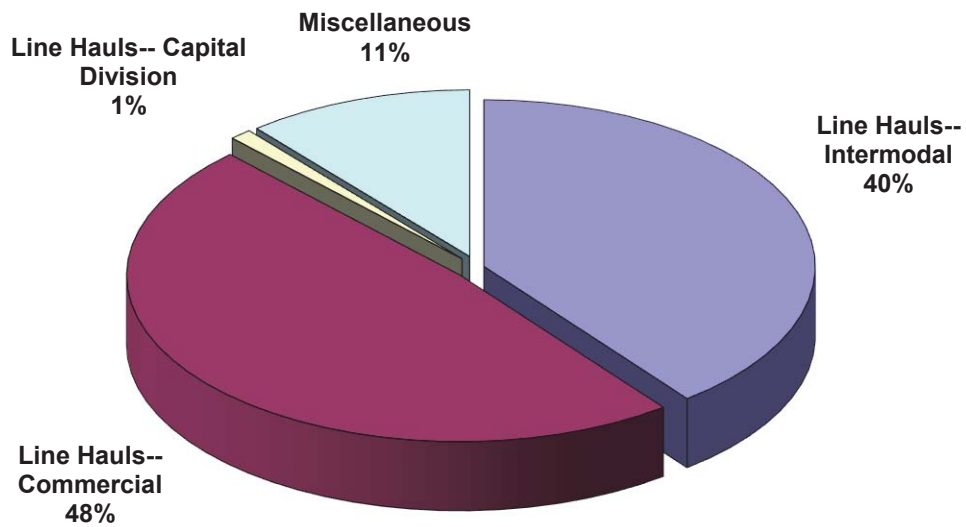
Year to Date - December 2018 & 2017



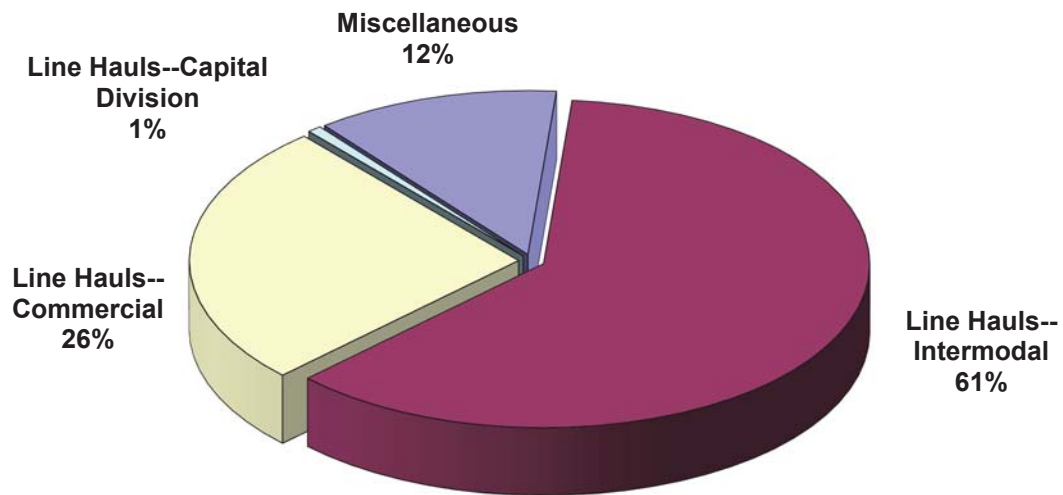
SWITCHING REVENUES
Year to Date - December 2018 (\$27,933,469)



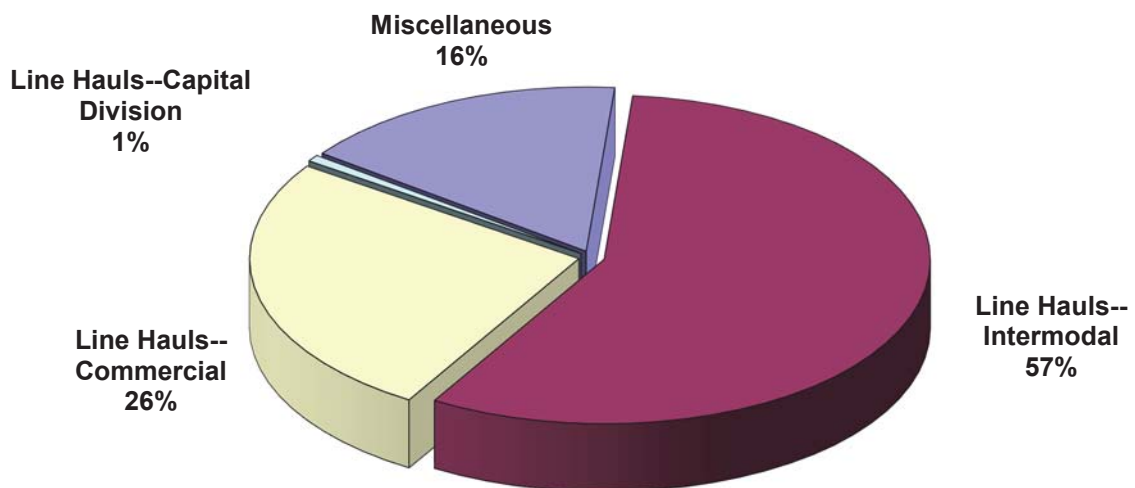
SWITCHING REVENUES
Year to Date - December 2017 (\$26,648,873)



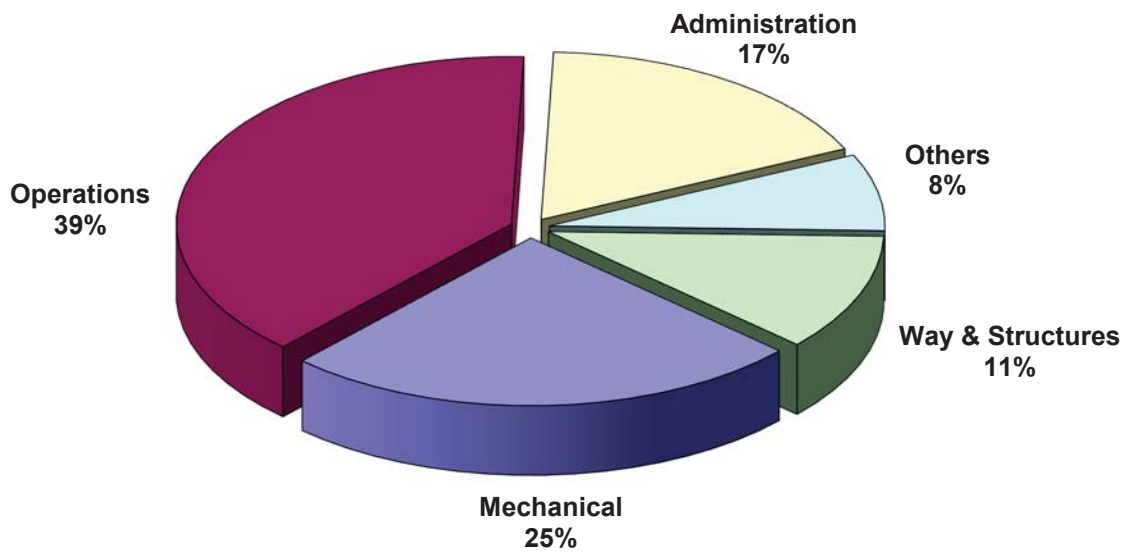
SWITCHING ACTIVITY
Year to Date - December 2018 (108,719 cars)



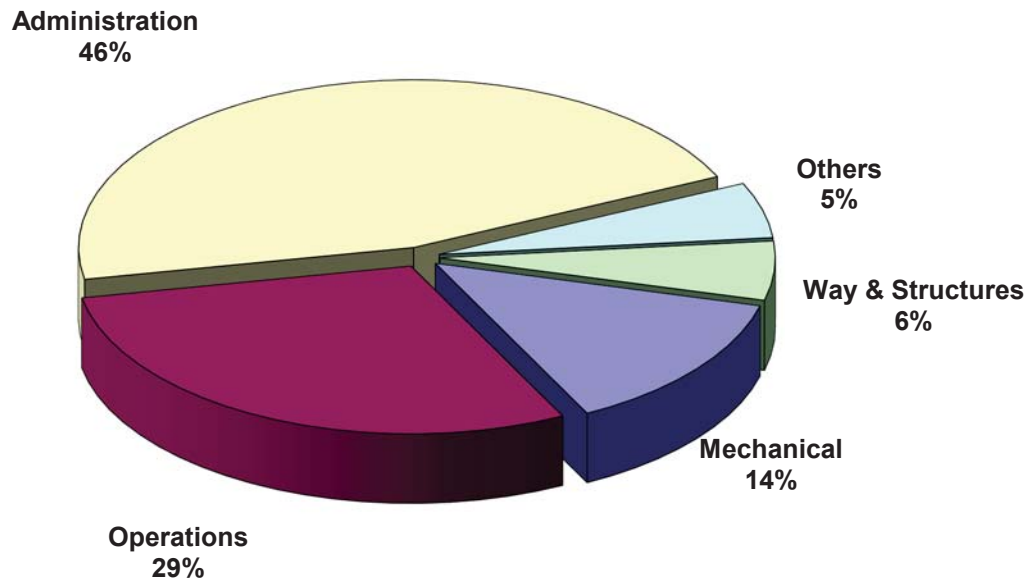
SWITCHING ACTIVITY
Year to Date - December 2017 (107,130 cars)



TOTAL OPERATING EXPENSES
Year to Date - December 2018 (\$29,786,197)



TOTAL OPERATING EXPENSES
Year to Date - December 2017 (\$38,837,633)



2018 SUPERINTENDENT'S REPORT TACOMA RAIL

Tacoma Rail continued to meet its primary goal of providing efficient, cost-effective rail service to the Port of Tacoma and Tacoma's industrial areas (Tidelands Division), to Lakeview (Capital Division) and to Frederickson (Mountain Division) in 2018.

TIDELANDS DIVISION

Line haul count was up by more than 23,000 units in 2018 over 2017. An increase in both intermodal platforms and unit train railcars led to a corresponding increase in line haul revenue of approximately \$2.0 million. The Northwest Seaport Alliance (NWSA) experienced volatility in international intermodal trade leading to large monthly volume swings throughout 2018. Tacoma Rail's agreement with the Union Pacific to assemble 10,000-foot intermodal trains on a daily basis proved a major success this year. Over 29,000 domestic intermodal platforms were handled by Tacoma Rail on behalf of Union Pacific generating nearly \$1.5 million in incremental revenue in 2018.

Unit trains were up versus the prior year, otherwise the commercial business was flat with an overall increase of 7% in 2018. New Washington State environmental rules mandating the development of oil spill contingency plans were a focus area for Tacoma Rail. We successfully completed our first Department of Ecology supervised tabletop spill drill in October.

	2018	2017	2016	2015	2014	2013
Intermodal platforms	191,129	171,443	214,156	187,827	184,451	179,673
Unit train railcars	24,922	21,641	17,410	13,800	13,838	8,759
All others	27,604	27,519	30,844	31,142	32,509	30,904
Total line hauls	243,655	220,603	262,410	232,769	230,798	219,336

CAPITAL DIVISION

From 686 carloads in 2017, total traffic on the Capital Division increased 10% to 753 carloads. The Capital Division provides service to customers in South Tacoma and Lakewood through our freight franchise on the rail line owned by Sound Transit. Expenses have increased on the Capital Division as Positive Train Control (PTC) becomes functional.

MOUNTAIN DIVISION

Tacoma Rail operates the Mountain Division for the City of Tacoma. Carloads handled grew from 1,482 in 2017 to 1,594 in 2018. The increase was led by Hardie Building Products, which had more than 23% growth in line haul traffic. Expenses have increased on the Mountain Division as PTC becomes functional. A new tariff was implemented in 2018 to mitigate the expense and change the Mountain Division's relationship with the BNSF from a Handling Carrier to a Switching Carrier.

Dale W. King
Superintendent



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