

# **Port of Tacoma**

Financial Report  
December 31, 2022

# Port of Tacoma

## Financial Report

**For The Year Ended  
December 31, 2022**

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## Report of Independent Auditors

Board of Commissioners  
Port of Tacoma  
Tacoma, Washington

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the financial statements of the Port of Tacoma Enterprise Fund and Post-Employment Health Care Benefits Trust Fund (collectively the “Port”), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Port’s financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and Post-Employment Health Care Benefits Trust Fund of the Port, as of December 31, 2022, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Port and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Port's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Other Matters***

#### ***Prior Period Financial Statements***

The financial statements of the Port as of and for the year ended December 31, 2021, were audited by other auditors whose report dated April 1, 2022, expressed an unmodified opinion on those financial statements.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, on our consideration of the Port'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 the Port's 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 Port's internal control over financial reporting and compliance.

A handwritten signature in dark ink, reading "Moss Adams LLP". The signature is written in a cursive, flowing style.

Tacoma, Washington  
March 29, 2023

# **Port of Tacoma**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **YEARS ENDED DECEMBER 31, 2022 and 2021**

#### **INTRODUCTION**

The Port of Tacoma's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the Port's 2022 and 2021 financial statements, which include the Enterprise Fund as well as the Post-Employment Health Care Benefits Trust Fund. Port management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto.

The Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Post-Employment Health Care Benefits Trust Fund.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding pension and other post-employment benefits.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows of the Enterprise Fund. The report also includes the following two basic financial statements for the Post-Employment Health Care Benefits Trust Fund: statements of fiduciary net position and statements of changes in fiduciary net position.

The statements of net position and the statements of revenues, expenses and changes in net position illustrate whether the Port's financial position has improved as a result of the year's activities. The statements of net position present information on all of the Port's assets and deferred outflows, and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Port's net position changed during the year. These changes are reported in the period in which the underlying event occurs, regardless of the timing of related cash flows.

**Fund financial statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port uses two funds, an Enterprise Fund, which is a type of proprietary fund that reports business-type activities, and the fiduciary fund, comprising Post-Employment Health Care Benefits Trust Fund.

#### **Formation of The Northwest Seaport Alliance**

The ports of Seattle and Tacoma (home ports) joined forces in August 2015 to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region by creating The Northwest Seaport Alliance (NWSA). The NWSA is a special purpose governmental entity established as a Port Development Authority (PDA), similar to Public Development Authorities formed by cities and counties. The PDA is governed by the two ports as equal members (each a "Managing Member" and, collectively, "Managing Members") with each port acting through its elected commissioners. As approved, the charter for the NWSA (Charter) may be amended only by mutual agreement of the Managing Members. Each port will remain a separate legal entity, independently governed by its own elected commissioners.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

### **Membership Interests**

The home ports made an initial contribution of certain cargo terminals and related marine cargo business activities to the NWSA through license agreements (Licensed Properties). Under these agreements, the NWSA was charged with managing the properties as an agent on behalf of the Managing Members.

The initial contribution of each home port to the NWSA was 50% (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA) with a revaluation review that was settled in 2019 by the Managing Members.

The revaluation review determined that a material change in cash flows from Licensed Properties had occurred since the initial valuation and the Port of Seattle agreed to contribute an additional \$32 million to the NWSA. This additional contribution was in recognition that certain forecasted revenue streams not secured by long-term contractual agreements in the initial valuation may not be achieved due to the assumed redevelopment of Terminal 5. This additional contribution by the Port of Seattle is being made to the NWSA in three installments. The first installment of \$11 million was made in March 2020, the second installment was made in March 2021 and the final installment is expected to be made in 2023 and may be adjusted if the actual redevelopment costs are less than the Terminal 5 redevelopment program authorization. The 2020 and 2021 contributions were distributed to the home ports and the subsequent contribution will also be distributed to the home ports.

The Managing Members also authorized the distribution of these affirmation payments to the home ports equally after the NWSA receives the funds from the Port of Seattle. These transactions do not impact NWSA's net position but will increase cash and reduce investment in joint venture for the Port of Tacoma. These distributions are being recorded as they are incurred.

### **Financial Framework**

The NWSA intends to support the credit profiles of both home ports, and its financial framework will preserve both ports' commitment to financial strength and fiscal stewardship. The NWSA distributes cash to each home port based on cash flow from operations, calculated pursuant to generally accepted accounting principles, capital grant contributions and interest. Cash distributions based on cash flow from operations and capital grant contributions are to be made no less than quarterly based on each home port's membership interests and investment interest income is distributed annually.

The NWSA is responsible for capital investments, including renewal and replacement projects and new development. Such capital investments, or post-formation assets, will be treated as tenant improvements owned by the NWSA. The ports of Seattle and Tacoma work cooperatively with the NWSA to develop an annual capital investment plan for approval by each Managing Member. Funding will be provided by joint contributions from the home ports; cash flow from operations will be distributed to the home ports and not retained by the NWSA for funding capital investments. Each Managing Member must approve its capital contributions.



## **MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

The NWSA Charter recognizes that each home port’s respective share of revenues received by the NWSA with respect to the Licensed Properties has been, or may be, pledged in connection with the home port’s bond obligations. Under the Charter, the Managing Members instruct the Chief Executive Officer (CEO) to manage the PDA in a prudent and reasonable manner in support of the home ports’ respective bond covenants. The home ports shall keep the CEO and the NWSA management informed of their respective bond obligations, and each shall notify the other home port of any proposed change to such home port’s governing bond resolutions as soon as practicable before adoption. The Charter does not modify or alter the obligations of each home port with respect to its own bond obligations. The NWSA does not assume any obligations to the home ports’ bond holders.

With respect to bonds of each home port that were outstanding at the time of the formation of the NWSA, the Managing Members established a requirement for the NWSA to calculate and establish a minimum level of net income from the NWSA equal to the amount required for the home ports to meet their bond rate covenants in effect at the time of formation of the NWSA (“Bond Income Calculation,” initially calculated to be \$90 million). The Charter requires the Bond Income Calculation to be reviewed annually as part of the NWSA budget process. Due to the refunding of all Port of Tacoma bonds and most of the Port of Seattle bonds outstanding at the time of formation, in 2022 the minimum Bond income has been eliminated.

### **Funding**

Working capital cannot be redirected to fund capital construction as defined in the Charter. Future funding needs are evaluated during the annual budget process or if the working capital reserve should decline below a target minimum established by the Managing Members. Managing Members must vote affirmatively to approve additional working capital contributions. The NWSA has generated enough cash from operations to cover its working capital requirements through 2022 and the 2023 NWSA budget did not anticipate additional funding needs.

Further information on the formation and operations of the NWSA can be found in Note 1, Summary of Significant Accounting Policies, and Note 17, Joint Venture.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Financial position summary - Enterprise Fund:** The statements of net position present the financial position of the Enterprise Fund of the Port. The statements include all of the Port's assets and liabilities of the Enterprise Fund. Net position serves as an indicator of the Port's financial position. A summarized comparison of the Port's Enterprise Fund assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at the close of calendar year-end follows (dollars in thousands):

	2022	2021	Restated* 2020
Current assets	\$ 159,472	\$ 153,747	\$ 153,823
Capital and intangible assets, net	880,553	895,728	914,526
Long-term investments	94,236	94,058	79,925
Investment in joint venture	278,381	258,304	219,655
Leases receivable - non-current	197,405	203,125	210,321
Other assets	5,308	19,004	1,914
<b>Total assets</b>	<b>\$ 1,615,355</b>	<b>\$ 1,623,966</b>	<b>\$ 1,580,164</b>
Deferred outflows of resources	\$ 38,109	\$ 73,436	\$ 89,032
Current liabilities	\$ 39,384	\$ 47,632	\$ 44,449
Long-term debt, net	542,702	565,407	587,449
Other long-term liabilities	107,660	154,444	173,151
<b>Total liabilities</b>	<b>689,746</b>	<b>767,483</b>	<b>805,049</b>
Deferred inflows of resources	\$ 211,934	\$ 230,380	\$ 217,155
Net investment in capital assets	323,226	315,679	317,218
Restricted net position for bond reserves	17,258	18,317	18,227
Restricted net position for Post-Employment Health Care Benefits Trust	2,794	2,362	1,947
Restricted net position for net pension asset	2,126	-	-
Unrestricted	406,380	363,181	309,600
<b>Total net position</b>	<b>\$ 751,784</b>	<b>\$ 699,539</b>	<b>\$ 646,992</b>

*\*Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases.*

In 2022, the Port's total net position increased by \$52.3 million, or 7.5% over the prior year to \$751.8 million. Of this amount, \$323.2 million is the net investment in capital assets, \$17.3 million is restricted for bond reserves, \$2.8 million is restricted for the Post-Employment Health Care Benefits Trust, \$2.1 million is restricted assets for the net pension asset, and \$406.4 million is unrestricted and can be used to finance operating activities.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

In 2021, the Port's total net position increased by \$52.5 million, or 8.1% over the prior year to \$699.5 million. Of this amount, \$315.7 million is the net investment in capital assets, \$18.3 million is restricted for bond reserves, \$2.4 million is restricted assets for the Post-Employment Health Care Benefits Trust, and \$363.2 million is unrestricted and can be used to finance operating activities.

In 2020, the Port's total restated net position, increased by \$23.7 million, or 3.8% over the prior year to \$647.0 million at December 31, 2020. Of this amount, \$317.2 million is the net investment in capital assets, \$18.2 million is restricted for bond reserves, \$1.9 million is restricted for the Post-Employment Health Benefits Trust, and \$309.6 million is unrestricted and can be used to finance operating activities.

The Port's net investment in capital assets represents infrastructure and capital assets for Port terminal and real estate facilities. In 2022, the net investment in capital assets increased by \$7.5 million due to an decrease in capital financing debt of \$22.7 million were offset by the decrease in net capital assets of \$15.2 million. In 2021, the net investment in capital assets was comparable to the prior year as payments for bond principal of \$18.8 million were offset by a decrease in net capital assets. In 2020, the net investment in capital assets increased by \$21.5 million as payments for bond principal and commercial paper (short-term debt) of \$45.7 million were offset a by decrease in net capital assets of \$21.6 million and the spend down of the remaining bond proceeds from the 2016 Revenue Bonds.

### **2022 Revenues, Expenses and Changes in Net Position versus the Prior Year**

The Port's adoption of GASB No. 87 on January 1, 2020, had a significant impact on the presentation of revenues and interest income on the statements of revenues, expenses and changes in net position by reducing operating revenues by the interest component of lease payments received and increasing non-operating interest income for the same amount (no change in net position). The interest income on leases subject to GASB No. 87 for December 31, 2022, 2021 and restated 2020, were \$8.5 million, \$8.6 million and \$8.5 million, respectively. The statements of revenues, expenses and changes in net position presented below excludes the reduction from lease interest income related to GASB No. 87 in operating revenues, and therefore excludes the same amount from non-operating revenues to better represent the changes in operating revenues (see financial statements for further information).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Statements of Revenues, Expenses and Changes in Net Position (dollars in thousands):

	2022	2021	Restated* 2020
Operating income			
Operating revenues (including lease interest income)**	\$ 35,339	\$ 31,793	\$ 26,776
Joint venture income	55,352	55,998	38,782
<b>Total operating revenues</b>	<b>90,691</b>	<b>87,791</b>	<b>65,558</b>
Operating expenses	41,661	36,075	41,963
<b>Total operating income</b>	<b>49,030</b>	<b>51,716</b>	<b>23,595</b>
Non-operating revenues (expenses):			
Ad valorem tax revenues	24,570	23,836	23,132
Interest on general obligation bonds	(4,112)	(4,356)	(4,674)
<b>Net ad valorem tax revenues</b>	<b>20,458</b>	<b>19,480</b>	<b>18,458</b>
Interest income**	3,549	1,430	2,501
Net increase (decrease) in the fair value of investments	(10,785)	(1,588)	1,827
Interest expense	(15,792)	(16,414)	(17,770)
Other non-operating income (expense), net	4,485	(2,392)	80
<b>Total non-operating revenues</b>	<b>1,915</b>	<b>516</b>	<b>5,096</b>
<b>Increase in net position before capital grant contributions</b>	<b>50,945</b>	<b>52,232</b>	<b>28,691</b>
Capital grant contributions	1,300	315	825
<b>Increase in net position</b>	<b>52,245</b>	<b>52,547</b>	<b>29,516</b>
Net position, beginning of year, as previously reported*	699,539	646,992	623,314
Adjustment related to adoption of GASB No. 87	-	-	(5,838)
Net position, beginning of year as restated	699,539	646,992	617,476
<b>Net position, end of year</b>	<b>\$ 751,784</b>	<b>\$ 699,539</b>	<b>\$ 646,992</b>

\*Beginning net position for 2020 was adjusted for the adoption of GASB No. 87, Leases.

\*\*GASB No. 87 lease interest is included in operating revenues and excluded from non-operating revenues (see financial statements)

### 2022 Revenues, Expenses and Changes in Net Position versus the Prior Year

Compared to the prior year, total revenue for the year ended December 31, 2022 of \$90.7 million increased by \$2.9 million, or 3%. Port revenues of \$35.3 million increased by \$3.5 million, or 11% over the prior year and was driven by a \$2.8 million, or 11% increase in revenue from real estate and service activities and resulted from new leases, lease renewals at higher rental rates and escalations on existing leases. Auto revenue of \$2.8 million was \$0.7 million above the prior year due to a 36% increase in import volume from the new Hyundai business that began in September 2022.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

NWSA joint venture income of \$55.4 million decreased by \$0.6 million over the prior year and is the Port's 50% share of NWSA's net position before Managing Members contributions and distributions. NWSA's net position before Managing Members contributions and distributions decreased by \$1.3 million, or 1% compared to prior year as the increases in revenue of \$5.8 million and non-operating income of \$1.2 million was offset by higher operating expense of \$8.3 million. The revenue increase was driven by 43% higher breakbulk cargo volume that increased non-container revenue by \$7.3 million, and an increase in real estate business revenue of \$2.1 million from new leases and lease renewals. Lower container revenue of \$3.6 million offset the increases non-container and real estate revenues. The revenue decrease was attributable to lower container volume of 9% that was caused by two issues: first, the ongoing labor negotiations between Pacific Maritime Association and the International Longshore and Warehouse Union that caused shippers to move cargo from West Coast Ports to East Coast and Gulf ports; second, congestion in the Vancouver, BC Port that caused blank sailings (shipping lines skip the NWSA ports) so that the ships can get back on schedule.

Port operating expense of \$41.7 million was \$5.6 million above the prior year, of which \$3.5 million was due to a reduction in the prior year's non-cash State of Washington's PERS pension expense. Operating expenses excluding the pension were \$45.6 million and \$2.2 million above the prior year as lower planned depreciation of \$2.0 million offset higher operating expenses of \$4.2 million. Maintenance expenses increased by \$1.7 million primarily for building repairs at the Fabulich Center, Early Business Center and the Administrative building. Administrative and security costs increased by \$1.4 million primarily from higher software maintenance/software as a service costs and reductions in the support services charged to NWSA. Environmental expenses increased by \$0.7 million for remediation on Parcel 15, parcel 105 underground storage tank investigation, spending on the stormwater MS4 permit program and an increase in the liability for future spending. Operations expense increased by \$0.4 million for building demolitions and higher insurance costs. Depreciation declined by \$2.0 million as assets become fully depreciated and are replaced by assets of the NWSA.

As a result, operating income of \$40.6 million was \$2.5 million below the prior year.

Net ad-valorem tax levy revenue of \$20.5 million increased by \$1.0 million over the prior year. The tax increased by \$0.8 million and General Obligation ("GO") bond interest expense decreased by \$0.2 million.

Interest income increased by \$2.1 million over the prior year due to higher interest rates. The increase in interest rates also increased the non-cash market value loss on investments by \$9.2 million. Interest expense of \$15.8 million declined by \$0.6 million due to lower outstanding debt.

Net other non-operating income of \$4.5 million was \$6.9 million above the prior year. Significant current year income items were: income from the reduction in the Port's commitment to fund State Route-167 of \$7.8 million (for increases in the value of the contributed land and soils of \$5.9 million and the mitigation credits of \$1.9 million), Harbor Maintenance Tax (HMT) proceeds of \$2.7 million, a reduction in the cost of the Taylor Way heavy haul corridor project with the City of Tacoma (COT) of \$0.5 million; offsetting non-operating expenses were from a contribution to the COT for the 11<sup>th</sup> St. viaduct removal of \$2.6 million, a contribution to the City of Fife for the Port of Tacoma road interchange construction project of \$2.0 million, a contribution to the COT for the Lower Wapato Mitigation improvements of \$1.4 million, Milwaukee encampment and other costs of \$0.5 million. Significant prior year nonoperating expenses of \$2.4 million were for contributions to the COT related to the development of the Lower Wapato mitigation site of \$3.5 million, asset disposal costs of \$1.6 million, offset by nonoperating income from HMT of \$2.7 million.

Capital grant contributions of \$1.3 million were \$1.0 million above the prior year from environmental remediation grants for Parcel 2, Parcel 15 and from security grants.

This resulted in an increase in net position of \$52.2 million, which was \$0.3 million below the prior year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### 2021 Revenues, Expenses and Changes in Net Position versus the Prior Year

Compared with the prior year, total revenue of \$87.8 million was \$22.0 million and 34% higher. Port revenues of \$31.8 million increased by \$5.0 million, 19%, over the prior year. Revenue from real estate and service activities of \$30.0 million was \$4.5 million above the prior year from two incremental new leases (29 new offset by 27 terminated) and escalations on existing leases. Auto revenues of \$2.1 million were \$0.5 million over the prior year driven by an increase in auto units of 41%, as Nissan rebounded from the prior year's COVID-19 related plant closures earlier in the year. However, the significant increase in auto units received in the Spring was followed with lower volume during the second half of the year due to the auto chip shortage.

NWSA joint venture income of \$56.0 million increased by \$17.2 million, 44% over the prior year as NWSA's net position before Managing Members contributions and distributions increased by \$34.4 million over the prior year due a rebound in cargo that increased revenue by \$17.3 million, lower operating expenses of \$3.9 million and an increase in net non-operating income from asset and grant contributions of \$13.2 million. Container volumes rebounded from the COVID-19 pandemic that interrupted cargo operations throughout the supply chain increasing by 13% over the prior year and, increasing revenue by \$15.3 million. Non-container business revenues increased by \$2.0 million over the prior year driven by higher breakbulk cargo tonnage of 43%, offset by a decrease in auto revenue due to a decrease in auto units of 1%. Real estate revenues of \$13.7 million were \$0.8 million higher than the prior year from new leases. NWSA's operating expenses declined primarily due to higher prior year crane removal costs at Terminal 5 and Husky Terminal and paving at Terminal 46, offset by current year increases in revenue related operating costs to support the increase in cargo volumes. Net nonoperating income increased by \$13.2 million from higher grant contributions related to Terminal 5 redevelopment and asset contributions from the Terminal 18 terminal operator.

Port operating expenses of \$36.1 million were \$5.9 million below the prior year primarily from the non-cash pension expense reduction of \$4.7 million and lower environmental stormwater compliance and habitat mitigation project spending. The reductions were offset by revisions to the support services agreements with the NWSA that reduced the amount of administrative and security costs charged to the NWSA.

The decrease in pension expense was the result of the state pension plans' higher than expected return on pension plan investments of 28.7% (overall for Washington Department of Retirement Plans). The strong investment performance resulted in a net pension asset of \$16.7 million in the current year compared to a net pension liability of \$7.5 million in 2020 and deferred inflows of resources increased to \$20 million.

Depreciation declined by \$1.5 million as assets become fully depreciated and are replaced by assets of the NWSA.

As a result, operating income of \$51.7 million was \$28.1 million higher than the prior year.

Net tax levy increased by \$1.0 million due to an increase in the tax levy of \$0.7 million and slight decrease in GO bond interest expense of \$0.3 million.

Interest income and fair market value adjustments on the Port's investments were below the prior year by \$4.5 million as interest income was down \$1.1 million due to lower interest rates and the non-cash market value decrease on investments was \$3.4 million above the prior year. Interest expense of \$16.4 million declined by \$1.3 million due to lower variable rates and bonds and refunding in April 2021 that lowered interest rates.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net non-operating expense increased by \$2.5 million primarily due to construction contributions to the cities of Fife and Tacoma related to the Lower Wapato habitat development site, offset by the receipt of Harbor Maintenance Tax (Water Resources and Development Act 2106) funds in the amount of \$2.7 million which were transferred to the NWSA to fund capital and expense Water Resources Development Act 2106 approved projects.

Capital grant contributions of \$0.3 million were from environmental remediation and security grants. Prior year grant income of \$0.8 million were security grants for security equipment at Lot F and an IT firewall, and ecology grants of \$0.1 million funded environmental projects at Arkema and Portac.

This resulted in an increase in net position of \$52.5 million, which was \$23.0 million, 78%, above the prior year.

**Capital assets:** The Port's investment in capital assets, net of depreciation and amortization, for its business activities as of December 31, 2022, amounted to \$880.6 million. This investment in capital assets includes land, buildings, improvements, machinery and equipment, intangible assets, and construction in process. The Port's investment in capital assets, net of depreciation and amortization, for its business activities as of December 31, 2021, amounted to \$895.7 million. See Note 3, Capital and Intangible Assets, for additional information.

Capital spending for the years ended December 31 are summarized by major project/category in the table below (dollars in thousands):

	2022	2021
Description:		
Habitat Development - Lower Wapato Creek	\$ 3,085	\$ 5,537
Facility and building improvements	3,397	1,507
Machinery and equipment	131	27
Information technology infrastructure	764	-
Property acquisition	416	460
Auto terminal development	795	228
Total	<u>\$ 8,588</u>	<u>\$ 7,759</u>

### Debt Administration

**Long-term debt:** At December 31, 2022, the Port's long-term debt, including current portion outstanding totaled \$561.4 million. Of this amount, general obligation bonds outstanding were \$143.2 million and revenue bonds outstanding were \$418.2 million. At December 31, 2021, the Port's long-term debt, including current portion outstanding totaled \$583.4 million. Of this amount, general obligation bonds outstanding were \$151.5 million and revenue bonds outstanding were \$431.9 million.

In April 2021, the Port issued Revenue Bonds par value \$18.1 million with a coupon rate of 0.69% to refund 2016 General Obligation Bonds par value of \$18.1 million. The newly issued General Obligation Bonds were issued at par and the net proceeds were \$18.1 million. The net proceeds from the issuance of the General Obligation Bonds were used to call the old debt in the amount of \$18.1 million. Bond issue costs associated with the refunding were \$83,000 and paid from Port cash. The refunding met the requirements of an in-substance debt defeasance and the Series 2016 General Obligation Bonds were removed from the Port's financial statements. As a result of the refunding of the 2016 General Obligation Bonds, the Port reduced its total debt service requirements by \$638,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$628,000 over the life of the bonds. The refunding bonds are described in more detail in Note 5 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)

The Port utilizes interest rate payment agreements (derivatives) to manage interest rate risk. The swap agreements synthetically fix or "lock-in" interest rates on variable-rate revenue bond debt by providing cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payment identified in each swap agreement. The Port does not hold or issue derivative financial instruments for trading purposes. These instruments are designated as cash-flow hedges on the trade date and are recognized on the statements of net position at fair value.

The Port requests bond ratings prior to issuing debt. Moody's and Standard & Poor's rated the Port's debt as follows:

Description	Moody's	Standard & Poor's
General Obligation (Senior Lien)	Aa2	AA-
Revenue Bonds (Senior Lien)	Aa3	AA
Revenue Bonds (Subordinate)	A1	AA

**Post-Employment Health Care Benefits Trust Fund:** The Post-Employment Health Care Benefits Trust Fund (the Trust) accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. A summarized comparison of the assets, liabilities and net position of the Trust and changes in net position for the years ended December 31, are as follows (dollars in thousands):

	2022	2021	2020
Total assets	\$ 4,345	\$ 4,789	\$ 4,944
Total liabilities	-	-	-
<b>Total fiduciary net position</b>	<b>\$ 4,345</b>	<b>\$ 4,789</b>	<b>\$ 4,944</b>
Total additions	\$ (217)	\$ (37)	\$ 168
Total deductions	(227)	(118)	(154)
<b>Increase (decrease) in fiduciary net position</b>	<b>(444)</b>	<b>(155)</b>	<b>14</b>
Net position - beginning of year	4,789	4,944	4,930
<b>Restricted fiduciary Net position - end of year</b>	<b>\$ 4,345</b>	<b>\$ 4,789</b>	<b>\$ 4,944</b>

## REQUEST FOR INFORMATION

The Port of Tacoma designed this financial report to provide our citizens, customers, investors and creditors with an overview of the Port's finances. If you have questions or need additional information, please visit our website at [www.portoftacoma.com](http://www.portoftacoma.com) or contact: Chief Financial Officer, P.O. Box 1837, 1 Sitcum Way, Tacoma, Washington, 98401-1837, Telephone 253.383.5841, Fax 253.597.7573.



# **Financial Statements**

## Port of Tacoma

### Enterprise Fund Statements of Net Position December 31, 2022 and 2021 (Dollars in Thousands)

	2022	2021
<b>Assets</b>		
Current assets:		
Cash	\$ 2,193	\$ 1,588
Investments, at fair value	122,888	122,299
Trade accounts receivable, net of allowance for doubtful accounts	1,379	872
Grants receivable	340	280
Taxes receivable	557	535
Related-party receivables - joint venture	10,350	6,220
Leases receivable - current	7,114	7,187
Prepayments and other current assets	6,811	6,926
Assets held for sale	7,840	7,840
Total current assets	<u>159,472</u>	<u>153,747</u>
Non-current assets:		
Long-term investments:		
Restricted bond reserves at fair value	17,258	18,317
Other long-term investments	76,978	75,741
Total long-term investments	<u>94,236</u>	<u>94,058</u>
Capital and intangible assets:		
Land	582,350	574,057
Buildings	99,426	98,124
Improvements	671,829	670,574
Machinery and equipment	88,470	87,633
Intangible assets	33,902	33,691
Construction in process	11,261	15,688
Total capital and intangible asset	<u>1,487,238</u>	<u>1,479,767</u>
Less accumulated depreciation	605,913	583,554
Less accumulated amortization	772	485
Capital and intangible assets, net	<u>880,553</u>	<u>895,728</u>
Investment in joint venture	278,381	258,304
Leases receivable, net of current portion	197,405	203,125
Net OPEB asset	2,480	2,285
Net pension asset	2,828	16,719
Total non-current assets	<u>1,455,883</u>	<u>1,470,219</u>
Total assets	<u>\$ 1,615,355</u>	<u>\$ 1,623,966</u>
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives	\$ 25,992	\$ 65,665
OPEB deferred outflow	346	179
Pension deferred outflow	6,681	2,140
Advance refunding deferred losses	5,090	5,452
Total deferred outflows of resources	<u>\$ 38,109</u>	<u>\$ 73,436</u>

See notes to financial statements.

## Port of Tacoma

### Enterprise Fund Statements of Net Position December 31, 2022 and 2021 (Dollars in Thousands)

	2022	2021
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,596	\$ 16,395
Payroll and taxes payable	5,689	5,830
Accrued interest	1,752	1,812
Related party payables - joint venture	3,834	2,842
Current portion of long-term debt	18,676	18,020
Current portion of environmental liability	2,837	2,733
<b>Total current liabilities</b>	<b>39,384</b>	<b>47,632</b>
Non-current liabilities:		
Long-term debt:		
General obligation bonds, net	136,265	144,767
Revenue bonds, net	406,437	420,640
<b>Net long-term debt</b>	<b>542,702</b>	<b>565,407</b>
Other long-term liabilities:		
Interest rate payment agreements	25,992	65,665
Environmental liability	29,617	31,153
Other	52,051	57,626
<b>Other long-term liabilities</b>	<b>107,660</b>	<b>154,444</b>
<b>Total non-current liabilities</b>	<b>650,362</b>	<b>719,851</b>
<b>Total liabilities</b>	<b>\$ 689,746</b>	<b>\$ 767,483</b>
Deferred inflows of resources:		
Leases deferred inflow	\$ 204,519	\$ 210,312
Pension deferred inflow	7,383	19,966
OPEB deferred inflow	32	102
<b>Total deferred inflows of resources</b>	<b>\$ 211,934</b>	<b>\$ 230,380</b>
Net position:		
Net investment in capital assets	\$ 323,226	\$ 315,679
Restricted net position for bond reserves	17,258	18,317
Restricted net position for Post-Employment Health Benefits Trust	2,794	2,362
Restricted net position for net pension asset	2,126	-
Unrestricted	406,380	363,181
<b>Total net position</b>	<b>\$ 751,784</b>	<b>\$ 699,539</b>

See notes to financial statements.

## Port of Tacoma

### Enterprise Fund

#### Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Operating revenues:		
Property revenue	\$ 26,940	\$ 23,175
Joint venture income	55,352	55,998
<b>Total operating revenues</b>	<b>82,292</b>	<b>79,173</b>
Operating expenses:		
Operations	4,086	2,753
Maintenance	4,347	1,002
Administration	5,962	3,872
Security	1,825	1,651
Environmental	1,900	1,248
<b>Total operating expenses, before depreciation and amortization</b>	<b>18,120</b>	<b>10,526</b>
Depreciation	23,254	25,302
Amortization	287	247
<b>Depreciation and amortization</b>	<b>23,541</b>	<b>25,549</b>
<b>Total operating expenses</b>	<b>41,661</b>	<b>36,075</b>
<b>Operating income</b>	<b>40,631</b>	<b>43,098</b>
Non-operating revenues (expenses):		
Ad valorem tax revenue	24,570	23,836
Interest on general obligation bonds	(4,112)	(4,356)
<b>Net ad valorem tax revenues</b>	<b>20,458</b>	<b>19,480</b>
Leases interest income, net	8,399	8,618
Interest income	3,549	1,430
Net increase (decrease) in the fair value of investments	(10,785)	(1,588)
Interest expense	(15,792)	(16,414)
Other non-operating income (expense), net	4,485	(2,392)
<b>Total non-operating revenues, net</b>	<b>10,314</b>	<b>9,134</b>
<b>Increase in net position, before capital grant contributions</b>	<b>50,945</b>	<b>52,232</b>
Capital grant contributions	1,300	315
<b>Increase in net position</b>	<b>52,245</b>	<b>52,547</b>
Net position:		
Net position, beginning of year	699,539	646,992
End of year	<b>\$ 751,784</b>	<b>\$ 699,539</b>

See notes to financial statements.

## Port of Tacoma

### Enterprise Fund

### Statements of Cash Flows

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Cash flows from operating activities:		
Cash received from customers	\$ 26,433	\$ 23,088
Cash paid to suppliers for goods and services	(20,751)	(2,584)
Cash paid to employees	(11,760)	(10,856)
Cash received from (paid to) related party - joint venture	2,329	379
Cash received (paid) for other operating income (expense)	4,321	(1,239)
Net cash provided by operating activities	572	8,788
Cash flows from non-capital financing activities:		
Cash received from operating grants	632	177
Cash paid for deferred commitments	(6,888)	-
Net cash provided by non-capital financing activities	(6,256)	177
Cash flows from capital and related financing activities:		
(Payments made to) proceeds from sale of property, plant and equipment	(219)	21
Principal payments on general obligation and revenue bonds and other debt	(18,020)	(15,393)
Proceeds from refunding bond issues	-	18,075
Repayment of refunded bonds	-	(18,075)
Acquisition and construction of capital assets	(8,588)	(7,759)
Cash paid to NWSA for harbor maintenance tax funds	(2,744)	(2,744)
Interest paid on general obligation and revenue bonds and other debt	(23,631)	(24,586)
Cash received from federal and state grants	608	218
Cash received from property taxes for general obligation bonds	24,547	23,903
Lease interest income, net	8,399	8,618
Net cash used in capital and related financing activities	(19,647)	(17,722)
Cash flows from investing activities:		
Purchases of investments	(149,644)	(159,094)
Proceeds from sales and maturities of investment securities	138,236	148,134
Cash used to fund investment in NWSA	(24,963)	(47,682)
Cash distributions received from joint venture	58,903	66,521
Interest received on investments	3,405	1,354
Net cash provided by investing activities	25,936	9,233
Net increase (decrease) in cash	605	476
Cash:		
Beginning of year	1,588	1,112
End of year	\$ 2,193	\$ 1,588

(Continued)

## Port of Tacoma

### Enterprise Fund

#### Statements of Cash Flows (Continued)

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 40,631	\$ 43,098
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	23,254	25,302
Amortization	287	247
Lease interest	(339)	(247)
Cash paid for non-operating income (expense)	4,321	(1,239)
Cash distributions received from related party - joint venture	(58,903)	(66,521)
Changes in assets and liabilities and deferred inflows / outflows:		
(Increase) decrease in related-party receivables - joint venture	942	(1,699)
(Increase) decrease in accounts receivable	(507)	(87)
(Increase) decrease in prepayments	115	(840)
Decrease in investment in joint venture	3,550	10,523
Increase in accounts payable and accrued liabilities	810	382
Increase (decrease) in environmental liabilities	(1,432)	5,715
Increase (decrease) in payroll and taxes payable	(270)	269
Increase (decrease) in long-term liabilities	5,474	(6,297)
Increase (decrease) in net deferred pension and OPEB assets	(17,361)	182
<b>Total adjustments and changes</b>	<b>(40,059)</b>	<b>(34,310)</b>
<b>Net cash provided by operating activities</b>	<b>\$ 572</b>	<b>\$ 8,788</b>
Noncash investing and financing activities:		
Capital asset additions and other purchases financed with accounts payable	\$ 1,038	\$ 2,075
Capital construction payable to related party - joint venture	(3,834)	(2,842)
Distributions receivable from related party - joint venture	8,010	2,938
Decrease in fair value of investments	(10,785)	(1,588)

See notes to financial statements.

**Port of Tacoma**

**Fiduciary Fund - Post Employment Health Care Benefits Trust Fund**  
**Statements of Fiduciary Net Position**  
**December 31, 2022 and 2021**  
**(Dollars in Thousands)**

	2022	2021
Assets		
Cash	\$ 143	\$ 206
Fixed income securities, at fair value	4,202	4,583
Total assets	4,345	4,789
Plan Liabilities	-	-
Restricted Fiduciary net position held in trust for other post-retirement benefits	\$ 4,345	\$ 4,789

See notes to financial statements.

## Port of Tacoma

### Post-Employment Health Care Benefits Trust Fund Statements of Changes in Fiduciary Net Position Years Ended December 31, 2022 and 2021 (Dollars in Thousands)

	2022	2021
Additions:		
Employer contributions	\$ -	\$ -
Net decrease in fair value of investments	(284)	(112)
Interest	67	75
Total additions	(217)	(37)
Deductions:		
Benefit payments	216	105
Administrative expenses	11	13
Total deductions	227	118
Change in net position	(444)	(155)
Net position held in trust for other post-retirement benefits		
Beginning of year	4,789	4,944
End of year	<u>\$ 4,345</u>	<u>\$ 4,789</u>

See notes to financial statements.



## Port of Tacoma

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

**Reporting entity:** The Port of Tacoma (the Port) is a municipal corporation of the State of Washington created in 1918 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries co-extensive within Pierce County, Washington, and is situated on Commencement Bay in Puget Sound.

The Port is independent from Pierce County government and is administered by a five-member Board of Commissioners elected by Pierce County voters. The Commission delegates administrative authority to an Executive Director and administrative staff to conduct operations of the Port. The County levies and collects taxes on behalf of the Port. Pierce County provides no funding to the Port. Additionally, Pierce County does not hold title to any of the Port's assets, nor does it have any right to the Port's surpluses.

In August 2015, the ports of Seattle and Tacoma formed the NWSA, a special purpose governmental entity established as a Port Development Authority (PDA) under provisions of the RCW 53.04.010 et seq. similar to Public Development Authorities formed by cities and counties. Each Port Commission is a Managing Member of the NWSA. The NWSA's financial activity began effective January 1, 2016.

The Port of Seattle and Port of Tacoma (home ports) made an initial contribution of certain cargo terminals and related marine cargo business activities to the NWSA through license agreements (Licensed Properties). Effective January 1, 2016, the accounting for revenues and expenses associated with Licensed Properties became the responsibility of the NWSA and the ownership of the Managing Members is accounted for as a joint venture by the home ports. Additional information about the formation of the NWSA is presented in the MD&A and Note 17, Joint Venture.

The State Legislature granted qualifying ports the authority to create a PDA for the management of maritime activities and to allow ports to act cooperatively and use financial resources strategically, while remaining separate entities and complying with federal regulations. Pursuant to the PDA statute, if a PDA is created jointly by more than one port district, the PDA must be managed by each port district as a member, in accordance with the terms of the statute and the Charter. Any port district that creates a PDA must oversee the affairs, operations and funds of the PDA to correct any deficiency, and ensure that the purposes of each program undertaken are reasonably accomplished. The statute permits a PDA, in managing maritime activities of a port district or districts, to own and sell real and personal property; to enter into contracts; to sue and be sued; to loan and borrow funds; to issue bonds, notes and other evidence of indebtedness; to transfer funds, real or personal property, property interests or services; and to perform community services related to maritime activities managed by the PDA. As discussed, the statute allows, but the Charter prohibits, the NWSA to issue bonds, borrow funds or enter into other debt instruments. By statute, PDAs do not have the power of eminent domain or the power to levy taxes or special assessments. In transferring real property to a PDA, the port district or districts creating the PDA must impose appropriate deed restrictions necessary to ensure the continued use of the property for the public purpose for which the property is transferred.

The NWSA is governed by its Managing Members, with each Managing Member acting pursuant to the Charter through its elected commissioners. The Managing Members appoint a Chief Executive Officer (CEO) who is responsible for hiring staff and entering into service agreements with the Managing Members as needed. In addition, both Managing Members may provide services through shared service agreements with a portion of staff time allocated to, and paid by, the NWSA.

## Port of Tacoma

### Notes to Financial Statements

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

The Port reports all of its activities and operations, except for the activities included with the Post-Employment Health Care Benefits Trust Fund, in the Enterprise Fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises with the intent that the cost of providing goods and services to customers is financed or recovered primarily through user charges. The Port tracks activity of the Post-Employment Health Care Benefits Trust in a Fiduciary Fund. Fiduciary Funds are used to accumulate resources to fund pension and other post-employment benefit (OPEB) plans.

**Nature of business:** The Enterprise Fund is used to account for the general operations of the Port, as more fully described below:

The Port is authorized by Washington law to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities, for waterborne commerce. The Port may also provide freight and passenger terminals, and transfer, as well as storage facilities for other modes of transportation, including air, rail and motor vehicles. The Port may acquire and improve lands for sale or lease for industrial or commercial purposes and may create industrial development districts.

**Measurement focus, basis of accounting and presentation:** The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units, and the Port is accounted for as a business-type activity. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port accounts for its activities in its Enterprise Fund and Fiduciary Fund on a flow of economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Port also follows the Uniform System of Accounts for Port Districts in the State of Washington.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Port include estimates surrounding environmental liabilities and estimates associated with pension and OPEB accounting. Actual results could differ from those estimates.

**Significant risks and uncertainties:** The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law.

The formation of the NWSA is intended to eliminate pricing competition between the home ports by creating a unified gateway to allow for coordination of customer relationships, to improve capacity utilization between the home ports and to rationalize strategic capital investments. The formation of the NWSA may or may not successfully address these risks, and may create new risks, including the risks associated with undertaking a new joint venture with an outside entity, the risk associated with the operating and financial performance of additional facilities, and exposure to the financial strength of the Port of Seattle to make future capital expenditures.

## Port of Tacoma

### Notes to Financial Statements

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#### **Note 1. Summary of Significant Accounting Policies (Continued)**

Under the NWSA Interlocal Agreement and the Charter, the Port has agreed to work cooperatively with the Port of Seattle and, accordingly, has agreed not to act unilaterally with respect to certain matters. Decisions that could have a material effect on the Port, including new business agreements and leases or amendments to existing agreements and leases and future capital contributions to the NWSA, must be approved by each Managing Member and, accordingly, the Port will need to reach an agreement with the Port of Seattle on these matters prior to executing any changes.

The Charter requires that the NWSA maintains the Bond Income Calculation and not take any action that would reasonably reduce its income below this minimum net operating income level unless each Managing Member votes separately to approve that action. This minimum net operating level is established based on the amount required at formation of the NWSA for the home ports to meet their then-current bond rate covenants and may not always reflect the amount required to meet bond rate covenants on a go-forward basis.

If net income before depreciation of the NWSA is not sufficient for either port to be in compliance with a rate covenant (as described in each home port's governing bond resolutions in effect as of the effective date), then (i) upon that home port's request, the NWSA shall hire an independent third-party consultant to perform an analysis and make recommendations for actions needed to achieve bond covenant compliance; (ii) if the consultant recommends an action that the NWSA is unwilling, unable or refuses to undertake, either Managing Member can require dissolution of the NWSA following the dispute resolution process even if within the "Initial Period" (as defined in the Charter, "the expiration of 20 years following the NWSA's formation"); and (iii) the NWSA shall have at least four months to respond, act and or dissolve following its receipt of the consultant's recommended action, unless a shorter time is required by the applicable bond covenants.

**Cash:** Cash represents cash and demand deposits. The Port maintains its cash in bank deposit accounts which are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington.

**Trade accounts receivable:** Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts at December 31, 2022 and 2021, was \$49,000.

**Investments:** Investments, unrestricted and restricted, except for the investments in the Washington State Local Government Investment Pool (LGIP) are stated at fair value, which is the price that would be received in an orderly transaction between market participants at the measurement date. The LGIP is similar to a money market fund recognized by the Securities and Exchange Commission. The LGIP invests in U.S. Agency Securities, Repurchase Agreements, U.S. Treasury Securities, Interest Bearing Bank Deposits and Certificates of Deposit. The investments are limited to high-quality obligations with limited maximum and average maturities. The pool is valued at amortized cost. Interest income on investments is recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20% of its holdings in any one investment. See Note 2 for further information.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Investment in joint venture:** The Port adopted joint-venture accounting beginning January 1, 2016, to account for its 50% share in the NWSA. The Port's investments and the Port's 50% share of NWSA's net income and cash distributions will be presented on the statements of net position as investment in joint venture. The Port's 50% of the NWSA's net income and losses are presented on the statements of revenues, expenses and changes in net position as joint venture income. Additional information about the NWSA is presented in the MD&A and Note 17, Joint Venture.

**Bond reserves - restricted:** Required bond reserves and unspent bond proceeds, if any, are not available for current expenses when constraints placed on their use are legally enforceable due to (1) externally imposed requirements by creditors; (2) laws or regulations of other governments; and (3) constitutional provisions or enabling legislation are included in this category.

**Prepayments and other current assets:** Consist of prepaid expenses for various items as well as maintenance supplies. Maintenance supply inventories of \$3.5 million and \$3.5 million at December 31, 2022 and 2021, respectively, are valued at net realizable value, which approximates cost using the weighted-average method.

**Capital assets and depreciation and amortization:** Capital assets are recorded at cost.

The Port's policy is to capitalize all asset additions greater than \$20,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. The following lives are used:

	<u>Years</u>
Buildings and improvements	10-75
Machinery and equipment	3-20

Preliminary costs incurred for proposed projects are reported as construction in process on the statements of net position during construction of the facility. As projects are constructed, the project costs are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

**Intangible assets:** Intangible assets consist of assets that lack physical substance, are nonfinancial in nature and whose initial useful life extends beyond one reporting period and intangible right to use assets for leases. Intangible assets primarily consist of a land exchange and right-of-way rights and are classified with capital assets in the accompanying financial statements. Management has determined that there are no factors that would limit the useful life of these assets; therefore, they are considered indefinite-lived assets and are not being amortized and totaled \$32.3 million at December 31, 2022 and 2021. Intangible right to use assets related to leases were \$0.9 million, net of amortization at December 31, 2022 and 2021, respectively (see Note 7).

**Net position:** The Port's net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Port or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Net investment in capital assets consists of the following at December 31 (dollars in thousands):

	2022	2021
Capital and intangible assets, net	\$ 880,553	\$ 895,728
Less:		
Net bond premium	39,571	43,600
Advance refunding deferred losses	(5,089)	(5,453)
Long-term debt, including current portion	521,807	539,827
Capital related accrual and accounts payable	1,038	2,075
Net investment in capital assets	<u>\$ 323,226</u>	<u>\$ 315,679</u>

The restricted component of net position was \$22.2 million and \$20.7 million at December 31, 2022 and 2021, respectively, and consisted primarily of bond reserves, as required per certain bond agreements and restricted net position for the Post-employment Health Benefits Trust.

The unrestricted component of net position is the net amount of the assets and deferred outflows of resources, less liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

**Leases:** The Port defines a lease as a noncancellable contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. The contract must be legally enforceable.

At the commencement of the lease, the Port measures the lease receivable (liability) at the present value of payments expected to be received over the course of the lease term. Subsequently, the lease receivable (liability) is reduced by the principal portion of lease payments received (paid).

Key estimates and judgements related to leases with the Port are as follows:

- The Port's incremental borrowing rate is used as the discount rate to measure lease liability and lease receivable.
- Projected lease revenues and expenses included in the measurement of the lease are composed of fixed payments required per lease terms as well as any variable payments that are fixed in substance. All other variable payments are excluded.
- The lease will not be remeasured solely for a change in the variable payments unless there are any required remeasurement events.
- The lease term includes the noncancellable period of the lease in which both the lessee and the lessor have a unilateral option to terminate are excluded from the lease term.
- Only lease incentive payments that are fixed or fixed in substance are included in the initial measurement and subject to remeasurement; variable or contingent lease incentive payments are not included in initial measurement.

The Port monitors changes in circumstances that may require remeasurement of a lease receivable or lease liability. When certain changes occur that are expected to significantly affect the amount of the lease, the lease receivable or lease liability is remeasured, and a corresponding adjustment is made to the deferred inflow of resources or capital assets.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Retentions payable:** The Port enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Port. The Port's policy is to pay the retention due only after completion and acceptance have occurred. Retentions payable totaled \$169,000 and \$31,000 at December 31, 2022 and 2021, respectively. Retentions payable are included in accounts payable and accrued liabilities on the accompanying statements of net position.

**Federal and state grants:** The Port may receive federal and state grants as reimbursement for construction of facilities, environmental programs and terminal security infrastructure and maintenance. These grants are recognized on a reimbursement basis and included in capital contributions on the accompanying statements of revenues, expenses and changes in net position.

**Commercial paper and current portion of long-term debt:** Commercial paper includes borrowings with original maturities of less than one year and current portion of long-term debt is the portion of long-term debt payable within 12 months (see Notes 4 and 5).

**Interest rate payment agreements:** The Port accounts for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) on the statements of net position at fair value. The payment instruments were designated as highly effective cash flow hedges at December 31, 2022 and 2021 (see Note 5).

**Refunding of debt:** Proceeds from bond defeasance are deposited in an irrevocable trust, with an escrow agent to service the debt on the refunded bonds. Accordingly, the defeased bonds and the related Trust, are not recorded on the Port's financial statements. The difference between the reacquisition price and the carrying amount of defeased debt results in either a gain or loss that is amortized over the life of the new debt or old debt, whichever is shorter (see Note 5).

**Employee benefits:** The Port accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation. Accrued vacation and sick leave included in payroll and taxes payable amounted to \$1.5 million and \$0.6 million, respectively, at December 31, 2022, and \$1.4 million and \$0.6 million, respectively, at December 31, 2021. These accrued benefits for vacation and sick leave are expected to be paid in 2023. Vacation and sick leave paid in 2022 were \$1.5 million and \$0.8 million, respectively, and \$1.4 million and \$0.7 million, respectively, in 2021.

The Port provides health care benefits for eligible employees through the HRA VEBA Trust, which is a nonprofit, multiple employer voluntary employees' beneficiary association (VEBA) authorized under Internal Revenue Code 501(c)(9). The HRA VEBA Trust offers a funded health reimbursement arrangement (HRA) plan available to certain governmental employers in the Northwest (Washington, Oregon and Idaho). The Trust is managed by a Board of Trustees elected by the plan participants, participating employers, or the board itself, depending on the Trustee position. The Port has two plans, one of which was closed to new employees hired after July 1, 2015 (VEBA5); the second plan is open to all eligible employees. The Port contributed \$0.4 million to eligible employee VEBA accounts in 2022 and 2021, respectively.

The Port offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Port employees, permits them to defer a portion of their salary until future years. In accordance with GASB authoritative guidance, accounting and reporting for Internal Revenue Code Section 457 deferred compensation plans, employee assets are not reflected in the Port's financial statements. This plan is fully funded and held in an external trust.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Post-Employment Health Care Benefits Trust:** The Port provides major medical coverage for eligible retired employees through the single-employer Post-Employment Defined Benefit Health plan (the Plan). The Plan is administered through the Port's self-insured medical plan. The Port established the Port of Tacoma Post-Employment Healthcare Funding Obligation Trust (the Trust) to be used solely for the cost of medical coverage for eligible Plan participants and for the payment of the cost of administering the Plan. The Port is the sole administrator and fiduciary of the Trust.

The net other post-employment benefits (OPEB) other than pensions asset complied with the provisions of GASB Statement Nos. 74 and 75 (see Note 9). The Plan's audited financial statements for 2022 and 2021 may be found on pages 20 and 21 of this report.

**Pensions:** The Port's full-time and qualifying part-time employees participate in the cost-sharing, multiple-employer public employee defined benefit retirement plans administered by the Washington State Department of Retirement Systems (DRS). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Washington State Department of Retirement Systems Plan (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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 (see Note 8).

**Environmental remediation costs:** The Port environmental remediation policy requires accrual of pollution remediation obligation amounts when (a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include imminent endangerment to the public; permit violation; Port named as party responsible for sharing costs; Port named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's pollution remediation obligation. Costs incurred for pollution remediation obligations are typically recorded as non-operating environmental expenses unless the expenditures relate to the Port's principal ongoing operations, in which case, they are recorded as operating expenses. Costs incurred for pollution remediation obligations can be capitalized if they meet specific criteria. Capitalization criteria include preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant and equipment that have a future alternative use not associated with pollution remediation efforts. See Note 12 for additional details.

**Security deposits:** Under the terms of certain licensed property lease agreements, the Port's customers or tenants are required to provide security in the event of delinquencies in rent payment, default, or other events defined in these agreements. The security amounts are determined by lease terms. The Port held \$5.0 million and \$4.7 million in security deposits at December 31, 2022 and 2021, respectively, which are recorded as other long-term liabilities on the statements of net position.

**Deferred outflow and inflow of resources:** Deferred outflow of resources is a consumption of net position that is applicable to a future reporting period(s). The Port reports deferred outflows on the statements of net position for its fair value of hedging derivatives, pension and OPEB plans, and for the deferred cost of advance refunded bonds. Deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period(s). The Port records deferred inflow of resources on the statements of net position for its leases, pension and OPEB plans.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**Operating and non-operating revenues and expenses:** Property rental revenues are charges for use of the Port's facilities and are reported as operating revenue. Joint venture income is the Port's proportionate share of the NWSA net income earned on licensed home port assets and is reported as operating revenue. Ad valorem tax levy revenues and other revenues generated from non-operating sources are classified as non-operating. Operating expenses are costs primarily related to property rental activities. Interest expense and other expenses incurred not related to the normal operations of the Port's property rental activities are classified as non-operating.

**Reclassifications and presentation:** Certain reclassifications of prior years' balances have been made to conform with the current year presentations. These reclassifications did not affect the ending net position or the change in net position.

**Recent accounting pronouncements:** In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The statement addresses issues related to public-private and public-public partnership arrangements and provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Port is currently evaluating the effect of this statement on its financial statements and related disclosures.

In June 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Port is currently evaluating the effects of this statement on its financial statements and related disclosures.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The statement provides guidance on the requirements related to the extension of the use of London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, as well as terminology updates which were effective immediately upon issuance. The adoption of these requirements did not have a material effect on the Port's financial statements. Additionally, the Statement provides guidance related to leases, PPPs, and SBITAs which are effective for reporting periods beginning after June 15, 2022 and guidance related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 which is effective for reporting periods beginning after June 15, 2023. The Port is currently evaluating the effects these provisions will have on its financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. The statement defines accounting changes and prescribes the accounting and financial reporting for each type of accounting change and error corrections. The requirements of this statement are effective for reporting periods beginning after June 15, 2023. The Port is currently evaluating the effects of this statement on its financial statements and related disclosures.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The statement updates the recognition and measurement guidance for compensated absences to better meet the information needs of financial statement users. The requirements of this statement are effective for reporting periods beginning after December 15, 2023. The Port is currently evaluating the effects of this statement on its financial statements and related disclosures.



## Port of Tacoma

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Concluded)

**Recent accounting pronouncements adopted:** In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. The statement established the term annual comprehensive financial report and its acronym, ACFR, to replace the term comprehensive annual financial report and its acronym. The requirements of this statement were effective for reporting periods ending after December 15, 2021. The adoption of this statement did not have a material impact to the financial statements and related disclosures.

#### Note 2. Deposits and Investments

**Discretionary deposits:** The Port's cash and cash equivalents of \$2.2 million and \$1.6 million as of December 31, 2022 and 2021 respectively, were deposited in qualified depositories as required by state statute. Deposits in excess of federal depository insurance coverage are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority under Chapter 39.58 RCW. Currently, all well-capitalized public depositories with the state are required to collateralize uninsured public deposits at 50%.

**Investments:** State of Washington statutes authorize the Port to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper, certain corporate notes, supranationals and municipal bonds. These investments must be placed with or through qualified public depositories of the State of Washington.

#### Risks:

**Concentration risk:** Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port's investment guidelines require diversification and sets limits on amount of investments by security and by issuer.

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Port's investment guideline is to maximize investment return while preserving liquidity. To the extent possible, the Port will attempt to match its investments with anticipated cash flow requirements.

**Credit risk:** Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Washington State LGIP is an unrated external investment pool, as defined by the GASB.

**Custodial credit risk:** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping bank. Except for the Washington State LGIP, the Port's investment securities are registered, or held by the Port of Tacoma or its agent in the Port of Tacoma's name. The certificates of deposit are covered by the PDPC of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC) <http://www.fdic.gov/deposit/deposits/Factsheet.html> by requiring banks and thrifts to pledge securities as collateral.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 2. Deposits and Investments (Continued)

The LGIP manages a portfolio of securities that meet the maturity, quality, diversification and liquidity requirements set forth by the GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high-quality obligations with regulated maximum and average maturities to minimize both market and credit risk.

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over \$1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1 million when notification is made between 9 a.m. and 10 a.m., at the sole discretion of the Office of the State Treasurer. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds.

**Restricted investments:** Investments that are limited as to the manner in or purpose for which they may be used as imposed on by external persons or bodies, through constitutional provision, or via enabling legislation. The Port's restricted investments include revenue bond reserves and insurance reserves.

Investments and restricted investments for the Enterprise Fund on the statements of net position at December 31 are as follows (dollars in thousands):

	2022	2021
Investments	\$ 199,866	\$ 198,040
Bond reserves	17,258	18,317
Total deposits and investments	<u>\$ 217,124</u>	<u>\$ 216,357</u>

See Note 9 for disclosures regarding the fiduciary fund investments.

## Port of Tacoma

### Notes to Financial Statements

#### Note 2. Deposits and Investments (Continued)

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port investment portfolio (excluding investments held by the Post-Employment Health Care Benefits Trust Fund, see Note 9 for investment detail for the Trust) as of December 31 (dollars in thousands):

Investment Type	2022				Percentage of Total Portfolio
	Maturities (in years)				
	Fair Value	Less than 1	1-3	More than 3	
Certificate of Deposit	\$ 344	\$ 344	\$ -	\$ -	0.2%
Corporate Bonds	11,819	7,913	1,994	1,912	5.4%
Escrow Deposit with US Bank	56	56	-	-	0.0%
Federal Farm Credit Bank	2,993	-	2,993	-	1.4%
Federal Home Loan Bank	14,251	4,966	4,778	4,507	6.6%
Federal Home Loan Mortgage Corporation	5,492	-	5,492	-	2.5%
Federal National Mortgage Association	4,481	-	4,481	-	2.1%
Municipal Bonds	39,051	-	-	39,051	18.0%
Supranationals	9,530	5,784	3,746	-	4.4%
United States Treasury Bonds	32,251	10,775	16,686	4,790	14.9%
State Local Investment Pool*	96,856	96,856	-	-	44.5%
Total investments	\$ 217,124	\$ 126,694	\$ 40,170	\$ 50,260	100.0%
Percentage of total portfolio		58.4%	18.5%	23.1%	100.00%

Investment Type	2021				Percentage of Total Portfolio
	Maturities (in years)				
	Fair Value	Less than 1	1-3	More than 3	
Certificate of Deposit	\$ 342	\$ 342	\$ -	\$ -	0.2%
Escrow Deposit with US Bank	55	55	-	-	0.0%
Corporate Bonds	8,230	-	8,230	-	3.8%
Federal Home Loan Bank	7,966	1,011	1,981	4,974	3.7%
Federal Home Loan Mortgage Corporation	5,919	-	-	5,919	2.7%
Federal National Mortgage Association	4,886	-	-	4,886	2.3%
Municipal Bonds	43,671	1,705	-	41,966	20.1%
Supranationals	9,960	-	7,989	1,971	4.6%
United States Treasury Bonds	15,764	-	5,926	9,838	7.3%
State Local Investment Pool*	119,564	119,564	-	-	55.0%
Total investments	\$ 216,357	\$ 122,677	\$ 24,126	\$ 69,554	99.7%
Percentage of total portfolio		56.7%	11.2%	32.1%	100.00%

\* Investments in Washington State Local Government Investment Pool. The investments in the pool are valued at amortized cost of the pool shares.

## Port of Tacoma

### Notes to Financial Statements

#### Note 2. Deposits and Investments (Concluded)

The tables below identify the credit risk of the Port's investment portfolio as of December 31 (dollars in thousands):

Investment Type	2022							
	Moody's Equivalent Credit Ratings							
	Fair Value	A2	A1	Aa3	Aa2	Aa1	Aaa	No Rating
Certificate of Deposit	\$ 344	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344
Corporate Bonds	11,819	-	5,703	-	1,994	-	4,122	-
Escrow Deposit with US Bank	56	-	-	-	-	-	-	56
Federal Farm Credit Bank	2,993	-	-	-	-	-	2,993	-
Federal Home Loan Bank	14,251	-	-	-	-	-	14,251	-
Federal Home Loan Mtg Corp	5,492	-	-	-	-	-	5,492	-
Federal National Mtg Assn	4,481	-	-	-	-	-	4,481	-
Municipal Bonds	39,051	-	488	1,620	10,794	8,940	15,123	2,086
Supranationals	9,530	-	-	-	-	-	9,530	-
United States Treasury Bonds	32,251	-	-	-	-	-	27,546	4,705
State Local Investment Pool*	96,856	-	-	-	-	-	-	96,856
Total	\$ 217,124	\$ -	\$ 6,191	\$ 1,620	\$ 12,788	\$ 8,940	\$ 83,538	\$ 104,047

  

Investment Type	2021							
	Moody's Equivalent Credit Ratings							
	Fair Value	A2	A1	Aa3	Aa2	Aa1	Aaa	No Rating
Certificate of Deposit	\$ 342	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 342
Corporate Bonds	8,230	-	3,976	-	-	-	4,254	-
Escrow Deposit with US Bank	55	-	-	-	-	-	-	55
Federal Home Loan Bank	7,966	-	-	-	-	-	7,966	-
Federal Home Loan Mtg Corp	5,919	-	-	-	-	-	5,919	-
Federal National Mtg Assn	4,886	-	-	-	-	-	4,886	-
Municipal Bonds	43,671	-	544	2,827	13,819	6,371	17,917	2,193
Supranationals	9,960	-	-	-	-	-	9,960	-
United States Treasury Bonds	15,764	-	-	-	-	-	10,954	4,810
State Local Investment Pool*	119,564	-	-	-	-	-	-	119,564
Total	\$ 216,357	\$ -	\$ 4,520	\$ 2,827	\$ 13,819	\$ 6,371	\$ 61,856	\$ 126,964

\* Investments in Washington State Local Government Investment Pool. The investments in the pool are valued at amortized cost of the pool shares.

See Note 16 for fair value measurement disclosures of the Port's investments.

## Port of Tacoma

### Notes to Financial Statements

#### Note 3. Capital and Intangible Assets

The following activity took place in capital and intangible assets during 2022 (dollars in thousands):

	2022				
	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital and intangible assets not being depreciated and amortized:					
Land	\$ 574,057	\$ -	\$ 8,293	\$ -	\$ 582,350
Intangible assets	32,264				32,264
Construction in process	15,688	8,588	(10,913)	(2,102)	11,261
Total capital and intangible assets not being depreciated and amortized	622,009	8,588	(2,620)	(2,102)	625,875
Capital and intangible assets being depreciated and amortized:					
Buildings	98,124	-	2,062	(760)	99,426
Improvements	670,574	-	-	1,255	671,829
Machinery and equipment	87,633	-	558	279	88,470
Intangible leased assets	1,427	211		-	1,638
Total capital and intangible assets being depreciated and amortized	857,758	211	2,620	774	861,363
Less accumulated depreciation and amortization:					
Buildings	(75,574)	(3,011)	-	760	(77,825)
Improvements	(433,381)	(17,529)	-	69	(450,841)
Machinery and equipment	(74,599)	(2,714)	-	66	(77,247)
Intangible leased assets	(485)	(287)		-	(772)
Total accumulated depreciation and amortization	(584,039)	(23,541)	-	895	(606,685)
Net capital and intangible assets being depreciated and amortized	273,719	(23,330)	2,620	1,669	254,678
Net capital and intangible assets	\$ 895,728	\$ (14,742)	\$ -	\$ (433)	\$ 880,553

The following activity took place in capital and intangible assets during 2021 (dollars in thousands):

	2021				
	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital and intangible assets not being depreciated and amortized:					
Land	\$ 573,918	\$ -	\$ 192	\$ (53)	\$ 574,057
Intangible assets	32,264	-	-	-	32,264
Construction in process	7,827	7,759	(841)	943	15,688
Total capital and intangible assets not being depreciated and amortized	614,009	7,759	(649)	890	622,009
Capital and intangible assets being depreciated and amortized:					
Buildings	100,289	-	151	(2,316)	98,124
Improvements	673,833	-	(622)	(2,637)	670,574
Machinery and equipment	86,623	-	1,120	(110)	87,633
Intangible leased assets	1,427	-	-	-	1,427
Total capital and intangible assets being depreciated and amortized	862,172	-	649	(5,063)	857,758
Less accumulated depreciation and amortization:					
Buildings	(74,261)	(2,943)	-	1,630	(75,574)
Improvements	(415,234)	(19,573)	-	1,426	(433,381)
Machinery and equipment	(71,922)	(2,787)	-	110	(74,599)
Intangible leased assets	(238)	(247)	-	-	(485)
Total accumulated depreciation and amortization	(561,655)	(25,550)	-	3,167	(584,039)
Net capital and intangible assets being depreciated and amortized	300,517	(25,550)	649	(1,895)	273,719
Net capital and intangible assets	\$ 914,526	\$ (17,791)	\$ -	\$ (1,005)	\$ 895,728

## Port of Tacoma

### Notes to Financial Statements

#### Note 4. Commercial Paper

The Port is authorized to use Subordinate Lien Revenue Notes (commercial paper) in an amount not to exceed \$100 million. The Port issues commercial paper to provide interim financing for capital asset projects. The draws are secured by a bank letter of credit that was renewed in January 2022, extending the expiration date to March 14, 2025.

The term of the commercial paper ranges from 1 to 270 days. At December 31, 2022 and 2021, there were no advances outstanding. The terms in this agreement are consistent with the Port's publicly issued variable rate bonds and do not contain unusual clauses for additional events of default or termination events different than the Port's publicly traded bonds and are not subject to acceleration in the event of default. The Port did not have commercial paper activity during 2022 and 2021.

#### Note 5. Long-Term Debt

The Port's long-term debt activity by type of debt for 2022 and 2021 is presented in the following tables (dollars in thousands):

2022										
Description and Date of Issue	**** Type	Original Coupon Rate	Original True Interest Cost ***	Earliest Year of Call	Last Year of Maturity	December 31, 2021	Issuance	Refundings/ Repayments	December 31, 2022	
General Obligation Bonds										
09/08/16	A	Bonds	3.00-5.00%	2.705%	2026	2038	\$ 103,835	\$ -	\$ (2,440)	\$ 101,395
09/06/17		Bonds	2.50-3.40%	3.177%	2027	2038	17,135	-	(795)	16,340
04/08/21		DB	0.690%	0.690%	*	2025	14,592	-	(3,540)	11,052
						135,562	-	(6,775)	128,787	
Net premium						15,980				14,434
Less current portion						(6,775)				(6,956)
Total long-term general obligation bonds, net of current portion						\$ 144,767				\$ 136,265
Revenue Bonds										
03/07/08		Bonds	Variable Rate	Variable Rate	*	2036	\$ 55,945	\$ -	\$ (3,330)	\$ 52,615
07/15/09**		Bonds	Variable Rate	Variable Rate	*	2044	122,180	-	-	122,180
09/08/16	A	Bonds	4.00-5.00%	2.552%	2026	2034	36,535	-	(2,090)	34,445
09/08/16	B	Bonds	2.00-5.00%	3.642%	2026	2043	100,515	-	(685)	99,830
09/30/19	A	Bonds	5.00%	1.822%	N/A	2031	29,845	-	(2,570)	27,275
09/30/19	A	Bonds	Variable Rate	Variable Rate	*	2035	38,115	-	-	38,115
10/29/20	A	DB	1.35%	1.350%	*	2029	21,130	-	(2,570)	18,560
						404,265	\$ -	\$ (11,245)	393,020	
Net premium						27,620				25,137
Less current portion						(11,245)				(11,720)
Total long-term revenue bonds, net of current portion						\$ 420,640				\$ 406,437

\* Currently callable by the Port but intent is to pay off in accordance with stated maturity dates.

\*\* This bond issue was originally issued as 2008B and, during 2009, the bonds were reissued to secure a better rate. The new bond issue is still referred to as 2008B in all official documents.

\*\*\* Original True Interest Cost (TIC) is the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds. TIC considers the time value of money and all costs associated with issuing the bonds.

\*\*\*\* Direct Borrowings (DB) are bonds held by banks.

## Port of Tacoma

### Notes to Financial Statements

#### Note 5. Long-Term Debt (Continued)

2021									
Description and Date of Issue	**** Type	Original Coupon Rate	Original True Interest Cost ***	Earliest Year of Call	Last Year of Maturity	December 31, 2020	Issuance	Refundings/ Repayments	December 31, 2021
General Obligation Bonds									
02/25/16	DB	1.06-2.36%	1.994%	*	2025	\$ 18,075	\$ -	\$ (18,075)	\$ -
09/08/16	A	Bonds 3.00-5.00%	2.705%	2026	2038	106,155	-	(2,320)	103,835
09/06/17		Bonds 2.50-3.40%	3.177%	2027	2038	17,910	-	(775)	17,135
04/08/21	DB	0.690%	0.690%	*	2025	-	18,075	(3,483)	14,592
						142,140	18,075	(24,653)	135,562
Net premium						17,531			15,980
Less current portion						(6,578)			(6,775)
Total long-term general obligation bonds, net of current portion						\$ 153,093			\$ 144,767
Revenue Bonds									
03/07/08	Bonds	Variable Rate	Variable Rate	*	2036	\$ 59,150	\$ -	\$ (3,205)	\$ 55,945
07/15/09**	Bonds	Variable Rate	Variable Rate	*	2044	122,180	-	-	122,180
09/08/16	A	Bonds 4.00-5.00%	2.552%	2026	2034	36,535	-	-	36,535
09/08/16	B	Bonds 2.00-5.00%	3.642%	2026	2043	101,170	-	(655)	100,515
09/30/19	A	Bonds 5.00%	1.822%	N/A	2031	32,295	-	(2,450)	29,845
09/30/19	A	Bonds Variable Rate	Variable Rate	*	2035	38,115	-	-	38,115
10/29/20	A	DB 1.35%	1.350%	*	2029	23,635	-	(2,505)	21,130
						413,080	\$ -	\$ (8,815)	404,265
Net premium						30,091			27,620
Less current portion						(8,815)			(11,245)
Total long-term revenue bonds, net of current portion						\$ 434,356			\$ 420,640

\* Currently callable by the Port but intent is to pay off in accordance with stated maturity dates.

\*\* This bond issue was originally issued as 2008B and, during 2009, the bonds were reissued to secure a better rate. The new bond issue is still referred to as 2008B in all official documents.

\*\*\* Original True Interest Cost (TIC) is the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds. TIC considers the time value of money and all costs associated with issuing the bonds.

\*\*\*\* Direct Borrowings (DB) are bonds held by banks.

**General obligation bonds:** General obligation bonds are limited tax general obligations of the Port. The Port has outstanding bonds that are publicly issued or bonds that are direct borrowings held by a bank. The Port uses ad valorem tax revenues to pay the general obligation bond principal and the related interest. Ad valorem tax revenues may not be used to pay revenue bond debt. Per Chapter 53.36 RCW, the Port may incur general obligation bond debt up to 0.25% of the assessed value of the taxable property in the Port district without a vote. At December 31, 2022, the assessed value of the taxable property was \$190,571.6 million; therefore, total general obligation bond debt allowable without a vote was \$476.4 million. The Port's outstanding non-voted general obligation bond debt as of December 31, 2022, was \$128.8 million, resulting in a remaining non-voted general obligation bond capacity of \$347.6 million.

In April 2021, the Port issued general obligation bonds par value \$18.1 million with a coupon rate of 0.69% through direct borrowing to refund 2016 General Obligation Bonds par value of \$18.1 million. The newly issued General Obligation Bonds were issued at par and the net proceeds were \$18.1 million. The net proceeds from the issuance of the General Obligation Bonds were used to call the old debt in the amount of \$18.1 million. Bond issue costs associated with the refunding were \$83,000 and paid from Port cash. The refunding met the requirements of an in-substance debt defeasance, and the Series 2016 General Obligation Bonds were removed from the Port's financial statements.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 5. Long-Term Debt (Continued)

The terms in these direct borrowing agreements are consistent with the Port's publicly issued variable-rate bonds and contain similar clauses that address events of default and termination events. In addition, the direct borrowing agreements are not subject to acceleration in the event of default.

As a result of the refunding of the 2016 General Obligation Bonds, the Port reduced its total debt service requirements by \$0.6 million which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$0.6 million over the life of the bonds.

**Direct borrowing general obligation bonds:** The 2021 general obligation bonds with an outstanding balance at December 31, 2022 of \$11.1 million are refunding bonds held by a bank that expire in 2025. The bonds are fixed-rate bonds with original coupon rate of 0.69%. The bonds are funded by the Port's tax levy. The terms in the direct borrowing agreement are consistent with the Port's publicly issued general obligation bonds and contain similar clauses that address significant default and termination events. In addition, the direct borrowing agreement is not subject to acceleration upon an event of default.

**Revenue bonds:** The revenue bonds are secured by a pledge of the Port's net operating revenues as defined by bond documents. The outstanding revenue bonds are publicly issued or are held by banks through direct borrowings. Revenue bond proceeds finance acquisition, expansion, improvement and equipping Port terminal and industrial development facilities. The Port has pledged future net operating revenues to repay \$629.7 million in bond principal and interest through 2044. In 2022, revenue bond principal and interest were \$29.2 million and total revenues were \$82.9 million. During 2021, revenue bond principal and interest were \$17.6 million and total restated revenues were \$87.5 million. The revenue bonds contain coverage requirements related to maintaining adequate net revenues to support debt service.

**Revenue bond direct borrowings:** The 2020 revenue bonds with an outstanding balance at December 31, 2022 of \$18.6 million are refunding bonds held by a bank that expire in 2029. The bonds are fixed-rate bonds with original coupon rate of 1.35%. The terms in the direct borrowing agreement are consistent with the Port's publicly issued general obligation bonds and contain similar clauses that address significant default and termination events. In addition, the direct borrowing agreement is not subject to acceleration upon an event of default.

**Variable-rate servicing agreements:** The Port entered into reimbursement agreements with banks to provide Letter of Credit support on its variable-rate bonds. The reimbursement agreements have terms up to three years. The reimbursement agreement for the 2008B variable rate bonds with an outstanding amount of \$122.2 million at December 31, 2022 was set to expire on March 29, 2023 and was extended to March 27, 2026. The interest rate on the extended agreement is 0.38% compared to the previous agreement of 0.35% which equates to an increase in annual interest of approximately \$37,000.

**Interest rate payment agreements (swaps):** The Port entered into four swaps so that it may mitigate interest rate risk associated with the Port's variable-rate debt. The swaps synthetically fix or "lock-in" interest rates on variable revenue bond debt by requiring the Port to pay a fixed interest rate on the nominal value of the swap and receive variable interest rate cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payments identified in each swap agreement.



## Port of Tacoma

### Notes to Financial Statements

#### Note 5. Long-Term Debt (Continued)

The Port's existing swap contracts and the outstanding notional amounts at December 31, 2022, are detailed as follows. No cash was paid from the Port to the counterparty when the swaps were created (dollars in thousands):

SWAP Reference	Type	Notional Amount	Notional Amount	Options	Start Date	Effective Date	Maturity Date	Terms
2	Pay-fixed interest rate swap	\$ 30,000	\$ 19,020	None	9/25/08	9/25/08	12/1/36	Pay 3.320%, receive 70% of LIBOR (1)
3	Pay-fixed interest rate swap	80,000	62,055	None	9/20/07	7/28/11	12/1/40	Pay 4.155%, receive 70% of LIBOR (1)
4	Pay-fixed interest rate swap	130,000	102,625	None	9/20/07	7/26/12	12/1/41	Pay 4.200%, receive 70% of LIBOR (1)
5	Pay-fixed interest rate swap	20,000	16,030	None	9/20/07	7/25/13	12/1/42	Pay 4.229%, receive 70% of LIBOR (1)
		<u>\$ 260,000</u>	<u>\$ 199,730</u>					

(1) One-month London Interbank Offered Rate.

The following table reflects the outstanding variable-rate debt that is matched to outstanding swap agreements (dollars in thousands):

Variable-Rate Debt	Outstanding Principal December 31, 2022	Outstanding Principal December 31, 2021
2008	\$ 52,615	\$ 55,945
2008B	122,180	122,180
2019A	38,115	38,115
Unhedged debt	(13,180)	(9,131)
	<u>\$ 199,730</u>	<u>\$ 207,109</u>

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2022 and 2021 (dollars in thousands):

SWAP	2022 Changes in Fair Value		Fair Value at 12/31/22		Original Notional
Reference	Classification	Amount	Classification	Amount	Amount
2	Deferred outflow	\$ 2,869	Debt	\$ (927)	\$ 30,000
3	Deferred outflow	12,245	Debt	(8,115)	80,000
4	Deferred outflow	21,123	Debt	(14,536)	130,000
5	Deferred outflow	3,436	Debt	(2,414)	20,000
		<u>\$ 39,673</u>		<u>\$ (25,992)</u>	<u>\$ 260,000</u>

Note: Swap Reference 1 was terminated in 2016.

## Port of Tacoma

### Notes to Financial Statements

#### Note 5. Long-Term Debt (Continued)

SWAP Reference	2021 Changes in Fair Value		Fair Value at 12/31/21		Original Notional Amount
	Classification	Amount	Classification	Amount	
2	Deferred outflow	\$ 1,255	Debt	\$ (3,796)	\$ 30,000
3	Deferred outflow	4,671	Debt	(20,360)	80,000
4	Deferred outflow	7,779	Debt	(35,659)	130,000
5	Deferred outflow	1,224	Debt	(5,850)	20,000
		<u>\$ 14,929</u>		<u>\$ (65,665)</u>	<u>\$ 260,000</u>

Note: Swap Reference 1 was terminated in 2016.

**Risks:** The Port mitigates swap-related risk by following its Payment Agreement Guidelines. These guidelines are published in the Port's Annual Budget document within its Debt Guidelines. The guidelines manage each of the risks below:

**Counterparty or credit risk:** The Port's derivative instruments are held by three separate counterparties. By agreement, the Port requires posting of collateral when the counterparty owes to the Port on the swap termination value (market value). The credit ratings for each of the counterparties are as follows (dollars in thousands):

SWAP Reference	Notional Amount	Bank Counterparty	Credit Worthiness		Termination Value
			Moody's	S&P	
2	\$ 30,000	Goldman Sachs	A1	A+	\$ (927)
3	80,000	Dexia	Baa3	BBB	(8,115)
4	130,000	Dexia	Baa3	BBB	(14,536)
5	20,000	Merrill Lynch	A2	A-	(2,414)
	<u>\$ 260,000</u>				<u>\$ (25,992)</u>

Note: Swap Reference 1 was terminated in 2016.

**Termination risk:** The Port or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If the swap counterparty's credit rating deteriorates below A3/A- (Moody's/Standard & Poor's), the Port may terminate the swap at market value; however, the Port may, at its option, continue in the swap. The Port requires the posting of collateral and works with financially strong counterparties to help mitigate this risk.

**Basis risk:** The Port pays a daily interest rate to its bondholders and receives 70% of one-month LIBOR from its swap counterparties. In exchange for the fixed swap rates associated with using the LIBOR index, the Port bears the risk that it could incur a shortfall between the variable rate paid on the bonds and the variable rate received on the swaps.

**Rollover risk:** The Port matched the term of its existing swap contracts to the term of the underlying debt so that it minimizes its exposure to rollover risk.

**Foreign currency risk:** The Port's derivative instruments are denominated in U.S. dollars.

## Port of Tacoma

### Notes to Financial Statements

#### Note 5. Long-Term Debt (Continued)

**Contingencies:** If the Port's credit rating falls below A3/A- (Moody's/Standard & Poor's) for the swap with Goldman Sachs or below Baa2/BBB (Moody's/Standard & Poor's) for the other swaps, the Port bears the risk that its counterparties may terminate the agreement. The Port is prohibited by RCW 39.96 from posting collateral. The Port's subordinate lien credit rating is A1/AA- (Moody's/Standard & Poor's) at December 31, 2022.

**Debt service for fixed- and variable-rate bonds estimated future payments:** The debt service requirements for fixed-rate general obligation, revenue bonds and the debt service requirements for the 2008 Subordinate-Lien Variable Rate Revenue Bonds, 2008B Subordinate-Lien Variable Rate Revenue Bonds, 2019A Subordinate-Lien Variable Rate Revenue Bonds and active swaps outstanding as of December 31, 2022, are as follows (dollars in thousands):

Years Ending December 31:	Fixed Rate Bonds			Variable Rate Bonds			
	Principal	Interest	Total	Principal	Interest	Interest Rate	
						Swap, Net (1)	Total
2023	\$ 15,211	\$ 13,461	\$ 28,672	\$ 3,465	\$ 7,823	\$ 841	\$ 12,129
2024	15,753	12,992	28,745	3,605	7,697	809	12,111
2025	16,348	12,483	28,831	3,750	7,566	775	12,091
2026	16,900	11,972	28,872	3,900	7,429	740	12,069
2027	17,580	11,318	28,898	4,055	7,287	704	12,046
2028-2032	82,870	44,832	127,702	37,735	33,866	2,920	74,521
2033-2037	73,420	27,245	100,665	34,220	24,794	1,762	60,776
2038-2042	58,975	11,082	70,057	-	22,603	495	23,098
2043-2044	11,840	569	12,409	122,180	9,041	-	131,221
	<u>\$ 308,897</u>	<u>\$ 145,955</u>	<u>\$ 454,852</u>	<u>\$ 212,910</u>	<u>\$ 128,106</u>	<u>\$ 9,046</u>	<u>\$ 350,062</u>

- (1) This amount represents the cash that is due to the counterparty based on the terms of the pay-fixed interest rate swap. The amounts for the subsequent years are based on the assumption that interest rate conditions that existed during 2022 will remain the same over the term of the derivative contracts.

The fixed and variable debt obligations estimated future payments separated by direct borrowings as of December 31, 2022, are as follows (dollars in thousands):

Years Ending December 31:	Governmental Activities				Business Activities				Interest Rate Swaps Swap, Net (1)
	GO Bonds		Direct Borrowing		Revenue Bonds		Revenue Direct Borrowing		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2023	\$ 3,350	\$ 5,163	\$ 3,606	\$ 76	\$ 9,085	\$ 15,794	\$ 2,635	\$ 251	\$ 841
2024	3,495	5,014	3,683	51	9,480	15,409	2,700	215	809
2025	3,645	4,860	3,763	26	9,920	14,984	2,770	179	775
2026	7,600	4,697	-	-	10,360	14,563	2,840	141	740
2027	7,885	4,405	-	-	10,835	14,098	2,915	103	704
2028-2032	45,495	16,005	-	-	62,015	62,606	4,700	87	2,920
2033-2037	38,545	5,841	-	-	77,490	46,197	-	-	1,762
2038-2042	7,720	301	-	-	51,255	33,384	-	-	495
2043-2044	-	-	-	-	134,020	9,610	-	-	-
	\$ 117,735	\$ 46,287	\$ 11,052	\$ 154	\$ 374,460	\$ 226,645	\$ 18,560	\$ 975	\$ 9,046

- (1) This amount represents the cash that is due to the counterparty based on the terms of the pay-fixed interest rate swap. The amounts for the subsequent years are based on the assumption that interest rate conditions that existed during 2022 will remain the same over the term of the derivative contracts.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 5. Long-Term Debt (Concluded)

The paying agent for the Port's bonded debt is:

U.S. Bank  
Fiscal Agencies - 7 East  
101 Barclay Street  
New York, NY 10286

#### Note 6. Risk Management

The Port is exposed to various risks of loss related to torts; damage to, theft of, and destruction of assets or cargo; natural disasters; and employee injuries. To limit its exposure, the Port purchases a variety of insurance policies. For general liability, the Port purchases \$150 million in coverage, subject to a \$25,000 deductible. All risk property insurance is purchased on a replacement value basis for most properties, subject to a limit of \$400 million and a per occurrence deductible of \$500,000. For flood losses a sub-limit of \$75 million applies and a per occurrence deductible of \$500,000 for all flood zones. For earthquake and business interruption losses, sub-limits of \$100 million apply. Insurance coverage for earthquake is subject to a deductible defined as 5% of the value of the damaged property, with a minimum of \$500,000.

With the exception of losses which may arise from employee injuries, earthquakes and/or floods, no deductible exceeds \$500,000. Insurance coverage for the past three years has been sufficient to cover all claim settlements.

The Port is self-insured for its regular medical coverage. The liability for unpaid medical claims is included in payroll and taxes payable on the accompanying statements of net position and at December 31, 2022, was \$1.7 million, and that amount is expected to be paid in 2023. Excess loss coverage has been purchased through an outside provider to limit individual loss to \$135,000. Self-insured claim activity for December 31, 2022, were as follows (dollars in thousands):

	2022	2021	2020
Claims liability, beginning of year	\$ 1,892	\$ 1,949	\$ 1,855
Claims reserve	4,693	5,537	5,879
Payments on claims	(4,930)	(5,594)	(5,785)
Claims liability, end of year	<u>\$ 1,655</u>	<u>\$ 1,892</u>	<u>\$ 1,949</u>

## Port of Tacoma

### Notes to Financial Statements

#### Note 6. Risk Management (Concluded)

The Port maintains a self-insurance program for workers' compensation. The self-insured retention for workers' compensation coverage is \$1,250,000. The estimated liability for workers' compensation is included in payroll and taxes payable on the accompanying statements of net position. At December 31, 2022, the estimated self-insurance liability for workers' compensation was \$0.5 million and this amount is expected to be paid in 2023. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation and legal costs for all open claims. Workers' compensation claim activity for December 31, 2022, were as follows (dollars in thousands):

	2022	2021	2020
Claims liability, beginning of year	\$ 504	\$ 333	\$ 579
Claims incurred during the year	277	60	251
Changes in estimate for prior year claims	108	754	178
Payments on claims	(370)	(643)	(675)
Claims liability, end of year	<u>\$ 519</u>	<u>\$ 504</u>	<u>\$ 333</u>

#### Note 7. Leases

Effective January 1, 2020, the Port adopted GASB No. 87, *Leases*. The Port, as a lessor, leases land and facilities under long-term agreements at market rates with terms ranging from 1 to 50 years. The leases typically include provisions for rent changes based on the consumer price index or other market indexes, resulting in additional variable lease revenues that are not included in the measurement of the lease receivables.

Total operating revenue from leases in 2022 were \$16.1 million which includes principal and interest. Total operating revenue in 2021 for long-term leases totaled \$15.6 million which includes principal and interest. Minimum future rental revenue from long-term leases is as follows (dollars in thousands):

	Principal	Interest	Total
Years Ending December 31:			
2023	\$ 7,114	\$ 8,186	\$ 15,300
2024	5,769	7,933	13,702
2025	4,630	7,726	12,356
2026	6,133	7,506	13,639
2027	6,425	7,249	13,674
2028 - 2032	33,379	32,209	65,588
2033 - 2037	36,522	24,901	61,423
2038 - 2042	28,873	18,162	47,035
2043 - 2047	17,725	13,368	31,093
2048 - 2052	16,723	10,184	26,907
2053 - 2057	14,066	6,768	20,834
2058 - 2062	13,057	4,239	17,296
2063 - 2067	12,455	1,393	13,848
2068 - 2070	1,648	73	1,721
Total	<u>\$ 204,519</u>	<u>\$ 149,897</u>	<u>\$ 354,416</u>

## Port of Tacoma

### Notes to Financial Statements

#### Note 7. Leases (Concluded)

The Port leases aquatic land and building space for technology infrastructure and the agreements do not contain variable payments and residual value guarantees. The Port's intangible "right to use" assets are included in capital and intangible assets as intangible assets - lease and other liabilities on the statements of net position and are presented below for the years ended December 31, (dollars in thousands):

		2022			
		Beginning of Year	Additions	Retirements and Other	End of Year
Leased assets being amortized:					
Land	\$	170	\$ -	\$ -	\$ 170
Building space		1,257	-	-	1,257
Equipment		-	211	-	211
Total leased assets being amortized		1,427	211	-	1,638
Less accumulated amortization:					
Land		(13)	2	-	(11)
Building space		(472)	(248)	-	(720)
Equipment		-	(41)	-	(41)
Total accumulated amortization		(485)	(287)	-	(772)
Net, leased assets	\$	942	\$ (76)	\$ -	\$ 866

  

		2021			
		Beginning of Year	Additions	Retirements and Other	End of Year
Leased assets being amortized:					
Land	\$	170	\$ -	\$ -	\$ 170
Building space		1,257	-	-	1,257
Total leased assets being amortized		1,427	-	-	1,427
Less accumulated amortization:					
Land		(6)	(7)	-	(13)
Building space		(232)	(240)	-	(472)
Total accumulated amortization		(238)	(247)	-	(485)
Net, leased assets	\$	1,189	\$ (247)	\$ -	\$ 942

Minimum future lease payments for the leases are as follows (dollars in thousands):

Years Ending December 31:	Principal	Interest	Total
2023	\$ 324	\$ 27	\$ 351
2024	337	14	351
2025	40	7	47
2026	35	6	40
2027	17	5	22
2028-2032	53	18	71
2033-2037	60	6	66
Total	\$ 866	\$ 83	\$ 948

## Port of Tacoma

### Notes to Financial Statements

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#### Note 8. Pension Plans

**Pension plan:** The Port's full-time and qualifying part-time employees participate in one of the statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans.

Historical trend and other information regarding each plan are presented in the Washington State Department of Retirement Systems annual comprehensive financial report. A copy of this report may be obtained at:

Department of Retirement Systems  
Communications Unit  
P. O. Box 48380  
Olympia, WA 98504-8380  
Internet Address: [www.drs.wa.gov](http://www.drs.wa.gov)

**Plan description and benefits:** Public Employees' Retirement System (PERS) was established in 1947, and its retirement benefit provisions are contained in chapters 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement system composed of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the Legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as the terms of the plans define. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

The PERS1 plan is closed to new entrants. PERS 1 members were vested after the completion of five years of eligible service. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are calculated using 2% of the member's Average Final Compensation (AFC) times the member's years of service. AFC is the average of the member's 24 consecutive highest-paid service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Members retiring from inactive status before the age of 65 may also receive actuarially reduced benefits. Other benefits include duty and nonduty disability payments, an optional Cost-of-Living Adjustment (COLA), and a one-time, duty-related death benefit, if found eligible by the Washington State Department of Labor & Industries.

The PERS Plan 1 member contribution rate is established by statute at 6%. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18%.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 8. Pension Plans (Continued)

PERS Plan 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service or after five years of service if 12 months of that service are earned after age 44. PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits for Plan 2 are calculated using 2% of the member's AFC times the member's years of service. Retirement defined benefits for Plan 3 are calculated using 1% of AFC times the member's years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. PERS Plan 2/3 has no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments; a COLA based on the Consumer Price Index, capped at 3% annually; and a one-time, duty-related death benefit, if found eligible by the Washington State Department of Labor & Industries.

The PERS Plan 2/3 employer and employee contribution rates are developed by the OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability, currently set at 3.71%, and an administrative expense that is currently set at 0.18%.

PERS Plan 3 members are immediately vested in the defined contribution portion of their plan. PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate when joining membership and can change rates only when changing employers. As established by chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%; members have six rate options to choose from. Employers do not contribute to the defined contribution benefits.

**Contributions:** The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, were:

2022

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	10.39%	10.39%	10.39%
Employee	6.00%	6.36%	***

2021

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	10.25%	10.25%	10.25%
Employee	6.00%	6.36%	***

\* The employer rates include the employer administrative expense fee of 0.18% for 2021 and 2020

\*\* Plan 3 defined benefit portion only

\*\*\* Rate selected by PERS 3 members, 5% minimum to 15% maximum



## Port of Tacoma

### Notes to Financial Statements

#### Note 8. Pension Plans (Continued)

The Port made contributions of \$0.9 million for PERS 1 and \$1.5 million for PERS 2/3 during 2022 and \$1.0 million for PERS 1 and \$1.6 million for PERS 2 in 2021. The Port employees also made required contributions for 2022 and 2021. The Port's required contributions for the years ended December 31 are as follows (dollars in thousands):

Year	PERS Plan 1	PERS Plan 2/3	Total
2022	\$ 836	\$ 1,434	\$ 2,270
2021	\$ 1,076	\$ 1,758	\$ 2,834

**Pension assets (liabilities), pension expense, and deferred inflows and outflows of resources related to pensions:** The Port's proportion of the net pension asset (liability) was based on a projection of the Port's long-term share of contributions to the pension plan relative to the projected contributions of all participating agencies, actuarially determined. The Port's proportionate share of net pension asset (liability) for the years ended December 31, are presented in the following table (dollars in thousands):

	PERS 1	PERS 2/3	Total
2022	\$ (3,838)	\$ 6,666	\$ 2,828
2021	(1,763)	18,482	16,719
	PERS 1	PERS 2/3	
2022	0.1379%	0.1798%	
2021	0.1444%	0.1855%	
Change in proportionate share	-0.0065%	-0.0057%	

For the years ended December 31, 2022 and 2021, the Port reported the following pension benefit/(expense) (dollars in thousands):

	PERS 1	PERS 2/3	Total
2022	\$ (1,591)	\$ 2,418	\$ 827
2021	1,310	6,048	7,358

## Port of Tacoma

### Notes to Financial Statements

#### Note 8. Pension Plans (Continued)

At December 31, 2022 and 2021, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

2022	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	\$ -	\$ -	\$ -
Changes in assumptions (1)	-	3,716	3,716
Differences between expected and actual experience (1)	-	1,652	1,652
Changes in proportionate differences between Port contributions and proportionate share of contributions (1)	-	91	91
Port contributions subsequent to measurement date	457	765	1,222
Total	<u>\$ 457</u>	<u>\$ 6,224</u>	<u>\$ 6,681</u>

Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	\$ (636)	\$ (4,928)	\$ (5,564)
Changes in assumptions (1)	-	(973)	(973)
Differences between expected and actual experience (1)	-	(151)	(151)
Changes in proportionate differences between Port contributions and proportionate share of contributions (1)	-	(695)	(695)
Total	<u>\$ (636)</u>	<u>\$ (6,747)</u>	<u>\$ (7,383)</u>

2021	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	\$ -	\$ -	\$ -
Changes in assumptions (1)	-	27	27
Differences between expected and actual experience (1)	-	898	898
Changes in proportionate differences between Port contributions and proportionate share of contributions (1)	-	88	88
Port contributions subsequent to measurement date	415	712	1,127
Total	<u>\$ 415</u>	<u>\$ 1,725</u>	<u>\$ 2,140</u>

Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments (2)	\$ (1,957)	\$ (15,446)	\$ (17,403)
Changes in assumptions (1)	-	(1,313)	(1,313)
Differences between expected and actual experience (1)	-	(226)	(226)
Changes in proportionate differences between Port contributions and proportionate share of contributions (1)	-	(1,024)	(1,024)
Total	<u>\$ (1,957)</u>	<u>\$ (18,009)</u>	<u>\$ (19,966)</u>

- (1) The recognition period for each plan is equal to the average of the expected remaining service lives of all employees provided with pensions through the pension plan, which was determined at the beginning of the measurement date.
- (2) The recognition period is a closed, five-year period for all plans.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 8. Pension Plans (Continued)

As of December 31, 2022, deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date were \$1.2 million and will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

	PERS 1	PERS 2/3	Total
Years Ending December 31:			
2023	\$ (269)	\$ (1,776)	\$ (2,045)
2024	(244)	(1,557)	(1,801)
2025	(307)	(1,722)	(2,029)
2026	184	2,194	2,378
2027	-	782	782
Thereafter	-	791	791
Total	<u>\$ (636)</u>	<u>\$ (1,288)</u>	<u>\$ (1,924)</u>

As of December 31, 2021, deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date were \$1.1 million and will be recognized as a reduction of the net pension liability in the year ended December 31, 2022.

**Actuarial assumptions:** The 2022 total pension asset (liability) for each of the plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the June 30, 2021, valuation were based on the results of the Office of the Actuary's (OSA) 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The 2022 total pension liability for each of the plans was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report, and are as follows:

**Inflation:** 2.75% total economic inflation; 3.25% salary inflation (2021: 2.75% for total economic inflation; 3.50% for salary inflation).

**Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity (2021: salaries were expected to grow 3.50%).

**Investment rate of return:** 7.00% (2021: 7.40%)

**Mortality rates:** Mortality rates in 2022 were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (e.g., active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

**Note 8. Pension Plans (Continued)**

Mortality rates in 2021 were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (e.g., active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

**Assumption and method changes:** Actuarial results that OSA provided reflect the following changes in assumptions and methods:

Assumption Changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in our model. These factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors recently provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.50 (7.40 for LEOFF 2) to 7.00 percent, and the salary growth assumption was lowered from 3.50 to 3.25 percent. This action is a result of recommendations from our biennial economic experience study; please see the full report for additional details

Method Changes:

- Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR). We introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR; please see the Actuarial Assumptions and Methods section of the 2020 AVR for more information.

**Discount rate:** The discount rate used to measure the total pension liability was 7.00% for all plans (2021: 7.40%). To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on the assumptions described in OSA's certification letter within the DRS Annual Comprehensive Financial Report, the pension plan's 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 7.00% was used to determine the total liability.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 8. Pension Plans (Continued)

**Sensitivity of the net pension liability (asset) to changes in the discount rate:** The table below presents the net pension liability (asset) of the Port, calculated using the discount rate of 7.00% as well as what the Port's net pension liability (asset) would be if it were calculated using a discount rate 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate (dollars in thousands):

	Pension Trust	1% Decrease	Discount Rate	1% Increase
December 31, 2022:				
Discount rate		6.00%	7.00%	8.00%
Proportionate share of net pension liability	PERS 1	\$ (5,128)	\$ (3,838)	\$ (2,713)
Proportionate share of net pension liability/(asset)	PERS 2/3	(7,851)	6,666	18,594
December 31, 2021:				
Discount rate		6.40%	7.40%	8.40%
Proportionate share of net pension liability	PERS 1	\$ (3,004)	\$ (1,763)	\$ (681)
Proportionate share of net pension asset	PERS 2/3	5,265	18,482	28,810

**Long-term expected rate of return:** The OSA selected a 7.00% long-term expected rate of return on pension plan investments using a building-block method (2021: 7.40% long-term expected rate of return). In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

## Port of Tacoma

### Notes to Financial Statements

#### Note 8. Pension Plans (Concluded)

**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, 2022 and 2021 are summarized below. The inflation component used to create the table is 2.20% for June 30, 2022 and 2021 and represents WSIB's most recent long-term estimate of broad economic inflation.

2022		% Long-Term Expected Real Rate of Return Arithmetic
Asset Class	Target Allocation	
Fixed income	20%	1.50%
Tangible assets	7%	4.70%
Real estate	18%	5.40%
Global equity	32%	5.90%
Private equity	23%	8.90%
	<u>100%</u>	
2021		% Long-Term Expected Real Rate of Return Arithmetic
Asset Class	Target Allocation	
Fixed income	20%	2.20%
Tangible assets	7%	5.10%
Real estate	18%	5.80%
Global equity	32%	6.30%
Private equity	23%	9.30%
	<u>100%</u>	

Detailed information about the pension plan's fiduciary net position is available in the separately issued DRS financial reports. Additional actuarial and pension plan information is included in the DRS 2022 Annual Comprehensive Financial Report, including descriptions of actuarial data, assumptions, methods, and plan provisions relied on for the preparation of GASB No. 67 and GASB No. 68. Additional details regarding this information are included in OSA's 2021 Actuarial Valuation Report on the OSA website [leg.wa.gov/osa](http://leg.wa.gov/osa).

#### Note 9. Post-Employment Health Care Benefits Trust Fund

The Port provides major medical coverage for eligible retired employees through the Plan. The Plan is a single employer plan administered through the Port of Tacoma's self-insured medical plan. The Port established the Trust to be used solely for the cost of medical coverage for eligible Plan participants and for payment of the cost of administering the Trust. The Port is the sole administrator and fiduciary of the Trust. Management and funding of the Trust is the responsibility of the Port Treasurer. The Port shall have the right at any time, and from time to time, to modify, alter or amend the Plan in whole or in part effective as of a specified date, pursuant to the laws of the State of Washington.

**Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)**

The Plan's audited financial statements for December 31, 2022 and 2021, may be found on pages 20 and 21 of this report.

**Plan description:** The Plan provides major medical coverage, subject to a deductible, and a maximum benefit limit of \$2,000,000 per person for eligible retired employees and qualified dependent spouses. Retirees and their spouses are eligible for Port-paid, post-employment medical benefits upon attainment of age 60 through the age of 69, provided they have completed a minimum of 15 years of service and are eligible to retire under PERS. Employees retiring before the age of 60 are eligible for Port-paid, post-employment medical benefits for up to 10 years, provided they have completed 20 years of service and are eligible to retire under PERS. The Plan is closed to employees hired on or after March 15, 2007. The Plan does not require employee or retiree contributions. There are 10 active members, 13 inactive members and zero inactive members entitled to, but not yet receiving, benefits in the Plan. The Port will fund the Plan as necessary (on a pay-as-you go basis) to enable the Plan to pay vested accrued benefits to participants as they become due. However, the Trust was fully funded at its inception and it has not needed additional contributions from the Port.

**Summary of accounting policies:** The financial statements are prepared using the accrual basis of accounting. Medical benefits that are in accordance with the Plan are recognized when due. Contributions to the Plan, if required, will be recognized in the period that the contributions are made.

The Plan is administered through a qualifying trust per paragraph 4, item (b), of GASB No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. An actuarial valuation was completed in January 2023 with results based on the December 31, 2022, actuarial valuation date with a measurement date and reporting date of December 31, 2022. For the prior year, the actuarial valuation was completed in January 2022 with results based on the December 31, 2021, actuarial valuation date with a measurement date and reporting date of December 31, 2021.

**Rate of return:** The long-term expected rate of return on OPEB plan investments was increased from 2.25% at December 31, 2021, to 4.31% in December 31, 2022 (based on the December 31, 2022, S&P Municipal Bond 20-Year High Grade Rate Index), to better reflect future expectation.

## Port of Tacoma

### Notes to Financial Statements

#### Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)

The changes in net OPEB asset were as follows at December 31, 2022 (dollars in thousands):

	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB (Asset) Liability (a-b)
Beginning balance, December 31, 2021	\$ 2,504	\$ 4,789	\$ (2,285)
Service cost	67	-	67
Interest	53	-	53
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(399)	-	(399)
Changes of assumptions	(145)	-	(145)
Benefit payments	(216)	(216)	-
Contributions - employer	-	-	-
Net investment income	-	-	-
Expected return on plan investments	-	105	(105)
Current expense of asset gain/loss	-	(322)	322
Administrative expense	-	(12)	12
Net changes	(640)	(445)	(195)
Ending balance, December 31, 2022	\$ 1,864	\$ 4,344	\$ (2,480)

OPEB expense for December 31, 2022, is as follows (dollars in thousands):

Service cost	\$ 67
Interest	53
Net investment income	-
Administrative expense	12
Deferred (inflows) outflows of resources:	
Differences between expected and actual experience	(399)
Expected return on plan investments	(105)
Changes in assumptions	(145)
Current expense of asset gain	65
Amortization of or change in beginning balances	18
Contributions - employer	-
OPEB income	\$ (434)



## Port of Tacoma

### Notes to Financial Statements

#### Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)

The changes in net OPEB asset were as follows at December 31, 2021 (dollars in thousands):

	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB (Asset) Liability (a-b)
Beginning balance, December 31, 2020	\$ 3,030	\$ 4,944	\$ (1,914)
Service cost	65	-	65
Interest	58	-	58
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(513)	-	(513)
Changes of assumptions	(31)	-	(31)
Benefit payments	(105)	(105)	-
Contributions - employer	-	-	-
Net investment income	-	(37)	37
Administrative expense	-	(13)	13
Net changes	(526)	(155)	(371)
Ending balance, December 31, 2021	\$ 2,504	\$ 4,789	\$ (2,285)

OPEB expense for December 31, 2021, is as follows (dollars in thousands):

Service cost	\$ 65
Interest	58
Net investment income	(110)
Administrative expense	13
Deferred (inflows) outflows of resources:	
Differences between expected and actual experience	(588)
Net difference between projected and actual earnings on OPEB plan investments	61
Changes in assumptions	87
Contributions - employer	-
OPEB income	<u>\$ (414)</u>

**Actuarial methods and assumptions:** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)

The actuarial present value of accumulated plan benefits is determined by an independent actuary. The results are based on a January 1, 2023, actuarial valuation date with a measurement date and reporting date of December 31, 2022, for the current year. The results of the prior year were based on the December 31, 2021, actuarial valuation date with a measurement date and reporting date of December 31, 2021.

The 2022 actuarial valuation method used was entry age normal; the assumption for salary increases was 3.0%. The Mortality improvement scale was PubG-2010 Combined Fully Generational Table with generational mortality improvement projected under Projection Scale MP-2021 for 2022. The medical trend was 6.25% graded to 5.20% over two years and following the Getzen model thereafter to an ultimate rate of 3.94% in 2075.

The 2021 actuarial valuation method used was entry age normal; the assumption for salary increases was 3.0%. The Mortality improvement scale was changed from MP-2020 to MP-2021 to better reflect future expectation. The medical trend was changed from 6.25% graded to 5.75% over two years and following the Getzen model thereafter to 6.0% grading to 5.5% over two years and following the Getzen model thereafter.

**Discount rate:** The discount rate was increased to 4.31% in 2022 and was based on the December 31, 2022, S&P Municipal Bond 20-Year High Grade Rate Index to better reflect future expectation. The discount rate and long-term rate of return for 2021 was 2.25% and was based on the December 31, 2021, S&P Municipal Bond 20-Year High Grade Rate Index.

**Sensitivity of the net OPEB asset to changes in the discount rate:** The following presents the net OPEB asset of the Port, as well as what the Port's net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate (dollars in thousands):

	1% Decrease	Current Rate	1% Increase
December 31, 2022	3.31%	4.31%	5.31%
	\$ 2,411	\$ 2,480	\$ 2,547
December 31, 2021	1.25%	2.25%	3.25%
	\$ 2,187	\$ 2,285	\$ 2,378

## Port of Tacoma

### Notes to Financial Statements

#### Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)

**Sensitivity of the net OPEB asset to changes in the health care cost trend rates:** The following represents the net OPEB asset calculated using the stated health care cost trend assumption, as well as what the OPEB asset would be if it were calculated using a health care cost trend rate that is 1 percentage-point lower or 1-percentage-point higher than the assumed trend rate (dollars in thousands):

	1% Decrease 5.25% decreasing to 4.20% then following the Getzen model	Current 6.25% decreasing to 5.20% then following the Getzen model	1% Increase 7.25% decreasing to 6.20% then following the Getzen model
December 31, 2022	\$ 2,563	\$ 2,480	\$ 2,393
	1% Decrease	Getzen Model	1% Increase
December 31, 2021	\$ 2,403	\$ 2,285	\$ 2,158

For the year ended December 31, 2022, the recognized OPEB benefit was \$434,000 and net deferred outflows of resources and deferred inflows of resources related to OPEB were as follows (dollars in thousands):

	Deferred Outflow of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 314
Change in assumptions	-
Differences between expected and actual experience	-
Total	<u>\$ 314</u>

For the year ended December 31, 2021, the recognized OPEB benefit was \$414,000 and net deferred outflows of resources and deferred inflows of resources related to OPEB were as follows (dollars in thousands):

	Deferred Outflow of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 117
Change in assumptions	12
Differences between expected and actual experience	(52)
Total	<u>\$ 77</u>

At December 31, 2022 and 2021, differences between expected and actual experience are amortized over the average remaining service lives of all participants which for the current period is one year. Asset gains or losses are amortized over five years. Plan amendments are recognized immediately. Changes in actuarial assumptions are amortized over the average remaining service lives of all participants.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (dollars in thousands):

Years Ending December 31, 2022:

2023	\$	77
2024		79
2025		94
2026		64
Total	\$	<u>314</u>

Years Ending December 31, 2021:

2022	\$	20
2023		12
2024		15
2025		30
Total	\$	<u>77</u>

#### Investments:

**Investment policy:** As of December 31, 2022 and 2021, the Plan's investments were deposited in qualified depositories as required by state statutes. Those statutes authorize the Trust to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and certain municipal bonds. Investments are valued at fair value. The following is the Plan's asset allocation at December 31:

Asset Class	Target Allocation	
	2022	2021
Fixed income	97%	96%
Cash	3%	4%
	<u>100%</u>	<u>100%</u>

**Rate of return:** The annual money-weighted rate of return on the OPEB plan investments, net of investment expense for December 31, 2022 and 2021, was -4.86% and 2.25%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for changing amounts actually invested.

#### Risks:

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Port's investment guideline is to maximize investment return while preserving liquidity. To the extent possible, the Port will attempt to match its investments with anticipated cash flow requirements using the specific-identification method. The tables below present investment types, durations and amount by issuer.

## Port of Tacoma

### Notes to Financial Statements

#### Note 9. Post-Employment Health Care Benefits Trust Fund (Continued)

**Credit risk:** Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Trust investments are rated AA+ by Moody's equivalent credit rating as of December 31, 2022 and 2021.

**Custodial credit risk:** Custodial credit risk is the risk that, in the event of the failure of the counterparty or the Trust, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The deposits and investments are covered by the PDPC of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the [FDIC](#) by requiring banks and thrifts to pledge securities as collateral.

**Concentration risk:** Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Port's investment guidelines require diversification and set limits on amount of investments by security and by issuer.

**Trust deposits and investments:** The Trust's cash and cash equivalents of \$0.1 million and \$0.2 million as of December 31, 2022 and 2021, respectively, were deposited in qualified depositories as required by state statute.

The Trust follows the Port's investment guidelines as presented in Note 2, Deposits and Investments. The tables below identify the type of investments, concentration of investments in any one issuer and maturities of the Trust portfolio as of December 31 (dollars in thousands):

	2022				
	Maturities (in years)				Percentage of Total Portfolio
Investment Type	Fair Value	Less Than 1	1-3	More Than 3	
Federal National Mortgage Association	\$ 230	\$ -	\$ 230	\$ -	5.5%
United States Treasury Bonds	3,972	746	1,746	1,480	94.5%
Total investments	<u>\$ 4,202</u>	<u>\$ 746</u>	<u>\$ 1,976</u>	<u>\$ 1,480</u>	<u>100.0%</u>
Percentage of total portfolio		17.8%	47.0%	35.2%	100.0%

	2021				
	Maturities (in years)				Percentage of Total Portfolio
Investment Type	Fair Value	Less than 1	1-3	More Than 3	
Federal Home Loan Bank	\$ 303	\$ 303	\$ -	\$ -	6.6%
Federal National Mortgage Association	499	252		247	10.9%
United States Treasury Bonds	3,781	507	1,840	1,434	82.5%
Total investments	<u>\$ 4,583</u>	<u>\$ 1,062</u>	<u>\$ 1,840</u>	<u>\$ 1,681</u>	<u>100.0%</u>
Percentage of total portfolio		23.2%	40.1%	36.7%	100.0%

## Port of Tacoma

### Notes to Financial Statements

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#### Note 9. Post-Employment Health Care Benefits Trust Fund (Concluded)

The Plan's investments are measured and reported on a fair value basis classified and disclosed in one of the following three categories:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities.

**Level 2:** Observable market-based inputs or unobservable inputs that are corroborated by market data.

**Level 3:** Unobservable inputs that are not corroborated by market data.

Additional information about the Port's application of fair value measurements can be found in Note 16, Fair Value Measurements.

Fair value of Trust investments as of December 31 (dollars in thousands):

2022

	Level 1	Level 2	Total
Federal National Mortgage Association	\$ -	\$ 230	\$ 230
United States Treasury Bonds	3,972	-	3,972
Total Post-Employment Health Care Benefits Trust Fund	<u>\$ 3,972</u>	<u>\$ 230</u>	<u>\$ 4,202</u>

2021

	Level 1	Level 2	Total
Federal Home Loan Bank	\$ -	\$ 303	\$ 303
Federal National Mortgage Association	252	247	499
United States Treasury Bonds	3,781	-	3,781
Total Post-Employment Health Care Benefits Trust Fund	<u>\$ 4,033</u>	<u>\$ 550</u>	<u>\$ 4,583</u>

#### Note 10. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31. The lien date is January 1. Assessed values are established by the County Assessor at 100% of fair market value. A revaluation of all property is required every six years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the Port by the County Treasurer.

The Port is permitted by law to levy up to 45 cents per \$1,000 of assessed valuation for general Port purposes. The rate may be adjusted for either of the following reasons:

- (a) Washington State law in Revised Code of Washington (RCW) 84.55 limits the growth of regular property taxes, but it allows additional amounts for new construction. The Port is allowed to raise revenues in excess of the limit if approved by a majority of the voters as provided in RCW 84.55.050.
- (b) The Port may voluntarily levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 10. Property Taxes (Concluded)

In 2022 the Port's regular tax levy was \$0.154 per \$1,000 on a total assessed valuation of \$159,137,006,000, for a total regular levy amount of \$24,594,000. In 2021 the Port's regular tax levy was \$0.173 per \$1,000 on a total assessed valuation of \$137,747,760,000 for a total regular levy amount of \$23,852,000.

#### Note 11. Commitments and Other Long-Term Liabilities

**Commitments:** The Port has entered into contractual agreements for terminal maintenance, infrastructure improvements, environmental projects and professional services. At December 31, 2022, these future commitments are as follows (dollars in thousands):

Description	Remaining Commitments
Terminal projects	\$ 3,383
Environmental	2,158
Consulting and other	5,632
	<u>\$ 11,173</u>

The Port agreed to purchase support services from the NWSA during NWSA's startup and transition period. The support services received by the Port include executive management, commercial management, planning, and environmental support services. During the transition period, the agreements will be renewed annually. Additional information regarding commitments of the NWSA is presented in Note 17, Joint Venture.

**Other long-term liabilities:** Port deferred commitments of \$44.1 million and \$50.0 million at December 31, 2022 and 2021, respectively are recorded as long-term liabilities on the statements of net position and are discussed below.

In December 2022 the Port Commission approved a resolution to contribute up to \$2.0 million to the City of Fife for the phase 2 of Interstate 5/Port of Tacoma Interchange Project. The project is a multi-phased plan to provide an overall interchange reconfiguration that would create a one-way couplet by adding a new bridge over I-5 at 34th Avenue East to carry northbound traffic while the existing bridge at Port of Tacoma Road will be converted to one-way southbound. When completed Interstate 5/Port of Tacoma Road Interchange would improve freight mobility to and from the Port, which in turn, improves access to local and area businesses.

In December 2019, the Port Commission approved a resolution committing the Port to a contribution for the State Route 167 (SR-167) Completion Project, which is part of the Puget Sound Gateway Program. The SR 167 Completion Project will build the remaining four miles of SR 167 between Meridian Avenue in Puyallup and I-5, completing a long-planned connection to I-5 and will help ensure that people and goods move more reliably through the Puget Sound region. In 2022 the Port and Washington State Department of Transportation agreed to the value of Port contributions for land upon completion following an appraisal and quantities of fill material and fencing that were estimated in 2019. The value of the contributed assets increased by \$7.8 million and reduced the commitment to \$14.2 million.

**Note 11. Commitments and Other Long-Term Liabilities (Concluded)**

In 2013, the Port executed a land swap with a joint venture comprised of the Puyallup Tribe (the Tribe) and private parties that approved by the Port commission in 2008. This agreement is deemed essential for the development of the Blair waterway and the continued relationships with the Port's customers. The agreement required the Port to transfer 24.4 acres of land to the Tribe, and in exchange, the Tribe will cutback 12.5 acres of the Blair waterway for the Port's use as a right-of-way. As a part of this agreement, the Port agreed to pay for dredging the channel width from 650 feet to 850 feet at some point in the future. The estimated cost of this project is \$28.0 million. The Port accounted for this transaction as a "like-kind" property exchange without commercial substance. The assets received in this exchange have an indefinite life and, therefore, per GASB 51, *Accounting and Financial Reporting for Intangible Assets*, will be recorded as intangible assets in the Statements of Net Position. Also, since the acquired assets have an indefinite life, they will not be amortized.

**Note 12. Environmental Liabilities**

The Port monitors properties throughout the tideflats for current and potential effects of hazardous substances. The Port has identified or in some cases has been designated by state or federal government with the responsibility to address remediation activities such as site assessments and cleanups.

Existing environmental liabilities on property and facilities licensed to NWSA will remain the responsibility of the Port. However, environmental liabilities that arise from development of new facilities for NWSA customers will be the responsibility of NWSA.

Future expenditures for environmental remediation obligations using the expected cash flow technique were \$32.5 million and \$33.9 million at December 31, 2022 and 2021, respectively. This liability is included in environmental liability on the accompanying statements of net position. Recoveries of environmental remediation costs from other parties are recorded as a reduction of the related costs using the expected cash flow technique. Significant remediation obligations are discussed in the following paragraphs:

The Port purchased property on the General Central Peninsula in 2006 for redevelopment. It was known to be contaminated but under the purchase and sale agreement the Port was indemnified. In 2012 additional contamination was discovered which resulted in a settlement with the previous owners for cash of \$7.2 million in 2021 to pay for future environmental costs. A portion of those costs are expected to be capitalized and are included in the environmental liability. The capital and expense environmental remediation obligation is \$9.2 million December 31, 2022 and 2021.

In 2017, a feasibility study was completed for the redevelopment of a log processing facility for future terminal expansion. In 2018, a settlement was reached with the previous owner and a cash payment of \$8.6 million was received to pay for future environmental costs. A portion of those costs are expected to be capitalized and are included in the environmental liability. The capital and expense environmental remediation obligation is \$8.2 million and \$8.7 million at December 31, 2022 and 2021, respectively.

The Port discovered contamination on the Blair Peninsula on land formally used for a naval shipyard, fuel storage and mineral fiber insulation manufacturing. A portion of these costs are expected to be capitalized. The environmental remediation obligation net of cost recoveries is \$17.0 million and \$12.7 million at December 31, 2022 and 2021, respectively.



## Port of Tacoma

### Notes to Financial Statements

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#### **Note 12. Environmental Liabilities (Concluded)**

The Port transferred land to the Tribe in 1988 under the 1988 Puyallup Land Settlement Agreement. The terms of the agreement obligated the Port to remediate the property in the event of future development. In April 2008, the parties entered into a land swap agreement for several of the same parcels for the development of marine terminals. The environmental remediation obligation is \$6.0 million and \$5.9 million at December 31, 2022 and 2021, respectively.

The Port owns land within the boundaries of the Commencement Bay near the Shore Tideflats Superfund Site, for which a Remedial Investigation and Feasibility Study have been performed by the U.S. Environmental Protection Agency and the Washington State Department of Ecology, pursuant to the Federal Comprehensive Environmental Response Compensation and Liability Act. Remedial actions are currently underway or complete at all known sites. The environmental remediation obligation for the Hylebos waterway superfund site is \$0.9 million and \$0.6 million at December 31, 2022 and 2021, respectively.

The estimated cost of the environmental remediation projects expected to be capitalized in future periods is approximately \$40.8 million and \$31.9 million at December 31, 2022 and 2021, respectively.

#### **Note 13. Contingencies**

The Port is named as a defendant in various lawsuits incidental to carrying out its function. The Port believes its ultimate liability, if any, will not be material to the financial statements.

#### **Note 14. Major Customers**

The ports of Tacoma and Seattle joined forces in August 2015 to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region by creating The Northwest Seaport Alliance. Effective January 1, 2016, the accounting for revenues and expenses associated with properties licensed to the NWSA became the responsibility of the NWSA and that activity is reflected on the statements of revenues, expenses and changes in net position as joint venture income. Joint venture income in 2022 was \$55.4 million and 67.3% of total operating revenues of \$82.3 million. Joint venture income in 2021 was \$56.0 million and 70.7% of total operating revenues of \$79.2 million. Further information on joint venture activity with the NWSA can be found in Note 17, Joint Venture.

#### **Note 15. Related-Party Transactions**

The commissioners of the Port and the Executive Director also serve as officers and directors of other private and public agencies. The Revised Code of Washington, Section 53, authorizes the Port District to cooperate and invest with such agencies, including trade centers, economic development and other municipal entities. The Port supports such agencies in its normal course of business.

The Port commissioners also govern the NWSA. The NWSA is a separate governmental entity established as a Port Development Authority and is governed by the ports of Tacoma and Seattle as equal members (each a "Managing Member" and, collectively, "Managing Members") with each port acting through its elected commissioners.

Additional information on the formation of the NWSA and related-party activities are presented in the MD&A, Note 1, Summary of Significant Accounting Policies, and Note 17, Joint Venture.

**Note 16. Fair Value Measurements**

The Port's assets and liabilities that are measured and reported on a fair value basis are classified and disclosed in one of the following three categories:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities.

**Level 2:** Observable market-based inputs or unobservable inputs that are corroborated by market data.

**Level 3:** Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Port performs a detailed analysis of the assets and liabilities that are subject to the guidance. The Port's fair value measurements are evaluated by an independent third-party vendor. The third-party vendor uses a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 1 inputs are quoted prices in active markets for identical assets assessed at the measurement date. An active market for the asset is a principal market in which transactions for the asset are open to many and occur with sufficient frequency and volume. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. Level 2 investments that do not have observable trade data are valued using the present value of expected future cash flow model option or the adjusted discounted cash flow model technique. The Port does not have any Level 3 assets or liabilities at December 31, 2022 and 2021.

The Port has four swaps outstanding so that it may mitigate interest rate risk. The swaps synthetically fix or "lock-in" interest rates on variable revenue bond debt by providing cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payment identified in each swap agreement. The fair value of the interest rate swap agreement (used for purposes other than trading) are the estimated amounts the Port would pay to terminate the swap agreement at the reporting date, taking into account current interest rates for the swap agreement and the creditworthiness of the swap counterparty and the third-party bond insurer.

## Port of Tacoma

### Notes to Financial Statements

#### Note 16. Fair Value Measurements (Concluded)

The tables below present the balances of assets and liabilities measured at fair value by level within the hierarchy at December 31 (dollars in thousands):

Fair value of assets and liabilities as of December 31, 2022:

	Level 1	Level 2	Total
Investments - Enterprise Fund:			
Corporate Bonds	\$ -	\$ 11,819	\$ 11,819
Federal Farm Credit Bank	-	2,993	2,993
Federal Home Loan Bank	-	14,251	14,251
Federal Home Loan Mortgage Corporation	-	5,492	5,492
Federal National Mortgage Association	-	4,481	4,481
Municipal Bonds	-	39,051	39,051
Supranationals	-	9,530	9,530
United States Treasury Bonds	27,546	4,705	32,251
Total investments - Enterprise Fund	\$ 27,546	\$ 92,322	\$ 119,868
Long-term liabilities - interest rate swaps	\$ -	\$ 25,992	\$ 25,992

Fair value of assets and liabilities as of December 31, 2021:

	Level 1	Level 2	Total
Investments - Enterprise Fund:			
Corporate Bonds	\$ 4,254	\$ 3,976	\$ 8,230
Federal Home Loan Bank	-	7,966	7,966
Federal Home Loan Mortgage Corporation	-	5,919	5,919
Federal National Mortgage Association	-	4,886	4,886
Municipal Bonds	2,323	41,348	43,671
Supranationals	-	9,960	9,960
United States Treasury Bonds	10,954	4,810	15,764
Total investments - Enterprise Fund	\$ 17,531	\$ 78,865	\$ 96,396
Long-term liabilities - interest rate swaps	\$ -	\$ 65,665	\$ 65,665

#### Note 17. Joint Venture

The home ports share net income and cash distributions from the NWSA on a 50/50 basis. The Port's 50% share of NWSA net income and cash distributions are presented on the statements of net position as investment in joint venture. The NWSA joint venture income is recorded monthly and the cash distributions from the NWSA are generally received in the following month.

## Port of Tacoma

### Notes to Financial Statements

#### Note 17. Joint Venture (Continued)

The investment in joint venture as of December 31, 2022 and 2021, is presented as follows (dollars in thousands):

	January 1, 2022	2022 Activity	December 31, 2022
Description:			
Working capital contributions	\$ 25,500	\$ -	\$ 25,500
Capital construction contributions	260,348	28,700	289,048
Noncash capital work-in-process	8,906	-	8,906
Total contributions	294,754	28,700	323,454
Joint venture income	315,205	55,352	370,557
Cash distributions from joint venture	(351,655)	(63,975)	(415,630)
End balance	\$ 258,304	\$ 20,077	\$ 278,381

  

	January 1, 2021	2021 Activity	Restated December 31, 2021
Description:			
Working capital contributions	\$ 25,500	\$ -	\$ 25,500
Capital construction contributions	213,407	46,941	260,348
Noncash capital work-in-process	8,906	-	8,906
Total contributions	247,813	46,941	294,754
Joint venture income	259,207	55,998	315,205
Cash distributions from joint venture	(287,365)	(64,290)	(351,655)
End balance	\$ 219,655	\$ 38,649	\$ 258,304

The home ports generally fund NWSA's capital contribution requirements in the following month, after the amount due is determined. During 2022 and 2021, the Port contributed \$28.7 million and \$46.9 million, respectively, for capital construction projects in accordance with the capital investment plan approved by the Managing Members. At December 31, 2022 and 2021, \$3.8 million and \$2.8 million, respectively, were payable to the NWSA and are presented on the statements of net position as related-party payable - joint venture.

Cash distributions from the NWSA are generally received in the following month. The Port's receivable for cash distributions earned through December 31, 2022 and 2021, were \$8.0 million and \$2.9 million, respectively, and are presented on the statements of net position as related-party receivables - joint venture.

The Port and the NWSA have entered into agreements to provide support services to each other during NWSA's start-up and transition period as the NWSA works to set up back-office infrastructure and staff positions. The support services provided by the Port to the NWSA include equipment and facilities maintenance, security, facilities development, finance and accounting, procurement, public affairs, information technology, risk management, and office infrastructure. The costs for these services provided by the Port to the NWSA are based on agreed-upon direct charges and allocations. These support services totaled \$30.3 million in 2022 and \$31.5 million in 2021.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 17. Joint Venture (Concluded)

Support services provided by the NWSA to the Port include executive management, commercial management, planning and environmental support services. The costs for these services provided by the NWSA to the Port are based on agreed-upon direct charges and allocations. These support services totaled \$1.2 million in 2022 and \$1.1 million in 2021.

The Port invoices the net amount of the support services, capital construction spending and operating costs incurred for NWSA operations to the NWSA monthly, and payments are typically received in the following month. The net amount of these receivables at December 31, 2022 and 2021, was \$2.3 million and \$3.3 million, respectively, and is included in related-party receivables - joint venture on the statements of net position.

Summarized statements of net position and statements of revenues, expenses and changes in net position of the NWSA for the years ended December 31, 2021 and 2020, are as follows (dollars in thousands):

	2022	2021
Total assets and deferred outflows	\$ 2,134,770	\$ 1,854,519
Total liabilities and deferred inflows	1,556,022	1,316,889
Total net position	<u>\$ 578,748</u>	<u>\$ 537,630</u>
Operating revenues	\$ 149,380	\$ 150,320
Total operating expenses	112,043	103,661
Operating income	<u>37,337</u>	<u>46,659</u>
Non-operating income (expense), net	8,572	7,795
Lease Interest Income, net	58,855	52,085
Capital grant contributions	<u>5,941</u>	<u>5,457</u>
Increase in net position before Managing Member contributions and distributions	110,705	111,996
Managing Members contributions and distributions, net	<u>(69,587)</u>	<u>(23,658)</u>
Increase in net position	41,118	88,338
Net position, beginning of year	537,630	449,292
Adjustment related to adoption of GASB No. 87	-	-
Net position, end of year	<u>\$ 578,748</u>	<u>\$ 537,630</u>

The NWSA financial report may be obtained at: <https://www.nwseaportalliance.com>.

## Port of Tacoma

### Required Supplementary Information

**Enterprise Fund**  
**Schedule of Port of Tacoma's Share of Net Pension Asset/Liability (NPA/NPL) and contributions**  
**December 31, 2022**  
**(Dollars in Thousands)**

	2022	2021	2020	2019	2018	2017	2016	2015 (1)
<b>PERS Plan 1</b>								
Port's proportion of NPL	0.138%	0.144%	0.145%	0.161%	0.160%	0.177%	0.190%	0.187%
Port's proportionate share of NPL	\$ 3,838	\$ 1,763	\$ 5,124	\$ 6,172	\$ 7,165	\$ 8,412	\$ 10,213	\$ 9,803
Port's covered payroll (plan year)	\$ -	\$ -	\$ -	\$ 38	\$ 72	\$ 70	\$ 67	\$ 84
Port's proportionate share of the net pension liability (asset) as a percentage of its covered payroll (plan year)	0.0%	0.0%	0.0%	16391.8%	9951.4%	12017.1%	15243.3%	11732.9%
Plan fiduciary net pension position as a percentage of the total pension liability	76.6%	88.7%	68.6%	67.1%	63.2%	61.2%	57.0%	59.1%
Contractually required contribution	\$ 836	\$ 1,077	\$ 1,012	\$ 1,189	\$ 1,032	\$ 1,059	\$ 1,136	\$ 954
Contributions in relation to the contractually required contribution	(878)	(955)	(1,057)	(1,108)	(1,118)	(963)	(1,152)	(954)
Contribution deficiency (excess)	\$ (42)	\$ 122	\$ (45)	\$ 81	\$ (86)	\$ 96	\$ (16)	\$ -
Port's covered payroll (Port's fiscal year)	\$ -	\$ -	\$ -	\$ -	\$ 72	\$ 70	\$ 67	\$ 84
Contributions as a percentage of covered payroll (Port's fiscal year)	N/A	N/A	N/A	N/A	1532%	1376%	1719%	1141%
<b>PERS Plan 2/3</b>								
Port's proportion of NPL	0.180%	0.186%	0.189%	0.206%	0.2042%	0.2265%	0.2395%	0.2397%
Port's proportionate share of (NPA)/NPL	\$ (6,666)	\$ (18,482)	\$ 2,417	\$ 2,004	\$ 3,487	\$ 7,869	\$ 12,057	\$ 8,565
Port's covered payroll (plan year)	\$ 22,540	\$ 22,209	\$ 21,269	\$ 23,210	\$ 21,200	\$ 20,352	\$ 23,892	\$ 21,554
Port's proportionate share of the net pension liability (asset) as a percentage of its covered payroll (plan year)	-29.6%	-83.2%	11.4%	8.6%	16.4%	38.7%	50.5%	39.7%
Plan fiduciary net pension position as a percentage of the total pension liability	106.7%	120.3%	97.2%	97.8%	95.8%	91.0%	85.8%	89.2%
Contractually required contribution	\$ 1,434	\$ 1,759	\$ 1,684	\$ 1,789	\$ 1,631	\$ 1,479	\$ 1,526	\$ 1,252
Contributions in relation to the contractually required contribution	(1,486)	(1,590)	(1,746)	(1,770)	(1,641)	(1,479)	(1,526)	(1,252)
Contribution deficiency (excess)	\$ (52)	\$ 169	\$ (62)	\$ 19	\$ (10)	\$ -	\$ -	\$ -
Port's covered payroll (Port's fiscal year)	\$ 23,363	\$ 22,276	\$ 22,042	\$ 22,405	\$ 21,887	\$ 20,352	\$ 23,892	\$ 21,554
Contributions as a percentage of covered payroll (Port's fiscal year)	6.4%	7.1%	7.9%	7.9%	7.5%	7.1%	6.2%	5.8%

(1) Schedule is intended to show information for ten years; however, due to implementation of GASB Statement 68 in 2015, prior years not available.

Notes to Required Supplementary Information:

See Note 8 of the financial statements for additional information on the plan.

## Port of Tacoma

### Required Supplementary Information

Post-Employment Health Care Benefits Trust Fund  
Schedule of Changes in Port of Tacoma's Net OPEB Asset and Related Ratios  
December 31, 2022  
(Dollars in Thousands)

	2022	2021	2020	2019	2018	2017
Total OPEB liability:						
Service cost	\$ 67	\$ 65	\$ 60	\$ 72	\$ 75	\$ 89
Interest	53	58	93	103	101	111
Change of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(399)	(513)	(46)	(210)	(983)	-
Changes of assumptions	(145)	(31)	213	48	369	-
Benefit payments	(216)	(105)	(141)	(216)	(207)	(384)
Net change in total OPEB liability	(640)	(526)	179	(203)	(645)	(184)
Total OPEB liability - beginning	2,504	3,030	2,851	3,054	3,699	3,883
Total OPEB liability - ending (a)	1,864	2,504	3,030	2,851	3,054	3,699
Plan fiduciary net position:						
Contributions - employer	-	-	-	-	-	-
Net investment income	(217)	(37)	168	172	85	44
Benefit payments	(216)	(105)	(141)	(216)	(207)	(418)
Administrative expense	(12)	(13)	(13)	(12)	(12)	(13)
Net change in fiduciary net position	(445)	(155)	14	(56)	(134)	(387)
Plan fiduciary net position - beginning	4,789	4,944	4,930	4,986	5,120	5,507
Plan fiduciary net position - ending (b)	4,344	4,789	4,944	4,930	4,986	5,120
Net OPEB asset ending (a)-(b)	\$ 2,480	\$ 2,285	\$ 1,914	\$ 2,079	\$ 1,932	\$ 1,421
Plan fiduciary net position as a percentage of the total OPEB liability	233.0%	191.3%	163.2%	172.9%	163.3%	138.4%
Covered payroll	\$ 1,079	\$ 1,223	\$ 1,223	\$ 1,440	\$ 1,615	\$ 1,488
Net OPEB Liability as a percentage of covered payroll	229.8%	186.8%	156.5%	144.4%	119.6%	95.5%

## Port of Tacoma

### Required Supplementary Information

#### Port of Tacoma

Post-Employment Health Care Benefits Trust Fund  
Schedule of Port of Tacoma's Contributions  
December 31, 2022  
(Dollars in Thousands)

	2022	2021	2020	2019	2018	2017
Schedule of contributions:						
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contribution	-	-	-	-	-	-
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a percentage of covered payroll	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Schedule of investment returns:						
Annual money-weighted rate of return, net of investment expense	-4.68%	2.25%	1.93%	3.26%	3.41%	3.10%