



# Comprehensive Annual Financial Report

Port of Tacoma, Washington

As of and for the years ended December 31, 2014  
and 2013





# COMPREHENSIVE ANNUAL FINANCIAL REPORT

As of and for the years ended December 31, 2014 and 2013

This report was prepared by the Finance Department

Port of Tacoma, Washington, U.S.A.

**PORT OF TACOMA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Year Ended December 31, 2014

**TABLE OF CONTENTS**

**Page**

**INTRODUCTORY SECTION - FINANCE AND ADMINISTRATION**

Chief Financial Officer's Transmittal Letter.....	2-6
Certificate of Achievement for Excellence in Financial Reporting .....	7
Port of Tacoma Leadership .....	8
Organizational Chart .....	9
List of Principal Officials .....	10

**FINANCIAL SECTION**

Independent Auditor's Report.....	12-13
Management's Discussion and Analysis .....	14-20
Enterprise Fund Statements of Net Position .....	21-22
Enterprise Fund Statements of Revenues, Expenses and Changes in Net Position .....	23
Enterprise Fund Statements of Cash Flows .....	24-25
Post-Employment Health Care Benefits Trust Fund Statements of Net Position.....	26
Post-Employment Health Care Benefits Trust Fund Statements of Changes in Net Position.....	27
Notes to Financial Statements .....	28-56

**STATISTICAL SECTION (Not Covered by Independent Auditor's Report)**

Net Position by Component - Last Ten Fiscal Years.....	59
Changes in Net Position - Last Ten Fiscal Years .....	60
Operating Revenue by Line of Business – Last Ten Fiscal Years.....	61
Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years.....	62
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years .....	63
Principal Property Tax Payers.....	64
Property Tax Levies and Collections - Last Ten Fiscal Years .....	65
Tax Levy Amounts and Rates – Last Ten Fiscal Years.....	66
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years.....	67
Ratios of General Obligation Bonds - Last Ten Fiscal Years .....	68
Limited Tax General Obligation Bond Debt Service Requirements.....	69
Computation of Direct and Overlapping General Obligation Debt.....	70
Computation of Legal Debt Margin - Last Ten Fiscal Years.....	71
Revenue Bonds Coverage by Type - Last Ten Fiscal Years.....	72
Demographic Statistics - Last Ten Fiscal Years.....	73
Pierce County Major Employers.....	74
Number of Port Employees by Function - Last Ten Fiscal Years .....	75
Marine Terminal Tonnage and Statistics - Last Ten Fiscal Years .....	76
Marine Terminal Description .....	77
Aggregate Comparative Operating Statistics – Last Ten Fiscal Years.....	78

## INTRODUCTORY SECTION



March 12, 2015

**Commissioners and Chief Executive Officer  
Port of Tacoma**

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of the Port of Tacoma (the Port) for the fiscal year ended December 31, 2014, is submitted herewith. The Port's Finance Department prepared this report. Responsibility for both the accuracy and the completeness, and the fairness of the presentation, including all disclosures, rests with management. We believe the reports as presented, are accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Port, and that all disclosures necessary to gain the maximum understanding of the Port's financial affairs have been included.

The Port is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments, since the Port has expended federal funds in excess of the 2014 threshold.

**THE REPORTING ENTITY AND ITS SERVICES**

The Port is a municipal corporation of the State of Washington created in 1918 under provisions of the Revised Code of Washington 53.04.010 et seq. The Port has geographic boundaries coextensive with Pierce County, Washington, and is situated on Commencement Bay in Puget Sound.

The Port is independent of Pierce County government. It is administered by a five-member Board of Commissioners elected by Pierce County voters. The Commission delegates administrative authority to a Chief Executive Officer and administrative staff to conduct operations of the Port. The County levies and collects taxes on behalf of the Port. The Port is authorized by Washington State 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, transfer and 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, may create industrial development districts and may promote and operate tourism-related facilities.

**LOCAL ECONOMY AND OUTLOOK**

**Local Economy**

The Port district is located in Pierce County. The county's main industries are military, health care services and a variety of businesses. The major industrial firms produce paper products, aerospace parts, food products, computer software, lumber, building products, and boats. Ship repair, financial services, and international trade also play a major role in the local economy. The joint military base located in Pierce County supports a strong retail trade. A large portion of the cargo exported and imported through the Port of Tacoma originates or is destined to the

Midwestern or Eastern United States. Business fluctuations in the local economy generally do not significantly impact Port operating trade volumes.

## Shipping Industry

Many of the same issues affecting the U.S. economy have plagued the shipping industry over the last few years and will continue to present challenges in 2015.

The container shipping industry has struggled for the last several years with overcapacity as vessels that were ordered before the global recession were introduced into service in the face of declining shipping demand. At the same time, international container lines have continued to order new larger and more fuel efficient ships to increase carrying capacity and reduce fuel consumption, thereby reducing vessel operating costs on per container basis. Added capacity and the resulting imbalance between supply and demand have made it nearly impossible for carriers to sustain freight rates at a profitable level. Most international container lines have operated at a loss over a period of several years. Industry analysts expect overcapacity to remain an issue through at least 2016.

International container carriers have turned to cooperation and consolidation as a strategy for managing capacity and controlling operating costs. While carrier alliances and vessel sharing agreements are nothing new to the shipping industry, 2014 brought the emergence of four new mega-alliances involving the world's largest carriers that could reshape the competitive landscape: G6, CKYHE-E, 2M, and Ocean 3.

### Alliance Members

G6	APL, Hapag-Lloyd, Hyundai Merchant Marine, Mitsui OSK Line, NYK Line, OOCL
CKYH-E	Cosco, "K" Line, Yang Ming Line, Hanjin Shipping Co., Evergreen Line
2M	Maersk Line, Mediterranean Shipping
Ocean 3	China Shipping Container Line, CMA-CGM, United Arab Shipping Co.

Collectively, members of these alliances account for 16 of the top 20 global container lines and control nearly seventy-five percent of the global container capacity. Participating carriers will be in a better position to collaborate on vessel deployments and port rotations to leverage benefits from larger ships and add or remove capacity in response to market conditions.

While this is good news for alliance participants, it puts the rest of the industry at a distinct disadvantage and could force industry consolidation through mergers, acquisitions or bankruptcies. As an example, in mid-2014 Hapag-Lloyd (Germany/G6) and CSAV (Chile) merged to form the fourth largest global container shipping line. CSAV received a cash infusion to sustain its business while both carriers gained access to trade lanes where they weren't currently operating. Smaller carriers specializing in regional trades or niche markets are still performing relatively well, but opportunities for these shipping lines to participate in the major East-West trade lanes may be limited in the future without an alliance to partner.

The new generation of ultra-large container ships (ULCS) is also having a ripple effect across the US port industry. As the mega-ships come into service in Asia-Europe, vessels they have replaced are slowly being redeployed, primarily to the trans-Pacific. These larger ships, with carrying capacity of between 10,000 and 14,000 TEUs, require deeper water, more berth space and additional cranes with a longer reach. The larger container volume on each ship also puts strain on landside infrastructure as terminals need more yard space for container loading and unloading, and additional backlands for container storage and operational support. Seaports across the US are engaged in major dredging and infrastructure improvement projects to accommodate the larger vessels, but port congestion could be an issue until infrastructure catches up.

## **Port Activity**

Total container volume grew by 7.8% in 2014 and is projected to grow 2.2% in the following year. The modest growth forecast for 2015 is predicated on slow but continued expansion of the U.S. economy and political and economic stability among the port's major trading partners. Domestic container volume, which accounts for approximately 20 percent of total port volume, grew by 2.3% in 2014, a considerable improvement from the 0.1% in the previous year. Volume increases have been supported by increased oil exploration and development projects following a change to Alaska's oil tax and growth in residential and commercial construction in Hawaii as the economy there continues to improve.

Breakbulk cargo is comprised of commodities that are either too large or unwieldy for containerized shipment. In the case of the Port of Tacoma this consists largely of agricultural and construction equipment. Breakbulk tonnage in 2014 reached 221,000 short tons, a 6.1% increase from the preceding year. Modest growth is anticipated for 2015, notwithstanding a significant improvement in U.S. construction activity and increased industrial activity in China to help drive the demand for construction and mining equipment. China has also indicated that it will be revising its import quotas in the coming months to promote domestic production of cotton fiber, which may present an opportunity for increased export of agriculture equipment.

Auto imports in 2014 increased by 9.6% from the previous year to 176,000 units. Much of the increase can be attributed to the continued improvement in private vehicle purchases as easing credit, low interest rates, improving consumer sentiment and strong dealer incentives have encouraged buyers to replace older automobiles they've held onto during the recession with new ones. Volumes for 2015 are forecast to grow by approximately 2% in light of strong purchases over the last year and moderate economic growth expected for next year.

On the Port's bulk side of the business, log exports have declined over the last several months and finished the year significantly down from the previous at just over 50.5 million board-feet. The drop in volume is primarily a result of fiscal and regulatory policies China has implemented over the course of the last year to discourage speculative investment in the housing market and control inflationary pressures that have been threatening the economy. However, there are signs that China is preparing to once again ease purchase restrictions and free up access to credit for both first-time and second-time homebuyers to re-stimulate economic growth. This should help log volumes should improve to previous levels.

Grain volumes have improved considerably from historic lows of 2013, reaching 4.3 million short tons, an increase of 57.8%. Grain tonnage in 2015 is expected to reach 4 million short tons. Constricting factors for volume of the port's grain exports include the availability of rail capacity across the upper tier of the U.S. to get product to the ports for export and regulatory barriers in the Chinese marketplace for GMO grains.

## **LONG-TERM FINANCIAL PLANNING**

For 2015, the Port of Tacoma developed an overall operating budget with projected revenues of \$135.4 million, an increase of 0.8% over 2014 operating revenue. Operating expenses are forecasted to be \$112.6 million in 2015, a reduction of 5.2% versus 2014, primarily due to environmental remediation expenses liabilities recorded in 2014. The result is forecasted net operating income of \$27.7 million, an increase over 2014 of \$6.9 million and 33.1%. The Port's net non-operating expense for 2015 is expected to decrease by \$8.4 million to \$10.3 million. The primary catalysts for this decrease are fixed asset impairments in 2014 of \$6.3 million and forecasted increases in capital grant contributions of \$2.8 million over 2014 to \$5.1 million. Ad valorem tax revenue is forecasted to increase 8.6% to \$14.2 million compared to \$13.1 million in 2014 and the net ad valorem tax revenue after GO bond interest will increase by 6.9% to \$4.0 million. The result of all revenue and expense components is a forecasted increase in net assets of \$22.5 million for 2015.



Historically, the Port has used long-term debt and operating profit to finance capital asset acquisitions and construction. The capital program anticipates spending \$204.7 million over the next five years funded by Port operations.

### **MAJOR INITIATIVES**

In 2012, the Port introduced a strategic development plan for the next 10 years. The strategic plan, which includes nearly 50 separate initiatives, calls for four main areas of focus that build on the Port's specific strengths:

- Make strategic investments that enhance waterway, terminal, road, rail and industrial property infrastructure to create the most efficient, productive and cost-effective system to move freight to market.
- Create opportunities for future investments by attracting new business opportunities with healthy income streams and increasing diversity of the Port's business portfolio.
- Demonstrate "best in class" care for business relationships with customers and key stakeholders.
- Grow the Port responsibly to ensure the community continues to support trade-related jobs.

In 2014, the upgrade of Pier 3 was completed to support super-post-Panamax cranes. The reconfiguration of the adjacent Pier 4 will enable two of the world's largest container ships to berth simultaneously. This project will begin in 2015 and should be completed in early 2016. The Port also connected the on-dock rail at East Blair 1 with Tacoma Rail's support tracks, and upgraded stormwater treatment facilities at the log export terminal, two intermodal yards and a container terminal to protect Commencement Bay.

The Port continued to diversify its business portfolio by signing a lease agreement for a liquefied natural gas (LNG) facility to support residential and commercial customers, as well as providing a cleaner fuel alternative for transportation companies including Totem Ocean Trailer Express. Currently in the feasibility period, the facility is expected to begin operating in 2018.

In October 2014, the Port entered into an Interlocal Agreement (ILA) with the Port of Seattle for the creation of a joint Seaport Alliance. The ILA, which was approved by the Federal Maritime Commission (FMC) in December, provides a framework to advance the discussions to examine business objectives, strategic marine terminal investments, financial returns, performance metrics, organizational structure, communications and public engagement. Following the due diligence period, the two port commissions intend to submit to the FMC by Spring 2015 a more detailed agreement to form the Seaport Alliance.

### **FINANCIAL INFORMATION**

#### **Accounting System and Budgetary Control**

In developing and evaluating the accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) reliability of financial reporting; (2) effectiveness and efficiency of operations; and (3) compliance with applicable laws and regulations. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.



Budgetary control is maintained at the department level. Senior management reviews the departmental and corporate budget to actual results monthly. Revenue and expense estimates are analyzed and re-forecasted mid-year, based on changes in activity or knowledge of changing business plans.

The Port of Tacoma's Management Discussion and Analysis of 2014 and 2013 financial activities begins on page 14 of this report.

### **INDEPENDENT AUDIT**

The Port is legally required to have its financial statements audited annually. We believe this is an essential element in financial control. The Port has engaged independent auditors to examine the financial statements and engaged the Washington State Auditor's Office to perform both the legal compliance and single audits. Another important consideration is that bond rating firms, such as Standard & Poor's Corporation and Moody's Investor Services, have made it clear that the bond rating of governmental units will be adversely affected if timely, audited financial statements are not issued. The opinion of the auditors is included in the financial section of this report. The statistical section of this report is not covered by the auditors' opinion.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Port of Tacoma, Washington, for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2013. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR in which the contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

### **ACKNOWLEDGMENTS**

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express appreciation to all members of the department who assisted and contributed to its preparation. I would also like to thank the Port Commissioners for their interest and support in planning and conducting the financial operations of the Port in a responsible and progressive manner.

Sincerely,

A handwritten signature in cursive script that reads "Erin Galeno".

ERIN GALENO, CPA  
Chief Financial and Administrative Officer



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Port of Tacoma  
Washington**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2013**

Executive Director/CEO

## **Port of Tacoma Leadership**

The five-member Port of Tacoma Commission is the governing body of the Port of Tacoma and sets policy and authorizes major expenditures. The Commission appoints a CEO, who is responsible for the executive leadership of the Port. Voters of Pierce County, Washington elect commissioners to four-year terms. The Commission holds regular public meetings at the Fabulich Center, 3600 Port of Tacoma Road. Meeting dates, times and agendas are available at [www.portoftacoma.com](http://www.portoftacoma.com).

### **Commissioner Constance T. Bacon**

Connie Bacon was elected to the Commission in 1997. She serves on the Board of Directors for the Asia Pacific Cultural Center, Fuzhou Advisory Committee and the Water Partners Committee. She served two terms on the Washington Economic Development Commission. Bacon also co-chairs the Urban Waters project and serves as Vice Chair of the Port of Tacoma Audit Committee. A member of the Tacoma Transportation Club and Tacoma Propeller Club, she is a Senior Fellow of the American Leadership Forum and member of the advisory board to the Port of Tacoma Endowed Chair at the University of Washington Tacoma. Bacon is a former Executive Director of the World Trade Center Tacoma and served eight years as special assistant to former Washington Gov. Booth Gardner. She is a graduate of Syracuse University and earned a Master's Degree from The Evergreen State College.

### **Commissioner Don Johnson**

Elected to the Commission in 2007, Don Johnson retired as Vice President and General Manager of Simpson Tacoma Kraft in March 2008. Johnson serves on the Puget Sound Regional Council's Transportation Policy Board and Goodwill Finance Committee. He is Chair of the Goodwill Foundation Board and is the immediate past Chair of the MultiCare Health Care Foundation. He also serves as Chair of the Port of Tacoma Audit Committee. He is a previous Chair of the Tacoma-Pierce County Chamber Board and former Chair of the University of Washington Business School Advisory Board, the United Way of Pierce County Board and the United Way's Annual Campaign. He chaired the search committee for the Tacoma-Pierce County Chamber CEO and is a member of the Tacoma Transportation Club and Tacoma Propeller Club. Johnson holds a Bachelor's Degree in mechanical engineering from the University of Washington.

### **Commissioner Richard P. Marzano**

Dick Marzano was elected to the Commission in 1995. A Tacoma longshore worker for more than 36 years, he served as President of the International Longshore and Warehouse Union Local 23 for six years. Marzano is the Co-Chair of the SR-167 Completion Coalition and serves on the Washington Public Ports Association's Board of Trustees, Puget Sound Regional Council's Executive Board, Pierce County Sheriff's Office Executive Advisory Board and the Valley Cities Association Board. He has served on WPPA's six-member Executive Committee. He is a former member of the Freight Mobility Strategic Investment Board. Marzano is also a member of the Tacoma Propeller Club, Tacoma Transportation Club and a former board member of the Foss Waterway Development Authority and St. Leo's Hospitality Kitchen.

### **Commissioner Don Meyer**

Don Meyer is the former Executive Director of the Foss Waterway Development Authority and a former Deputy Executive Director of the Port of Tacoma. He joined the Commission in 2010. Meyer currently serves on the Pierce County Regional Council, Tacoma-Pierce County Economic Development Board, South King County Transportation Board, the Regional Access Mobility Partnership and Tacoma Waterfront Association. He is a member of the Alaska State Chamber of Commerce, the Fife/Milton/Edgewood Area Chamber of Commerce and the Tacoma Transportation Club. He recently served on the Connecting Washington Task Force on transportation issues, is a member of Tacoma Rotary #8 and owns a small business in Pierce County. Born and raised on a South Dakota farm, Meyer holds a Bachelor's Degree in business from Pacific Lutheran University and a Master's Degree in business administration from the University of South Dakota.

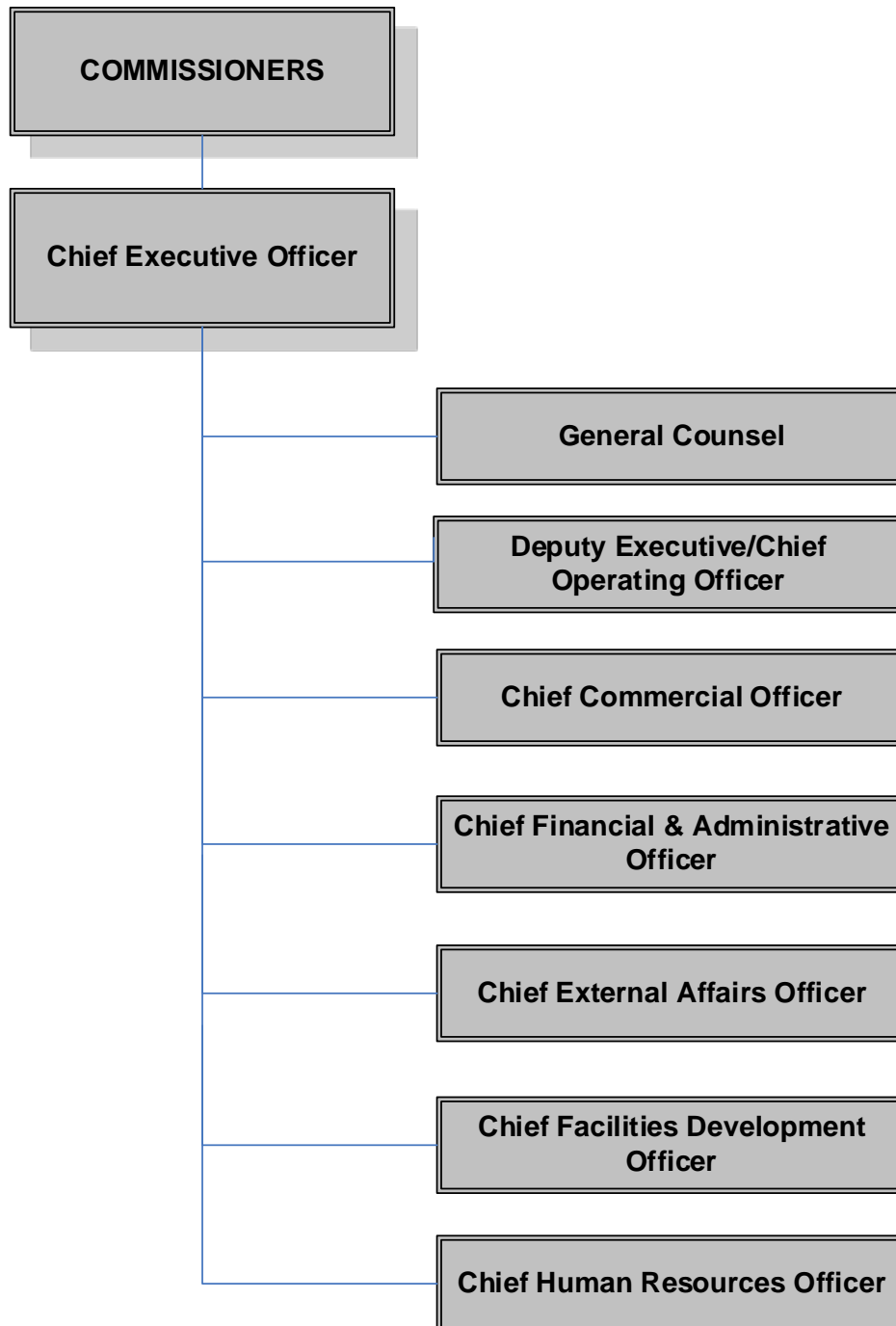
### **Commissioner Clare Petrich**

A Commissioner since 1995, Clare Petrich is a small business owner with strong ties to Tacoma's maritime heritage. She is co-founder of the Commencement Bay Maritime Fest. Petrich Chairs the Joint Municipal Action Committee and serves on the boards of the Local Emergency Planning Committee, Pacific Northwest Waterways Association, the Youth Marine Foundation, the Flood Control Zone District Committee and the Washington Council on International Trade. She is a past President of the Puget Sound Regional Council's Economic Development District Board and continues to serve on this board. She is also a past President and Secretary for the Trade Development Alliance of Greater Seattle. Petrich is a graduate of Manhattanville College in New York and received her Master's Degree from the University of Virginia.

### **Chief Executive Officer John Wolfe**

John Wolfe was named the Port's Chief Executive Officer in June 2010. Before being named CEO, Wolfe had served as the Deputy Executive Director of the Port since June 2005. Prior to joining the Port of Tacoma, he served for two years as the Executive Director at the Port of Olympia, and before that as Olympia's Director of Operations and Marine Terminal Manager. Wolfe also spent 10 years with Maersk Sealand/APM Terminals in Tacoma, most recently as the terminal's Operations Manager. A native of Puyallup, Washington, Wolfe earned a Bachelor's Degree in business administration from Pacific Lutheran University in 1987.

PORT OF TACOMA  
Organizational Chart  
As of December 31, 2014



**PORT OF TACOMA**

**LIST OF PRINCIPAL OFFICIALS**

December 31, 2014

<b>Title</b>	<b>Name</b>
Chief Executive Officer	John Wolfe
Deputy Executive / Chief Operating Officer	Don Esterbrook
Chief Financial & Administrative Officer	Erin Galeno
Chief Commercial Officer	Tong Zhu
Chief Facilities Development Officer	Dakota Chamberlain
Chief External Affairs Officer	Julie Collins
Chief Human Resources Officer	Jean West
General Council	Carolyn Lake

## FINANCIAL SECTION





## **Independent Auditor's Report**

The Board of Commissioners  
Port of Tacoma  
Tacoma, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Enterprise Fund and the Post-Employment Health Care Benefits Trust Fund of Port of Tacoma (the Port) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which, collectively, comprise the Port's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Post-Employment Health Care Benefits Trust Fund of the Port of Tacoma as of December 31, 2014 and 2013, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

(continued)



**Independent Auditor's Report (concluded)**

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The Board of Commissioners  
Port of Tacoma  
Tacoma, Washington

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14-20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We 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.

*McGladrey LLP*

Tacoma, Washington  
March 12, 2015

# Port of Tacoma

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2014 and 2013

### INTRODUCTION

The Port of Tacoma's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the Port's 2014 and 2013 financial statements which includes 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 capital assets and long-term debt activity, including commitments made for capital expenditures.

### 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 net position and statements of changes in 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 liabilities, with the difference between the two 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 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 Post-Employment Health Care Benefits Trust Fund.

## 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. The Port's current assets consist primarily of cash, investments and accounts receivable. A summarized comparison of the Port's Enterprise Fund assets, liabilities and net position at the close of calendar year-end follows:

	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>PORT OF TACOMA</b>			
<b>Statements of Net Position</b>			
<b>(dollars in thousands)</b>			
Current assets	\$ 220,235	\$ 216,130	\$ 214,063
Capital assets, net	966,813	962,741	964,661
Long-term investments	9,230	37,688	17,411
Other assets	45,586	47,701	28,672
<b>Total assets</b>	<b>\$1,241,864</b>	<b>\$1,264,260</b>	<b>\$1,224,807</b>
<b>Deferred outflows of resources</b>	<b>\$87,492</b>	<b>\$60,035</b>	<b>\$97,992</b>
Current liabilities	\$111,270	\$124,409	\$ 89,476
<b>Long-term debt, net</b>	<b>578,031</b>	<b>601,378</b>	<b>621,859</b>
Other long-term liabilities	135,869	98,671	111,706
<b>Total liabilities</b>	<b>\$825,170</b>	<b>\$824,458</b>	<b>\$823,041</b>
Net investment in capital assets	\$299,405	\$280,507	\$272,154
Restricted - bond reserves	9,230	16,395	17,411
Unrestricted	195,551	202,935	210,193
<b>Total net position</b>	<b>\$504,186</b>	<b>\$499,837</b>	<b>\$499,758</b>

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

The Port's assets and deferred outflows exceeded its liabilities by \$504.2 million at December 31, 2014. Of this amount, \$299.4 million is the net investment in capital assets, \$9.2 million is restricted for bond reserves and \$195.6 million is unrestricted. Net position was \$499.8 million at December 31, 2013, of this amount net investment in capital assets was \$280.5 million, \$16.4 million was restricted for related bond reserves and \$202.9 million was unrestricted.

The Port's net investment in capital assets represents infrastructure and capital assets for Port terminal and real estate facilities. In 2014 the net investment in capital assets increased by \$18.9 million due primarily to a net decrease in outstanding debt of approximately \$14.8 million and a \$4.1 million increase in net capital assets attributable to asset creation and the corresponding increase in depreciation.

In 2013 the net investment in capital assets increased by \$8.3 million due primarily to a net decrease in outstanding debt of approximately \$5 million and net change in capital assets of \$1.9 million.

Restricted components of net assets at December 31, 2014, 2013 and 2012, of \$9.2, \$16.4 and \$17.4 million, respectively, are required reserves for the 2004 and 2005 revenue bonds held in restricted investments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The change in net position is an indicator of whether the overall fiscal condition of the Enterprise Fund has improved or worsened during the year. The following summary compares operating results for 2014, 2013 and 2012.

### PORT OF TACOMA Statements of Revenues, Expenses and Changes in Net Position (dollars in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Income</b>			
Operating revenues	\$134,322	\$125,342	\$124,377
Operating expenses	113,497	99,015	96,146
<b>Total operating income</b>	<b>20,825</b>	<b>26,327</b>	<b>28,231</b>
<b>Non-Operating Revenues (Expenses)</b>			
Ad valorem tax revenues	13,083	12,600	13,672
Interest on general obligation bonds	(9,000)	(9,456)	(9,566)
<b>Net ad valorem tax revenues</b>	<b>4,083</b>	<b>3,144</b>	<b>4,106</b>
Interest income	2,704	2,421	3,153
Net increase (decrease) in the fair value of investments	2,505	(5,135)	777
Interest expense	(20,908)	(23,048)	(20,117)
Other non-operating expense, net	(7,131)	(10,365)	(6,935)
<b>Total non-operating expenses, net</b>	<b>(18,747)</b>	<b>(32,983)</b>	<b>(19,016)</b>
<b>Increase (decrease) in net position before capital contributions</b>	<b>2,078</b>	<b>(6,656)</b>	<b>9,215</b>
Capital contributions	2,271	6,735	13,565
<b>Increase in net position</b>	<b>4,349</b>	<b>79</b>	<b>22,780</b>
Net position, beginning of year	499,837	499,758	476,978
<b>Net position, end of year</b>	<b>\$504,186</b>	<b>\$499,837</b>	<b>\$499,758</b>
<b>Container Volume (TEUs in thousands)</b>	<b>2,040</b>	<b>1,892</b>	<b>1,711</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Revenues:** Port revenue in 2014 of \$134.3 million increased by \$9.0 million and 7.2% over 2013 on strong container and non-container cargo volume increases. The Port handled 2.0 million TEUs (20-foot equivalent units) in 2014 a 7.8% increase over the prior year. The container business revenue increased by \$6.9 million and 7.6% over the prior year primarily due to larger vessels calling the port terminals, increasing equipment and intermodal revenue.

The non-containerized cargo business consists of the Port's breakbulk, auto and log businesses. Non-container revenue increased \$1.4 million and 7.5% over the prior year. Breakbulk revenue was up \$1.6 million, driven by construction and heavy machinery cargo handling. Further, the improving economy drove auto imports and revenue increases of 9.6% and \$0.8 million, respectively. Conversely, the Port's log export volume was down 32.1% and \$0.5 million compared to the prior year, primarily due to weaker demand in China.

Real estate revenue increased by \$0.6 million and 4.3% above the prior year as demand for commercial property improved.

Port revenue in 2013 of \$125.3 million increased slightly by \$0.9 million and 0.7% over 2012 as carriers expanded the use of larger vessels to transport Asian imports into Southern California. The Port handled 1.89 million TEUs (20-foot equivalent units) in 2013, a 10.5% increase over the prior year. Growth in 2013 container volumes continues to reflect the addition of the Grand Alliance shipping consortium midway through 2012. Although total container volume grew, overall container and intermodal revenue was down \$2.1 million and 2.3% compared with the prior year due to lower equipment and intermodal revenue at the Port operated terminals.

The non-containerized cargo business consists of the Port's breakbulk, auto and log businesses. Non-container revenue increased \$0.9 million and 5.3% over the prior year driven by increases in auto units of 8.2% and \$0.9 million, and log exports increased by 12.0 million board feet and \$0.5 million. Conversely, the Port's breakbulk volume was down 21.1% and \$1.2 million compared to the prior year, primarily due to strong demand for industrial and agricultural equipment in the prior year and exporters diversifying ports.

Real estate revenue increased by \$2.1 million and 16.8% above the prior year as demand for commercial property improved.

**Expenses:** The 2014 operating expense of \$113.5 million was \$14.5 million and 14.6% above the prior year. Revenue related operating expenses increased by \$1.8 million and \$1.2 million in the container and non-container businesses, respectively. Environmental expense of \$12.4 million was recorded to remediate sites on the General Central peninsula and on the Blair peninsula that are being developed to accommodate new and expanded business opportunities.

The 2013 operating expense of \$99.0 million was \$2.9 million and 3.0% above the prior year.

Container operating expense decreased by \$1.0 million, the result of lower equipment and intermodal volume and revenue. Non-container operating expense increased by \$2.0 million, primarily due to expenses associated with terminal relocations for breakbulk and autos. Environmental expense increased by \$1.0 million and 49.4% primarily due to remedial investigation and cleanup project costs.

As a result of the above, the 2014 operating income of \$20.8 million decreased by \$5.5 million and 20.9% from 2013; 2013 operating income decreased by \$1.9 million and 6.7% from 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Non-Operating Expenses:** The 2014 net non-operating expense of \$18.7 million was \$14.2 million and 43% below the prior year.

Net interest expense of \$15.7 million was down \$10.1 million from the prior year.

Interest income was up \$7.9 million primarily due to non-cash fair value adjustments on investments of \$7.6 million and interest expense was down \$2.1 million primarily due to the refunding of bonds at lower interest rates described in Note 5.

Other non-operating expense was \$7.1 million in the current year versus \$10.4 million in 2013. Major current year expenses include: asset impairments of \$5.5 million at pier 4 which is being redeveloped and obsolete rail design costs of \$1.3 million.

Ad valorem tax revenue increased by \$0.5 million compared to the prior year which also reduced the net ad valorem tax revenue after interest expense on governmental bonds by \$1.0 million.

The 2013 net non-operating expense of \$33.0 million was \$14.0 million and 73.7% above the prior year. Interest income was down \$6.6 million primarily due to non-cash fair value adjustments on investments of \$5.9 million. Interest expense was up \$3.0 million, primarily due to the additional interest for the \$130 million and \$20 million interest rate swap agreements that were effective in July 2012 and 2013, respectively. Other non-operating expense of \$10.4 million increased by \$3.4 million over the prior year. The significant components of other non-operating expense in 2013 were impairment of the property held for sale of \$5.9 million, property, equipment and other asset disposals of \$2.5 million for terminal development projects, and election expense of \$0.9 million.

Ad valorem tax revenue for 2013 was down \$1.1 million compared to the prior year, decreasing the net ad valorem tax revenue after interest expense on governmental bonds by \$1.0 million.

**Capital Grant Contributions:** Capital grant contributions of \$2.3 million in 2014 were comprised of \$1.0 million for security enhancements, \$0.9 million for environmental remediation projects, and \$0.4 million for infrastructure projects.

Capital grant contributions in the prior year were received for environmental remediation projects of \$4.1 million and security enhancements of \$2.1 million and infrastructure projects of \$0.5 million.

**Capital Assets:** The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2014, amounted to \$966.8 million. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process. The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2013, amounted to \$962.7 million (see Note 3).

### Debt Administration

**Long-Term Debt:** At December 31, 2014, the Port's long-term debt, including current portion, outstanding totaled \$585.0 million. Of this amount, general obligation bonds outstanding were \$184.5 million and revenue bonds outstanding were \$400.5 million.

At December 31, 2013, the Port's long-term debt, including current portion, outstanding totaled \$604.6 million. Of this amount, general obligation bonds outstanding were \$189.1 million and revenue bonds outstanding were \$415.5 million (see Note 5).

The Port utilizes derivative payment agreements to manage interest rate risk. The swap agreements 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 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 their fair value.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

In 2010 the Port modified the 2011, 2012 and 2013 payment agreements with the counterparty, eliminating the need to issue new insured debt to match the 2011 \$80.0 million, 2012 \$130.0 million and the 2013 \$20.0 million swaps. Instead, the Port used existing outstanding variable-rate long-term debt and commercial paper to match the 2011-2013 swaps. The Port issued additional commercial paper during 2013 for the \$20.0 million swap that became active in July 2013. The terms of the 2010 amended payment agreement remove the bond insurance requirement and increase the fixed payment agreement rate by 0.06%. The Port estimates that annual interest expense will increase by \$126,000.

The Port refunded all of \$71.5 million of the 2005 Senior Lien Revenue bonds and approximately \$20 million of the 2004 Senior Lien Revenue bonds. The bonds will be refunded as Subordinate Lien Revenue bonds and will be matched to the Port's interest rate swaps. This is expected to save the Port between \$2 and \$3 million per year in interest expense by allowing the Port to reduce its outstanding commercial paper which has been matched to the swaps, or by utilizing the low variable interest rates on any remaining outstanding commercial paper which will no longer be matched to the swaps. The Port has also refunded the \$8.5 million the 2004A Senior Lien Revenue bonds. This refunding, which will keep the bonds on the senior level, is expected to save between \$0.2 million and \$0.3 million per year due to lower rates.

Additional information on the Port's long-term debt activity may be found in Note 5 of this report and in the supplementary section "Information for Bondholders."

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 & POORS
General Obligation (Senior Lien)	Aa3	AA-
Revenue Bonds (Senior Lien)	Aa3	AA-
Revenue Bonds (Subordinate)	A1	A+

**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 as of December 31, 2014, 2013 and 2012, and changes in net position for the years ended December 31, 2014, 2013 and 2012 (in thousands), are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total assets	\$6,333	\$6,493	\$6,859
Total liabilities	--	--	--
<b>Total net position</b>	<b>\$6,333</b>	<b>\$6,493</b>	<b>\$6,859</b>
Total additions (reductions)	\$ 61	(\$ 2)	\$ 100
Total deductions	(221)	(364)	(315)
<b>Decrease in net position</b>	<b>(160)</b>	<b>(366)</b>	<b>(215)</b>
Net position - beginning of year	6,493	6,859	7,074
<b>Net position - end of year</b>	<b>\$6,333</b>	<b>\$6,493</b>	<b>\$6,859</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.

**PORT OF TACOMA  
ENTERPRISE FUND  
STATEMENTS OF NET POSITION  
December 31, 2014 and 2013**

**ASSETS  
(dollars in thousands)**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CURRENT ASSETS</b>		
Cash	\$ 840	\$ 9,751
Investments, at fair value	198,587	182,587
Trade accounts receivable, net of allowance for doubtful accounts (\$394 and \$416, respectively)	10,561	9,528
Grants receivable	814	3,812
Taxes receivable	575	645
Prepayments and other current assets	8,858	9,807
<b>Total current assets</b>	<b>220,235</b>	<b>216,130</b>
<b>NON-CURRENT ASSETS</b>		
<b>LONG-TERM INVESTMENTS</b>		
Bond reserves at fair value	9,230	16,395
Restricted investments, at fair value	-	21,293
<b>Long-term investments</b>	<b>9,230</b>	<b>37,688</b>
<b>CAPITAL ASSETS</b>		
Land	524,535	521,793
Buildings	109,315	108,162
Improvements	617,977	630,197
Machinery and equipment	114,183	111,538
Construction in process	62,061	37,630
<b>Total cost</b>	<b>1,428,071</b>	<b>1,409,320</b>
Less accumulated depreciation	461,258	446,579
<b>Net property and equipment</b>	<b>966,813</b>	<b>962,741</b>
<b>ASSETS HELD FOR SALE</b>	<b>11,200</b>	<b>11,200</b>
<b>OTHER ASSETS</b>	<b>34,386</b>	<b>36,501</b>
<b>Total non-current assets</b>	<b>1,021,629</b>	<b>1,048,130</b>
<b>Total assets</b>	<b>\$1,241,864</b>	<b>\$1,264,260</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated decrease in fair value of hedging derivatives	\$81,634	\$57,174
Advance refunding deferred losses	5,858	2,861
<b>Total deferred outflows of resources</b>	<b>\$87,492</b>	<b>\$60,035</b>

See notes to financial statements.

**PORT OF TACOMA  
ENTERPRISE FUND  
STATEMENTS OF NET POSITION  
December 31, 2014 and 2013**

**LIABILITIES AND NET POSITION  
(dollars in thousands)**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 9,004	\$ 11,800
Payroll and taxes payable	5,151	5,277
Accrued interest	1,880	2,322
Commercial paper	82,000	92,585
Current portion of long-term debt	13,235	12,425
<b>Total current liabilities</b>	<b>111,270</b>	<b>124,409</b>
<b>NON-CURRENT LIABILITIES</b>		
<b>LONG-TERM DEBT</b>		
General obligation bonds	179,575	184,465
Revenue bonds	392,195	407,685
<b>Total long-term debt</b>	<b>571,770</b>	<b>592,150</b>
Net bond premium	6,261	9,228
<b>Net long-term debt</b>	<b>578,031</b>	<b>601,378</b>
<b>OTHER LONG-TERM LIABILITIES</b>		
Forward-starting payment agreement	81,634	57,174
Other	54,235	41,497
<b>Other long-term liabilities</b>	<b>135,869</b>	<b>98,671</b>
<b>Total non-current liabilities</b>	<b>713,900</b>	<b>700,049</b>
<b>Total liabilities</b>	<b>\$825,170</b>	<b>\$824,458</b>
<b>NET POSITION</b>		
Net investment in capital assets	\$299,404	\$280,507
Restricted - bond reserves	9,230	16,395
Unrestricted	195,552	202,935
<b>Total net position</b>	<b>\$504,186</b>	<b>\$499,837</b>

See notes to financial statements.

**PORT OF TACOMA  
ENTERPRISE FUND  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
Years Ended December 31, 2014 and 2013**

(dollars in thousands)

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>OPERATING REVENUES</b>		
Property rentals	\$ 99,410	\$ 95,815
Terminal services	34,912	29,527
<b>Total operating revenues</b>	<b>134,322</b>	<b>125,342</b>
<b>OPERATING EXPENSES</b>		
Operations	33,720	30,769
Maintenance	14,768	15,473
Administration	14,686	14,844
Security	4,057	3,988
Environmental	14,720	3,139
<b>Total before depreciation</b>	<b>81,951</b>	<b>68,213</b>
Depreciation	31,546	30,802
<b>Total operating expenses</b>	<b>113,497</b>	<b>99,015</b>
<b>Operating income</b>	<b>20,825</b>	<b>26,327</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Ad valorem tax revenue	13,083	12,600
Interest on general obligation bonds	(9,000)	(9,456)
<b>Net ad valorem tax revenues</b>	<b>4,083</b>	<b>3,144</b>
Interest income	2,704	2,421
Net increase (decrease) in the fair value of investments	2,505	(5,135)
Interest expense	(20,908)	(23,048)
Other non-operating expenses, net	(7,131)	(10,365)
<b>Total non-operating expenses, net</b>	<b>(18,747)</b>	<b>(32,983)</b>
<b>Increase (decrease) in net position, before capital contributions</b>	<b>2,078</b>	<b>(6,656)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>2,271</b>	<b>6,735</b>
<b>Increase in net position</b>	<b>4,349</b>	<b>79</b>
<b>NET POSITION</b>		
Beginning of year	499,837	499,758
<b>End of year</b>	<b>\$504,186</b>	<b>\$499,837</b>

See notes to financial statements.

**PORT OF TACOMA  
ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2014 and 2013**

(dollars in thousands)

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$132,597	\$127,915
Cash paid to suppliers for goods and services	(28,311)	(26,239)
Cash paid to longshore labor and employees	(41,161)	(39,940)
<b>Net cash provided by operating activities</b>	<b>63,125</b>	<b>61,736</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Cash paid for non-operating expense	<b>(3,384)</b>	<b>(3,928)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	3,051	- -
Borrowings on commercial paper	550,510	314,170
Repayments on commercial paper	(561,095)	(286,085)
Principal payments on general obligation and revenue bonds and other debt	(17,840)	(16,775)
Proceeds from refunding bond issues	135,505	- -
Payments on refunded bonds	(143,967)	- -
Acquisition and construction of capital assets	(41,329)	(32,254)
Interest paid on general obligation and revenue bonds and other debt	(30,236)	(33,007)
Cash received from federal and state grants	5,269	4,093
Cash received from property taxes for general obligation bonds	13,153	12,750
Cash received for long-term contracts	664	- -
<b>Net cash used in capital and related financing activities</b>	<b>(86,315)</b>	<b>(37,108)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(134,777)	(172,590)
Proceeds from sales and maturities of investment securities	149,562	154,219
Interest received on investments	2,878	2,200
<b>Net cash provided by (used in) investing activities</b>	<b>17,663</b>	<b>(16,171)</b>
<b>Net increase (decrease) in cash</b>	<b>(8,911)</b>	<b>4,529</b>
<b>CASH</b>		
Beginning of year	9,751	5,222
<b>End of year</b>	<b>\$ 840</b>	<b>\$ 9,751</b>

See notes to financial statements.

**PORT OF TACOMA  
ENTERPRISE FUND  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2014 and 2013**

(dollars in thousands)

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	<b>\$20,825</b>	<b>\$26,327</b>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	31,546	30,802
Increase in environmental reserves	12,305	427
Changes in assets and liabilities:		
Increase in accounts receivable	(1,200)	(480)
(Increase) decrease in other deferred assets	(525)	3,052
(Increase) decrease in prepayments	948	(1,657)
Increase (decrease) in accounts payable and accrued liabilities	(1,400)	3,104
Decrease in payroll and taxes payable	(188)	(47)
Decrease in long-term liabilities	814	208
<b>Total adjustments and changes</b>	<b>42,300</b>	<b>35,409</b>
<b>Net cash provided by operating activities</b>	<b>\$63,125</b>	<b>\$61,736</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Capital asset additions and other purchases financed with accounts payable and deferred liabilities	\$ 874	\$ 2,104
Increase (decrease) in fair value of investments	2,505	(5,135)
Impairment of note receivable/assets held for sale	- -	5,946

See notes to financial statements.

**PORT OF TACOMA  
POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND  
STATEMENTS OF NET POSITION  
December 31, 2014 and 2013**

(dollars in thousands)

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash	\$ 471	\$ 487
Investments, at fair value	5,862	6,006
<b>Total investments and total assets</b>	<b>6,333</b>	<b>6,493</b>
<b>PLAN LIABILITIES</b>	<b>- -</b>	<b>- -</b>
<b>Net position held in trust for other post-retirement benefits and other purposes</b>	<b>\$6,333</b>	<b>\$6,493</b>

See notes to financial statements.



**PORT OF TACOMA  
POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND  
STATEMENTS OF CHANGES IN NET POSITION  
Years Ended December 31, 2014 and 2013**

(dollars in thousands)

	<u>2014</u>	<u>2013</u>
<b>ADDITIONS</b>		
Employer contributions	\$ - -	\$ - -
Net increase in fair value of investments	(41)	(129)
Interest	102	127
<b>Total additions</b>	<b>61</b>	<b>(2)</b>
<b>DEDUCTIONS</b>		
Benefit payments	205	347
Administrative expenses	16	17
<b>Total deductions</b>	<b>221</b>	<b>364</b>
<b>Change in net position</b>	<b>(160)</b>	<b>(366)</b>
<b>NET POSITION HELD IN TRUST FOR OTHER POST RETIREMENT BENEFITS AND OTHER PURPOSES</b>		
Beginning of year	6,493	6,859
<b>End of year</b>	<b>\$6,333</b>	<b>\$6,493</b>

See notes to financial statements.

**PORT OF TACOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**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 coextensive with 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 a Chief Executive Officer 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.

The Port reports the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included with the Post-Employment Health Care Benefits Trust Fund.

**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 and 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.

The Post-Employment Health Care Benefits Trust Fund accounts for the assets of the employee benefit plan held by the Port in its trustee capacity (see Note 9).

**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 proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port has chosen to follow accounting standards applicable to private sector entities when those standards do not conflict with applicable GASB standards. The Port is accounted for on a flow of economic resources measurement focus.

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The Port also follows the Uniform System of Accounts for Port Districts in the State of Washington.

The Port uses 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.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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 reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Port include depreciation and environmental liabilities. 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.

### **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 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 was \$394,000 at December 31, 2014, and \$416,000 at December 31, 2013.

### **Investments**

Investments, unrestricted and restricted, are stated at fair value, based on quoted market prices, plus accrued interest. The Port also has investments in the State Local Government Investment Pool (LGIP). 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 Deposits. The investments are limited to high-quality obligations with limited maximum and average maturities. These investments are 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.

### **Restricted Investments - Bond Reserves**

Restricted investments - bond reserves are set aside as restricted assets, for bond reserves and unspent bond proceeds, if any, and 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. Restricted investments - bond reserves totaled \$9,230,000 and \$16,395,000 at December 31, 2014 and 2013, respectively. There were no unspent commercial paper proceeds at December 31, 2014, and \$21.3 million at December 31, 2013.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Prepayments and Other Current Assets**

Maintenance supply inventories of \$4,757,000 and \$4,762,000 at December 31, 2014 and 2013, respectively, are included in prepayments and other current assets and are valued at net realizable value, which approximates cost using the weighted-average method.

### **Capital Assets and Depreciation**

Capital assets are recorded at cost. Donated assets are recorded at fair market value on the date donated.

The Port's policy is to capitalize all asset additions greater than \$10,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. Amortization expense on assets acquired under capital lease obligations is included with depreciation expense. The following lives are used:

Buildings and improvements	20-75 years
Machinery and equipment	5-20 years

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Annually, a review is completed and costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

### **Capitalized Interest**

The Port follows the policy of capitalizing interest as a component of the cost of capital assets constructed for projects greater than \$300,000 that are not funded by grant revenues. Interest incurred on funds used during construction, less interest earned on related interest-bearing investments is capitalized as part of the cost of construction. This process is intended to remove the cost of financing construction activity from the statements of revenues, expenses and changes in net position and to treat such cost in the same manner as construction labor and material costs by taking the monthly average of construction in progress balance times the average interest rate of the outstanding long-term borrowing.

During 2014 total interest incurred, excluding interest on general obligation bonds was \$21,563,000, of which \$20,908,000 was charged to non-operating expenses and \$655,000 was capitalized. During 2013 total interest incurred, excluding interest on general obligation bonds was \$23,333,000, of which \$23,048,000 was charged to non-operating expenses and \$285,000 was capitalized.

### **Net Position**

Net position consists of net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflow of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debts should be included in this component of net position. This calculation excludes unspent debt proceeds, if any.

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Net Position (concluded)

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

	<u>2014</u>	<u>2013</u>
Net investment in capital assets	\$966,813	\$962,741
Commercial paper proceeds restricted for construction	- -	21,293
Less:		
Net Bond Premium	403	6,367
Long-term debt, including current portion	585,005	604,575
Commercial paper	82,000	92,585
<b>Invested in capital assets, net of related debt, end of year</b>	<b>\$299,405</b>	<b>\$280,507</b>

The restricted component of net position was \$9,230,000 and \$16,395,000 at December 31, 2014 and 2013, respectively, and consisted primarily of bond reserves, as required per certain bond agreements.

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.

### 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 \$1,265,000 and \$296,000 at December 31, 2014 and 2013, 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 and other capital projects. These grants are 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 Note 5). At December 31, 2014 and 2013, commercial paper agreements outstanding totaled \$82,000,000 and \$92,585,000, respectively.

### Forward-Starting 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, 2014 and 2013 (see Note 5).

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Refunds 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 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 \$1,276,000 and \$955,000, respectively, at December 31, 2014, and \$1,324,000 and \$996,000, respectively, at December 31, 2013. Vacation and sick leave paid in 2014 was \$1,240,000 and \$882,000, respectively, and \$1,182,000 and \$591,000, respectively, in 2013. The estimated total amount of vacation and sick leave expected to be paid in 2015 is \$1,277,000 and \$908,000, respectively.

The Port also provides post-employment health care benefits for retired employees through a fully funded trust. This post-employment defined benefit plan (see Note 10) provides medical coverage to eligible retired employees ages 60 to 69.

The Port also participates in the Washington Department of Retirement Systems (the Plan), under cost-sharing multiple-employer defined benefit public employee retirement plans. This plan covers substantially all of the Port's full-time and qualifying part-time employees. The Port's contribution rates are determined by the Plan each year and are based on covered payroll of the qualifying participants (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 15 for additional details.

### **Operating and Non-Operating Revenues and Expenses**

Terminal services and property rental revenues are charges for use of the Port's facilities and are 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 the terminal services and property rental activities. Interest expense and other expenses incurred not related to the operations of the Port's terminal and property rental activities are classified as non-operating.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

### **Recent Accounting Pronouncements**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 25. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for periods beginning after June 15, 2014. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date*, an amendment of GASB Statement No. 68. The primary objective of this statement is to improve accounting and financial reporting concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation. This statement is effective for periods beginning after June 15, 2014. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to establish general principle for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This statement is effective for periods beginning after June 15, 2015. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

### **Subsequent Events**

Events that occurred subsequent to December 31, 2014, have been evaluated by the Port's management through March 12, 2015, which is the date the financial statements were available to be issued.

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

### **Discretionary Deposits**

The Port's cash and cash equivalents of \$0.8 million and \$9.8 million as of December 31, 2014 and 2013, 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 public depositories with the state fully collateralize uninsured public deposits at 100%.

### **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 and certain municipal bonds. These investments must be placed with or through qualified public depositories of the State of Washington.

### **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.



**NOTE 2 – DEPOSITS AND INVESTMENTS** (continued)**Risks** (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 Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by the Government Accounting Standards Board.

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.

Deposits and investments for the Enterprise Fund on the statements of financial position at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Current investments	\$198,587	\$182,587
Restricted investments	- -	21,293
Bond reserves	9,230	16,395
<b>Total deposits and investments</b>	<b>\$207,817</b>	<b>\$220,275</b>

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 10 for investment detail for the Trust) as of December 31, 2014 and 2013 (dollars in thousands):

<u>2014</u>	<u>Maturities (in Years)</u>				<u>Percentage of Total Portfolio</u>
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-3</u>	<u>More than 3</u>	
Certificate of Deposit	\$ 8,334	\$ 8,334	\$ - -	\$ - -	4.0%
Federal Farm Credit Banks	7,017	1,045	4,005	1,967	3.4%
Federal Home Loan Bank	41,575	- -	21,735	19,840	20.0%
Federal Home Loan Mortgage Corporation	44,806	- -	8,997	35,809	21.5%
Federal National Mortgage Association	17,773	- -	5,528	12,245	8.6%
Municipal Bonds	20,093	1,052	5,355	13,686	9.7%
State Local Investment Pool	54,908	54,908	- -	- -	26.4%
United States Treasury Bonds	13,311	- -	7,034	6,277	6.4%
<b>Total Investments</b>	<b>\$207,817</b>	<b>\$65,339</b>	<b>\$52,654</b>	<b>\$89,824</b>	<b>100.0%</b>
<b>Percentage of Total Portfolio</b>		<b>31.4%</b>	<b>25.3%</b>	<b>43.3%</b>	<b>100.0%</b>

**NOTE 2 – DEPOSITS AND INVESTMENTS** (continued)

**Risks** (continued)

<b><u>2013</u></b>		<b><u>Maturities (in Years)</u></b>			<b><u>Percentage of Total Portfolio</u></b>
<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>Less than 1</u></b>	<b><u>1-3</u></b>	<b><u>More than 3</u></b>	
Certificate of Deposit	\$ 6,337	\$ 6,337	\$ --	\$ --	2.9%
Federal Farm Credit Banks	11,630	2,503	5,200	3,927	5.3
Federal Home Loan Bank	49,228	20,141	7,577	21,510	22.3
Federal Home Loan Mortgage Corporation	67,013	10,055	9,118	47,840	30.4
Federal National Mortgage Association	38,264	1,007	8,644	28,613	17.4
Municipal Bonds	16,072	1,050	1,100	13,922	7.3
State Local Investment Pool	23,121	17,805	3,161	2,155	10.5
United States Treasury Bonds	8,610	--	--	8,610	3.9
<b>Total Investments</b>	<b>\$220,275</b>	<b>\$58,898</b>	<b>\$34,800</b>	<b>\$126,577</b>	<b>100.0%</b>
<b>Percentage of Total Portfolio</b>		<b>26.7%</b>	<b>15.8%</b>	<b>57.5%</b>	<b>100.0%</b>

The tables below identifies the credit risk of the Port's Investment portfolio as of December 31, 2014 and 2013 (dollars in thousands).

<b><u>2014</u></b>		<b><u>Moody's Equivalent Credit Ratings</u></b>				
<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>A1</u></b>	<b><u>Aa2</u></b>	<b><u>Aa1</u></b>	<b><u>Aaa</u></b>	<b><u>No Rating</u></b>
Certificate of Deposit	\$ 8,334	\$ --	\$ --	\$ --	\$ --	\$ 8,334
Federal Farm Credit Banks	7,017	--	--	--	7,017	--
Federal Home Loan Bank	41,575	--	--	--	41,575	--
Federal Home Loan Mortgage Corporation	44,806	--	--	--	44,806	--
Federal National Mortgage Association	17,773	--	--	--	17,773	--
Municipal Bonds	20,093	2,046	6,505	10,462	1,080	--
State Local Investment Pool*	54,908	--	--	--	--	54,908
United States Treasury Bonds	13,311	--	--	--	13,311	--
<b>Total</b>	<b>\$207,817</b>	<b>\$2,046</b>	<b>\$6,505</b>	<b>\$10,462</b>	<b>\$125,562</b>	<b>\$63,242</b>

\* Investments in Washington State Local Investment Pool. The fair value of the investments is the same as the value of the pool shares.

## NOTE 2 – DEPOSITS AND INVESTMENTS (concluded)

### Risks (concluded)

<u>2013</u>		<u>Moody's Equivalent Credit Ratings</u>					
<u>Investment Type</u>	<u>Fair Value</u>	<u>A1</u>	<u>Aa3</u>	<u>Aa2</u>	<u>Aa1</u>	<u>Aaa</u>	<u>No Rating</u>
Certificate of Deposit	\$ 6,337	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 6,337
Federal Farm Credit Banks	11,630	--	--	--	--	11,630	--
Federal Home Loan Bank	49,228	--	--	--	--	49,228	--
Federal Home Loan Mortgage Corporation	67,013	--	--	--	--	67,013	--
Federal National Mortgage Association	38,264	--	--	--	--	38,264	--
Municipal Bonds	16,072	2,062	3,511	1,901	7,556	1,042	--
State Local Investment Pool*	23,121	--	--	5,315	--	--	17,806
United States Treasury Bonds	8,610	--	--	--	--	8,610	--
<b>Total</b>	<b>\$220,275</b>	<b>\$2,062</b>	<b>\$3,511</b>	<b>\$7,216</b>	<b>\$7,556</b>	<b>\$175,787</b>	<b>\$24,143</b>

\* Investments in Washington State Local Investment Pool. The fair value of the investments is the same as the value of the pool shares.

## NOTE 3 – CAPITAL ASSETS

The following activity took place in capital assets during 2014 and 2013 (dollars in thousands):

<u>2014</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements and Other</u>	<u>End of Year</u>
Capital assets not being depreciated:					
Land	\$ 521,793	\$ 220	\$ 3,154	(\$ 632)	\$ 524,535
Construction in process	37,630	41,983	(18,982)	1,430	62,061
<b>Total capital assets not being depreciated</b>	<b>559,423</b>	<b>42,203</b>	<b>(15,828)</b>	<b>798</b>	<b>586,596</b>
Capital assets being depreciated:					
Buildings	108,162	--	3,056	(1,903)	109,315
Improvements	630,197	--	5,871	(18,091)	617,977
Machinery and equipment	111,538	--	6,901	(4,256)	114,183
<b>Total capital assets being depreciated</b>	<b>849,897</b>	<b>--</b>	<b>15,828</b>	<b>(24,250)</b>	<b>841,475</b>
Less accumulated depreciation:					
Buildings	(68,920)	(3,298)	--	1,427	(70,791)
Improvements	(301,047)	(20,973)	--	11,311	(310,709)
Machinery and equipment	(76,612)	(7,275)	--	4,129	(79,758)
<b>Total accumulated depreciation</b>	<b>(446,579)</b>	<b>(31,546)</b>	<b>--</b>	<b>16,867</b>	<b>(461,258)</b>
<b>Net, capital assets being depreciated</b>	<b>403,318</b>	<b>(31,546)</b>	<b>15,828</b>	<b>(7,383)</b>	<b>380,217</b>
<b>Net, capital assets</b>	<b>\$ 962,741</b>	<b>\$ 10,657</b>	<b>\$ --</b>	<b>(\$ 6,585)</b>	<b>\$ 966,813</b>

### NOTE 3 – CAPITAL ASSETS (concluded)

<u>2013</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements and Other</u>	<u>End of Year</u>
Capital assets not being depreciated:					
Land	\$ 518,611	\$ 9,926	\$ 310	(\$ 7,054)	\$ 521,793
Construction in process	33,941	32,509	(24,401)	(4,419)	37,630
<b>Total capital assets not being depreciated</b>	<b>552,552</b>	<b>42,435</b>	<b>(24,091)</b>	<b>(11,473)</b>	<b>559,423</b>
Capital assets being depreciated:					
Buildings	105,365	--	2,744	53	108,162
Improvements	626,052	--	7,963	(3,818)	630,197
Machinery and equipment	99,619	--	13,384	(1,465)	111,538
<b>Total capital assets being depreciated</b>	<b>831,036</b>	<b>--</b>	<b>24,091</b>	<b>(5,230)</b>	<b>849,897</b>
Less accumulated depreciation:					
Buildings	(65,627)	(2,722)	--	(571)	(68,920)
Improvements	(282,254)	(21,032)	--	2,239	(301,047)
Machinery and equipment	(71,046)	(7,048)	--	1,482	(76,612)
<b>Total accumulated depreciation</b>	<b>(418,927)</b>	<b>(30,802)</b>	<b>--</b>	<b>3,150</b>	<b>(446,579)</b>
<b>Net, capital assets being depreciated</b>	<b>412,109</b>	<b>(30,802)</b>	<b>24,091</b>	<b>(2,080)</b>	<b>403,318</b>
<b>Net, capital assets</b>	<b>\$ 964,661</b>	<b>\$ 11,633</b>	<b>\$ --</b>	<b>(\$ 13,553)</b>	<b>\$ 962,741</b>

### NOTE 4 – COMMERCIAL PAPER

The Port is authorized to use Subordinate Lien Revenue Notes (commercial paper) in an amount not to exceed \$100 million. Port issues commercial paper to provide interim financing for capital asset projects and to provide enough variable rate debt to match the Port's outstanding swaps (see Note 5) as required by Washington State law. The draws are secured by a bank letter of credit with a 5-year term that was set to expire in December 2012. In 2013, this letter of credit was extended to April 15, 2014. In 2014, this letter of credit was extended to April 17, 2016.

The term of the commercial paper ranges from 1 to 270 days and the interest rate on the amount outstanding at December 31, 2014, was 0.10%. At December 31, 2013, the interest rate on the amount outstanding was 0.15%. Commercial paper advances outstanding totaled \$82.0 million and \$92.6 million at December 31, 2014 and 2013, respectively.

Commercial paper activity during 2014 and 2013 is as follows (dollars in thousands).

<b>Beginning balance January 1, 2013</b>	<b>\$ 64,500</b>
Advances	314,170
Repayments	(286,085)
<b>Ending December 31, 2013</b>	<b>92,585</b>
Advances	550,510
Repayments	(561,095)
<b>Ending December 31, 2014</b>	<b>\$ 82,000</b>

## NOTE 5 – LONG-TERM DEBT

Long-term debt activity during 2014 and 2013 consists of the following (dollars in thousands):

### 2014

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2013	Issuance	Repayments	December 31, 2014
<b>GENERAL OBLIGATION BONDS</b>							
12/20/06	4.00-5.50%	2016	2033	\$ 57,835	\$ -	(\$1,880)	\$ 55,955
01/17/08 A	5.00%	2018	2038	109,535	-	(2,295)	107,240
01/17/08 B	4.75-4.875%	2018	2038	21,740	-	(470)	21,270
				<b>189,110</b>	<b>\$ -</b>	<b>(\$4,645)</b>	<b>184,465</b>
Less current portion				4,645			4,890
<b>Total long-term general obligation bonds, net of current portion</b>				<b>\$184,465</b>			<b>\$179,575</b>
<b>REVENUE BONDS</b>							
04/21/04 A	5.25%	2014	2021	\$ 8,505	\$ -	(\$ 8,505)	\$ -
04/21/04 B	3.30-5.125%	2014	2034	57,125	-	(57,125)	-
08/30/05	5.00%	2015	2035	71,605	-	(71,605)	-
12/20/06	4.00-4.45%	2016	2034	45,480	-	(145)	45,335
03/07/08	Variable Rate	*	2036	99,750	-	(11,050)	88,700
07/15/09**	Variable Rate	*	2044	133,000	-	-	133,000
06/04/14 A	2.50%	*	2021	-	8,525	-	8,525
06/11/14 A	Variable Rate	*	2035	-	92,635	(2,000)	90,635
10/24/14 B	2.55%	2018	2029	-	34,345	-	34,345
				<b>415,465</b>	<b>\$135,505</b>	<b>(\$150,430)</b>	<b>400,540</b>
Less current portion				7,780			8,345
<b>Total long-term revenue bonds, net of current portion</b>				<b>\$407,685</b>			<b>\$392,195</b>

**NOTE 5 – LONG-TERM DEBT** (continued)

**2013**

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2012	Issuance	Repayments	December 31, 2013
<b>GENERAL OBLIGATION BONDS</b>							
08/05/03	5.00%	2013	2020	\$ 7,550	\$ -	(\$7,550)	\$ -
12/20/06	4.00-5.50%	2016	2033	59,620	-	(1,785)	57,835
01/17/08 A	5.00%	2018	2038	109,535	-	-	109,535
01/17/08 B	4.75-4.875%	2018	2038	21,740	-	-	21,740
				<b>198,445</b>	<b>\$ -</b>	<b>(\$9,335)</b>	<b>189,110</b>
Less current portion				1,785			4,645
<b>Total long-term general obligation bonds, net of current portion</b>				<b>\$196,660</b>			<b>\$184,465</b>
<b>REVENUE BONDS</b>							
04/21/04 A	5.25%	2014	2021	\$ 8,505	\$ -	\$ -	\$ 8,505
04/21/04 B	3.30-5.125%	2014	2034	57,945	-	(820)	57,125
08/30/05	5.00%	2015	2035	73,425	-	(1,820)	71,605
12/20/06	4.00-4.45%	2016	2034	45,620	-	(140)	45,480
03/07/08	Variable Rate	*	2036	104,410	-	(4,660)	99,750
07/15/09**	Variable Rate	*	2044	133,000	-	-	133,000
				<b>422,905</b>	<b>\$ -</b>	<b>(\$7,440)</b>	<b>415,465</b>
Less current portion				7,440			7,780
<b>Total long-term revenue bonds, net of current portion</b>				<b>\$415,465</b>			<b>\$407,685</b>

\* Currently callable by the Port but intent is to pay off in accordance with stated maturity dates; therefore, not shown as a current liability.

\*\* 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.

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.

## **NOTE 5 – LONG-TERM DEBT (continued)**

### **GENERAL OBLIGATION BONDS**

Revised Code of Washington (RCW) Chapter 53.36 provides that new issues of non-voted general obligation bond debt cannot be incurred in excess of 0.25% of the assessed value of the taxable property in the Port district. The Port is not able to issue any new general obligation bonds at this time. All current general obligation bonds are non-voted bond debt. At December 31, 2014, the assessed value of the taxable property was \$77,383,384,000, which will serve as the basis for the 2015 tax levy.

RCW Chapter 53.36 also provides that additional general obligation bond debt can be incurred upon approval by the voters of the Port district.

The paying agent for bonded debt is:

The Bank of New York  
Fiscal Agencies - 7 East  
101 Barclay Street  
New York, NY 10286

### **REVENUE BONDS**

The revenue bonds are secured by a pledge of the Port's gross operating revenues. Revenue bond proceeds finance acquisition, expansion, improvement and equipping Port terminal and industrial development facilities. The Port has pledged a portion of future operating revenues to repay \$619.0 million in bond principal and interest through 2044. During 2014, revenue bond principal and interest paid and total operating revenues were \$20.8 million and \$134.3 million, respectively. The revenue bonds contain coverage requirements related to maintaining adequate net revenues to support debt service.

In June 2014, the Port issued Revenue Refunding Bonds par value \$8,525,000 with an interest rate of 2.5% to refund Series 2004A Revenue Bonds par value of \$8,505,000 and an interest rate of 5.25%. The newly issued Revenue Refunding Bonds were issued at par and, after paying issuance costs of \$67,000 the net proceeds were \$8,458,000. The net proceeds from the issuance of the Revenue Refunding Bonds and additional cash contribution of \$203,000 were used to purchase State and Local Government Series securities in the amount of approximately \$8,728,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until December 1, 2014 when the Series 2004A Revenue Bonds were callable at which time those bonds were paid in full. The advance refunding met the requirements of an in-substance debt defeasance and Series 2004A Revenue Bonds were removed from the Port's financial statements.

As a result of the advance refunding of the 2004A Revenue Bonds, the Port reduced its total debt service requirements by \$1,404,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,016,000 over the life of the bonds.

In July 2013, 2012 and 2011, the \$20.0 million, \$130.0 million and \$80.0 million forward-starting payment agreements, respectively, became active swaps. In 2010 the Port modified the 2011-2013 swap agreements with the counterparty, eliminating the need to issue new insured debt to match the related swaps. Instead, the Port used existing outstanding variable-rate long-term debt and commercial paper to match the 2011-2013 swaps. As of June 2014, the Port had approximately \$86,415,000 of hedged commercial paper debt outstanding. In June 2014, the Port refunded existing fixed rate senior bonds with subordinate lien variable rate bonds and used the subordinate variable rate refunding bonds to replace \$86,415,000 million of hedged commercial paper debt. This refunding allows the Port to reduce total debt by the amount of commercial paper or approximately \$86,415,000.

## **NOTE 5 – LONG-TERM DEBT (continued)**

The June 2014 Revenue Refunding Bonds were issued at par value \$92,635,000 with a variable interest rate of 70% of one-month London Interbank Offered Rate (LIBOR) to partially refund Series 2004B Revenue Bonds par value of \$21,925,000 and to fully refund Series 2005 Revenue Bonds par value of \$71,605,000 and with an interest rate of 5.0%. The newly issued Revenue Refunding Bonds were issued at par and, after paying issuance costs of \$109,000 the net proceeds were \$92,522,000. The net proceeds from the issuance of the Revenue Refunding Bonds and additional cash contribution of \$6,527,000 were used to purchase State and Local Government Series securities in the amount of approximately \$99,158,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the earliest call dates. The advance refunding met the requirements of an in-substance debt defeasance and Series 2004B and Series 2005 Revenue Bonds were removed from the Port's financial statements.

As a result of the advance partial refunding of the 2004B Revenue Bonds and full refunding of the 2005 Revenue Bonds, the Port reduced its total debt service requirements by \$2,463,000. The present value of these savings was \$910,000 over the life of the bonds but since the port used excess cash of \$6,636,000 for the refunding, the transaction resulted in an economic loss of \$5,726,000 over the life of the bonds. The economic loss is offset by the savings from de-coupling the commercial paper from the swaps and matching the refunded subordinate variable debt to the swaps which will save significantly more than the \$5,726,000 economic loss on the refunding of the senior bonds.

In October 2014, the Port issued Revenue Refunding Bonds par value \$34,345,000 with a interest rate of 2.55% to refund 2004B Revenue Bonds par value of \$35,200,000. The newly issued Revenue Refunding Bonds were issued at par and, after paying issuance costs of \$103,000 the net proceeds were \$34,242,000. The net proceeds from the issuance of the Revenue Refunding Bonds and additional cash contribution of \$1,736,000 were used to purchase State and Local Government Series securities in the amount of approximately \$36,080,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the earliest call dates. The advance refunding met the requirements of an in-substance debt defeasance and Series 2004B Revenue Bonds were removed from the Port's financial statements.

As a result of the advance refunding of the 2004B Revenue Bonds, the Port reduced its total debt service requirements by \$8,210,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$6,663,000 over the life of the bonds.

### **Interest Rate Payment Agreements (Swaps)**

The Port entered into five 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.



# **NOTE 5 – LONG-TERM DEBT** (continued)

The Port's existing swap contracts and the outstanding notional amounts at December 31, 2014 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	Original Notional Amount	Outstanding Notional Amount	Options	Contract Start Date	Effective Date	Maturity Date	Terms
1	Pay-fixed interest rate swap	\$ 70,000	\$ 60,711	(1)	8/3/05	8/3/06	12/1/36	Pay 3.795%, receive 70% of LIBOR (2)
2	Pay-fixed interest rate swap	30,000	26,019	None	9/25/08	9/25/08	12/1/36	Pay 3.320%, receive 70% of LIBOR (2)
3	Pay-fixed interest rate swap	80,000	78,305	None	9/20/07	7/28/11	12/1/40	Pay 4.155%, receive 70% of LIBOR (2)
4	Pay-fixed interest rate swap	130,000	127,420	None	9/20/07	7/26/12	12/1/41	Pay 4.200%, receive 70% of LIBOR (2)
5	Pay-fixed interest rate swap	20,000	19,625	None	9/20/07	7/25/13	12/1/42	Pay 4.229%, receive 70% of LIBOR (2)
<b>Total</b>		<b>\$330,000</b>	<b>\$312,080</b>					

(1) Cancellable - Port may call at par 8/3/2016

(2) One-month London Interbank Offered Rate

The following table reflects the outstanding variable-rate debt that is matched to outstanding swap agreements:

Variable-Rate Debt	Outstanding Principal December 31, 2014	Outstanding Principal December 31, 2013
2008	\$ 88,700	\$ 99,750
2008B	133,000	133,000
2014A	90,635	-
Commercial Paper	-	86,415
Unhedged Debt	(255)	-
<b>Total</b>	<b>\$312,080</b>	<b>\$319,165</b>

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2014 (dollars in thousands):

SWAP Reference	2014 Changes in Fair Value		Fair Value at 12/31/14		Original Notional
	Classification	Amount	Classification	Amount	Amount
1	Deferred outflow	\$ 2,012	Debt	(\$ 4,151)	\$ 70,000
2	Deferred outflow	(2,071)	Debt	(4,849)	30,000
3	Deferred outflow	(8,124)	Debt	(24,393)	80,000
4	Deferred outflow	(14,003)	Debt	(41,586)	130,000
5	Deferred outflow	(2,274)	Debt	(6,655)	20,000
<b>Total</b>		<b>(\$24,460)</b>		<b>(\$81,634)</b>	<b>\$330,000</b>

**NOTE 5 – LONG-TERM DEBT** (continued)

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2013 (dollars in thousands):

SWAP Reference	2013 Changes in Fair Value		Fair Value at 12/31/13		Original Notional
	Classification	Amount	Classification	Amount	Amount
1	Deferred outflow	\$ 1,624	Debt	(\$ 6,163)	\$ 70,000
2	Deferred outflow	3,994	Debt	(2,778)	30,000
3	Deferred outflow	11,455	Debt	(16,269)	80,000
4	Deferred outflow	19,244	Debt	(27,583)	130,000
5	Deferred outflow	1,424	Debt	(4,381)	20,000
<b>Total</b>		<b>\$ 37,741</b>		<b>(\$57,174)</b>	<b>\$330,000</b>

**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 four 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	Bank	Credit Worthiness		Termination
	Amount	Counterparty	Moody's	S&P	Value
1	\$ 70,000	Morgan Stanley	Baa2	A-	(\$ 4,151)
2	30,000	Goldman Sachs	A2	A-	(4,849)
3	80,000	Dexia	Baa2	BBB	(24,393)
4	130,000	Dexia	Baa2	BBB	(41,586)
5	20,000	Merrill Lynch	Baa2	A-	(6,655)
<b>Total</b>	<b>\$330,000</b>				<b>(\$81,634)</b>

**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 & Poors), 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 London Interbank Offered Rate (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 Ports' derivative instruments are denominated in U.S. dollars.

**NOTE 5 – LONG-TERM DEBT** (continued)**Contingencies**

If the Port's credit rating falls below A3/A- (Moody's/Standard & Poors) for the swap with Goldman Sachs or below Baa2/BBB (Moody's/Standard & Poors) 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/A+ (Moody's/Standard & Poors) at December 31, 2014.

**Debt Service for Fixed Rate Bonds**

The debt service requirements for fixed rate general obligation and revenue bonds outstanding as of December 31, 2014, are as follows (dollars in thousands):

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 6,140	\$ 11,928	\$ 18,068
2016	6,505	11,560	18,065
2017	6,775	11,289	18,064
2018	8,037	11,005	19,042
2019	8,330	10,716	19,046
2020-2024	58,763	47,989	106,752
2025-2029	74,030	34,434	108,464
2030-2034	71,155	18,089	89,244
2035-2038	32,935	4,199	37,134
<b>Total</b>	<b>\$272,670</b>	<b>\$161,209</b>	<b>\$433,879</b>

**Variable Rate Bonds Estimated Future Payments**

Assuming that the reimbursement agreements and letters of credit agreements are renewed throughout the life of the bonds, the debt service requirements for the 2009 revenue bonds with a balance of \$133.0 million, 2008B Subordinate-Lien Variable-Rate Revenue Bonds with a balance of \$88.7 million and the 2014A Subordinate Lien Variable-Rate Revenue Bonds with a balance of \$90.6 million, and active swaps with Goldman Sachs, Morgan Stanley and Dexia outstanding as of December 31, 2014, are as follows (dollars in thousands):

<u>Year Ending December 31,</u>	<u>Principal Payment</u>	<u>Variable Interest</u>	<u>Interest Rate Swap, Net (1)</u>	<u>Total</u>
2015	\$ 7,095	\$ 300	\$ 11,941	\$ 19,336
2016	7,425	290	11,644	19,359
2017	7,770	279	11,334	19,383
2018	5,120	267	11,012	16,399
2019	5,335	260	10,677	16,272
2020-2024	30,440	1,183	47,871	79,494
2025-2029	39,050	956	37,226	77,232
2030-2034	66,800	679	24,258	91,737
2035-2039	10,300	397	9,757	20,454
2040-2045	133,000	286	446	133,732
<b>Total</b>	<b>\$312,335</b>	<b>\$4,897</b>	<b>\$176,166</b>	<b>\$493,398</b>

(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 2014 will remain the same over the term of the derivative contract.

#### **NOTE 5 – LONG-TERM DEBT (concluded)**

The Port entered into a 3-year agreement with a bank in April 2014 for a direct purchase of the 2008 Subordinate-Lien Variable-Rate Revenue Bonds. The agreement expires in April 2017. In May 2012, the Port entered into a 3-year agreement with a bank for a direct purchase of the 2008B Subordinate-Lien Variable-Rate Revenue bonds. This agreement expires in May 2015. The Port is negotiating a new 3-year agreement. In June 2014, the Port issued the new 2014A subordinate lien bonds. The Port entered into a 1.5-year agreement with a bank for a direct purchase of the 2014A Subordinate Line Variable Rate Revenue bonds through December 2015. The Port expects to renew this agreement before December 2015 for a 3-year term. Fees paid, as defined by the underlying agreements, vary for each bond.

If reimbursement agreements are not able to be renewed upon expiration, the bonds will continue to be held by the banks, but the Port would be required to pay off the loans over a 5-year amortization schedule (until new agreements are reached). Each of the variable-rate bond issues also have remarketing agreements associated with the issue. The agreements allow for the remarketing of the bonds as deemed necessary. The term of the agreements continue until the bonds are converted to long-term bonds or if the agreement is canceled by the Port.

#### **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 \$151 million in coverage, subject to a \$500,000 self-insured retention. All risk property insurance is purchased on a replacement value basis for most properties, subject to a limit of \$500 million and a per occurrence deductible of \$150,000. For earthquake/flood and business interruption losses, sub-limits of \$75 million and \$100 million apply, respectively. Insurance coverage for earthquake and flood damage is subject to a deductible defined as 5% of the value of the damaged property, with a minimum of \$100,000.

With the exception of losses which may arise from employee injuries, earthquakes and/or floods, no deductible exceeds \$500,000. The self-insured retention for workers' compensation coverage is \$1,250,000.

Insurance coverage for the past three years has been sufficient to cover all claim settlements.

The Port maintains a self-insured for its regular medical program. The liability for unpaid medical claims totaling \$1,303,000 at December 31, 2014, is included in payroll and taxes payable on the accompanying statement of net assets and is expected to be paid in 2015. Liability for unpaid claims at December 31, 2013, was \$1,361,000. Excess loss coverage has been purchased through an outside provider to limit individual loss to \$110,000. Total claims paid under the plan during 2014 and 2013 were \$4,622,000 and \$5,031,000, respectively.

The Port maintains a self-insurance program for workers' compensation. The estimated liability for workers' compensation is included in payroll and taxes payable on the accompanying statement of net assets. At December 31, 2014, the estimated self-insurance liability for workers' compensation was \$330,000 and this amount is expected to be paid in 2015. At December 31, 2013, the estimated self-insurance liability for workers' compensation was \$321,000. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation and legal costs for all open claims.

**NOTE 6 – RISK MANAGEMENT** (concluded)

Workers' compensation claim activity for December 31, 2014 and 2013, are as follows (dollars in thousands):

	<u>2014</u>	<u>2013</u>
Claims liability, beginning of year	\$ 321	\$ 402
Claims incurred during the year	129	453
Changes in estimate for prior year claims	73	12
Payments on claims	(193)	(546)
<b>Claims liability, end of year</b>	<b>\$ 330</b>	<b>\$ 321</b>

At December 31, 2014 and 2013, cash reserves for workers' compensation were \$325,000 and are included in restricted investments in the statements of net assets. There was no significant liability for unemployment.

**NOTE 7 – LEASE COMMITMENTS**

The Port leases land, office space and other equipment under operating leases that expire through 2037. Minimum future lease payments under non-cancellable operating leases are as follows (dollars in thousands):

<u>Year</u>	
2015	\$379
2016	16
2017	16
2018	16
2019	16
Thereafter	294
<b>Totals minimum payments required</b>	<b>\$737</b>

Total rent expense for the years ended December 31, 2014 and 2013, was \$956,000 and \$808,000, respectively.

The Port, as a lessor, leases land and facilities under terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. The Port currently has over 50 non-cancellable lease arrangements ranging in monthly payments between \$500 and \$1.2 million. Minimum future rents receivable under non-cancellable operating leases and subleases are as follows (dollars in thousands):

<u>Year</u>	
2015	\$61,274
2016	56,937
2017	53,562
2018	41,350
2019	39,177
Thereafter	337,196
<b>Totals minimum future rents</b>	<b>\$589,496</b>

## NOTE 7 – LEASE COMMITMENTS (concluded)

Assets held for rental and leasing purposes as of December 31 are as follows (dollars in thousands):

	<u>2014</u>	<u>2013</u>
Land	\$ 465,909	\$465,909
Buildings, improvements and equipment, net	250,713	293,610
<b>Total, net of accumulated depreciation</b>	<b>\$ 716,622</b>	<b>\$759,519</b>

## NOTE 8 – PENSION PLANS

The Port's full-time and qualifying part-time employees participate in one of the following 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 comprehensive annual 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)

### Public Employees' Retirement System (PERS) Plans 1, 2 and 3

#### Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49% of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the state Legislature.

PERS is a cost-sharing, multiple-employer retirement system comprising three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days' default to Plan 3.

## **NOTE 8 – PENSION PLANS (continued)**

PERS consists of and is 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 benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of the Department of Retirement Services (DRS). During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with 5 years of service. The monthly benefit is 2% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually. PERS Plan 2 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 an early retirement factor (ERF) that varies according to age, for each year before the age of 65.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5% to 15% of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2014, PERS Plan 3 employee contributions were \$105.2 million, and plan refunds paid out were \$83.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after the age of 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before the age of 65.

## NOTE 8 – PENSION PLANS (concluded)

### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5% for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5% to 15%.

The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2014, were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2013, were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

\* The employer rates include the employer administrative expense fee of 0.18% for 2014 and 0.16% for 2013

\*\* Plan 3 defined benefit portion only

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

Both the Port and the employees made the required contributions. The Port's required contributions for the years ended December 31, are as follows (dollars in thousands):

<u>Year</u>	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>	<u>Total</u>
2014	\$97	\$1,704	\$237	\$2,038
2013	38	1,521	197	1,756
2012	38	1,318	162	1,518

## NOTE 9 – POST-EMPLOYMENT HEALTH CARE BENEFITS

The Port provides health care benefits for eligible retired employees through two plans: the Post-Employment Defined Benefit Plan (DB Plan) that was established in 1975 and the Post-Employment Defined Contribution Plan (DC Plan) that was established in 2007.

### Post-Employment Defined Contribution Health Care Benefits

Effective April 1, 2013, the DC Plan was closed to employees not covered by collective bargaining agreements hired on or after April 1, 2013.

The DC Plan was initially adopted in May 2007. Employees hired after May 1, 2007, were eligible for the DC Plan, subject to a 5-year vesting period. The DC Plan requires the Port to contribute \$210 and \$208 per month in 2014 and 2013, respectively, to the VEBA accounts of eligible employees. The Port contributed \$423,000 and \$444,000 to eligible employee VEBA accounts in 2014 and 2013, respectively.



## NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND

The Port provides major medical coverage for eligible retired employees through the Post-Employment Defined Benefit Plan (DB Plan) that was established in 1975. In 2007 the Port established a DC Plan (see Note 9) and closed the DB Plan to new employees. The Port is the sole administrator and fiduciary of the Post-Employment Health Care Benefits Trust Fund.

### Summary of Accounting Policies

The financial statements are prepared using the accrual basis of accounting. Medical benefits that are in accordance with the DB Plan are recognized when due and payable. Contributions to the DB Plan are recognized in the period that the contributions are made.

### Investment Policy

As of December 31, 2014 and 2013, the Plan's investments were deposited in qualified depositories as required by state statutes. Those statutes authorize the Port 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 DB Plan does not limit the amount invested in any one issuer. At December 31, 2014 and 2013, the DB Plan had the following investments (dollars in thousands):

<u>Investment Type</u>	<u>2014</u>	<u>2013</u>
Money Market Fund	\$ 471	\$ 487
Fixed Income Securities	5,862	6,006
Total	<b>\$6,333</b>	<b>\$6,493</b>

### Plan Description

The Plan provides major medical coverage, subject to a deductible, and a maximum benefit limit of \$2,000,000 per person. The Port is the fiduciary of this plan and the trust is held by a bank. The DB Plan is a single-employer cost-sharing defined benefit plan. The DB Plan was closed to new employees in 2007. The Port will fund the DB Plan as necessary to enable the DB Plan to pay vested accrued benefits to participants as they become due and payable.

Retirees and their spouses are eligible for Port-paid, post-employment medical benefits upon attainment of the age of 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 for up to 10 years, provided they have completed 20 years of service and are eligible to retire under PERS. The Port's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the authoritative guidance. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The contribution policy of the plan is established by the commission.

## NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND (continued)

### 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 and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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. The actuarial present value of accumulated plan benefits is determined by an independent actuary.

As of January 1, 2012, 2013 and 2014, the entry age normal valuation method was used. The actuarial assumptions included a 4% investment rate of return (net of investment expenses), which is a blended rate of the expected long-term investment returns on plan assets. The health care cost trend rate assumptions are 8.0% graded uniformly to 5% over 6 years for December 31, 2014. The health care cost trend rate assumptions were 9.0% graded uniformly to 5% over 8 years for December 31, 2013 and 2012. The actuarial value of assets was determined using market value. The actuarial accrued liability is fully funded at December 31, 2014, 2013 and 2012, in an external trust.

### Annual Pension Cost

The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Port's OPEB obligation for the years ended December 31, 2012, 2013 and 2014 (dollars in thousands):

	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Annual required contribution</b>	<b>\$347</b>	<b>\$186</b>	<b>\$488</b>
Interest on net OPEB obligation	--	--	--
<b>Annual OPEB expense</b>	<b>347</b>	<b>186</b>	<b>488</b>
Claims paid	(347)	(186)	(488)
<b>End OPEB liability</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>

### Employer Contributions

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013 and 2014, are as follows (dollars in thousands):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed to a Trust Fund</u>	<u>Net OPEB Obligation/ (Asset)</u>
12/31/12	\$347	100%	\$- -
12/31/13	186	100	--
12/31/14	488	100	--

**NOTE 10 – POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND (concluded)****Schedule of Funding**

The following schedule summarizes the funding progress at December 31 (dollars in thousands):

<b>Plan Year</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a) / c)</b>
2012	6,859	4,348	- -*	157.8	2,323	- -
2013	6,493	3,536	- -*	183.6	2,025	- -
2014	6,333	3,941	- -*	160.7	1,925	- -

\* There is no unfunded AAL at December 31, 2012, 2013 and 2014, as the value of the plan assets exceeds the AAL.

**NOTE 11 – DEFERRED COMPENSATION PLANS**

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.

The Port established a profit sharing plan for nonrepresented employees in accordance with Internal Revenue Code Section 401. The plan provides for an annual contribution to each eligible employee's 401 account based on the Port meeting financial targets. The minimum contribution of \$100 or a maximum contribution of 4% of total salaries of eligible employees will be made annually to the 401 accounts. In addition to the employer contribution, eligible employees may defer a portion of their salary until future years. The Port did not contribute to the plan in 2014 and 2013.

Both plans are fully funded and held in outside trusts. The fund is not available to employees until termination, retirement, death or unforeseeable emergency.

**NOTE 12 – 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.

In 2014 the Port's regular tax levy was \$0.183 per \$1,000 on a total assessed valuation of \$71,547,746,000, for a total regular levy amount of \$13,116,000. In 2013 the Port's regular tax levy was \$0.183 per \$1,000 on a total assessed valuation of \$69,124,566,000, for a total regular levy amount of \$12,668,000.

## NOTE 13 – 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, 2014, these future commitments are as follows (dollars in thousands):

<u>Description</u>	<u>Remaining Commitments</u>
Environmental	\$ 6,501
Terminal projects	2,969
Infrastructure	2,084
Other (including professional services)	6,702
<b>Total commitments</b>	<b>\$18,256</b>

### Other Long-Term Liabilities

Other long-term liabilities consist primarily of environmental liabilities (see Note 15) and other deferred commitments as further discussed below.

In 2013, the Port executed a land swap with a joint venture comprised of the Puyallup Tribe (Tribe) and private parties. This agreement was initially 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 and dredge 12.50 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' to 850' at some point in the future. The estimated cost of this project is \$28.0 million. The \$28.0 million is recorded in other long-term liabilities on the statement of net position at December 31, 2014.

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 at cost. Also, since the acquired assets have an indefinite life, they will not be amortized.

## NOTE 14 – ENVIRONMENTAL LIABILITIES

The Port monitors remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Future expenditures for environmental remediation obligations using the expected cash flow technique were \$20.3 million at December 31, 2014, and \$7.9 million at December 31, 2013. This liability is included in other long-term liabilities 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.

In 2014 the Port discovered contamination on the Genera Central Peninsula during the pre-design stage for the re-configuration of a pier and recorded the estimated remediation obligation of \$7.6 million. The Port also recorded \$5.0 million for contamination discovered on a parcel on the Blair Peninsula that entered the pre-design stage for a new terminal.

The Port acquired property in March 2003 that required remediation for marine terminal development. The terms of the acquisition obligated the Port to remedial action that was approved by federal and state regulators as part of the purchase price. The remaining obligation of \$3.0 million was relieved during 2013.

#### **NOTE 14 – ENVIRONMENTAL LIABILITIES (concluded)**

The Port transferred land to the Puyallup Tribe of Indians 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 also entered into a land swap agreement for several of the same parcels for the development of marine terminals. As a result of the land swap transactions, \$4.3 million was recorded as environmental remediation obligations.

At December 31, 2014, the estimated cost of the environmental remediation projects expected to be capitalized in future periods is approximately \$3.6 million.

#### **NOTE 15 – CONTINGENCIES**

The Port owns land within the boundaries of the Commencement Bay near the Shore Tidelands Superfund Site, for which a Remedial Investigation and a 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 and the Model Toxics Control Act. Remedial actions are currently underway or complete at all known sites. The Port will continue to have liability exposure until the cleanup is complete.

In 2008 the United States Department of Army, Corps of Engineers issued a notice of violation to the Port claiming that the Port filled and graded certain wetlands without the required Army, Corps of Engineers permits. The United States Environmental Protection Agency (EPA) assumed jurisdiction in 2009 and issued a Request for Information, pursuant to 308(a) of the Clean Water Act, 33 U.S.C. 51318(a), and subsequently filed suit claiming that the Port partially filled sensitive wetland without proper permits.

In November 2013, the Port and EPA reached a settlement agreement that provided for a penalty of \$500,000 in cash and approximately \$3.1 million towards the development and restoration of 7.56 acres of wetlands. The cash portion of settlement was recorded in 2012 in "other non-operating expenses, net" on the statements of net assets. The wetlands habitat development costs will be capitalized when incurred.

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

In October 2014, the Port entered into an Interlocal Agreement (ILA) with the Port of Seattle for the creation of a joint Seaport Alliance. The ILA, which was approved by the Federal Maritime Commission (FMC) in December, provides a framework to advance the discussions to examine business objectives, strategic marine terminal investments, financial returns, performance metrics, organizational structure, communications and public engagement. Following the due diligence period, the two port commissions intend to submit to the FMC by Spring 2015 a more detailed agreement to form the Seaport Alliance.

#### **NOTE 16 – MAJOR CUSTOMERS**

Operating revenues for the year ended December 31, 2014, of \$134.3 million included \$108.0 million, or 80% of total revenue from ten significant customers of which three of these customers individually accounted for 10% or more of operating revenues and in aggregate 41% of operating revenues. Operating revenues for the year ended December 31, 2013, of \$125.3 million included \$99.0 million, or 79% of total revenue from ten significant customers of which four of these customers individually accounted for 10% or more of operating revenues and in aggregate 49% of operating revenues. Receivables from those customers totaled \$9.1 million or 78% of total trade receivables, and \$8.6 million or 64% of total trade receivables at December 31, 2014 and 2013, respectively.

## NOTE 17 – RELATED-PARTY TRANSACTIONS

The commissioners of the Port, the Chief Executive Officer and the Deputy Executive Officer 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.

## NOTE 18 – FAIR VALUE MEASUREMENTS

The estimated carrying and fair values of the Port's financial instruments are as follows (dollars in thousands):

	2014		2013	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 840	\$ 840	\$ 9,751	\$ 9,751
Investments	207,817	207,817	220,275	220,275
<b>Financial Liabilities</b>				
Commercial paper	\$ 82,000	\$ 82,000	\$ 92,585	\$ 92,585
Interest rate swaps	48,116	48,116	57,174	57,174
Long-term debt	585,005	559,259	604,575	560,679

The Port has five 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) is 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.

The Port adopted FASB authoritative amended guidance on fair values on January 1, 2012. The amended guidance requires additional disclosures for all assets and liabilities that are being measured and reported on a fair value basis. The guidance requires that assets and liabilities carried at fair value will be 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. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Port does not have any Level 3 assets or liabilities at December 31, 2014 and 2013.

The table below presents the balances of liabilities measured at fair value by level within the hierarchy at December 31, 2014 and 2013 (dollars in thousands):

	<u>Assets at Fair Value as of December 31, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - Enterprise Fund	\$81,607	\$126,210	\$-	\$207,817
Investments - Post-Employment Health Care Benefits Trust Fund	5,155	707	-	5,862

**NOTE 18 – FAIR VALUE MEASUREMENTS** (concluded)

	<b><u>Assets at Fair Value as of December 31, 2013</u></b>			
	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Investments - Enterprise Fund	\$70,754	\$149,521	\$- -	\$220,275
Investments - Post-Employment Health Care Benefits Trust Fund	1,428	4,578	- -	6,006

The Port's interest rate swap is a pay-fixed, receive variable based on 70% London Interbank Offered Rate (LIBOR) from its counterparties. LIBOR is observable at commonly quoted intervals for the full term of the swaps and, therefore, is considered a Level 2 item. For an interest rate swap in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. The guidance states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Port's creditworthiness has been factored into the fair value measurement of the interest rate swap in a liability position.

**NOTE 19 – NOTES RECEIVABLE/ASSETS HELD FOR SALE**

In October 2013, the debtor defaulted on the Note Receivable related to the 2010 sale of real property and relinquished the property back to the Port. Consequently, the Port (following troubled debt restructure guidance in accordance with Statement of Governmental Accounting Standards Board No. 62 and Financial Accounting Standards Board Accounting Standards Codification 310-40-35) recorded a write-down of \$5.9 million to the fair value of the property of \$11.2 million. The write-down of \$5.9 million is included in non-operating expense in the statements of revenue, expenses and changes in net position for the year ended December 31, 2013. The property is included in assets held for sale on the statements of net position at December 31, 2013, at its fair value of \$11.2 million. The fair value of the asset held for sale was evaluated at December 31, 2014, and remained unchanged at \$11.2 million.

## STATISTICAL SECTION



**PORT OF TACOMA**  
**STATISTICAL SECTION (unaudited)**  
**For the Year Ended December 31, 2014**

**TABLE OF CONTENTS**

**Page**

**FINANCIAL TRENDS**

These schedules contain trend information to assess how the Port's financial performance and well-being have changed over time.

Net Position by Component - Last Ten Fiscal Years.....	59
Changes in Net Position - Last Ten Fiscal Years.....	60
Operating Revenues by Line of Business – Last Ten Fiscal Years.....	61

**REVENUE CAPACITY**

These schedules contain information on the Port's revenue sources and their fluctuations over time.

Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years.....	62
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years .....	63
Principal Property Tax Payers.....	64
Property Tax Levies and Collections - Last Ten Fiscal Years .....	65
Tax levy Amounts and Rates – Last Ten Fiscal Years.....	66

**DEBT CAPACITY**

These schedules present information to assist the reader in assessing the affordability of the Port's current level of outstanding debt and the ability to issue additional debt in the future.

Ratios of Outstanding Debt by Type - Last Ten Fiscal Years.....	67
Ratios of General Obligation Bonds - Last Ten Fiscal Years .....	68
Limited Tax General Obligation Bond Debt Service Requirements.....	69
Computation of Direct and Overlapping General Obligation Debt.....	70
Computation of Legal Debt Margin - Last Ten Fiscal Years.....	71
Revenue Bonds Coverage by Type - Last Ten Fiscal Years.....	72

**DEMOGRAPHIC INFORMATION**

These schedules offer demographic and economic indicators regarding the environment within which the Port's financial activities take place.

Demographic Statistics - Last Ten Fiscal Years.....	73
Pierce County Major Employers.....	74

**OPERATION INFORMATION**

These schedules contain information about services the Port provides and the activities it performs.

Number of Port Employees by Function - Last Ten Fiscal Years.....	75
Marine Terminal Tonnage and Statistics - Last Ten Fiscal Years .....	76
Marine Terminal Description .....	77
Aggregate Comparative Operating Statistics – Last Ten Fiscal Years.....	78

**PORT OF TACOMA**  
**NET POSITION BY COMPONENT**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

<b>Fiscal Year</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011*</b>	<b>2010*</b>	<b>2009*</b>	<b>2008*</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net Investment in Capital Assets	\$ 299,405	\$ 280,507	\$ 272,154	\$ 315,238	\$ 335,366	\$ 359,294	\$ 389,582	\$ 410,361	\$ 402,701	\$ 358,271
Restricted	9,230	16,395	17,411	16,788	16,170	15,638	16,464	22,099	21,823	23,642
Unrestricted	195,551	202,935	210,193	144,952	104,132	58,849	50,960	25,856	13,444	40,946
<b>Total Net Assets</b>	<b>\$ 504,186</b>	<b>\$ 499,837</b>	<b>\$ 499,758</b>	<b>\$ 476,978</b>	<b>\$ 455,668</b>	<b>\$ 433,781</b>	<b>\$ 457,006</b>	<b>\$ 458,316</b>	<b>\$ 437,968</b>	<b>\$ 422,859</b>

\*\* As restated per adoption of GASB 65

**PORT OF TACOMA**  
**CHANGES IN NET POSITION**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

	2014	2013	2012	2011*	2010*	2009*	2008*	2007	2006	2005
<b>OPERATING REVENUES</b>										
Property rentals	\$ 99,410	\$ 95,815	\$ 93,876	\$ 88,172	\$ 83,459	\$ 70,625	\$ 73,444	\$ 73,803	\$ 71,082	\$ 59,019
Terminal services	34,912	29,527	30,501	25,923	19,891	19,515	24,745	24,015	20,679	15,467
<b>Total operating revenues</b>	<b>134,322</b>	<b>125,342</b>	<b>124,377</b>	<b>114,095</b>	<b>103,350</b>	<b>90,140</b>	<b>98,189</b>	<b>97,818</b>	<b>91,761</b>	<b>74,486</b>
<b>OPERATING EXPENSES</b>										
Operations	33,720	30,769	30,361	26,084	23,610	19,871	25,497	25,327	24,957	21,413
Maintenance	14,768	15,473	16,013	13,137	13,421	10,861	11,014	11,956	9,750	8,772
Administration	14,686	14,844	13,655	13,812	13,381	12,509	12,911	12,103	10,931	9,954
Security	4,057	3,988	3,734	3,782	3,574	3,222	-	-	---	---
Environmental	14,720	3,139	2,100	2,783	2,077	1,912	3,111	845	578	450
<b>Total before depreciation</b>	<b>81,951</b>	<b>68,213</b>	<b>65,863</b>	<b>59,598</b>	<b>56,062</b>	<b>48,376</b>	<b>52,532</b>	<b>50,230</b>	<b>46,216</b>	<b>40,589</b>
Depreciation	31,546	30,802	30,283	30,229	30,303	30,324	29,642	28,709	26,500	24,425
<b>Total operating expenses</b>	<b>113,497</b>	<b>99,015</b>	<b>96,146</b>	<b>89,827</b>	<b>86,365</b>	<b>78,700</b>	<b>82,175</b>	<b>78,939</b>	<b>72,716</b>	<b>65,014</b>
<b>Operating income</b>	<b>20,825</b>	<b>26,327</b>	<b>28,231</b>	<b>24,268</b>	<b>16,985</b>	<b>11,440</b>	<b>16,014</b>	<b>18,878</b>	<b>19,045</b>	<b>9,472</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>										
Ad valorem tax revenues	13,083	12,600	13,672	14,592	16,196	16,871	16,509	14,637	11,863	9,899
Interest on general obligation bonds	(9,000)	(9,456)	(9,566)	(9,661)	(9,718)	(9,838)	(9,797)	(3,903)	(4,424)	(4,563)
<b>Net ad valorem tax revenues</b>	<b>4,083</b>	<b>3,144</b>	<b>4,106</b>	<b>4,931</b>	<b>6,478</b>	<b>7,033</b>	<b>6,712</b>	<b>10,734</b>	<b>7,439</b>	<b>5,336</b>
Interest income	2,704	2,421	3,153	2,733	2,632	2,308	6,092	5,940	5,506	3,387
Net increase (decrease) in the fair value of investments	2,505	(5,135)	777	892	534	(220)	605	683	(186)	(392)
Interest expense	(20,908)	(23,048)	(20,117)	(15,810)	(15,643)	(15,008)	(15,210)	(14,535)	(13,208)	(9,129)
Other income (expenses), net	(7,131)	(10,365)	(6,935)	(3,878)	(5,393)	(17,431)	(13,179)	(5,890)	(6,789)	2,570
<b>Total non-operating revenues (expenses), net</b>	<b>(18,747)</b>	<b>(32,983)</b>	<b>(19,016)</b>	<b>(11,132)</b>	<b>(11,392)</b>	<b>(23,319)</b>	<b>(14,980)</b>	<b>(3,068)</b>	<b>(7,238)</b>	<b>1,772</b>
<b>Increase (decrease) in net position, before capital contribution and special item</b>	<b>2,078</b>	<b>(6,656)</b>	<b>9,215</b>	<b>13,136</b>	<b>5,593</b>	<b>(11,879)</b>	<b>1,034</b>	<b>15,810</b>	<b>11,807</b>	<b>11,244</b>
<b>CAPITAL CONTRIBUTION</b>	<b>2,271</b>	<b>6,735</b>	<b>13,565</b>	<b>8,173</b>	<b>16,295</b>	<b>11,937</b>	<b>3,946</b>	<b>4,538</b>	<b>2,954</b>	<b>3,358</b>
<b>Increase (decrease) in net position, before special item</b>	<b>4,349</b>	<b>79</b>	<b>22,780</b>	<b>21,309</b>	<b>21,888</b>	<b>58</b>	<b>4,981</b>	<b>20,348</b>	<b>14,761</b>	<b>14,602</b>
Special Item	-	-	-	-	-	(22,299)	-	-	-	(12,207)
<b>Increase (decrease) in net position</b>	<b>4,349</b>	<b>79</b>	<b>22,780</b>	<b>21,309</b>	<b>21,888</b>	<b>(22,241)</b>	<b>4,981</b>	<b>20,348</b>	<b>14,761</b>	<b>2,395</b>
<b>NET POSITION</b>										
<b>Beginning of year, as previously reported</b>	<b>499,837</b>	<b>499,758</b>	<b>482,169</b>	<b>461,093</b>	<b>439,438</b>	<b>462,603</b>	<b>448,678</b>	<b>438,883</b>	<b>422,859</b>	<b>420,464</b>
Adjustment related to adoption of GASB 53	-	-	-	-	-	-	9,638	(915)	348	---
Adjustment related to adoption of GASB 65	-	-	(5,191)	(5,424)	(5,658)	(6,582)	(6,291)	-	-	-
<b>Net Position, beginning of year as restated</b>	<b>499,837</b>	<b>499,758</b>	<b>476,978</b>	<b>455,669</b>	<b>433,780</b>	<b>456,021</b>	<b>452,025</b>	<b>437,968</b>	<b>423,207</b>	
<b>End of year</b>	<b>\$ 504,186</b>	<b>\$ 499,837</b>	<b>\$ 499,758</b>	<b>\$ 476,978</b>	<b>\$ 455,668</b>	<b>\$ 433,781</b>	<b>\$ 457,006</b>	<b>\$ 458,316</b>	<b>\$ 437,968</b>	<b>\$ 422,859</b>

\* As restated per adoption of GASB 65

**PORT OF TACOMA**  
**OPERATING REVENUES BY LINE OF BUSINESS**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

<b>Year</b>	<b>Actual Revenues Earned</b>				<b>As a Percentage of the Port's Total</b>			
	<b>Containers</b>	<b>Non-Container</b>	<b>Real Estate</b>	<b>Total Port</b>	<b>Containers</b>	<b>Non-Container</b>	<b>Real Estate</b>	<b>Total</b>
2014	98,386	20,363	15,573	134,322	73%	15%	12%	100%
2013	91,461	18,938	14,943	125,342	73%	15%	12%	100%
2012	93,576	17,991	12,810	124,377	75%	14%	10%	100%
2011	85,471	15,119	13,505	114,095	75%	13%	12%	100%
2010	80,395	10,275	12,680	103,350	78%	10%	12%	100%
2009	66,421	11,637	12,082	90,140	74%	13%	13%	100%
2008	71,031	13,889	13,269	98,189	72%	14%	14%	100%
2007	75,143	10,705	11,970	97,818	77%	11%	12%	100%
2006	71,230	10,765	10,766	92,761	77%	12%	12%	100%
2005	56,317	8,320	9,849	74,486	76%	11%	13%	100%

**PORT OF TACOMA**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

<b>Fiscal Year (1)</b>	<b>Assessed Value</b>	<b>Estimated Actual Value</b>	<b>Ratio of Total Assessed Value to Total Estimated Actual Value</b>
2014	\$ 71,547,737	\$ 82,865,128	86.3%
2013	69,124,566	80,268,630	86.1%
2012	75,697,858	87,438,842	86.6%
2011	81,262,532	88,539,162	91.8%
2010	88,468,118	98,128,826	90.2%
2009	92,604,619	107,368,592	86.2%
2008	89,354,871	102,395,283	87.3%
2007	78,973,986	89,893,442	87.9%
2006	63,955,847	72,920,486	87.7%
2005	53,192,231	55,802,755	95.3%

Source: Pierce County Assessor-Treasurer

(1) Real Property taxes are levied in the current year based on prior year assessed valuations

**PORT OF TACOMA**  
**PROPERTY TAX RATES DIRECT AND OVERLAPPING GOVERNMENTS <sup>(1)</sup>**  
**Last Ten Fiscal Years**  
**(per \$1,000 of assessed value)**

<b>Fiscal Year</b>	<b>Port of Tacoma</b>	<b>State</b>	<b>County</b>	<b>Rural Library</b>	<b>Cities and Towns</b>	<b>Fire Protection Districts</b>	<b>Park Districts</b>	<b>Schools</b>	<b>Flood Control</b>	<b>Misc. Districts</b>	<b>Total Direct &amp; Overlapping Rates</b>
2014	\$ 0.1833	\$ 2.5271	\$ 3.6681	\$ 0.4923	\$ 1.5086	\$ 1.1466	\$ 0.7123	\$ 6.2153	\$ 0.1012	\$ 0.1366	\$ 15.0233
2013	0.1833	2.6293	3.6997	0.4924	1.7038	1.2241	0.5236	6.3320	0.0998	0.1495	15.3572
2012	0.1814	2.4079	3.3047	0.5009	2.4088	1.8288	0.9239	5.5633	0.0000	0.1293	13.8043
2011	0.1819	2.2738	3.0093	0.5011	2.2147	1.9713	0.8992	4.9769	0.0000	0.1186	12.8830
2010	0.1840	2.0674	2.6969	0.4706	2.0392	1.9200	0.6622	4.2758	0.0000	0.1043	11.3748
2009	0.1829	2.0234	2.4922	0.4430	2.0120	1.8664	0.6198	4.0763	0.0000	0.0813	10.8216
2008	0.1851	2.0688	2.4844	0.4419	2.0963	1.8418	0.5956	4.0072	0.0000	0.1040	10.7813
2007	0.1856	2.2912	2.7014	0.4797	2.3061	1.7294	0.6576	4.4880	0.0000	0.1233	11.6840
2006	0.1857	2.6385	3.1961	0.4019	2.6024	1.9217	0.7373	4.9990	0.0000	0.1686	13.1658
2005	0.1863	2.9118	3.6661	0.4585	3.0575	2.0398	0.8497	5.5826	0.0000	0.2134	14.6812

(1) The tax rates for each type of district are an average of the levies for each individual district based upon the countywide assessed valuation. Information provided by the Assessor's - Treasurer's Office of Pierce County.

**PORT OF TACOMA  
PRINCIPAL PROPERTY TAX PAYERS  
2013 and 2004  
(dollars in thousands)**

TAXPAYER	TYPE OF BUSINESS	2013		2004	
		2012 ASSESSED VALUATION (1)	PERCENT OF TOTAL ASSESSED VALUATION	2003 ASSESSED VALUATION (2)	PERCENT OF TOTAL ASSESSED VALUATION
The Boeing Company	Airplane Manufacturer	\$ 552,099	0.77%	\$ 386,518	0.73%
Puget Sound Energy	Electric and Natural Gas Utility	541,449	0.76%	439,350	0.83%
Tacoma Mall Partnership	Retail Shopping Mall	198,645	0.28%	122,917	0.23%
Centurylink/Qwest	Telecommunications	147,559	0.21%	252,024	0.47%
US Oil & Refining Co	Refinery	146,853	0.21%	-	0.00%
Intel Corporation	Semiconductor Manufacturer	130,035	0.18%	124,236	0.23%
Fred Meyer Stores	Retail Sales	124,598	0.17%	124,680	0.23%
Costco Wholesale Corp.	Retail Sales	116,467	0.16%	95,021	0.18%
Toray Composites America, Inc.	Aerospace Manufacturing	115,654	0.16%	-	0.00%
WalMart Stores Inc	Retail Sales	110,354	0.15%	46,505	0.09%
Northwest Building LLC	Industrial Park	105,260	0.15%	108,173	0.20%
BCC Puyallup LLC	Property Management	102,693	0.14%	-	0.00%
Teachers Insurance & Annuity Association	Insurance	102,133	0.14%	56,982	0.11%
AT&T Mobility LLC	Telecommunications	98,915	0.14%	104,690	0.20%
<b>Total Assessed Valuation of Principal Taxpayers</b>		<b>\$ 2,592,714</b>	<b>3.62%</b>	<b>\$ 1,861,096</b>	<b>3.50%</b>
<b>Total Assessed Valuation of Pierce County (3)</b>		<b>\$ 71,547,736</b>	<b>100.00%</b>	<b>\$ 53,192,231</b>	<b>100.00%</b>

(1) 2013 taxable value is basis for 2014 property tax levies.

(2) 2004 taxable value is basis for 2005 property tax levies.

(3) Totals include valuation of real, personal and operating properties.

**PORT OF TACOMA**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

<b>Fiscal Year</b>	<b>Original Tax Levy</b>	<b>Supplements / Cancellations</b>	<b>Final Tax Levy</b>	<b>Collected In Year Due</b>	<b>Percent of Levy Collected In Year Due</b>	<b>Collected in Subsequent Years</b>	<b>Collected as of 12/31/14</b>	<b>Percent of Levy Collected As of 12/31/2014</b>
2014	\$ 13,116	\$ (31)	\$ 13,083	\$ 12,740	97.38%	\$ -	\$ 12,740	97.38%
2013	12,668	(69)	12,600	12,229	97.06%	243	12,472	98.99%
2012	13,729	(56)	13,673	13,218	96.67%	378	13,596	99.44%
2011	14,979	(205)	14,774	13,469	91.17%	1,289	14,759	99.90%
2010	16,283	(87)	16,196	15,519	95.82%	670	16,189	99.95%
2009	16,933	(62)	16,871	16,168	95.83%	700	16,868	99.98%
2008	16,540	(31)	16,509	15,823	95.84%	684	16,507	99.99%
2007	14,639	(5)	14,634	14,097	96.34%	536	14,634	100.00%
2006	11,882	(19)	11,863	11,490	96.85%	373	11,863	100.00%
2005	9,916	(17)	9,899	9,576	96.74%	323	9,899	100.00%



**PORT OF TACOMA**  
**TAX LEVY AMOUNTS AND RATES**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Port District Assessed Valuation (1)</b>	<b>Maximum Levy (2)</b>	<b>Budget Tax Levy (3)</b>	<b>Total Tax Levy rate (4)</b>
2014	\$ 71,417,153,388	\$ 23,121,298	\$ 13,115,760	\$ 0.1836
2013	69,124,565,890	22,363,370	12,665,791	0.1832
2012	75,697,857,587	22,007,602	13,719,043	0.1812
2011	81,262,532,281	21,620,574	14,731,007	0.1813
2010	88,468,117,832	21,584,044	16,275,174	0.1840
2009	92,604,618,893	20,977,631	16,933,218	0.1829
2008	89,354,870,537	20,278,920	16,536,559	0.1851
2007	78,973,985,728	19,626,790	14,623,633	0.1852
2006	63,955,847,411	19,050,795	11,878,284	0.1857
2005	53,305,805,336	18,597,777	9,909,549	0.1859

Sources: Pierce County Assessor's Office and the Port

- (1) Per the County's Certification of Assessed Valuation delivered to the Port in the November prior to the fiscal year for which the levy is assessed.
- (2) Maximum dollar amount shown in the County's Certification of Assessed Valuation delivered to the Port as the maximum amount that would be permitted to be collected within the statutory levy limitation.
- (3) Tax levy allocable for general purposes plus tax levy allocable for limited tax general obligation bonds Budgeted tax levy before any adjustments..
- (4) Per \$1,000 of assessed valuation.

**PORT OF TACOMA**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**Last Ten Fiscal Years**  
**(dollars in thousands, except per capita)**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Other Obligations</b>	<b>Commercial Paper</b>	<b>Total Debt (1)</b>	<b>Ratio of Debt to Personal Income (2)</b>	<b>Total Debt Per Capita (2)</b>
2014	\$ 184,465	\$ 400,540	\$ -	\$ 82,000	\$ 667,005	1.9%	812
2013	189,110	415,465	-	92,585	\$ 697,160	1.9%	856
2012	198,445	422,905	-	64,500	\$ 685,850	1.9%	849
2011	200,140	430,020	-	27,000	\$ 657,160	1.9%	819
2010	201,760	436,845	-	27,000	\$ 665,605	2.0%	837
2009	203,315	441,390	-	27,000	\$ 671,705	2.1%	826
2008	206,755	445,770	2,050	27,000	\$ 681,575	2.1%	846
2007	83,435	324,265	7,821	100,000	\$ 515,521	1.7%	652
2006	86,860	331,625	8,347	40,000	\$ 466,832	1.6%	604
2005	87,400	235,365	11,292	17,000	\$ 351,057	1.3%	464

(1) Debt includes bond obligations, other obligations and notes payable (see notes 4 and 5 in the financial statements)

(2) Personal income and population information used to find *Ratio of Debt to Personal Income* and *Total Debt per Capita*, respectively, can be found in Demographic Statistics

**PORT OF TACOMA**  
**RATIOS OF GENERAL OBLIGATION BONDS**  
**Last Ten Fiscal Years**  
(dollars in thousands, except G. O. Bonds Per Capita)

<b>Fiscal Year</b>	<b>G. O. Bonds</b>	<b>Ratio of G. O. Bonds to Assessed Value of Taxable Property (1)</b>	<b>G. O. Bonds Per Capita (2)</b>	<b>Per Capita Assessed Valuation</b>	<b>Ratio of Direct and Estimated Overlapping Debt to Assessed Valuation</b>	<b>Per Capita Direct and Estimated Overlapping Dept</b>
2014	\$ 184,465	0.26%	\$ 225	\$ 87,115	2.77%	\$ 2,412
2013	189,110	0.27%	232	84,867	2.85%	2,416
2012	198,445	0.26%	246	93,662	2.52%	2,364
2011	200,140	0.25%	250	101,306	2.38%	2,408
2010	201,760	0.23%	254	111,249	2.23%	2,486
2009	203,315	0.22%	250	113,821	2.10%	2,388
2008	206,755	0.23%	257	110,945	2.08%	2,304
2007	83,435	0.11%	106	99,904	2.18%	2,178
2006	86,860	0.14%	112	82,684	2.39%	1,976
2005	87,400	0.16%	116	70,369	2.96%	2,084

(1) See Assessed and Estimated Actual Value of Taxable Property

(2) See Demographics for Pierce County Population data

**PORT OF TACOMA**  
**LIMITED TAX GENERAL OBLIGATION BOND DEBT SERVICE REQUIREMENTS**  
**(Years Ending December 31)**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2015	\$ 4,890,000	\$ 8,779,076	\$ 13,669,076
2016	5,130,000	8,535,814	13,665,814
2017	5,365,000	8,301,451	13,666,451
2018	3,495,000	8,056,251	11,551,251
2019	3,670,000	7,884,314	11,554,314
2020	3,855,000	7,703,751	11,558,751
2021	6,810,000	7,514,114	14,324,114
2022	7,125,000	7,204,539	14,329,539
2023	7,445,000	6,880,501	14,325,501
2024	7,785,000	6,537,776	14,322,776
2025	8,145,000	6,175,114	14,320,114
2026	8,530,000	5,795,589	14,325,589
2027	8,920,000	5,398,039	14,318,039
2028	9,350,000	4,982,201	14,332,201
2029	9,780,000	4,546,214	14,326,214
2030	10,240,000	4,090,064	14,330,064
2031	10,720,000	3,603,859	14,323,859
2032	11,230,000	3,094,784	14,324,784
2033	11,765,000	2,561,406	14,326,406
2034	7,280,000	2,002,544	9,282,544
2035	7,645,000	1,640,031	9,285,031
2036	8,025,000	1,259,344	9,284,344
2037	8,425,000	859,731	9,284,731
2038	8,840,000	440,200	9,280,200
<b>Totals</b>	<b>\$ 184,465,000</b>	<b>\$ 123,846,707</b>	<b>\$ 308,311,707</b>

**PORT OF TACOMA**  
**COMPUTATION OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT**  
**December 31, 2014**

<u>JURISDICTION</u>	<u>NET DEBT OUTSTANDING (1)</u>	<u>PERCENTAGE APPLICABLE TO PIERCE COUNTY (2)</u>	<u>AMOUNT APPLICABLE TO PIERCE COUNTY</u>
Direct Debt:			
<b>Pierce County</b>	<b>\$ 169,408,000</b>	<b>100%</b>	<b>\$ 169,408,000</b>
Overlapping Debt:			
Port of Tacoma	184,465,000	100%	184,465,000
City of Tacoma	218,031,000	100%	218,031,000
Metro Park Districts	114,447,206	100%	114,447,206
Pierce County School Districts	1,294,309,706	100%	1,294,309,706
<b>Total Overlapping Debt</b>	<b>1,811,252,912</b>	<b>100%</b>	<b>1,811,252,912</b>
<b>Total Direct And Overlapping Debt</b>	<b>\$ 1,980,660,912</b>		<b>\$ 1,980,660,912</b>

(1) Information on the other jurisdictions was obtained from those agencies.

(2) Each of the tax jurisdictions are within the geographical boundaries of Pierce County, therefore 100% of the net outstanding debt of those is applicable to Pierce County

**PORT OF TACOMA**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
(1) Value of taxable property in the taxing dist.	\$ 71,547,737	\$ 69,124,566	\$ 75,697,858	\$ 81,262,532	\$ 88,468,118	\$ 92,604,619	\$ 89,354,871	\$ 78,973,986	\$ 63,955,847	\$ 53,192,231
Legal limit at 3/4 of 1% on property value	536,608	518,434	567,734	609,469	663,511	694,535	670,162	592,305	479,669	398,942
Indebtedness Incurred										
G.O. bond liabilities:	184,465	189,110	198,445	200,140	201,760	203,315	206,755	83,435	86,860	87,400
Less cash and investments:	-	-	-	-	-	-	115	115	115	787
Excess liabilities over assets	184,465	189,110	198,445	200,140	201,760	203,315	206,640	83,320	86,745	86,613
<b>Margin of indebtedness still available</b>	<b>352,143</b>	<b>329,324</b>	<b>369,289</b>	<b>409,329</b>	<b>461,751</b>	<b>491,220</b>	<b>463,521</b>	<b>508,984</b>	<b>392,923</b>	<b>312,329</b>
Legal limit at 1/4 of 1% on property value without a vote of the people	\$ 178,869	\$ 172,811	\$ 189,245	\$ 203,156	\$ 221,170	\$ 231,512	\$ 223,387	\$ 197,435	\$ 159,890	\$ 132,981
<b>Margin of indebtedness still available without a vote of the people</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,016</b>	<b>19,410</b>	<b>28,197</b>	<b>16,632</b>	<b>114,000</b>	<b>73,030</b>	<b>45,581</b>

(1) Taxable property information received from Assessor's - Treasurer's Office of Pierce County

**PORT OF TACOMA**  
**REVENUE BONDS COVERAGE BY TYPE**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

<b>Fiscal Year</b>	<b>Gross Revenue (1)</b>	<b>Net Expenses Per Bond Covenants (2)</b>	<b>Net Revenue Available for Debt Service</b>	<b>Debt Service Requirements</b>		<b>Total</b>	<b>Coverage</b>
				<b>Principal</b>	<b>Interest</b>		
2014	\$ 137,096	\$ 82,412	\$ 54,684	\$ 1,000	\$ 6,403	\$ 7,403	7.39
2013	127,850	66,836	61,013	2,780	8,990	11,770	5.18
2012	127,633	63,396	64,237	2,780	9,114	11,774	5.46
2011	116,926	55,907	61,018	2,660	9,231	11,791	5.17
2010	106,003	50,982	55,021	2,560	9,333	11,798	4.66
2009	93,092	42,488	50,604	2,465	9,439	11,819	4.28
2008	102,671	46,543	56,128	2,380	9,712	17,302	3.24
2007	101,984	42,857	59,127	7,590	11,198	18,558	3.19
2006	95,918	41,819	54,099	7,360	11,916	18,711	2.89
2005	77,268	38,184	39,084	3,855	9,115	12,970	3.01

Above schedule does not include levies for general obligation bond issues outstanding

(1) Includes operating revenues and interest earned on investments of Revenue Bond Redemption Funds, Revenue Bond Reserve Fund, and Commercial Paper

(2) Includes operating expenses (except depreciation) and non-operating bank service fees.

**PORT OF TACOMA**  
**DEMOGRAPHIC STATISTICS**  
**Last Ten Fiscal Years**  
**(dollars in thousands)**

<b>Fiscal Year</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b><i>Pierce County</i></b>										
Population (in thousands) (1)	821	815	808	802	795	814	805	791	774	756
Total Personal Income (2)	N/A	\$ 36,054,002	\$ 35,464,135	\$ 34,038,137	\$ 32,654,784	\$ 32,168,659	\$ 32,646,328	\$ 30,947,081	\$ 28,673,176	\$ 26,451,353
Per Capita Personal Income	N/A	\$ 44.0	\$ 43.7	\$ 42.4	\$ 41.1	\$ 40.4	\$ 41.6	\$ 40.1	\$ 37.6	\$ 35.4
Unemployment Rate (3)	7.2%	7.6%	8.6%	9.4%	10.0%	10.6%	7.4%	4.9%	4.9%	5.3%
<b><i>Washington State</i></b>										
Population (in thousands) (1)	6,944	6,862	6,801	6,758	6,696	6,643	6,554	6,449	6,335	6,225
Personal Income (2)	N/A	\$ 332,654,857	\$ 324,458,394	\$ 303,999,485	\$ 286,862,463	\$ 280,943,954	\$ 289,678,642	\$ 276,741,494	\$ 255,639,739	\$ 235,510,032
Per Capita Personal Income	N/A	\$ 47.7	\$ 47.1	\$ 44.6	\$ 42.5	\$ 42.1	\$ 44.1	\$ 42.8	\$ 40.1	\$ 37.6
Unemployment Rate (3)	6.3%	6.7%	7.4%	8.6%	9.6%	10.1%	7.1%	4.6%	4.8%	5.1%

(1) Washington State Office of Financial Management

(2) US Department of Commerce, Bureau of Economic Analysis

(3) Annual Employment rates per Washington State Employment Security Department



**PORT OF TACOMA  
PIERCE COUNTY MAJOR EMPLOYERS  
For 2014 and 2005**

Pierce County Major Corporate Employers	2014			2005		
	Number of Employees (1)	Rank	Percentage of Total Pierce County Employment	Number of Employees (1)	Rank	Percentage of Total Pierce County Employment
Federal Government	67,677	1	19.24%	51,195	1	14.81%
Local Government	33,692	2	9.58%	30,899	2	8.94%
Multicare Health System	6,904	3	1.96%	3,779	4	1.09%
Franciscan Health System	5,338	4	1.52%	4,137	3	1.20%
Fred Meyer Stores	2,560	5	0.73%	2,159	5	0.62%
State Farm Insurance Company	2,206	6	0.63%	891	15	0.26%
Emerald Queen Casino	2,061	7	0.59%	1,591	6	0.46%
The Boeing Company	1,670	8	0.47%	1,200	10	0.35%
Wal-Mart	1,304	9	0.37%	—	—	0.00%
Safeway Stores, Inc	1,297	10	0.37%	1,508	7	0.44%
Costco	1,205	11	0.34%	940	13	0.27%
YMCA of Tacoma-Pierce County	1,057	12	0.30%	305	49	0.09%
Comcast Cable	1,046	13	0.30%	729	18	0.21%
<b>Total</b>	<b>128,017</b>		<b>36.39%</b>	<b>99,333</b>		<b>28.74%</b>
Total Employment In Pierce County	<b>351,810</b>			<b>345,780</b>		

**Source:** (1) Bureau of Labor Statistics and Tacoma-Pierce County Economic Development Board

**PORT OF TACOMA  
NUMBER OF EMPLOYEES BY FUNCTION  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Administration	93	99	103	100	108	118	106	97	84	85
Operations	79	81	86	86	49	51	55	46	54	52
Maintenance	83	86	85	80	84	109	109	111	108	106
<b>Total</b>	<b>255</b>	<b>266</b>	<b>274</b>	<b>266</b>	<b>241</b>	<b>278</b>	<b>270</b>	<b>254</b>	<b>246</b>	<b>243</b>

**Note:** Number of employees reported includes regular, project, and part-time employees as of the last day of each year. Line of Business employees are included in Administration.

Source: Port of Tacoma payroll database.

**PORT OF TACOMA**  
**MARINE TERMINAL TONNAGE AND STATISTICS**  
**Last Ten Fiscal Years**  
**(Short Tons)**

**Summary of Vesels, Total Tonnage and Major Commodities 2005 through 2014**

Year	Vessels / Tonnage		Import Commodities					Export Commodities				
	Vessels	Total Tonnage	General Cargo	Ore	Containerized Cargo	Autos	Gypsum	General Cargo	Logs	Containerized Cargo	Grain	Wood Chips
2014	1,240	20,415,736	165,270	-	6,844,034	278,140	198,691	52,267	304,930	8,239,774	4,332,630	-
2013	1,278	17,938,799	166,789	-	6,002,229	249,560	234,207	38,333	428,843	8,073,144	2,745,694	-
2012	1,106	17,917,598	196,103	-	4,966,993	224,506	243,848	63,812	377,418	7,040,653	4,804,265	-
2011	1,006	17,270,252	97,598	-	3,832,127	259,552	133,835	56,780	584,529	6,375,809	5,930,022	-
2010	1,019	16,532,709	52,014	-	3,808,976	187,580	145,359	39,787	403,225	5,747,212	6,148,556	-
2009	1,221	17,364,171	68,042	-	3,584,851	178,170	115,524	24,459	-	6,875,758	6,517,367	-
2008	1,365	20,269,494	99,532	-	5,020,617	260,553	184,340	18,991	-	7,900,214	6,785,247	-
2007	1,172	19,563,385	97,107	-	5,497,357	287,768	239,126	26,540	-	7,441,875	5,973,612	-
2006	1,150	18,934,669	102,949	-	5,851,868	273,216	179,593	26,310	-	6,398,129	6,062,870	39,734
2005	1,163	20,384,213	82,461	-	6,212,189	222,072	-	34,882	-	6,609,631	6,968,666	254,648

**PORT OF TACOMA**  
**MARINE TERMINAL DESCRIPTION**  
**December 31, 2014**

Total Property Ownership	2,700	acres (approximately)
Warehouses and Other Buildings	2,791,668	square feet +/-
Early Business Center Buildings	604,492	square feet +/-
Port Business Center Building	75,031	square feet +/-
Grain Storage	3	million bushels
Foreign Trade Zone (designated)	2,744	acres
Intermodal Rail Facilities	4	dockside intermodal yards

**Terminal Facilities**

Berths	31
Container Cranes	26
Whirley Cranes	2
Truck Scales	27
Container Straddle Carriers (Port owned)	32
Fork Lifts (Port owned)	53
Vehicles	101

**PORT OF TACOMA**  
**AGGREGATE COMPARATIVE OPERATING STATISTICS**  
**Last Ten Fiscal Years**

<u>Year</u>	<u>Vessels</u>	<u>Percent change</u>	<u>Tonnage (short tons)</u>	<u>Percent change</u>	<u>Twenty-foot Equivalent units (TEUs)</u>	<u>Percent change</u>	<u>Intermodal Lifts</u>	<u>Percent change</u>	<u>Autos (units)</u>	<u>Percent change</u>
2014	1,240	-3.0	20,415,736	13.8	2,040,019	7.8	515,544	6.0	175,802	9.6
2013	1,278	15.6	17,938,799	0.3	1,891,570	10.5	486,365	10.6	160,419	8.2
2012	1,106	9.9	17,890,719	3.6	1,711,290	14.9	439,760	29.7	148,239	-8.7
2011	1,006	-1.3	17,270,252	4.5	1,488,799	2.3	338,958	0.3	162,434	34.2
2010	1,019	-16.5	16,532,709	-4.8	1,455,466	-5.8	337,863	19.0	120,996	3.1
2009	1,221	-10.5	17,364,171	-14.3	1,545,853	-17.0	283,820	-30.4	117,357	-26.2
2008	1,365	16.5	20,269,494	3.6	1,861,358	-3.3	407,993	-15.2	159,079	-9.1
2007	1,172	1.9	19,563,561	3.3	1,924,929	-6.9	481,102	-18.7	175,074	5.4
2006	1,150	-1.1	18,934,669	-7.1	2,067,185	0.0	591,407	-6.5	166,087	22.2
2005	1,163	-	20,384,213	-	2,066,446	-	632,526	-	135,900	-