



# Comprehensive Annual Financial Report

Port of Tacoma, Washington  
As of and for the years ended December 31, 2016  
and 2015





# COMPREHENSIVE ANNUAL FINANCIAL REPORT

As of and for the years ended December 31, 2016 and 2015

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, 2016

**TABLE OF CONTENTS**

**Page**

**INTRODUCTORY SECTION - FINANCE AND ADMINISTRATION**

Chief Financial Officer's Transmittal Letter.....	2-5
Certificate of Achievement for Excellence in Financial Reporting .....	6
Port of Tacoma Leadership .....	7
Organizational Chart .....	8
List of Principal Officials .....	9

**FINANCIAL SECTION**

Independent Auditor's Report.....	11-12
Management's Discussion and Analysis (Unaudited) .....	13-21
Enterprise Fund Statements of Net Position .....	22-23
Enterprise Fund Statements of Revenues, Expenses and Changes in Net Position .....	24
Enterprise Fund Statements of Cash Flows.....	25-26
Post-Employment Health Care Benefits Trust Fund Statements of Net Position.....	27
Post-Employment Health Care Benefits Trust Fund Statements of Changes in Net Position.....	28
Notes to Financial Statements .....	29-74
Required Supplementary Information (unaudited).....	75-77

**STATISTICAL SECTION (UNAUDITED)**

Net Position by Component - Last Ten Fiscal Years.....	80
Changes in Net Position - Last Ten Fiscal Years .....	81
Operating Revenue by Line of Business - Last Ten Fiscal Years.....	82
Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years.....	83
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years .....	84
Principal Property Tax Payers.....	85
Property Tax Levies and Collections - Last Ten Fiscal Years .....	86
Tax Levy Amounts and Rates - Last Ten Fiscal Years.....	87
Ratios of Outstanding Debt by Type - Last Ten Fiscal Years.....	88
Ratios of General Obligation Bonds - Last Ten Fiscal Years .....	89
Limited Tax General Obligation Bond Debt Service Requirements.....	90
Computation of Direct and Overlapping General Obligation Debt.....	91
Computation of Legal Debt Margin - Last Ten Fiscal Years.....	92
Senior Lien Revenue Bonds Coverage by Type - Last Ten Fiscal Years.....	93
Demographic Statistics - Last Ten Fiscal Years.....	94
Pierce County Major Employers .....	95
Number of Port Employees by Function - Last Ten Fiscal Years.....	96
Marine Terminal Tonnage and Statistics - Last Ten Fiscal Years .....	97
Marine Terminal Description .....	98
Aggregate Comparative Operating Statistics - Last Ten Fiscal Years.....	99

## INTRODUCTORY SECTION



June 20, 2016

**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, 2016, is submitted herewith. This report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, organization chart, and list of principal officials. The Financial Section, beginning with the independent auditor's report, contains management's discussion and analysis ("MD&A"), Enterprise Fund and Post Employment Health Care Benefits Trust Fund financial statements, and the notes to the financial statements. The Statistical Section includes selected financial, economic, and demographic data.

Responsibility for both the accuracy and the completeness, and the fairness of the presentation, including all disclosures, rests with management of the Port. On the basis that the cost of internal controls should not outweigh their benefits, the Port has established a comprehensive framework of internal controls to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Port is legally required to have its financial statements audited annually. We believe this is an essential element in financial control. A firm of independent auditors is engaged each year to conduct an audit of the Port's financial statements in accordance with auditing standards generally accepted in the United States of America. The goal of the independent audit is to provide reasonable assurance that the financial statements are free of material misstatement. The audit includes an examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, assessment of the accounting principles used and significant estimates made by management, as well as the overall presentation of the financial statements. In planning and performing their audit, the independent auditors give consideration to the Port's comprehensive framework of internal controls in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements. The independent auditor's report is presented as the first component in the Financial Section following this letter. The statistical section of this report is not covered by the auditor's opinion.

In addition to the independent audit of the financial statements, a broader federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies was conducted by the Washington State Auditor. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, involving the administration of Federal awards. These reports are available in the Port's separately issued Single Audit Report. The Washington State Auditor's office also conducts an annual Accountability Audit of the Port, the results of which are available in the separately issue Accountability Audit Report (<https://portal.sao.wa.gov>).

This letter of transmittal is designed to complement the MD&A, which provides a narrative introduction, overview, and analysis of the basic financial statements, and should be read in conjunction with it.

## Profile of the Port

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 governed by a five-member Commission elected at large by voters of the county for four-year terms. The Commission appoints the Chief Executive Officer (CEO), who oversees daily operations of the organization. Through resolutions and directives, the Commission sets policy for the Port, which are then carried out by the CEO and executive staff.

The Port's business activities are comprised of 1) the Real Estate line of business: a portfolio of warehouse/industrial sites, a grain terminal, and office space that are leased for periods of time ranging from month-to-month to fifty years, and 2) the Northwest Seaport Alliance (NWSA): a Port Development Authority created by the ports of Tacoma and Seattle (home ports) in August, 2015 to market and manage the marine terminal businesses of each port. The NWSA is a separate legal and governmental entity and, as of January 1, 2016, has been accounted for as a joint venture between the home ports. Operation of the Port's marine cargo business was exclusively licensed to the NWSA, which leases container terminals, intermodal yards, and a log processing facility, and operate a breakbulk terminal and auto business. The net income and operating cash generated by the NWSA are distributed to the ports of Tacoma and Seattle on a 50/50 basis.

The Port operates on a calendar year budget cycle. The operating budget and the capital budget are the Port's plan for meeting the current needs of its customers, and for implementation of the Strategic Plan initiatives. The annual budget development begins with the development of strategic objectives and initiatives which are reviewed by the Commission and the Chief Executive Officer. The Commission and Chief Executive Officer communicate any strategy changes or policy concerns and gather additional input. Then, the Finance team works with the Port's business leaders and departments to draft operating and capital budgets, based on these strategic objectives and initiatives, market assumptions, cargo forecasts, and organizational priorities. The draft budgets are then presented to the Commission during a study session, usually in early October. Over the next few weeks, based on input from the Commission and Executive leadership, any necessary changes are made and the budgets are finalized.

In November, a public hearing is held to address public interest, and to adopt the statutory budget and tax levy. After the Commission approves and adopts the statutory budget, it is submitted, with the Commission resolutions, to the Pierce County Council and the Office of the Assessor Treasurer on or before November 30th. Once filed, the statutory budget is a legal, public document and can be amended only after proper notification is given and a public hearing is held. Any amendments to the budget must be submitted with amended resolutions to the Pierce County Council's office.

After filing the original statutory budget, the Port conducts a subsequent mid-year forecast of operating revenue and expenses and makes any necessary adjustments based on a monthly budget-to-actual analysis. This helps management measure how the Port is progressing. The mid-year update is not filed with the County or adopted by the Commission.

## Information Useful in Assessing the Port's Economic Condition

1. Local Economy - The Port district is located in Pierce County. The county's main employment contributors are military, healthcare, education, finance and professional services, retail and transportation. Public jobs are the largest source of employment for Pierce County residents, followed by the wholesale and retail trade and healthcare. Over 2017, there is expected to be a 2.2 percent growth in jobs in the county. 2017 per capita income is forecast to rise 3.1 percent, driven primarily by continued growth in the construction sector and taxable retail sales are forecast to grow 6.9% to \$8.5 billion.

The joint military base located in Pierce County supports a strong retail trade. Retail sales in Pierce County grew at an annual rate of 5.8% from 2010 through 2015, and accelerated to 7.46% in 2016 as the economy has continued to improve. A large portion of the cargo exported and imported through the Port/NWSA originates or is destined to the Midwestern or Eastern United States. Business fluctuations in the local economy generally do not significantly impact operating trade volumes.

2. Major Initiatives- In 2016, The Northwest Seaport Alliance approved the reconstruction of Pier 4 and the purchase of 4 super Post Panamax cranes capable of servicing 18,000 TEU vessels. Completion of the new wharf and delivery of the cranes will be completed in the first half of 2018.

In 2016, the Port focused on its real estate business. The Port completed two long term leases with developers who are developing warehouses and distribution facilities on Port land that has easy access to State Route 509 and Interstate 5. Puget Sound Energy continues the permitting and construction of a liquefied natural gas (LNG) facility on port land to provide LNG for TOTE ships that deliver cargo to and from Alaska. The facility is expected to begin operating in 2018. The port is pursuing additional tenants on available land.

Finally, the Port approved the construction of additional rail track to improve intermodal efficiency for Port customers, as well as other rail infrastructure users including The NWSA, Tacoma Rail, and US Oil. Construction of the improved track is expected to be completed in the first half of 2017.

3. Long-Term Financial Planning - For 2017, the Port of Tacoma developed an overall operating budget with projected revenues of \$68.4 million and operating expenses of \$48.0 million, resulting in forecasted net operating income of \$20.4 million, a decrease compared to 2016 of \$21.8 million and 51.7% as joint venture revenue and operating revenues are expected to decline \$14.9 million and \$1.8 million, respectively, and Port operating expenses are expected to increase \$5.1 million.

The forecasted change in joint venture revenue is due to a number of factors including; a lower cargo forecast in 2017 that we believe will negatively affect operating revenues by \$5.8 million, NWSA non-operating revenue in 2016 of \$7.8 million, and anticipated expense increases in 2017 of \$16.4 million for crane removal at T5, maintenance, depreciation, and outside services. Overall, the NWSA net income is anticipated to be down \$30.0 million.

The increase in Port operating expenses of \$5.1 million is due to higher spending on environmental programs and maintenance.

The Port's net non-operating expense for 2017 is expected to decrease by \$1.1 million to \$7.0 million. The result of all revenue and expense components is a forecasted increase in net assets of \$13.4 million for 2017 compared to \$19.8 million in 2016.

Historically, the Port has used long-term debt and operating profit to finance capital asset acquisitions and construction. For the five year period from 2017 through 2021, the capital program anticipates spending \$159.0 million for the Port of Tacoma, including \$45.9 million for real estate acquisition and improvements, \$12.7 million for rail improvements, and the remainder for infrastructure, technology, and environmental programs. Additionally, the port will fund 50% of the \$270.4 million Northwest Seaport Alliance capital program, which includes \$118.6 million to complete the Pier 4 reconfiguration and crane purchase, and \$49.8 million for redevelopment of Terminal 46.

### **Awards and Acknowledgements**

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, 2015. This was the 30th consecutive year that the Port has received this prestigious award. 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.

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,



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, 2015**

Executive Director/CEO

## **2016 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 of Tacoma Board and the City of Tacoma's Mayor's Commission on International Relations. She served two terms on the Washington Economic Development Commission. Bacon 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 a 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 is a member of the Tacoma Transportation Club and Tacoma Propeller Club and 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 37 years, he served as President of the ILWU 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 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 University of Washington Tacoma Urban Studies Advisory 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 and is a member of Tacoma Rotary #8. Born and raised on a South Dakota farm, Meyer holds a Bachelor's Degree in business from Pacific Lutheran University and a MBA from the University of South Dakota.

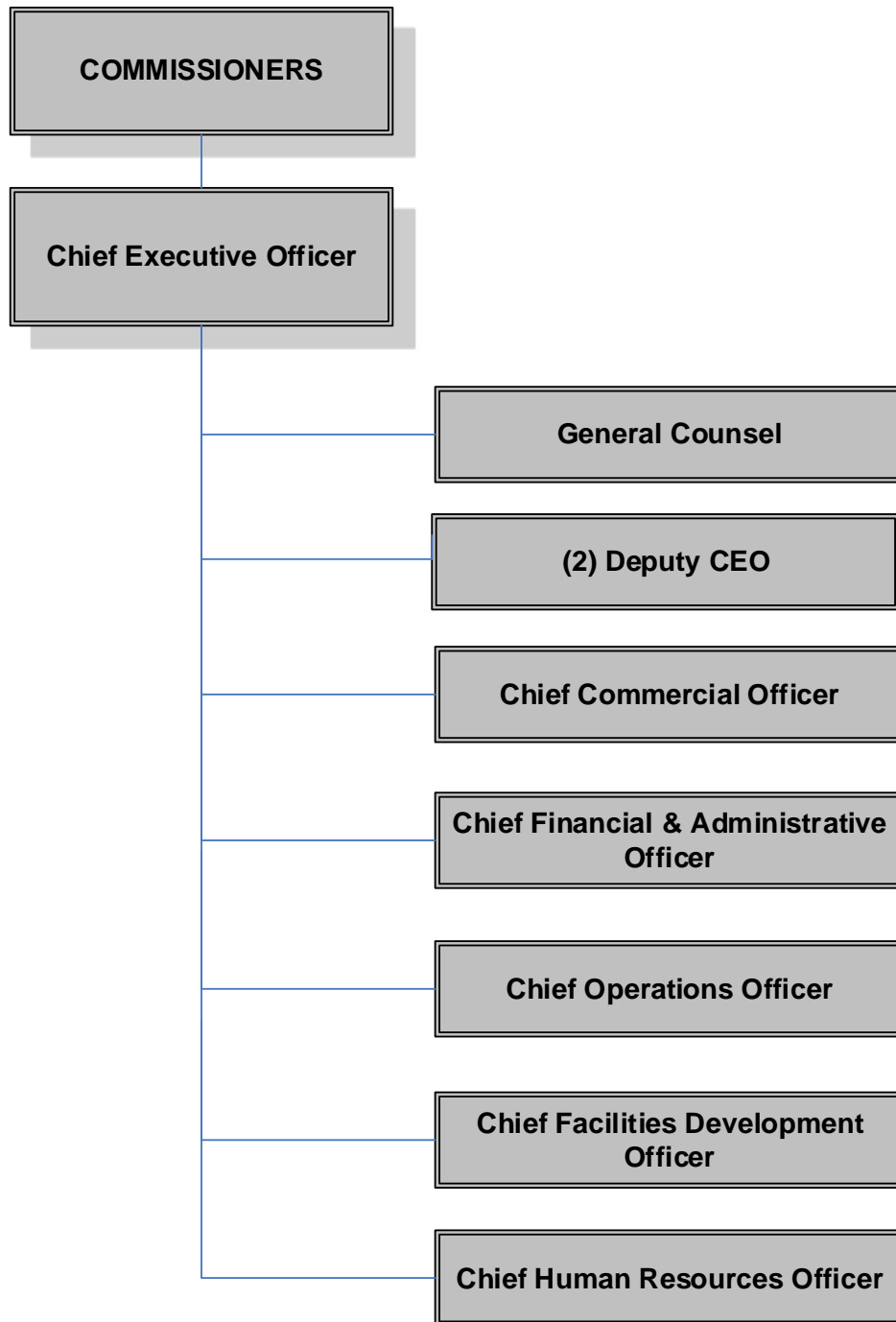
### **Commissioner Clare Petrich**

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 serves on the Joint Municipal Action Committee, the City of Tacoma's Mayor's Commission on International Relations, as well as 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, 2016



**PORT OF TACOMA**  
**LIST OF PRINCIPAL OFFICIALS**  
December 31, 2016

<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	Vacant
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 the Port of Tacoma (the Port) as of and for the years ended December 31, 2016 and 2015, 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 basis for our audit opinion.

**Opinion**

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, 2016 and 2015, 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.

**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 13-21 and the required supplementary information on pages 75-77 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.

*RSM VS LLP*

Tacoma, Washington  
March 24, 2017

# **Port of Tacoma**

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

### **YEARS ENDED DECEMBER 31, 2016 and 2015**

#### **INTRODUCTION**

The Port of Tacoma's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the Port's 2016 and 2015 financial statements, which include the Enterprise Fund as well as the Post-Employment Health Care Benefits Trust Fund. Port management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto.

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

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding 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 in which the underlying event occurs, regardless of the timing of related cash flows.

The Port adopted joint venture accounting in 2016 due to the formation of The Northwest Seaport Alliance and the Port's 50 percent investment in the joint venture. Additional information is presented in the following paragraphs, in Note 1, Summary of Accounting Policies and in Note 17.

**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)**

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

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

### **Membership Interests**

The home ports made an initial contribution of certain cargo terminals and related marine cargo business activities to the NWSA through license agreements (Licensed Properties). Under these agreements, the NWSA was charged with managing the properties as an agent on behalf of the Managing Members. The initial contribution of each home port to the NWSA was 50 percent (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA) with a revaluation review at the end of 2017. The revaluation review is to determine if material changes in cash flows from the Licensed Properties have occurred since the initial valuation. A change in the valuation of the cash flow forecasts of these facilities could result in a change in Membership Interests. The Managing Members shall approve any change in Membership Interest by vote, to include provision for addressing any change to distributions and allocations as a result of the change in Membership Interest. Changes in Membership Interest do not affect a Managing Member's voting rights under the Charter, as votes are not weighted by or otherwise determined by Membership Interest.

### **Financial Framework**

The NWSA intends to support the credit profiles of both home ports, and its financial framework will preserve both ports' commitment to financial strength and fiscal stewardship. The NWSA distributes cash to each home port based on cash flow from operations, calculated pursuant to Generally Accepted Accounting Principles. Cash distributions are to be made no less than quarterly based on each home port's percentage of total shares.

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

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

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

With respect to bonds of each home port that were outstanding at the time of the formation of the NWSA, the Managing Members shall establish and maintain a requirement for the NWSA to calculate and establish a minimum level of net income from the NWSA equal to the amount required for the home ports to meet their bond rate covenants in effect at the time of formation of the NWSA (Bond Income Calculation). The Managing Members shall require the Bond Income Calculation to be reviewed annually as part of the NWSA budget process and the Managing Members may adjust the Bond Income Calculation so long as it does not cause any home port to fail to comply with its rate covenant in effect at the time of formation of the NWSA. The NWSA may not take any action that reasonably would reduce NWSA income below the minimum level established by the Bond Income Calculation unless each Managing Member separately votes to approve that action. Such a vote by each Managing Member must occur even if the action is within the CEO's delegated authority. The Bond Income Calculation is subject to adjustment, including reductions from payment or refunding of bonds outstanding at the time of the formation of the NWSA.

### **Initial Funding**

Each home port provided an initial contribution for working capital of \$25.5 million, for a total initial funding of \$51 million. Working capital cannot be redirected to fund capital construction as defined in the Charter.

Future funding needs will be evaluated during the annual budget process or if the working capital reserve should decline below a target minimum established by the Managing Members. Managing Members each must vote affirmatively to approve additional working capital contributions.

Each home port provided an initial capital construction contribution of \$13.5 million (totaling \$27 million), equal to the budgeted capital improvement plan cash flow needs for 2016. The Port of Tacoma and the Port of Seattle also provided \$8.9 million and \$7.9 million, respectively in noncash construction -in-process for capital projects that started in the home ports and will be completed by NWSA.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Financial position summary - Enterprise Fund:** The statements of net position present the financial position of the Enterprise Fund of the Port. The statements include all of the Port's assets and liabilities of the Enterprise Fund. Net position serves as an indicator of the Port's financial position. 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 (dollars in thousands):

	2016	2015	2014* (Restated)
Current assets	\$ 204,255	\$ 238,301	\$ 220,235
Capital assets, net	936,265	956,323	966,813
Long-term investments	90,826	9,429	9,230
Investment in Joint Venture	66,077	-	-
Other assets	43,229	45,891	45,586
<b>Total assets</b>	<b>\$ 1,340,652</b>	<b>\$ 1,249,944</b>	<b>\$ 1,241,864</b>
Deferred outflows of resources	\$ 75,651	\$ 87,764	\$ 88,470
Current liabilities	\$ 67,024	\$ 114,938	\$ 111,270
Long-term debt, net	675,481	563,710	578,031
Other long-term liabilities	135,943	152,815	150,968
<b>Total liabilities</b>	<b>\$ 878,448</b>	<b>\$ 831,463</b>	<b>\$ 840,269</b>
Deferred inflows of resources	\$ 551	\$ 3,040	\$ 6,697
Net investment in capital assets	\$ 306,879	\$ 302,092	\$ 299,404
Restricted - bond reserves	13,077	9,429	9,230
Unrestricted	217,348	191,684	174,734
<b>Total net position</b>	<b>\$ 537,304</b>	<b>\$ 503,205</b>	<b>\$ 483,368</b>

*\*Net Position for 2014 has been adjusted to reflect the adoption of GASB 68.*

The Port's total net position increased by \$34.1 million and 6.7 percent over the prior year to \$537.3 million at December 31, 2016. Of this amount, \$306.9 million is the net investment in capital assets, \$13.1 million is restricted for bond reserves and \$217.3 million is unrestricted and can be used to finance operating activities.

The Port's net investment in capital assets represents infrastructure and capital assets for Port terminal and real estate facilities. In 2016, the net investment in capital assets increased by \$4.8 million due primarily to a net decrease in outstanding debt (net of unspent proceeds from the 2016 Revenue Bonds series 2016B) of \$20.0 million and a \$24.8 million decrease in net capital assets attributable to normal depreciation.

The Port's total net position increased by \$19.8 million and 4.1 percent over the prior year to \$503.2 million at December 31, 2015. Of this amount, \$302.1 million is the net investment in capital assets, \$9.4 million is restricted for bond reserves and \$191.7 million is unrestricted and can be used to finance operating activities.

In 2015, the net investment in capital assets increased by \$2.7 million due primarily to a net decrease in outstanding debt of approximately \$13.2 million and a \$10.5 million decrease in net capital assets attributable to asset impairments at Pier 24/25 and on property on the Hylebos Peninsula of \$5.3 million and normal depreciation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Restricted components of net assets at December 31, 2016, 2015, and 2014, of \$13.1, \$9.4 and \$9.2 million, respectively, are required reserves for the 2016 and 2005 revenue bonds held in restricted investments.

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 2016, 2015 and 2014.

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

	2016	2015	2014* (Restated)
Operating income:			
Operating revenues	\$ 23,545	\$ 143,897	\$ 134,322
Joint Venture income	61,584	-	-
<b>Total</b>	<b>85,129</b>	<b>143,897</b>	<b>134,322</b>
Operating expenses	42,956	104,611	112,716
<b>Total operating income</b>	<b>42,173</b>	<b>39,286</b>	<b>21,606</b>
Non-operating revenues (expenses):			
Ad valorem tax revenues	14,972	14,198	13,083
Interest on general obligation bonds	(7,609)	(8,759)	(9,000)
<b>Net ad valorem tax revenues</b>	<b>7,363</b>	<b>5,439</b>	<b>4,083</b>
Interest income	2,271	2,293	2,704
Net increase in the fair value of investments	47	72	2,505
Interest expense	(20,011)	(17,712)	(20,908)
Other non-operating expense, net	(3,601)	(10,861)	(7,131)
<b>Total non-operating expenses, net</b>	<b>(13,931)</b>	<b>(20,769)</b>	<b>(18,747)</b>
<b>Increase in net position before capital contributions</b>	<b>28,242</b>	<b>18,517</b>	<b>2,859</b>
Capital contributions	5,857	1,320	2,271
<b>Increase in net position</b>	<b>34,099</b>	<b>19,837</b>	<b>5,130</b>
Net position, beginning of year, as previously reported	503,205	483,368	499,837
Adjustment for adoption of GASB 68 (see Notes 1 and 8)	-	-	(21,599)
Beginning of year, restated	503,205	483,368	478,238
<b>Net position, end of year</b>	<b>\$ 537,304</b>	<b>\$ 503,205</b>	<b>\$ 483,368</b>

\*Net position for 2014 has been adjusted to reflect the adoption of GASB 68.

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

### **2016 Revenues, Expenses and Operating Income**

The Port's statements of net position has changed in 2016 to reflect the formation of the NWSA and Joint Venture (JV) accounting. The most significant change is on the statements of revenues, expenses and changes in net position which now reflect the recognition of joint venture income related to 50 percent of NWSA's net income, which is consistent with the terms of the licensing agreements. This change in presentation results in lower total revenues and total operating expenses than under the prior year presentation. The Port's real estate and other revenues not licensed to the NWSA will continue to be reported as operating revenue. Year over year comparisons of operating revenues and operating expenses for 2016 are not available, therefore the following discussion will be limited to significant operating activity and non-operating expense activity. Comparable analysis of revenues and expenses will be provided in future years, when prior year information is available.

Port of Tacoma operating income for 2016 of \$42.2 million increased \$2.9 million over the previous year. The increase was driven by receipt of a \$1.5 million lease termination payment and \$1.3 million from a new lease for a warehouse and distribution center. Environmental expenses were down \$2.6 million over the prior year that included remediation costs related to contamination on the General Central Peninsula. Ownership of the licensed facilities remains with the Port, not with the NWSA, and the depreciation for these assets is recorded in operating expenses. The depreciation recorded by Port for assets licensed to NWSA for the year ended December 31, 2016 was \$23.6 million.

### **2015 Revenues, Expenses and Operating Income**

Port revenue in 2015 of \$143.9 million increased by \$9.6 million and 7.1 percent over 2014 on strong container and non-container cargo volume increases. The Port handled 2.1 million TEUs (20-foot equivalent units) in 2015 a 4.2 percent increase over the prior year. The container business revenue increased by \$6.3 million and 6.4 percent over the prior year primarily due to higher import container volume that increased equipment and intermodal revenue. The strong import volume overcame decreases in domestic container traffic, principally shipments to the state of Alaska due to low oil prices affecting Alaska's economy and containerized exports down 6.7 percent, blamed in part on a strong U.S. dollar that makes American exports more expensive and the economic slowdown in China.

The non-containerized cargo business consists of the Port's breakbulk, auto and log businesses. Non-container revenue increased \$3.0 million and 15.1 percent over the prior year. Auto imports increased 4.3 percent over the prior year and revenue increased \$4.0 million and 53.6 percent driven by increased storage revenue. Offsetting the increases in auto revenue, the Port's breakbulk revenue was down \$0.6 million and the Port's log export volume was down \$0.4 million compared to the prior year, primarily due to weaker demand in China.

The Port's industrial and commercial properties and facilities complement the Container and Non-Container businesses. Real estate revenue increased by \$0.2 million and 1.1 percent above the prior year, as demand for commercial property was flat.

The 2015 operating expense of \$104.6 million was \$8.1 million and 7.2 percent below the prior year primarily due to a decrease in environmental expenses of \$9.8 million compared to the prior year that included remediation obligations for terminal development projects on the General Central peninsula and on the Blair peninsula of \$12.9 million. Revenue related operating and maintenance expenses to support the 6.3 percent growth in revenue increased by \$0.9 million.

As a result of the above, the 2016 operating income of \$42.2 million increased by \$2.9 million and 7.3 percent from 2015; 2015 operating income of \$39.3 increased by \$17.7 million and 81.8 percent from 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Non-operating expenses:** The 2016 net non-operating expense of \$13.9 million was \$6.9 million and 32.9 percent below the prior year.

Ad valorem tax revenue increased by \$0.8 million compared to the prior year. The tax revenue increase paired with lower interest rates on GO debt due to bond refundings increased net ad valorem tax revenue by \$1.9 million.

Interest income in 2016 was flat at \$2.3 million. Interest expense of \$20.0 million increased \$2.3 million primarily due to the issuance of revenue bonds, par value \$103.6 million to fund expansion and redevelopment of Pier 4. Further information can be found in Note 5.

Other non-operating expense in 2016 was \$3.6 million compared with \$10.9 million in the prior year.

Current year costs include: a reduction in value of asset held for sale of \$3.4 million, and contribution to rail improvements of \$1.5 million, offset by reversal of container customer incentives of \$1.2 million.

The 2015 net non-operating expense of \$20.8 million was \$2.0 million and 10.8 percent above the prior year. Ad valorem tax revenue increased by \$1.1 million compared to the prior year which also increased the net ad valorem tax revenue after interest expense on general obligation bonds by \$1.4 million.

Net interest expense in 2015 of \$15.3 million was down \$0.4 million from the prior year. Interest income was down \$2.8 million primarily due to non-cash fair value adjustments on investments of \$2.4 million, offset by a decrease in interest expense of \$3.2 million primarily due to the refunding of bonds at lower interest rates in 2014, as described in Note 5.

Other non-operating expense in 2015 was \$10.9 million compared with \$7.1 million in the prior year. The 2015 costs include: impairment of assets at Pier 24/25 and on the Hylebos Peninsula of \$5.3 million, environmental remediation obligations of \$1.7 million, contributions to other agencies for infrastructure improvements on the Port of Tacoma road interchange and Port of Tacoma road of \$1.3 million and \$0.8 million, respectively, and election expense of \$0.6 million.

**Capital grant contributions:** Capital grant contributions of \$5.9 million in 2016 consisted of \$3.1 million for rail infrastructure expansion, \$2.2 million for remediation of the former Arkema manufacturing plant parcel, and \$0.6 million for terminal security projects.

Capital grant contributions of \$1.3 million in 2015 consisted of \$0.6 million for rail infrastructure expansion, \$0.5 million for cyber security and other security enhancements and environmental remediation projects of \$0.1 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**Capital assets:** The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2016, amounted to \$936.3 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, 2015, amounted to \$956.3 million. See Note 3 for additional information. Major capital additions in 2016 are presented in the table below (dollars in thousands):

Description:

Rail improvements - North Leads	\$ 7,488
Property acquisition	7,301
Facility and building improvements	2,491
Habitat development	2,054
Machinery and equipment	1,304
	<u>\$ 20,638</u>

### Debt Administration

**Long-term debt:** At December 31, 2016, the Port's long-term debt, including current portion, outstanding totaled \$690.3 million. Of this amount, general obligation bonds outstanding were \$182.6 million and revenue bonds outstanding were \$507.7 million. At December 31, 2015, the Port's long-term debt, including current portion, outstanding totaled \$577.6 million. Of this amount, general obligation bonds outstanding were \$185.4 million and revenue bonds outstanding were \$392.2 million.

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

In 2016, the Port partially refunded the 2006 and the 2008A GO bonds to achieve interest expense savings. Additionally, the Port refunded the outstanding balances of the 2006 senior lien revenue bonds to achieve savings, and at the same time issued new revenue bonds to fund the construction of Pier 4 and the purchase of four container cranes. The GO refunding bonds par value \$136.6 million, resulted in a 20.2 percent savings (\$25.8 million net present value savings) on the par amount of refunded debt, while the revenue refunding bonds par value \$36,500,000 resulted in a 19.6 percent savings (\$8.8 million net present value savings) on the par amount of refunded debt. The new revenue bond issue par value \$103.6 million was issued at a premium, totaling \$133.7 million at a total interest cost of 3.64 percent.

Additionally, in 2016 the Port terminated at no cost the interest rate payment agreement (swap) with Morgan Stanley to reduce interest costs on Port variable rate debt. The swap had a notional amount of \$57.1 million at a rate of 3.795 percent. Cancelling the swap resulted in the Port having an additional \$57.9 million of unhedged variable rate long term debt. Total swaps outstanding at December 31, 2016 has been reduced by \$57.1 million to \$239.9 million.

In December 2015, the Port changed the mode on the 2014A subordinate lien variable-rate bonds from taxable to tax exempt by executing a new Continuing Covenant Agreement with the lender that reduced the non-hedged fee portion paid by the Port to a lower fee. At the time of the mode change, the lender extended the direct purchase agreement until October 1, 2018. The change in mode did not require a refunding of any of the bonds or the issuance of a new CUSIP and no cash was exchanged. The interest rate portion of the direct purchase agreement (70 percent of one month LIBOR) in the bank document and Port resolution were unchanged.

## MANAGEMENT’S DISCUSSION AND ANALYSIS (Concluded)

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 & Poor’s
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, 2016, 2015, and 2014, and changes in net position for the years ended December 31, 2016, 2015, and 2014 (in thousands), are as follows:

	2016	2015	2014
Total assets	\$ 5,507	\$ 5,891	\$ 6,333
Total liabilities	-	-	-
<b>Total net position</b>	<b>\$ 5,507</b>	<b>\$ 5,891</b>	<b>\$ 6,333</b>
Total additions	\$ 65	\$ 48	\$ 61
Total deductions	(449)	(490)	(221)
<b>Decrease in net position</b>	<b>(384)</b>	<b>(442)</b>	<b>(160)</b>
Net position - beginning of year	5,891	6,333	6,493
<b>Net position - end of year</b>	<b>\$ 5,507</b>	<b>\$ 5,891</b>	<b>\$ 6,333</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, 2016 and 2015 (Dollars in Thousands)

	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 3,560	\$ 3,193
Investments, at fair value	160,037	216,105
Trade accounts receivable, net of allowance for doubtful accounts	726	9,973
Grants receivable	216	78
Taxes receivable	453	492
Related party receivables - managing members	30,854	-
Prepayments and other current assets	8,409	8,460
<b>Total current assets</b>	<b>204,255</b>	<b>238,301</b>
Non-current assets:		
Long-term investments:		
Restricted Investments at fair value	77,749	-
Restricted Bond reserves at fair value	13,077	9,429
<b>Long-term investments</b>	<b>90,826</b>	<b>9,429</b>
Capital assets:		
Land	563,699	543,203
Buildings	101,351	102,618
Improvements	640,118	639,290
Machinery and equipment	115,030	114,587
Construction in process	25,593	39,414
<b>Total cost</b>	<b>1,445,791</b>	<b>1,439,112</b>
Less accumulated depreciation	509,526	482,789
<b>Net property and equipment</b>	<b>936,265</b>	<b>956,323</b>
Investment in Joint Venture	66,077	-
Assets held for sale	7,840	11,200
Other assets	35,389	34,691
<b>Total non-current assets</b>	<b>1,136,397</b>	<b>1,011,643</b>
<b>Total assets</b>	<b>\$ 1,340,652</b>	<b>\$ 1,249,944</b>
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives	\$ 63,621	\$ 80,212
Pension deferred outflow	3,842	2,143
Advance refunding deferred losses	8,188	5,409
<b>Total deferred outflows of resources</b>	<b>\$ 75,651</b>	<b>\$ 87,764</b>

See notes to financial statements.

**Port of Tacoma**

**Enterprise Fund  
Statements of Net Position  
December 31, 2016 and 2015  
(Dollars in Thousands)**

	2016	2015
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,682	\$ 11,996
Payroll and taxes payable	3,972	5,271
Accrued interest	1,973	1,741
Related party payables - Joint Venture	8,555	-
Commercial paper	25,000	82,000
Current portion of long-term debt	14,842	13,930
<b>Total current liabilities</b>	<b>67,024</b>	<b>114,938</b>
Non-current liabilities:		
Long-term debt:		
General obligation bonds	177,362	180,310
Revenue bonds	498,119	383,400
<b>Net long-term debt</b>	<b>675,481</b>	<b>563,710</b>
Other long-term liabilities:		
Interest rate payment agreement	63,621	80,212
Net pension liability	22,270	18,368
Other	50,052	54,235
<b>Other long-term liabilities</b>	<b>135,943</b>	<b>152,815</b>
<b>Total non-current liabilities</b>	<b>811,424</b>	<b>716,525</b>
<b>Total liabilities</b>	<b>\$ 878,448</b>	<b>\$ 831,463</b>
Deferred inflows of resources:		
Pension deferred inflow	\$ 551	\$ 3,040
Net investment in capital assets	\$ 306,879	\$ 302,092
Restricted - bond reserves	13,077	9,429
Unrestricted	217,348	191,684
<b>Total net position</b>	<b>\$ 537,304</b>	<b>\$ 503,205</b>

See notes to financial statements.

## Port of Tacoma

### Enterprise Fund

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

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Operating revenues:		
Property rentals	\$ 23,545	\$ 102,428
Terminal services	-	41,469
Joint Venture income	61,584	-
<b>Total operating revenues</b>	<b>85,129</b>	<b>143,897</b>
Operating expenses:		
Operations	3,939	34,067
Maintenance	4,120	14,860
Administration	2,428	14,909
Security	381	3,870
Environmental	1,788	5,385
<b>Total before depreciation</b>	<b>12,656</b>	<b>73,091</b>
Depreciation	30,300	31,520
<b>Total operating expenses</b>	<b>42,956</b>	<b>104,611</b>
<b>Operating income</b>	<b>42,173</b>	<b>39,286</b>
Non-operating revenues (expenses):		
Ad valorem tax revenue	14,972	14,198
Interest on general obligation bonds	(7,609)	(8,759)
<b>Net ad valorem tax revenues</b>	<b>7,363</b>	<b>5,439</b>
Interest income	2,271	2,293
Net increase in the fair value of investments	47	72
Interest expense	(20,011)	(17,712)
Other non-operating expenses, net	(3,601)	(10,861)
<b>Total non-operating expenses, net</b>	<b>(13,931)</b>	<b>(20,769)</b>
<b>Increase in net position, before capital contributons</b>	<b>28,242</b>	<b>18,517</b>
Capital contributions	5,857	1,320
<b>Increase in net position</b>	<b>34,099</b>	<b>19,837</b>
Net position:		
Beginning of year	503,205	483,368
End of year	<b>\$ 537,304</b>	<b>\$ 503,205</b>

See notes to financial statements.

**Port of Tacoma**

**Enterprise Fund**

**Statements of Cash Flows**

**Years Ended December 31, 2016 and 2015**

**(Dollars in Thousands)**

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 33,091	\$ 144,125
Cash paid to suppliers for goods and services	(8,127)	(26,454)
Cash paid to employees	(6,522)	(41,913)
Cash paid to related party - Joint Venture	(20,414)	-
Cash received (paid) for non-operating income, (expense)	366	(2,893)
<b>Net cash (used in) provided by operating activities</b>	<b>(1,606)</b>	<b>72,865</b>
Cash flows from capital and related financing activities:		
Proceeds from sale of property, plant and equipment	54	3,343
Borrowings on commercial paper	436,000	410,000
Repayments on commercial paper	(493,000)	(410,000)
Principal payments on general obligation and revenue bonds and other debt	(14,368)	(13,235)
Proceeds from bond issues	123,749	-
Proceeds from refunding bond issues	205,972	-
Payments on refunded bonds	(205,972)	-
Acquisition and construction of capital assets	(22,768)	(34,541)
Interest paid on general obligation and revenue bonds and other debt	(27,942)	(27,067)
Cash received from federal and state grants	5,721	2,056
Cash received from property taxes for general obligation bonds	15,011	14,282
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>22,457</b>	<b>(55,162)</b>
Cash flows from investing activities:		
Purchases of investments	(219,348)	(136,948)
Proceeds from sales and maturities of investment securities	194,120	119,375
Cash used to fund investment in NWSA	(45,015)	-
Cash distributions received from Joint Venture	47,542	-
Interest received on investments	2,217	2,223
<b>Net cash used in investing activities</b>	<b>(20,484)</b>	<b>(15,350)</b>
<b>Net increase in cash</b>	<b>367</b>	<b>2,353</b>
Cash:		
Beginning of year	3,193	840
End of year	\$ 3,560	\$ 3,193

(Continued)

**Port of Tacoma**

**Enterprise Fund**

**Statements of Cash Flows (Continued)**

**Years Ended December 31, 2016 and 2015**

**(Dollars in Thousands)**

	2016	2015
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 42,173	\$ 39,286
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	30,300	31,520
Cash (paid) received for non-operating income (expense)	366	(2,893)
Cash distributions received from related party - Joint Venture	(47,542)	-
Loss on disposal of facilities	(140)	-
(Decrease) increase in environmental reserves	(3,813)	4,779
Changes in assets and liabilities:		
Increase in related-party receivable - Joint Venture	(20,414)	-
Decrease in accounts receivable	9,247	533
Increase in other deferred assets	(698)	(305)
Decrease in prepayments	52	397
Increase in investment in Joint Venture	(14,042)	-
Decrease in accounts payable and accrued liabilities	4,861	1,968
Decrease in payroll and taxes payable	2,583	3,399
Increase in long-term liabilities	(350)	(998)
Increase in net deferred pension inflows/outflows	(4,189)	(4,821)
<b>Total adjustments and changes</b>	<b>(43,779)</b>	<b>33,579</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (1,606)</b>	<b>\$ 72,865</b>
Non-cash investing and financing activities:		
Capital asset additions and other purchases financed with accounts payable	\$ 178	\$ 595
Capital construction payable to related party - Joint Venture	8,555	-
Distributions receivable from related party - Joint Venture	10,440	-
Increase in fair value of investments	47	72

See notes to financial statements.

**Port of Tacoma**

**Post-Employment Health Care Benefits Trust Fund**  
**Statements of Net Position**  
**December 31, 2016 and 2015**  
**(Dollars in Thousands)**

	2016	2015
<b>Assets</b>		
Cash	\$ 94	\$ 265
Investments, at fair value	5,413	5,626
<b>Total assets</b>	<u>5,507</u>	<u>5,891</u>
<b>Plan Liabilities</b>	<u>-</u>	<u>-</u>
<b>Net position held in trust for other post-retirement benefits and other purposes</b>	<u>\$ 5,507</u>	<u>\$ 5,891</u>

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, 2016 and 2015 (Dollars in Thousands)

	2016	2015
Additions:		
Employer contributions	\$ -	\$ -
Net decrease in fair value of investments	(9)	(34)
Interest	74	82
<b>Total additions</b>	<b>65</b>	<b>48</b>
Deductions:		
Benefit payments	435	475
Administrative expenses	14	15
<b>Total deductions</b>	<b>449</b>	<b>490</b>
<b>Change in net position</b>	<b>(384)</b>	<b>(442)</b>
Net position held in trust for other post retirement benefits and other purposes:		
Beginning of year	5,891	6,333
End of year	\$ 5,507	\$ 5,891

See notes to financial statements.

## Port of Tacoma

### Notes to Financial Statements

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

**Reporting entity:** The Port of Tacoma (the Port) is a municipal corporation of the State of Washington created in 1918 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries 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.

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

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

The NWSA is governed by its Managing Members, with each Managing Member acting pursuant to the Charter through its elected commissioners. The Managing Members appoint a Chief Executive Officer (CEO) who is responsible for hiring staff and entering into service agreements with the Managing Members as needed. Staff is comprised of certain Port of Tacoma and former Port of Seattle employees assigned either in full or in part to work in roles in the NWSA. In addition, both Managing Members may provide services through shared service agreements with a portion of staff time allocated to and paid by the NWSA.

Effective January 1, 2016, the accounting for revenues and expenses associated with Licensed Properties became the responsibility of the NWSA and the activity will be accounted for as a joint venture by the home ports. Additional information about the formation of NWSA is presented in the MD&A and Note 17, Joint Venture.

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.



## Port of Tacoma

### Notes to Financial Statements

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

**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).

**Measurement focus basis of accounting and presentation:** The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units, and the Port is accounted for as a proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port is accounted for on a flow of economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

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.

**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.

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

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

## Port of Tacoma

### Notes to Financial Statements

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

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

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

The NWSA selected as its Chief Executive Officer, the Chief Executive Officer of the Port of Tacoma, who may serve in those dual roles for up to five years. It is possible that the dual role may pose a real or perceived conflict of interest.

**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 at December 31, 2016 and 2015 was \$172,000 and \$189,000, respectively.

**Investments:** Investments, unrestricted and restricted, are stated at fair value which is the price that would be received in an orderly transaction between market participants at the measurement date. The 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. The pool is valued at amortized cost. Interest income on investments is recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20 percent of its holdings in any one investment. See Note 2 for further information.

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

## Port of Tacoma

### Notes to Financial Statements

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

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

**Prepayments and other current assets:** Maintenance supply inventories of \$4,755,000 and \$4,858,000 at December 31, 2016 and 2015, 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 acquisition value on the date donated.

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

	Years
Buildings and improvements	10-75
Machinery and equipment	5-20

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. As projects are constructed, the project costs are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

**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 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 process balance times the average interest rate of the outstanding long-term borrowing.

During 2016, total interest incurred, excluding interest on general obligation bonds was \$20,097,000, of which \$20,011,000 was charged to non-operating expense and \$86,000 was capitalized. During 2015, total interest incurred, excluding interest on general obligation bonds was \$18,309,000, of which \$17,712,000 was charged to non-operating expense and \$597,000 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 its use either through the enabling legislation adopted by the Port or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

## Port of Tacoma

### Notes to Financial Statements

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

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

	2016	2015
Net investment in capital assets	\$ 936,265	\$ 956,323
Revenue bond proceeds restricted for construction	77,749	-
Less:		
Net bond premium	44,714	461
Long-term debt, including current portion	637,421	571,770
Commercial paper	25,000	82,000
Invested in capital assets, net of related debt, end of year	<u>\$ 306,879</u>	<u>\$ 302,092</u>

The restricted component of net position was \$13,077,000 and \$9,429,000 at December 31, 2016 and 2015, 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 \$482,000 and \$177,000 at December 31, 2016 and 2015, 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 4).

**Interest rate payment agreements:** The Port accounts for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) on the statements of net position at fair value. The payment instruments were designated as highly effective cash flow hedges at December 31, 2016 and 2015 (see Note 5).

**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).

## Port of Tacoma

### Notes to Financial Statements

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

**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 \$1,008,000 and \$725,000, respectively, at December 31, 2016, and \$1,265,000 and \$858,000, respectively, at December 31, 2015. Vacation and sick leave paid in 2016 was \$1,046,000 and \$700,000, respectively, and \$1,187,000 and \$830,000, respectively, in 2015. The estimated total amount of vacation and sick leave expected to be paid in 2017 is \$1,077,000 and \$721,000, respectively.

The Port provides health care benefits for eligible employees through the voluntary employees' beneficiary association (VEBA) which is a tax-exempt health and welfare trust and through the health reimbursement arrangement (HRA) plans. Employees hired after May 1, 2007 are eligible for the plans, subject to a 5-year vesting period. Effective April 1, 2013, the plans were closed to employees not covered by collective bargaining agreements hired on or after April 1, 2013. The plans require the Port to contribute \$217 and \$214 per month in 2016 and 2015, respectively, to the VEBA accounts of eligible employees. The Port contributed \$377,000 and \$411,000 to eligible employee VEBA accounts in 2016 and 2015, respectively.

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

The Port established a profit sharing plan for non-represented 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 percent of total salaries of eligible employees may 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 2016 and 2015. This plan is fully funded and held in an external trust.

The Port also provides post-employment health care benefits for retired employees through a fully funded trust. This post-employment defined benefit plan provides medical coverage to eligible retired employees ages 60 to 70 (see Note 9).

**Pensions:** The Port participates in the Washington Department of Retirement Systems (the Plan), 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.

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Washington State Department of Retirement Systems Plan (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value (see Note 8).

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

**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 13 for additional details.

**Operating and non-operating revenues and expenses:** Property rental revenues are charges for use of the Port's facilities and are reported as operating revenue. Joint Venture income is the Port's proportionate share of the NWSA net income earned on licensed home port assets and is reported as operating revenue. Ad valorem tax levy revenues and other revenues generated from non-operating sources are classified as non-operating.

Operating expenses are costs primarily related to property rental activities. Interest expense and other expenses incurred not related to the operations of the Port's terminal and property rental activities are classified as non-operating.

**Reclassifications:** Certain reclassifications have been made to prior year amounts to conform to the current presentation. These reclassifications have no effect on previously reported changes in net assets.

**Recent accounting pronouncements:** In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2016. Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about post-employment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

## Port of Tacoma

### Notes to Financial Statements

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. The statement establishes standards for state and local government employer recognition, measurement and presentation of information about post-employment benefits other than pensions (OPEB). The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The Port adopted this standard and included the prescribed disclosures in Note 2 Deposits and Investments.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The adoption of this guidance did not have a material impact on the net position and changes in net position.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and this statement establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

#### **Note 2. Deposits and Investments**

**Discretionary deposits:** The Port's cash and cash equivalents of \$3.6 million and \$3.2 million as of December 31, 2016 and 2015, 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 percent.

## Port of Tacoma

### Notes to Financial Statements

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

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

#### Risks:

**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.

**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. With the exception of the Washington State Local Government Investment Pool (LGIP), the Port's investment securities are registered, or held by Port of Tacoma or its agent in the Port of Tacoma's name. The certificate of deposits are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral.

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

During 2016, the Port adopted the requirements of GASB 79 related to LGIP investments. The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over \$1 million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1 million dollars when notification is made between 9 a.m. and 10 a.m., at the sole discretion of Office of the State Treasurer. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds.



**Port of Tacoma**

**Notes to Financial Statements**

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

Investments and restricted investments for revenue bond reserves for the Enterprise Fund on the statements of financial position at December 31 are as follows:

	2016	2015
Investments	\$ 237,786	\$ 216,105
Bond reserves	13,077	9,429
Total deposits and investments	<u>\$ 250,863</u>	<u>\$ 225,534</u>

See Note 9 for disclosures regarding the fiduciary fund investments.

## Port of Tacoma

### Notes to Financial Statements

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

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port investment portfolio (excluding investments held by the Post-Employment Health Care Benefits Trust Fund, see Note 10 for investment detail for the Trust) as of December 31, 2016 and 2015 (dollars in thousands):

Investment Type	2016				Percentage of Total Portfolio
	Maturities (in years)				
	Fair Value	Less than 1	1-3	More than 3	
Certificate of Deposit	\$ 3,328	\$ 3,328	\$ -	\$ -	1.3%
Federal Agricultural Mortgage Corp	998	-	998	-	0.4%
Federal Farm Credit Bank	9,921	2,001	5,990	1,930	4.0%
Federal Home Loan Bank	18,110	1,503	11,618	4,989	7.2%
Federal Home Loan Mortgage Corporation	20,712	3,004	15,707	2,001	8.3%
Federal National Mortgage Association	42,544	8,532	27,998	6,014	17.0%
Financing Corporation	1,019	-	1,019	-	0.4%
Municipal Bonds	49,686	1,018	6,896	41,772	19.8%
State Local Investment Pool *	79,055	79,055	-	-	31.5%
United States Treasury Bonds	25,490	18,526	1,004	5,960	10.2%
Total investments	<u>\$ 250,863</u>	<u>\$ 116,967</u>	<u>\$ 71,230</u>	<u>\$ 62,666</u>	<u>100.0%</u>
Percentage of total portfolio		46.6%	28.4%	25.0%	100.00%

Investment Type	2015				Percentage of Total Portfolio
	Maturities (in years)				
	Fair Value	Less than 1	1-3	More than 3	
Certificate of Deposit	\$ 8,334	\$ 8,334	\$ -	\$ -	3.7%
Federal Agricultural Mortgage Corp.	995	-	995	-	0.4%
Federal Farm Credit Banks	11,001	15	10,986	-	4.9%
Federal Home Loan Bank	19,380	3,097	15,215	1,068	8.6%
Federal Home Loan Mortgage Corporation	31,924	1,999	19,560	10,365	14.2%
Federal National Mortgage Association	21,900	2,014	6,012	13,874	9.7%
Financing Corporation	1,005	-	1,005	-	0.4%
Municipal Bonds	39,301	3,064	4,391	31,846	17.4%
State Local Investment Pool*	78,467	78,467	-	-	34.8%
United States Treasury Bonds	13,227	2,033	5,039	6,155	5.9%
Total investments	<u>\$ 225,534</u>	<u>\$ 99,023</u>	<u>\$ 63,203</u>	<u>\$ 63,308</u>	<u>100.0%</u>
Percentage of total portfolio		43.9%	28.0%	28.1%	100.00%

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

## Port of Tacoma

### Notes to Financial Statements

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

The tables below identify the credit risk of the Port's Investment portfolio as of December 31, 2016 and 2015 (dollars in thousands):

Investment Type	2016						
	Moody's equivalent credit ratings						
	Fair value	A1	Aa3	Aa2	Aa1	Aaa	No Rating
Certificate of Deposit	\$ 3,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,328
Federal Agricultural Mortgage Corp	998	-	-	-	-	-	998
Federal Farm Credit Bank	9,921	-	-	-	-	9,921	-
Federal Home Loan Bank	18,110	-	-	-	-	18,110	-
Federal Home Loan Mortgage Corporation	20,712	-	-	-	-	20,712	-
Federal National Mortgage Association	42,544	-	-	-	-	42,544	-
Financing Corporation	1,019	-	-	-	-	-	1,019
Municipal Bonds	49,686	207	7,629	15,067	20,188	6,595	-
State Local Investment Pool*	79,055	-	-	-	-	-	79,055
United States Treasury Bonds	25,490	-	-	-	-	25,490	-
Total	\$ 250,863	\$ 207	\$ 7,629	\$ 15,067	\$ 20,188	\$ 123,372	\$ 84,400

Investment Type	2015						
	Moody's equivalent credit ratings						
	Fair value	A1	Aa3	Aa2	Aa1	Aaa	No Rating
Certificate of Deposit	\$ 8,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,334
Federal Agricultural Mortgage Corp.	995	-	-	-	-	-	995
Federal Farm Credit Banks	11,001	-	-	-	-	11,001	-
Federal Home Loan Bank	19,380	-	-	-	-	19,380	-
Federal Home Loan Mortgage Corporation	31,924	-	-	-	-	31,924	-
Federal National Mortgage Association	21,900	-	-	-	-	21,900	-
Financing Corporation	1,005	-	-	-	-	-	1,005
Municipal Bonds	39,301	210	5,397	10,554	19,808	3,332	-
State Local Investment Pool*	78,467	-	-	-	-	-	78,467
United States Treasury Bonds	13,227	-	-	-	-	13,227	-
Total	\$ 225,534	\$ 210	\$ 5,397	\$ 10,554	\$ 19,808	\$ 100,764	\$ 88,801

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

## Port of Tacoma

### Notes to Financial Statements

#### Note 3. Capital Assets

The following activity took place in capital assets during 2016 and 2015 (dollars in thousands):

	2016			
	Beginning of Year	Additions	Transfers	Retirements and other End of Year
Capital assets not being depreciated:				
Land	\$ 543,203	\$ -	\$ 20,496	\$ -
Construction in process	39,414	22,946	(24,152)	(12,615)
Total capital assets not being depreciated	582,617	22,946	(3,656)	(12,615)
Capital assets being depreciated:				
Buildings	102,618	-	789	(2,056)
Improvements	639,290	-	1,551	(723)
Machinery and equipment	114,587	-	1,316	(873)
Total capital assets being depreciated	856,495	-	3,656	(3,652)
Less accumulated depreciation:				
Buildings	(69,738)	(3,036)	-	1,977
Improvements	(327,362)	(21,008)	-	723
Machinery and equipment	(85,689)	(6,256)	-	863
Total accumulated depreciation	(482,789)	(30,300)	-	3,563
Net, capital assets being depreciated	373,706	(30,300)	3,656	(89)
Net, capital assets	\$ 956,323	\$ (7,354)	\$ -	\$ (12,704)

## Port of Tacoma

### Notes to Financial Statements

#### Note 3. Capital Assets (Concluded)

	2015				
	Beginning of Year	Additions	Transfers	Retirements and other	End of Year
Capital assets not being depreciated:					
Land	\$ 524,535	\$ -	\$ 20,299	\$ (1,631)	\$ 543,203
Construction in process	62,061	35,136	(52,867)	(4,916)	39,414
Total capital assets not being depreciated	586,596	35,136	(32,568)	(6,547)	582,617
Capital assets being depreciated:					
Buildings	109,315	-	531	(7,228)	102,618
Improvements	617,977	-	30,340	(9,027)	639,290
Machinery and equipment	114,183	-	1,697	(1,293)	114,587
Total capital assets being depreciated	841,475	-	32,568	(17,548)	856,495
Less accumulated depreciation:					
Buildings	(70,791)	(3,193)	-	4,246	(69,738)
Improvements	(310,709)	(21,157)	-	4,504	(327,362)
Machinery and equipment	(79,758)	(7,170)	-	1,239	(85,689)
Total accumulated depreciation	(461,258)	(31,520)	-	9,989	(482,789)
Net, capital assets being depreciated	380,217	(31,520)	32,568	(7,559)	373,706
Net, capital assets	\$ 966,813	\$ 3,616	\$ -	\$ (14,106)	\$ 956,323

#### Note 4. Commercial Paper

The Port is authorized to use Subordinate Lien Revenue Notes (commercial paper) in an amount not to exceed \$100 million. The Port issues commercial paper to provide interim financing for capital asset projects. The draws are secured by a bank letter of credit that expires April 2019.

The term of the commercial paper ranges from one to 270 days and the interest rate on the amount outstanding at December 31, 2016 and 2015 was 0.8 percent.

Commercial paper activity during 2016 and 2015 was as follows (dollars in thousands):

Beginning balance January 1, 2015	\$ 82,000
Advances	410,000
Repayments	(410,000)
Ending December 31, 2015	82,000
Advances	436,000
Repayments	(493,000)
Ending December 31, 2016	\$ 25,000

## Port of Tacoma

### Notes to Financial Statements

#### Note 5. Long-Term Debt

Long-term debt activity during 2016 and 2015 consists of the following (dollars in thousands):

2016							
Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2015	Issuance	Refundings/ Repayments	December 31, 2016
General Obligation Bonds							
12/20/06	4.00-5.50%	2016	2033	\$ 53,970	\$ -	\$ (53,970)	\$ -
01/17/08 A	5.00%	2018	2038	104,830	-	(102,175)	2,655
01/17/08 B	4.75-4.875%	2018	2038	20,775	-	(515)	20,260
02/25/16	1.06-2.36%	*	2025	-	26,384	(593)	25,791
09/8/16 A	3.00-5.00%	2026	2038	-	110,260	-	110,260
				<u>\$ 179,575</u>	<u>\$ 136,644</u>	<u>\$ (157,253)</u>	<u>\$ 158,966</u>
Net premium				5,865			23,648
Less current portion				<u>5,130</u>			<u>5,252</u>
Total long-term general obligation bonds, net of current portion				<u><u>\$ 180,310</u></u>			<u><u>\$ 177,362</u></u>
Revenue Bonds							
12/20/06	4.00-4.45%	2016	2034	\$ 45,185	\$ -	\$ (45,185)	\$ -
3/7/2008	Variable Rate	*	2036	83,595	-	(5,345)	78,250
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	88,645	-	(2,080)	86,565
10/24/14 B	2.55%	2018	2029	33,245	-	(1,220)	32,025
09/8/16 A	4.00-5.00%	2026	2034	-	36,535	-	36,535
09/8/16 B	2.00-5.00%	2026	2043	-	103,555	-	103,555
				<u>\$ 392,195</u>	<u>\$ 140,090</u>	<u>\$ (53,830)</u>	<u>\$ 478,455</u>
Net premium				5			29,254
Less current portion				<u>8,800</u>			<u>9,590</u>
Total long-term revenue bonds, net of current portion				<u><u>\$ 383,400</u></u>			<u><u>\$ 498,119</u></u>

## Port of Tacoma

### Notes to Financial Statements

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

2015							
Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2014	Issuance	Repayments	December 31, 2015
General Obligation Bonds							
12/20/06	4.00-5.50%	2016	2033	\$ 55,955	\$ -	\$ (1,985)	\$ 53,970
01/17/08 A	5.00%	2018	2038	107,240	-	(2,410)	104,830
01/17/08 B	4.75-4.875%	2018	2038	21,270	-	(495)	20,775
				<u>184,465</u>	\$ -	\$ (4,890)	<u>179,575</u>
Net premium				6,266			5,865
Less current portion				<u>4,890</u>			<u>5,130</u>
Total long-term general obligation bonds, net of current portion				<u>\$ 185,841</u>			<u>\$ 180,310</u>
Revenue Bonds							
12/20/06	4.00-4.45%	2016	2034	\$ 45,335	\$ -	\$ (150)	\$ 45,185
3/7/2008	Variable Rate	*	2036	88,700	-	(5,105)	83,595
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	90,635	-	(1,990)	88,645
10/24/14 B	2.55%	2018	2029	34,345	-	(1,100)	33,245
				<u>\$ 400,540</u>	\$ -	\$ (8,345)	<u>\$ 392,195</u>
Net premium (discount)				(5)			5
Less current portion				<u>8,345</u>			<u>8,800</u>
Total long-term revenue bonds, net of current portion				<u>\$ 392,190</u>			<u>\$ 383,400</u>

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

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

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.

**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 percent of the assessed value of the taxable property in the Port district. The Port is able to issue up to \$73.1 million of new general obligation bonds at this time. All current general obligation bonds are non-voted bond debt. At December 31, 2016, the assessed value of the taxable property was \$90,491,815,000, which will serve as the basis for the 2017 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.

## Port of Tacoma

### Notes to Financial Statements

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

The paying agent for bonded debt is:

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

In February 2016, the Port issued General Obligation Bonds par value \$26,384,000 with interest rates between 1.06 percent and 2.36 percent to refund 2008A General Obligation Bonds par value of \$23,850,000. The newly issued General Obligation Bonds were issued at par and, after paying issuance costs of \$60,000, the net proceeds were \$26,324,000. The net proceeds from the issuance of the General Obligation Bonds were used to purchase State and Local Government Series securities in the amount of approximately \$26,383,000. 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 \$23,850,000 of the Series 2008A General Obligation Bonds were removed from the Port's financial statements.

As a result of the advance partial refunding of the 2008A General Obligation Bonds, the Port reduced its total debt service requirements by \$2,655,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,362,000 over the life of the bonds.

In September 2016, the Port issued General Obligation Bonds par value \$110,260,000 at a premium with interest rates between 3.00 percent and 5.00 percent to partially refund 2006 and 2008A outstanding limited tax General Obligation Bonds par value \$127,680,000. After paying issuance costs of \$267,000, the net proceeds were \$133,701,000. The net proceeds from the issuance of the General Obligation Bonds and cash contribution from the Port of \$1,618,000 were used to purchase State and Local Government Series securities in the amount of approximately \$135,314,000. 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 \$127,680,000 of the Series 2006 and 2008A General Obligation Bonds were removed from the Port's financial statements.

As a result of the advance partial refunding of the 2006 and 2008A General Obligation Bonds, the Port reduced its total debt service requirements by \$34,463,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$25,849,000 over the life of the bonds.

**Revenue bonds:** The revenue bonds are secured by a pledge of the Port's net operating revenues as defined by bond documents. Revenue bond proceeds finance acquisition, expansion, improvement and equipping Port terminal and industrial development facilities. The Port has pledged future net operating revenues to repay \$670.1 million in bond principal and interest through 2044. During 2016, revenue bond principal and interest paid and total revenues were \$13.8 million and \$85.1 million, respectively. The revenue bonds contain coverage requirements related to maintaining adequate net revenues to support debt service.



## Port of Tacoma

### Notes to Financial Statements

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

In September 2016, the Port issued Revenue Bonds (non-AMT) par value \$36,535,000 issued at a premium of \$9,041,000 with interest rates between 4 percent and 5 percent. After paying issuance costs of \$91,000, the net proceeds were \$45,455,000. The net proceeds from the issuance of the Revenue Bonds and cash contribution from the Port of \$527,000 were used to purchase State and Local Government Series securities in the amount of approximately \$45,981,000. 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 \$45,185,000 of the Series 2006 Revenue Bonds were removed from the Port's financial statements.

As a result of the advance partial refunding of the 2006 Revenue Bonds, the Port reduced its total debt service requirements by \$11,599,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$8,837,000 over the life of the bonds.

In September 2016, the Port issued Revenue Bonds series 2016B (AMT) par value \$103,555,000 issued at a premium of \$20,471,000. The term is 27 years, and the average coupon rates were between 3.125 percent-5.0 percent. The cost of issuance was \$258,000 and was paid by the Port and was not be paid out of the proceeds. Total proceeds after underwriter's discount of \$344,000 and re-payment of \$30,000,000 in commercial paper was \$93,683,000 and will be used to fund expansion and redevelopment of Pier 4 in the south harbor and to purchase four post-panamax container cranes to support operations at Pier 4.

**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.

In December 2016 the Port cancelled, at no cost, the interest rate payment agreement with Morgan Stanley (Swap Reference 1). The swap was effective until December 2036 unless terminated earlier. Cancelling the swap results in the Port having an additional \$57,865,000 of unhedged variable rate long-term debt. Total swaps outstanding was reduced by \$57,096,000 to \$239,950,000. The effective interest rate on the unhedged \$57,865,000 will be short term variable rates, which are approximately 0.5 percent and will fluctuate with market changes. The annual interest savings on \$57,865,000 at 0.5 percent compared to 3.795 percent is approximately \$1,900,000. Variable rate bonds were used to purchase a majority of the land on the Hylebos Peninsula in the mid 2000's. This created restrictions on how the property purchased with these bond proceeds can be used. The termination of the swap removes the restriction to allow the land to be used for activities other than "docks and wharfs".

## Port of Tacoma

### Notes to Financial Statements

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

The Port's existing swap contracts and the outstanding notional amounts at December 31, 2016, 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
2	Pay-fixed interest rate swap	30,000	24,470	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	74,710	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	121,940	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	18,830	None	9/20/07	7/25/13	12/1/42	Pay 4.229%, receive 70% of LIBOR (2)
		<u>\$ 260,000</u>	<u>\$ 239,950</u>					

(1) Swap Reference 1 was terminated in 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, 2016	Outstanding Principal December 31, 2015
2008	\$ 78,250	\$ 83,595
2008B	133,000	133,000
2014A	86,565	88,645
Unhedged debt	(57,865)	(525)
	<u>\$ 239,950</u>	<u>\$ 304,715</u>

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2016 (dollars in thousands):

SWAP Reference	2016 Changes in Fair Value		Fair Value at 12/31/16		Original Notional
	Classification	Amount	Classification	Amount	Amount
2	Deferred outflow	\$ 883	Debt	\$ (3,983)	\$ 30,000
3	Deferred outflow	4,351	Debt	(20,021)	80,000
4	Deferred outflow	7,511	Debt	(34,151)	130,000
5	Deferred outflow	1,220	Debt	(5,465)	20,000
		<u>\$ 13,965</u>		<u>\$ (63,620)</u>	<u>\$ 260,000</u>

Note: Swap Reference 1 was terminated in 2016.

## Port of Tacoma

### Notes to Financial Statements

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

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2015 (dollars in thousands):

SWAP Reference	2015 Changes in Fair Value		Fair Value at 12/31/15		Original Notional
	Classification	Amount	Classification	Amount	Amount
1	Deferred outflow	\$ 1,524	Debt	\$ (2,627)	\$ 70,000
2	Deferred outflow	(17)	Debt	(4,866)	30,000
3	Deferred outflow	21	Debt	(24,372)	80,000
4	Deferred outflow	(76)	Debt	(41,662)	130,000
5	Deferred outflow	(30)	Debt	(6,685)	20,000
		<u>\$ 1,422</u>		<u>\$ (80,212)</u>	<u>\$ 330,000</u>

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

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

SWAP Reference	Notional	Bank	Credit Worthiness		Termination
	Amount	Counterparty	Moody's	S&P	Value
2	\$ 30,000	Goldman Sachs	A1	A+	\$ 3,983
3	80,000	Dexia	Baa3	BBB	20,021
4	130,000	Dexia	Baa3	BBB	34,151
5	20,000	Merrill Lynch	Baa1	BBB+	5,466
	<u>\$ 260,000</u>				<u>\$ 63,621</u>

Note: Swap Reference 1 was terminated in 2016.

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

**Basis risk:** The Port pays a daily interest rate to its bondholders and receives 70 percent 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.

## Port of Tacoma

### Notes to Financial Statements

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

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

**Contingencies:** If the Port's credit rating falls below A3/A- (Moody's/Standard & Poor's) for the swap with Goldman Sachs or below Baa2/BBB (Moody's/Standard & Poor's) for the other swaps, the Port bears the risk that its counterparties may terminate the agreement. The Port is prohibited by RCW 39.96 from posting collateral. The Port's subordinate lien credit rating is A1/A+ (Moody's/Standard & Poor's) at December 31, 2016.

**Debt service for fixed rate bonds:** The debt service requirements for fixed rate general obligation and revenue bonds outstanding as of December 31, 2016, are as follows (dollars in thousands):

	Principal	Interest	Total
Years ending December 31:			
2017	\$ 7,072	\$ 14,490	\$ 21,562
2018	8,463	14,236	22,699
2019	9,072	13,970	23,042
2020	9,285	13,759	23,044
2021	11,822	13,536	25,358
2022-2026	64,262	61,603	125,865
2027-2031	70,300	47,759	118,059
2032-2036	71,950	31,056	103,006
2037-2041	64,265	14,192	78,457
2042-2047	23,115	1,701	24,816
	<u>\$ 339,606</u>	<u>\$ 226,302</u>	<u>\$ 565,908</u>

## Port of Tacoma

### Notes to Financial Statements

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

**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 \$78.3 million and the 2014A Subordinate Lien Variable-Rate Revenue Bonds with a balance of \$86.6 million, and active swaps with Dexia, Goldman Sachs and Merrill Lynch outstanding as of December 31, 2016, are as follows (dollars in thousands):

	Principal Payment	Variable Interest	Interest Rate Swap, Net (1)	Total
Years ending December 31:				
2017	\$ 7,770	\$ 2,711	\$ 8,798	\$ 19,279
2018	5,120	2,642	8,578	16,340
2019	5,335	2,595	8,349	16,279
2020	5,570	2,547	8,110	16,227
2021	5,820	2,497	7,862	16,179
2022-2026	33,210	11,651	35,225	80,086
2027-2031	49,825	9,958	27,337	87,120
2032-2036	52,165	7,242	17,723	77,130
2037-2041	-	6,096	6,547	12,643
2042-2047	133,000	3,658	43	136,701
	<u>\$ 297,815</u>	<u>\$ 51,597</u>	<u>\$ 128,572</u>	<u>\$ 477,984</u>

- (1) This amount represents the cash that is due to the counterparty based on the terms of the pay-fixed interest rate swap. The amounts for the subsequent years are based on the assumption that interest rate conditions that existed during 2016 will remain the same over the term of the derivative contract.

## Port of Tacoma

### Notes to Financial Statements

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#### 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 and the Port is currently negotiating a one-year extension. 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 was extended until May 2018.

In December 2015, the Port changed the mode on the 2014A subordinate lien variable-rate bonds from taxable to tax exempt by executing a new Continuing Covenant Agreement with the lender that reduced the non-hedged fee portion paid by the Port to a lower fee. At the time of the mode change, the lender extended the direct purchase agreement until October 1, 2018. The change in mode did not require a refunding of any of the bonds or the issuance of a new CUISP and no cash was exchanged. The interest rate portion of the direct purchase agreement (70 percent of one month LIBOR) in the bank document and Port resolution were unchanged.

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 an agreed to amortization schedule (until new agreements are reached), usually 3 to 5 years.

#### 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 five percent 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 is self-insured for its regular medical coverage. The liability for unpaid medical claims is included in payroll and taxes payable on the accompanying statements of net position and is expected to be paid in 2017. Excess loss coverage has been purchased through an outside provider to limit individual loss to \$110,000. Self-insured claim activity for December 31, 2016 and 2015, is as follows (dollars in thousands):

	2016	2015
Claims liability, beginning of year	\$ 1,316	\$ 1,303
Claims reserve	2,495	2,237
Payments on claims	(4,573)	(4,856)
Claims liability, end of year	<u>\$ 762</u>	<u>\$ 1,316</u>

## Port of Tacoma

### Notes to Financial Statements

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

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 statements of net position. At December 31, 2016, the estimated self-insurance liability for workers' compensation was \$238,000 and this amount is expected to be paid in 2017. At December 31, 2015, the estimated self-insurance liability for workers' compensation was \$530,000. The liability for unpaid claims represents the estimated future indemnity, medical, rehabilitation and legal costs for all open claims.

Workers' compensation claim activity for December 31, 2016 and 2015, are as follows (dollars in thousands):

	2016	2015
Claims liability, beginning of year	\$ 530	\$ 330
Claims incurred during the year	89	382
Changes in estimate for prior year claims	(39)	392
Payments on claims	(342)	(574)
Claims liability, end of year	<u>\$ 238</u>	<u>\$ 530</u>

#### 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):

	Port of Tacoma
Years ending December 31:	
2017	\$ 17
2018	17
2019	17
2020	17
2021	17
Thereafter	263
Total minimum payments required	<u>\$ 348</u>

Total rent expense for the years ended December 31, 2016 and 2015 was \$17,000 and \$691,000, respectively.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 7. Lease Commitments (Concluded)

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. Minimum future rents receivable under non-cancellable operating leases and subleases are as follows (dollars in thousands). Leases for NWSA licensed properties are reported by NWSA and not included here.

	Port of Tacoma
Years ending December 31:	
2017	\$ 11,428
2018	10,209
2019	9,820
2020	9,379
2021	9,433
Thereafter	298,944
Total minimum future rents	<u>\$ 349,213</u>

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. Minimum future rents receivable under non-cancellable operating leases and subleases are as follows (dollars in thousands). Leases for NWSA licensed properties are reported by NWSA and not included here.

Assets held for rental and leasing purposes as of December 31, 2016, are as follows (dollars in thousands):

Land	\$ 272,769
Buildings, improvements and equipment, net	19,119
Total, net of accumulated depreciation	<u>\$ 291,888</u>

#### Note 8. Pension Plans

In 2015, the Port adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 25 and GASB Statement No. 71. GASB 71 which amends GASB 68 regarding the deferred outflows of resources for current year pension contributions that are reported subsequent to the measurement date. These new pension statements revise pension accounting and financial reporting requirements for state and local governments and establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/ expenditures.

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

Historical trend and other information regarding each plan are presented in the Washington State Department of Retirement Systems 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)



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

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

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

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

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

As of June 30, 2016, 435 employers and 703 non-employer contributing entities were participating in PERS Plan 1. The plan is closed to new entrants. PERS 1 members were vested after the completion of five years of eligible service. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are calculated using 2 percent of the member's Average Final Compensation (AFC) times the member's years of service. AFC is the average of the member's 24 consecutive highest-paid service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

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

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

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

## Port of Tacoma

### Notes to Financial Statements

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

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

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

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

**Contributions:** The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2016, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	11.18%	11.18%	11.18%**
Employee	6.00%	6.12%	***

The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2015, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	11.18%	11.18%	11.18%**
Employee	6.00%	6.12%	***

\* The employer rates include the employer administrative expense fee of 0.18% for 2016 and 2015

\*\* Plan 3 defined benefit portion only

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

## Port of Tacoma

### Notes to Financial Statements

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

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):

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total
2016	\$ 8	\$ 2,383	\$ 287	\$ 2,678
2015	9	1,926	271	2,206
2014	17	1,711	238	1,966

**Pension liabilities, pension expense, and deferred inflows and outflows of resources and related to pensions:** At December 31, 2016 and 2015, the Port reported a liability of approximately \$22.3 million and \$18.4 million, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port's proportion of the net pension liability was based on a projection of the Port's long-term share of contributions to the pension plan relative to the projected contributions of all participating agencies, actuarially determined. At June 30, 2016, the Port's proportionate share of net pension liability and the change in proportionate share from June 30, 2015, is presented in the following tables: (dollars in thousands)

Port's proportionate share of the net pension liability	PERS 1	PERS 2/3
2016	\$ 10,213	\$ 12,057
2015	9,803	8,565
Change of Port's proportionate share from 2015 to 2016	PERS 1 0.0028%	PERS 2/3 -0.0003%

## Port of Tacoma

### Notes to Financial Statements

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

For the years ended December 31, 2016 and 2015, the Port recognized pension (benefit)/expense of (\$287,000) and \$654,000, respectively. At December 31, 2016 and 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

2016	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Net difference between projected and actual earnings on pension plan investments	\$ 257	\$ 1,475	\$ 1,732
Changes in assumptions	-	125	125
Differences between expected and actual experience	-	642	642
Changes in proportionate and differences between Port contributions and proportionate share of contributions	-	-	-
Port contributions subsequent to measurement date	584	759	1,343
Total	<u>\$ 841</u>	<u>\$ 3,001</u>	<u>\$ 3,842</u>
Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ -	\$ -
Changes in assumptions	-	-	-
Differences between expected and actual experience	-	(398)	(398)
Changes in proportion and differences between Port contributions and proportionate share of contributions	-	(153)	(153)
Total	<u>\$ -</u>	<u>\$ (551)</u>	<u>\$ (551)</u>

## Port of Tacoma

### Notes to Financial Statements

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

2015	PERS 1	PERS 2/3	Total
Sources of deferred outflow of resources:			
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 15	\$ 15
Changes in assumptions	-	910	910
Differences between expected and actual experience	-	-	-
Changes in proportionate and differences between Port contributions and proportionate share of contributions	-	-	-
Port contributions subsequent to measurement date	523	695	1,218
Total	<u>\$ 523</u>	<u>\$ 1,620</u>	<u>\$ 2,143</u>
Sources of deferred inflow of resources:			
Net difference between projected and actual earnings on pension plan investments	\$ (536)	\$ (2,286)	\$ (2,822)
Changes in assumptions	-	-	-
Differences between expected and actual experience	-	-	-
Changes in proportion and differences between Port contributions and proportionate share of contributions	-	(218)	(218)
Total	<u>\$ (536)</u>	<u>\$ (2,504)</u>	<u>\$ (3,040)</u>

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

(2)The recognition period is closed, 5-year period for all plans.

## Port of Tacoma

### Notes to Financial Statements

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

As of December 31, 2016, deferred outflows of resources related to pensions resulting from Port's contributions subsequent to the measurement date and was \$1.3 million and will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

	PERS 1	PERS 2/3	Total
Years ending December 31:			
2017	\$ (68)	\$ (82)	\$ (150)
2018	(68)	(65)	(133)
2019	247	1,142	1,389
2020	146	696	842
Total	<u>\$ 257</u>	<u>\$ 1,691</u>	<u>\$ 1,948</u>

	PERS 1	PERS 2/3	Total
Years ending December 31:			
2016	\$ (213)	\$ (705)	\$ (918)
2017	(213)	(705)	(918)
2018	(213)	(688)	(901)
2019	103	519	622
Total	<u>\$ (536)</u>	<u>\$ (1,579)</u>	<u>\$ (2,115)</u>

**Actuarial assumptions:** The total pension liability (TPL) for each of the plans was determined by an actuarial valuation as of June 30, 2015 with the results rolled forward to June 30, 2016. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' Comprehensive Annual Financial Report located on the DRS employer-resource GASB webpage. These assumptions reflect the results of OSA's 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report are as follows:

**Inflation:** 3.0 percent total economic inflation; 3.75 percent salary inflation.

**Salary increases:** In addition to the base 3.75 percent salary inflation assumption, salaries are also expected to grow by promotions and longevity.

**Investment rate of return:** 7.50 percent.

Mortality rates were based on the *RP-2000* report's Combined Healthy Table and Combined Disabled Table, which the Society of Actuaries publishes. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes.

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

**Long-term expected rate of return:** The long-term expected rate of return on pension plan investments was determined using a building-block method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs).

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The OSA selected a 7.50 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns the WSIB provided.

## Port of Tacoma

### Notes to Financial Statements

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

**Estimated rates of return by asset class:** Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 and 2015 are summarized in the tables below.

2016		
Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20%	1.70%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	23%	9.60%
	<u>100%</u>	
2015		
Asset Class	Target allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20%	1.70%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	23%	9.60%
	<u>100%</u>	

The inflation component used to create the table is 2.20 percent for June 30, 2016 and 2015, respectively, and represents WSIB's most recent long-term estimate of broad economic inflation.

**Discount rate:** The discount rate used to measure the total pension liability was 7.50 percent for all plans. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3 employers, whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.50 percent was used to determine the total liability.



## Port of Tacoma

### Notes to Financial Statements

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

**Sensitivity net pension liability to changes in the discount rate:** The table below presents the net pension liability of employers, calculated using the discount rate of 7.50 percent as well as what employers' net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

	Pension Trust	1% Decrease	Discount Rate	1% Increase
December 31, 2016:				
Discount rate		6.50%	7.50%	8.50%
Proportionate share of net pension liability	PERS 1	\$ 12,316	\$ 10,213	\$ 8,404
Proportionate share of net pension liability/(asset)	PERS 2/3	22,198	12,057	(6,276)
December 31, 2015:				
Discount rate		6.50%	7.50%	8.50%
Proportionate share of net pension liability	PERS 1	\$ 11,936	\$ 9,803	\$ 7,970
Proportionate share of net pension liability/(asset)	PERS 2/3	25,044	8,565	(4,053)

Detailed information about the pension plan's fiduciary net position is available in the separately issued DRS financial reports. Additional actuarial and pension plan information is included in the DRS 2016 CAFR, including descriptions of actuarial data, assumptions, methods, and plan provisions relied on for the preparation of GASB 67 and GASB 68. Additional details regarding this information is included in OSA's 2015 Report on Financial Condition and Economic Experience Study on the OSA website.

#### Note 9. 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. The Port is the sole administrator and fiduciary of the Post-Employment Health Care Benefits Trust Fund. The Plan's audited financial statements for December 31, 2016 may be found on pages 17-18 of this report.

**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, 2016 and 2015, 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.

#### 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.

**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.

## Port of Tacoma

### Notes to Financial Statements

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

**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. The deposits are covered by the PDPC of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral.

The DB Plan does not limit the amount invested in any one issuer. At December 31, 2016, 2015, and 2014, the DB Plan had the following investments (dollars in thousands):

Investment Type	2016	2015	2014
Money market fund	\$ 94	\$ 265	\$ 471
Fixed income securities	5,413	5,626	5,862
	<u>\$ 5,507</u>	<u>\$ 5,891</u>	<u>\$ 6,333</u>

**Trust deposits and investments:** The Trust's cash and cash equivalents of \$94,000 and \$265,000 as of December 31, 2016 and 2015, respectively, were deposited in qualified depositories as required by state statute.

## Port of Tacoma

### Notes to Financial Statements

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

The Trust follows the same investment guidelines as the Port investments in Note 2 Deposits and Investments. The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Trust portfolio as of December 31, 2016 and 2015 (dollars in thousands):

Investment type	2016				Percentage of Total Portfolio
	Maturities (in years)				
	Fair value	Less than 1	1-3	More than 3	
Federal Home Loan Bank	\$ 1,304	\$ -	\$ 705	\$ 599	24.1%
Federal Home Loan Mortgage Corporation	802	602	200	-	14.8%
Federal National Mortgage Association	2,252	251	1,063	938	41.6%
United States Treasury Bonds	1,055	753	302	-	19.5%
Total investments	<u>\$ 5,413</u>	<u>\$ 1,606</u>	<u>\$ 2,270</u>	<u>\$ 1,537</u>	<u>100.0%</u>
Percentage of total portfolio		29.7%	41.9%	28.4%	100.00%

Investment type	2015				Percentage of Total Portfolio
	Maturities (in years)				
	Fair value	Less than 1	1-3	More than 3	
Federal Home Loan Bank	\$ 1,256	\$ 252	\$ 403	\$ 601	22.3%
Federal Home Loan Mortgage Corporation	1,555	755	601	199	27.6%
Federal National Mortgage Association	1,763	-	807	956	31.3%
United States Treasury Bonds	1,052	-	1,052	-	18.7%
Total investments	<u>\$ 5,626</u>	<u>\$ 1,007</u>	<u>\$ 2,863</u>	<u>\$ 1,756</u>	<u>100.0%</u>
Percentage of total portfolio		17.9%	50.9%	31.2%	100.00%

The investments of the Trust are rated AAA by Moody's equivalent credit rating as of December 31, 2016 and 2015.

**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.

## Port of Tacoma

### Notes to Financial Statements

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#### Note 9. 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, 2016, 2015 and 2014, the entry age normal valuation method was used. The actuarial assumptions included a 4 percent investment rate of return (net of investment expenses), which is a blended rate of the expected long-term investment returns on plan assets. The expected long-term investment return on plan assets is developed by netting the investment earnings at the assumed valuation investment return rate to the prior year valuation asset value, expenses, benefit payments and assets expected from future contributions. The health care cost trend rate assumptions are 7.5 percent graded uniformly to 5 percent over 5 years for December 31, 2016 and 2015. The health care cost trend rate assumptions are 8.0 percent graded uniformly to 5 percent over 6 years for December 31, 2014. The amortization method is on a level basis over 10 years.

The actuarial value of assets was determined using market value. The actuarial accrued liability is fully funded at December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014 (dollars in thousands):

	2016	2015	2014
Annual required contribution	\$ 394	\$ 331	\$ 488
Annual OPEB expense	394	331	488
Claims paid	(394)	(331)	(488)
End OPEB liability	\$ -	\$ -	\$ -

## Port of Tacoma

### Notes to Financial Statements

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

**Annual OPEB cost and net OPEB obligation:** The Port's annual 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 GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Port's annual OPEB cost for the year ended December 31, 2016, the amount actually contributed to the plan, and changes in the Port's net OPEB obligation (dollar amounts in thousands):

	2016	2015	2014
Annual required contribution	\$ 394	\$ 331	\$ 488
Interest on net OPEB obligation	-	-	-
Adjustment on annual required contribution	-	-	-
Annual OPEB expense	394	331	488
Annual employer trust contribution	-	-	-
Employer payments for retiree benefits	394	331	488
Total contribution	394	331	488
Increase in net OPEB obligation	\$ -	\$ -	\$ -

**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, 2016, 2015 and 2014, are as follows (dollars in thousands):

Years ending December 31:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed to a Trust Fund	Net OPEB Obligation/ (Asset)
2016	\$ 394	100%	\$ -
2015	331	100%	-
2014	488	100%	-

## Port of Tacoma

### Notes to Financial Statements

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

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

Plan Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
2016	\$ 5,507	3,609	-*	152.6%	1,488	-
2015	5,891	3,077	-*	191.5%	1,551	-
2014	6,333	3,941	-*	160.7%	1,925	-

\*There is no unfunded AAL at December 31, 2016, 2015 and 2014, as the value of the plan assets exceeds the AAL.

#### Note 10. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property values listed as of the prior May 31. The lien date is January 1. Assessed values are established by the County Assessor at 100 percent 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 2016 the Port's regular tax levy was \$0.183 per \$1,000 on a total assessed valuation of \$82,178,126,000, for a total regular levy amount of \$15,013,000. In 2015 the Port's regular tax levy was \$0.183 per \$1,000 on a total assessed valuation of \$77,383,384,000, for a total regular levy amount of \$14,217,000.

## Port of Tacoma

### Notes to Financial Statements

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

**Commitments:** The Port has entered into contractual agreements for terminal maintenance, infrastructure improvements, environmental projects and professional services. At December 31, 2016, these future commitments are as follows (dollars in thousands):

Description	Remaining Commitments
Terminal projects	\$ 102,852
Environmental	2,512
Other (including professional services)	3,898
	<u>\$ 109,262</u>

Included in the commitments above are \$598,000 of remaining commitments on contracts issued by the Port of Tacoma as an agent for the NWSA during the transition period. These commitments will be reimbursed by the NWSA.

The Port agreed to purchase support services from the NWSA during NWSA's startup and transition period. The support services received by the Port include executive management, commercial management, planning, and environmental support services. During the transition period the agreements will be renewed annually. Additional information regarding commitments of the NWSA is presented in Note 18, Joint Venture.

**Other long-term liabilities:** Other long-term liabilities consist primarily of environmental liabilities (see Note 12) 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 (the 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 feet to 850 feet 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 statements of net position at December 31, 2016 and 2015.

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 12. 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.

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

## Port of Tacoma

### Notes to Financial Statements

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

Future expenditures for environmental remediation obligations using the expected cash flow technique were \$16.2 million at December 31, 2016, and \$20.0 million at December 31, 2015. 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. Significant remediation obligations are discussed in the following paragraphs:

In 2016, the Port completed remediation on Pier 4 on the General Central Peninsula which had an obligation of \$3.1 million in 2016. The initial obligation was set at \$ 7.6 million in 2014 following the discovery of contamination during the pre-design stage for the reconfiguration of Pier 4.

The Port recorded \$5.2 million in 2014 for contamination discovered on a parcel on the Blair Peninsula that entered the pre-design stage for a new terminal. The environmental remediation obligation was \$5.4 million and \$5.7 million at December 31, 2016 and 2015, respectively.

The Port transferred land to the Tribe in 1988 under the 1988 Puyallup Land Settlement Agreement. The terms of the agreement obligated the Port to remediate the property in the event of future development. In April 2008, the parties entered into a land swap agreement for several of the same parcels for the development of marine terminals. The environmental remediation obligation was \$6.3 million and \$5.0 million at December 31, 2016 and 2015, respectively.

The Port owns land within the boundaries of the Commencement Bay near the Shore Tideflats Superfund Site, for which a Remedial Investigation and Feasibility Study have been performed by the U.S. Environmental Protection Agency and the Washington State Department of Ecology, pursuant to the Federal Comprehensive Environmental Response Compensation and Liability Act and the Model Toxics Control Act. Remedial actions are currently underway or complete at all known sites. The environmental remediation obligation for the Hylebos waterway superfund site was \$1.8 million and \$1.7 million at December 31, 2016 and 2015, respectively.

At December 31, 2016, the estimated cost of the environmental remediation projects expected to be capitalized in future periods is approximately \$13.3 million.

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

The Port owns land within the boundaries of the Commencement Bay near the Shore Tideflats 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.

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.



## Port of Tacoma

### Notes to Financial Statements

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

During 2016, container and non-container facilities were licensed to the NWSA. Hence, the Port's operating revenues in 2016 were primarily generated from NWSA joint venture income and from the operating revenue from leases for warehouse, transportation and storage facilities operated by the Port of Tacoma. Joint venture income in 2016 was \$61.4 million and 72.4 percent of total revenue. Receivables from the NWSA at December 31, 2016 were \$30.5 million. Further information on receivables and payables with the NWSA can be found in Note 18 Joint Venture.

Operating revenues for the year ended December 31, 2015, of \$143.9 million included \$114.9 million, or 80 percent of total revenue from ten significant customers, of which three of these customers individually accounted for 10 percent or more of operating revenues and, in aggregate, 42 percent of operating revenues. Receivables from those customers totaled \$9 million, or 86 percent of total trade receivables.

#### **Note 15. 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.

The Port commissioners also govern the NWSA. The NWSA is a separate governmental entity established as a Port Development Authority and is governed by the ports of Tacoma and Seattle as equal members (each a "Managing Member" and collectively, "Managing Members") with each port acting through its elected commissioners. The Port CEO also serves as the CEO of the NWSA and will transition out of the Port following the hiring of a new CEO in late 2017. Additional information on the formation of NWSA and related party activities are presented in the MD&A, Note 1 Summary of Significant Accounting Policies and Note 18. Joint Venture.

#### **Note 16. Fair Value Measurements**

The Port followed Financial Accounting Standards Board authoritative amended guidance on fair values prior to 2015, when the Port adopted GASB issued Statement No. 72, *Fair Value Measurement and Application*. The amended guidance did not materially change the Port's 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.

**Note 16. Fair Value Measurements (Continued)**

In determining the appropriate levels, the Port performs a detailed analysis of the assets and liabilities that are subject to the guidance. The Port's fair value measurements are evaluated by an independent third-party vendor. The third-party vendor uses a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 1 inputs are quoted prices in active markets for identical assets assessed at the measurement date. An active market for the asset is a principal market in which transactions for the asset are open to many and occur with sufficient frequency and volume. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. The Port does not have any Level 3 assets or liabilities at December 31, 2016 and 2015.

The Port has four swaps (five at December 31, 2015) outstanding so that it may mitigate interest rate risk. The swaps synthetically fix or "lock-in" interest rates on variable revenue bond debt by providing cash flows that are intended to offset the variable-rate bond payments, leaving the Port with the fixed payment identified in each swap agreement. The fair value of the interest rate swap agreement (used for purposes other than trading) are the estimated amounts the Port would pay to terminate the swap agreement at the reporting date, taking into account current interest rates for the swap agreement and the creditworthiness of the swap counterparty and the third-party bond insurer.

## Port of Tacoma

### Notes to Financial Statements

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

The table below presents the balances of assets and liabilities measured at fair value by level within the hierarchy at December 31, 2016 and 2015 (dollars in thousands):

Fair Value of Assets and Liabilities as of December 31, 2016

	Level 1	Level 2	Total
Investments - Enterprise Fund:			
Money Market	\$ 952	\$ -	\$ 952
Federal Agricultural Mortgage Corp.	-	995	995
Federal Farm Credit Bank		9,899	9,899
Federal Home Loan Bank	6,026	12,017	18,043
Federal Home Loan Mortgage Corporation	2,996	17,665	20,661
Federal National Mortgage Association	19,938	22,492	42,430
Financing Corporation	-	1,019	1,019
Municipal Bonds	12,539	36,589	49,128
United States Treasury Bonds	14,504	10,845	25,349
Total investments - Enterprise Fund	56,955	111,521	168,476
Post-Employment Health Care Benefits Trust Fund:			
Federal Home Loan Bank	700	601	1,301
Federal Home Loan Mortgage Corporation	800	-	800
Federal National Mortgage Association	2,011	250	2,261
United States Treasury Bonds	1,051	-	1,051
Total Post-Employment Health Care Benefits Trust Fund	4,562	851	5,413
Total assets	\$ 61,517	\$ 112,372	\$ 173,889
Long-term debt - interest rate swaps	\$ -	\$ 63,621	\$ 63,621

Fair Value of Assets and Liabilities as of December 31, 2015

	Level 1	Level 2	Total
Investments - Enterprise Fund:			
Federal Agricultural Mortgage Corp.	\$ -	\$ 995	\$ 995
Federal Farm Credit Bank	-	11,001	11,001
Federal Home Loan Bank	3,073	16,307	19,380
Federal Home Loan Mortgage Corporation	2,987	28,937	31,924
Federal National Mortgage Association	8,194	13,706	21,900
Financing Corporation	-	1,005	1,005
Housing Urban Development	-	7,197	7,197
Municipal Bonds	2,291	37,010	39,301
United States Treasury Bonds	6,030	-	6,030
Total investments - Enterprise Fund	22,575	116,158	138,733
Post-Employment Health Care Benefits Trust Fund:			
Federal Home Loan Bank	852	401	1,253
Federal Home Loan Mortgage Corporation	1,353	198	1,551
Federal National Mortgage Association	1,522	250	1,772
United States Treasury Bonds	1,050	-	1,050
Total Post-Employment Health Care Benefits Trust Fund	4,777	849	5,626
Total assets	\$ 27,352	\$ 117,007	\$ 144,359
Long-term debt - interest rate swaps	\$ -	\$ 80,212	\$ 80,212

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

## Port of Tacoma

### Notes to Financial Statements

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#### Note 17. Joint Venture

The home ports will share net income and cash distributions from the NWSA on a 50/50 basis. The Port's 50 percent share of NWSA net income and cash distributions will be presented on the statements of net position as investment in joint venture. The NWSA joint venture income is recorded monthly and the cash distributions from the NWSA are generally received in the following month. The investment in joint venture as of December 31 2016, is presented as follows (dollars in thousands):

Description:	Initial Contribution 1/1/2016	2016 Activity	12/31/2016
Working capital	\$ 25,500	\$ -	\$ 25,500
Capital construction	13,500	14,570	28,070
Non-cash capital work-in-process	8,906		8,906
Total cash contributions	47,906	14,570	62,476
Net income from Joint Venture	-	61,584	61,584
Cash distributions	-	(57,983)	(57,983)
End balance	\$ 47,906	\$ 18,171	\$ 66,077

Cash distributions from the NWSA are generally received in the following month. The Port's receivable for cash distributions earned through December 31, 2016, was \$10.4 million and presented on the statements of net position as related party receivable - joint venture.

The Port and the NWSA have entered into agreements to provide support services to each other during NWSA's start-up and transition period as the NWSA works to setup back office infrastructure and staff positions. The support services provided by the Port to the NWSA include equipment and facilities maintenance, security, facilities development, finance and accounting, procurement, public affairs, information technology, risk management, and office infrastructure. The costs for these services are provided by the Port to the NWSA are based on agreed-upon direct charges and allocations. These support services totaled \$28.3 million in 2016.

Support services provided by NWSA to the Port include executive management, commercial management, planning, and environmental support services. The costs for these services provided by the NWSA to the Port are based on agreed-upon direct charges and allocations. These support services totaled \$1.1 million in 2016.

The Port invoices the net amount of the support services to the NWSA monthly and payments are typically received in the following month. The net amount of support services receivable from the NWSA at December 31, 2016, is \$20.4 million and is included in related-party receivables – joint venture on the statements of net position.

## Port of Tacoma

### Notes to Financial Statements

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

A summarized statement of net position of the NWSA as of December 31, 2016, and its statement of revenues, expenses, and changes in net position for the year ended December 31, 2016, is as follows (in thousands):

Total assets	\$ 203,719
Total liabilities	<u>72,582</u>
Total net position	<u>\$ 131,137</u>
Total operating revenues	\$ 195,170
Total operating expenses	80,264
Non-operating income - net	8,262
Capital contributions	<u>7,969</u>
Increase in net position	<u>\$ 131,137</u>

**Port of Tacoma**

**Enterprise Fund**

**Schedule of Port of Tacoma's Share of Net Pension Asset/Liability (NPA/NPL)**

**December 31, 2016, 2015 and 2014**

**(Dollars in Thousands)**

	2016	2015	2014
<b>PERS Plan 1</b>			
Port's proportion of NPL	0.190%	0.187%	0.200%
Port's proportionate share of NPL	\$ 10,213	\$ 9,803	\$ 10,081
Port's covered-employee payroll	\$ 67	\$ 84	\$ 233
Port's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	15243.3%	11732.9%	4328.0%
Plan fiduciary net pension position as a percentage of the total pension liability	57.03%	59.10%	61.19%
Contractually required contribution	\$ 1,152	\$ 954	\$ 871
Contributions in relation to the contractually required contribution	(1,152)	(954)	(871)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Port's covered-employee payroll	\$ 67	\$ 84	\$ 233
Contributions as a percentage of covered-employee payroll	1719%	1141%	374%
<b>PERS Plan 2/3</b>			
Port's proportion of NPL	0.239%	0.240%	0.248%
Port's proportionate share of NPL	\$ 12,056	\$ 8,565	\$ 5,017
Port's covered-employee payroll	\$ 23,892	\$ 21,554	\$ 21,384
Port's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	50.5%	39.7%	23.5%
Plan fiduciary net pension position as a percentage of the total pension liability	85.82%	89.20%	93.29%
Contractually required contribution	\$ 1,483	\$ 1,252	\$ 1,095
Contributions in relation to the contractually required contribution	(1,483)	(1,252)	(1,095)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Port's covered-employee payroll	\$ 23,892	\$ 21,554	\$ 21,384
Contributions as a percentage of covered-employee payroll	6.2%	5.8%	5.1%

(1) Information presented prospectively beginning with 12/31/14 due to implementation of GASB Statement 68.

**Port of Tacoma**

**Post Employment Health Care Trust Fund  
Funded Status of the Plan  
(Dollars in Thousands)**

Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (ALL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2016	\$ 5,507	\$ 3,609	\$ 1,898	152.6%	\$ 1,488	-
1/1/2015	5,891	3,077	-	191.5%	1,551	-
1/1/2014	6,333	3,941	-	160.7%	1,925	-
1/1/2013	6,493	3,536	-	183.6%	2,025	-
1/1/2012	6,859	4,348	-	157.8%	2,323	-
1/1/2011	7,074	4,326	-	163.5%	2,535	-
1/1/2010	7,353	5,148	-	142.8%	2,601	-
1/1/2009	7,569	5,252	-	144.1%	2,902	-
1/1/2008	-	7,121	7,121	0.0%	3,300	215.8%
1/1/2007	-	6,783	6,783	0.0%	3,180	213.3%

**Port of Tacoma**

**Post Employment Health Care Trust Fund  
Schedule of Employer Contributions  
(Dollars in Thousands)**

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2008	\$ 7,315	99.8%
2009	375	100%
2010	415	100%
2011	298	100%
2012	347	100%
2013	186	100%
2014	488	100%
2015	331	100%
2016	394	100%



## **STATISTICAL SECTION**

**PORT OF TACOMA**  
**STATISTICAL SECTION (unaudited)**  
**For the Year Ended December 31, 2016**

**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.....	80
Changes in Net Position - Last Ten Fiscal Years.....	81
Operating Revenues by Line of Business – Last Ten Fiscal Years.....	82

**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.....	83
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years .....	84
Principal Property Tax Payers.....	85
Property Tax Levies and Collections - Last Ten Fiscal Years .....	86
Tax levy Amounts and Rates – Last Ten Fiscal Years.....	87

**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.....	88
Ratios of General Obligation Bonds - Last Ten Fiscal Years .....	89
Limited Tax General Obligation Bond Debt Service Requirements.....	90
Computation of Direct and Overlapping General Obligation Debt.....	91
Computation of Legal Debt Margin - Last Ten Fiscal Years .....	92
Senior Lien Revenue Bonds Coverage by Type - Last Ten Fiscal Years.....	93

**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.....	94
Pierce County Major Employers .....	95

**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.....	96
Marine Terminal Tonnage and Statistics - Last Ten Fiscal Years .....	97
Marine Terminal Description .....	98
Aggregate Comparative Operating Statistics – Last Ten Fiscal Years.....	99

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

<b>Fiscal Year</b>	<b>2016</b>	<b>2015</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>
Net Investment in Capital Assets	\$ 306,879	\$ 302,092	\$ 299,404	\$ 280,507	\$ 272,154	\$ 315,238	\$ 335,366	\$ 359,294	\$ 389,582	\$ 410,361
Restricted	13,077	9,429	9,230	16,395	17,411	16,788	16,170	15,638	16,464	22,099
Unrestricted	217,348	191,684	174,734	202,935	210,193	144,952	104,132	58,849	50,960	25,856
<b>Total Net Assets</b>	<b>\$ 537,304</b>	<b>\$ 503,205</b>	<b>\$ 483,368</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>

\*As restated per adoption of GASB 68

\*\*As restated per adoption of GASB 65

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

	2016	2015	2014*	2013	2012	2011**	2010**	2009**	2008***	2007***
<b>OPERATING REVENUES</b>										
Property rentals	\$ 23,545	\$ 102,428	\$ 99,410	\$ 95,815	\$ 93,876	\$ 88,172	\$ 83,459	\$ 70,625	\$ 73,444	\$ 73,803
Terminal services	-	41,469	34,912	29,527	30,501	25,923	19,891	19,515	24,745	24,015
NWSA - Joint Venture Income	61,584	-	-	-	-	-	-	-	-	-
<b>Total operating revenues</b>	<b>85,129</b>	<b>143,897</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>OPERATING EXPENSES</b>										
Operations	3,939	34,067	33,597	30,769	30,361	26,084	23,610	19,871	25,497	25,327
Maintenance	4,120	14,860	14,463	15,473	16,013	13,137	13,421	10,861	11,014	11,956
Administration	2,428	14,909	14,477	14,844	13,655	13,812	13,381	12,509	12,911	12,103
Security	381	3,870	3,952	3,988	3,734	3,782	3,574	3,222	-	-
Environmental	1,788	5,385	14,681	3,139	2,100	2,783	2,077	1,912	3,111	845
<b>Total before depreciation</b>	<b>12,656</b>	<b>73,091</b>	<b>81,170</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>
Depreciation	30,300	31,520	31,546	30,802	30,283	30,229	30,303	30,324	29,642	28,709
<b>Total operating expenses</b>	<b>42,956</b>	<b>104,611</b>	<b>112,716</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>Operating income</b>	<b>42,173</b>	<b>39,286</b>	<b>21,606</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>NON-OPERATING REVENUES (EXPENSES)</b>										
Ad valorem tax revenues	14,972	14,198	13,083	12,600	13,672	14,592	16,196	16,871	16,509	14,637
Interest on general obligation bonds	(7,609)	(8,759)	(9,000)	(9,456)	(9,566)	(9,661)	(9,718)	(9,838)	(9,797)	(3,903)
<b>Net ad valorem tax revenues</b>	<b>7,363</b>	<b>5,439</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>
Interest income	2,271	2,293	2,704	2,421	3,153	2,733	2,632	2,308	6,092	5,940
Net increase (decrease) in the fair value of investments	47	72	2,505	(5,135)	777	892	534	(220)	605	683
Interest expense	(20,011)	(17,712)	(20,908)	(23,048)	(20,117)	(15,810)	(15,643)	(15,008)	(15,210)	(14,535)
Other income (expenses), net	(3,601)	(10,861)	(7,131)	(10,365)	(6,935)	(3,878)	(5,393)	(17,431)	(13,179)	(5,890)
<b>Total non-operating revenues (expenses), net</b>	<b>(13,931)</b>	<b>(20,769)</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>Increase (decrease) in net position, before capital contribution and special item</b>	<b>28,242</b>	<b>18,517</b>	<b>2,859</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>CAPITAL CONTRIBUTION</b>	<b>5,857</b>	<b>1,320</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>Increase (decrease) in net position, before special item</b>	<b>34,099</b>	<b>19,837</b>	<b>5,130</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>
Special Item	-	-	-	-	-	-	-	(22,299)	-	-
<b>Increase (decrease) in net position</b>	<b>34,099</b>	<b>19,837</b>	<b>5,130</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>NET POSITION</b>										
<b>Beginning of year, as previously reported</b>	<b>503,205</b>	<b>483,368</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>
Adjustment related to adoption of GASB 53	-	-	-	-	-	-	-	-	9,638	(915)
Adjustment related to adoption of GASB 65	-	-	-	-	(5,191)	(5,424)	(5,658)	(6,582)	(6,291)	-
Adjustment related to adoption of GASB 68	-	-	(21,599)	-	-	-	-	-	-	-
<b>Net Position, beginning of year as restated</b>	<b>503,205</b>	<b>483,368</b>	<b>478,238</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>End of year</b>	<b>\$ 537,304</b>	<b>\$ 503,205</b>	<b>\$ 483,368</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>

\* As restated per adoption of GASB 68

\*\* As restated per adoption of GASB 65

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

Year	Actual Revenues Earned					As a Percentage of the Port's Total				
	Containers	Non-Container	Real Estate	NWSA	Total	Containers	Non-Container	Real Estate	NWSA	Total
2016 (1)			23,545	61,584	85,129	0%	0%	28%	72%	100%
2015	107,712	23,236	15,876		146,824	73%	16%	11%	0%	100%
2014	98,386	20,363	15,573		134,322	74%	15%	12%	0%	101%
2013	91,461	18,938	14,943		125,342	73%	15%	12%	0%	100%
2012	93,576	17,991	12,810		124,377	75%	14%	10%	0%	100%
2011	85,471	15,119	13,505		114,095	75%	13%	12%	0%	100%
2010	80,395	10,275	12,680		103,350	78%	10%	12%	0%	100%
2009	66,421	11,637	12,082		90,140	74%	13%	13%	0%	100%
2008	71,031	13,889	13,269		98,189	72%	14%	14%	0%	100%
2007	75,143	10,705	11,970		97,818	77%	11%	12%	0%	100%

(1) Beginning in 2016, the Container and Non-Container businesses were licensed to the Northwest Seaport Alliance, so the gross revenues are not reported by the Port. NWSA revenues represent 50% of the net income earned by the joint venture.

**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>
2016	\$ 82,178,126	\$ 97,251,916	84.5%
2015	77,383,384	89,052,785	86.9%
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%

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>
2016	\$ 0.1827	\$ 2.2339	\$ 3.3403	\$ 0.4904	\$ 1.4643	\$ 1.0680	\$ 0.1092	\$ 6.1747	\$ 0.1000	\$ 1.1150	\$ 14.6778
2015	0.1837	2.3863	3.4433	0.4910	1.3631	0.7516	0.5696	6.3389	0.1016	0.1188	14.9560
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

(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  
2016 and 2007  
(dollars In thousands)**

TAXPAYER	TYPE OF BUSINESS	2015 (1)		2006 (2)	
		ASSESSED VALUATION (1)	% OF TOTAL ASSESSED VALUATION	ASSESSED VALUATION (2)	% OF TOTAL ASSESSED VALUATION
The Boeing Company	Airplane Manufacturer	\$ 538,028	0.65%	\$ 482,433	0.61%
Puget Sound Energy/Elec	Electric and Natural Gas Utility	383,454	0.47%	-	-
Puget Sound Energy/Gas	Electric and Natural Gas Utility	373,101	0.45%	416,372	0.53%
Rocktekn CP LLC	Telecommunications	281,109	0.34%	-	-
Tacoma Mall Partnership	Retail Shopping Mall	187,888	0.23%	166,668	0.21%
Qwest Corporation	Semiconductor Manufacturer	185,427	0.23%	167,435	0.21%
U S Oil & Refining Co	Refinery	149,394	0.18%	-	-
Fred Meyer Stores	Retail Sales	119,307	0.15%	147,619	0.19%
Toray Composites America, Inc.	Aerospace Manufacturing	117,997	0.14%	-	-
Costco Wholesale Corp.	Retail Sales	117,403	0.14%	126,390	0.16%
Northwest Building LLC	Industrial Park	107,366	0.13%	106,707	0.14%
WalMart Stores Inc	Retail Sales	107,359	0.13%	-	-
<b>Total Assessed Valuation of Principal Taxpayers</b>		<b>\$ 2,667,833</b>	<b>3.25%</b>	<b>\$ 1,613,624</b>	<b>2.04%</b>
<b>Total Assessed Valuation of Pierce County (3)</b>		<b>\$ 82,178,126</b>	<b>100.00%</b>	<b>\$ 78,973,986</b>	<b>100.00%</b>

(1) 2015 taxable value is basis for 2016 property tax levies.

(2) 2006 taxable value is basis for 2007 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)

<u>Fiscal Year</u>	<u>Original Tax Levy</u>	<u>Supplements / Cancellations</u>	<u>Final Tax Levy</u>	<u>Collected In Year Due</u>	<u>Percent of Levy Collected In Year Due</u>	<u>Collected in Subsequent Years</u>	<u>Collected as of 12/31/16</u>	<u>Percent of Levy Collected As of 12/31/2016</u>
2016	\$ 15,013	\$ (40)	\$ 14,973	\$ 14,678	98.03%	\$ -	\$ 14,678	98.03%
2015	14,217	(19)	14,198	13,885	97.80%	223	14,109	99.37%
2014	13,116	(32)	13,083	12,740	97.38%	297	13,037	99.65%
2013	12,668	(69)	12,600	12,229	97.06%	362	12,592	99.94%
2012	13,729	(56)	13,673	13,218	96.67%	451	13,668	99.97%
2011	14,979	(205)	14,774	13,469	91.17%	1,300	14,770	99.97%
2010	16,283	(87)	16,196	15,519	95.82%	671	16,190	99.96%
2009	16,933	(62)	16,871	16,168	95.83%	703	16,871	100.00%
2008	16,540	(31)	16,509	15,823	95.84%	686	16,509	100.00%
2007	14,639	(5)	14,634	14,097	96.34%	536	14,634	100.00%

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

Fiscal Year	Port District Assessed Valuation (1)	Maximum Levy (2)	Budget Tax Levy (3)	Total Tax Levy rate (4)
2016	\$ 81,750,009,927	\$ 24,392,636	\$ 15,013,389	\$ 0.1837
2015	77,353,617,531	23,908,810	14,205,992	0.1836
2014	71,417,153,388	23,121,298	13,115,760	0.1832
2013	69,124,565,890	22,363,370	12,665,791	0.1812
2012	75,697,857,587	22,007,602	13,719,043	0.1813
2011	81,262,532,281	21,620,574	14,731,007	0.1840
2010	88,468,117,832	21,584,044	16,275,174	0.1829
2009	92,604,618,893	20,977,631	16,933,218	0.1851
2008	89,354,870,537	20,278,920	16,536,559	0.1852
2007	78,973,985,728	19,626,790	14,623,633	0.1857

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>
2016	\$ 158,966	\$ 478,455	\$ -	\$ 25,000	\$ 662,421	1.8%	784
2015	179,575	392,195	-	82,000	\$ 653,770	1.8%	788
2014	184,465	400,540	-	82,000	\$ 667,005	2.0%	812
2013	189,110	415,465	-	92,585	\$ 697,160	2.1%	856
2012	198,445	422,905	-	64,500	\$ 685,850	2.1%	849
2011	200,140	430,020	-	27,000	\$ 657,160	2.1%	819
2010	201,760	436,845	-	27,000	\$ 665,605	2.2%	837
2009	203,315	441,390	-	27,000	\$ 671,705	2.2%	825
2008	206,755	445,770	2,050	27,000	\$ 681,575	2.3%	838
2007	83,435	324,265	7,821	100,000	\$ 515,521	1.9%	640

(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>
2016	\$ 158,966	0.19%	\$ 188	\$ 97,311	2.81%	\$ 2,734
2015	179,575	0.23%	216	93,220	2.70%	2,517
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	113,681	2.10%	2,385
2008	206,755	0.23%	254	109,827	2.08%	2,281
2007	83,435	0.11%	104	98,056	2.18%	2,138

(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)**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 5,252,000	\$ 6,597,566	\$ 11,849,566
2018	3,511,000	6,386,127	9,897,127
2019	3,982,000	6,254,213	10,236,213
2020	4,056,000	6,180,565	10,236,565
2021	6,453,000	6,099,412	12,552,412
2022	6,665,000	5,894,720	12,559,720
2023	6,856,000	5,698,738	12,554,738
2024	7,088,000	5,463,381	12,551,381
2025	7,333,000	5,212,876	12,545,876
2026	7,540,000	4,947,531	12,487,531
2027	7,840,000	4,639,744	12,479,744
2028	8,245,000	4,249,894	12,494,894
2029	8,650,000	3,839,906	12,489,906
2030	9,080,000	3,409,769	12,489,769
2031	9,525,000	2,958,244	12,483,244
2032	10,000,000	2,484,581	12,484,581
2033	10,500,000	1,987,294	12,487,294
2034	6,695,000	1,513,044	8,208,044
2035	6,980,000	1,234,831	8,214,831
2036	7,265,000	944,694	8,209,694
2037	7,570,000	642,631	8,212,631
2038	7,880,000	327,800	8,207,800
<b>Totals</b>	<b>\$ 158,966,000</b>	<b>\$ 86,967,561</b>	<b>\$ 245,933,561</b>

**PORT OF TACOMA**  
**COMPUTATION OF DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT**  
**December 31, 2016**

<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:			
Pierce County	\$ 145,363,000	100%	\$ 145,363,000
Overlapping Debt:			
Port of Tacoma	158,966,000	100%	158,966,000
City of Tacoma	199,861,000	100%	199,861,000
Metro Park Districts	155,900,000	100%	155,900,000
Pierce County School Districts	1,648,357,879	100%	1,648,357,879
<b>Total Overlapping Debt</b>	<b>2,163,084,879</b>	<b>100%</b>	<b>2,163,084,879</b>
<b>Total Direct And Overlapping Debt</b>	<b>\$ 2,308,447,879</b>		<b>\$ 2,308,447,879</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>2016</b>	<b>2015</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>
(1) Value of taxable property in the taxing dist.	\$ 82,178,126	\$ 77,383,384	\$ 71,547,737	\$ 69,124,566	\$ 75,697,858	\$ 81,262,532	\$ 88,468,118	\$ 92,604,619	\$ 89,354,871	\$ 78,973,986
Legal limit at 3/4 of 1% on property value	616,336	580,375	536,608	518,434	567,734	609,469	663,511	694,535	670,162	592,305
Indebtedness Incurred										
G.O. bond liabilities:	158,966	179,575	184,465	189,110	198,445	200,140	201,760	203,315	206,755	83,435
Less cash and investments:	-	-	-	-	-	-	-	-	115	115
Excess liabilities over assets	158,966	179,575	184,465	189,110	198,445	200,140	201,760	203,315	206,640	83,320
<b>Margin of indebtedness still available</b>	<b>457,370</b>	<b>400,800</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>
Legal limit at 1/4 of 1% on property value without a vote of the people	\$ 205,445	\$ 193,458	\$ 178,869	\$ 172,811	\$ 189,245	\$ 203,156	\$ 221,170	\$ 231,512	\$ 223,387	\$ 197,435
<b>Margin of indebtedness still available without a vote of the people</b>	<b>46,479</b>	<b>13,883</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>

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

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

Fiscal Year	Gross Revenue (1)	Net Expenses Per Bond Covenants (2)	Net Revenue Available for Debt Service	Debt Service Requirements		Total	Coverage
				Principal	Interest		
2016	\$ 87,335	\$ 11,114	\$ 76,221	\$ 1,375	\$ 4,156	\$ 5,531	13.78
2015	146,277	72,430	73,847	1,250	3,149	4,399	16.79
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	2,660	9,114	11,774	5.46
2011	116,926	55,907	61,018	2,560	9,231	11,791	5.17
2010	106,003	50,982	55,021	2,465	9,333	11,798	4.66
2009	93,092	42,488	50,604	2,380	9,439	11,819	4.28
2008	102,671	46,543	56,128	7,590	9,712	17,302	3.24
2007	101,984	42,857	59,127	7,360	11,198	18,558	3.19

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.

NOTE: The decreases in Gross Revenue and Net Expense Per Bond Covenants in 2016 are due to the formation of the NWSA adoption of joint venture accounting. Bond coverage is not negatively significantly affected by this change.



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

<b>Fiscal Year</b>	<b>2016</b>	<b>2015</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><i>Pierce County</i></b>										
Population (in thousands) (1)	844	830	821	815	808	802	795	815	814	805
Total Personal Income (2)	N/A	\$ 37,640,095	\$ 35,916,045	\$ 33,923,202	\$ 32,941,576	\$ 31,619,327	\$ 30,256,545	\$ 29,801,301	\$ 30,583,283	\$ 29,075,145
Per Capita Personal Income (2)	N/A	\$ 44.6	\$ 43.2	\$ 41.4	\$ 40.6	\$ 39.4	\$ 38.0	\$ 37.4	\$ 38.9	\$ 37.6
Unemployment Rate (3)	6.0%	6.3%	6.8%	7.6%	8.9%	9.8%	10.1%	11.1%	7.2%	5.5%
<b><i>Washington State</i></b>										
Population (in thousands) (1)	7,184	7,061	6,968	6,882	6,818	6,768	6,725	6,733	6,668	6,588
Personal Income (2)	N/A	\$ 372,125,338	\$ 355,676,661	\$ 333,168,842	\$ 326,408,854	\$ 301,567,633	\$ 284,523,758	\$ 278,991,093	\$ 293,949,341	\$ 279,088,841
Per Capita Personal Income (2)	N/A	\$ 51.9	\$ 50.4	\$ 47.8	\$ 47.3	\$ 44.2	\$ 42.2	\$ 41.8	\$ 44.8	\$ 43.2
Unemployment Rate (3)	5.1%	5.6%	5.8%	6.5%	7.4%	8.7%	9.6%	10.4%	6.8%	4.8%

(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 2015 and 2006**

Pierce County Major Corporate Employers	2015			2006		
	Number of Employees (1)	Rank	Percentage of Total Pierce County Employment	Number of Employees (1)	Rank	Percentage of Total Pierce County Employment
Federal Government	59,588	1	15.69%	57,303	1	14.82%
Local Government	33,234	2	8.75%	31,139	2	8.05%
Multicare Health System	8,247	3	2.17%	5,567	3	1.44%
Franciscan Health System	6,099	4	1.61%	4,059	4	1.05%
Fred Meyer Stores	2,560	5	0.67%	2,360	6	0.61%
State Farm Insurance Company	2,050	6	0.54%	-	-	0.00%
Emerald Queen Casino	2,026	7	0.53%	1,688	8	0.44%
The Boeing Company	1,750	8	0.46%	1,450	9	0.38%
Safeway Stores, Inc	1,304	9	0.34%	2,650	5	0.69%
Wal-Mart	1,287	10	0.34%	1,850	7	0.48%
Costco	1,205	11	0.32%	-	-	0.00%
Milgard Manufacturing	1,061	12	0.28%	-	-	0.00%
Comcast Cable	1,046	13	0.28%	-	-	0.00%
<b>Total</b>	<b>121,457</b>		<b>31.98%</b>	<b>108,066</b>		<b>27.96%</b>
Total Employment In Pierce County	<b>379,840</b>			<b>386,600</b>		

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

**Note:** The Tacoma-Pierce County Economic Development Board's last update is 2015.

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

<b>Fiscal Year</b>	<b>2016</b>	<b>2015</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>
Administration	76	91	93	99	103	100	108	118	106	97
Operations	68	80	79	81	86	86	49	51	55	46
Maintenance	88	81	83	86	85	80	84	109	109	111
<b>Total</b>	<b>232</b>	<b>252</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>

**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. The reduction in staff from 2015 to 2016 was, in part, due to 29 employees who transferred from Port of Tacoma employment to NWSA

Source: Port of Tacoma payroll database.

**PORT OF TACOMA**  
**MARINE TERMINAL TONNAGE AND STATISTICS**  
**Last Ten Fiscal Years**  
**(Short Tons 2007-2015 Metric Tons 2016)**

Year	Vessels / Tonnage		Major Import Commodities					Major Export Commodities			
	Vessels	Total Tonnage	General Cargo	Ore	Containerized Cargo	Autos	Gypsum	General Cargo	Logs	Containerized Cargo	Grain
2016 (a)	1,995	28,026,869	123,754	-	11,650,074	246,421	281,361	57,617	176,928	15,116,184	4,226,602
2015	1,276	19,000,558	174,400	-	6,988,091	298,446	246,296	48,605	260,758	8,155,080	2,828,882
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

(a) As of January 1, 2016, the Port's marine terminal operation was licensed to the NWSA; hence starting in 2016, volume reported represents total activities in the joint venture.

Source: Port of Tacoma (2007-2015) and Northwest Seaport Alliance (2016) records.

**PORT OF TACOMA  
MARINE TERMINAL DESCRIPTION  
December 31, 2016**

Total Property Ownership	2,250	acres (approximately)
Warehouses and Other Buildings	1,771,182	square feet +/-
Early Business Center Buildings	328,364	square feet +/-
Port Business Center Building	75,031	square feet +/-
Grain Storage	3	million bushels
Foreign Trade Zone (designated)	1,562	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

Note: Beginning January 1, 2016, facilities and equipment associated with the Port's marine terminal operations were licensed to and operated by the NWSA.

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

<u>Year</u>	<u>Vessels</u>	<u>Percent change</u>	<u>Tonnage (a)</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>
2016	(b) 1,995	56.3	28,026,869	47.5	3,615,752	70.2	800,854	50.6	165,687	-9.6
2015	1,276	2.9	19,000,558	-6.9	2,124,680	5.1	531,818	3.2	183,305	4.3
2014	1,240	-3.0	20,415,736	13.8	2,022,051	6.9	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	-	19,563,561	-	1,924,929	-	481,102	-	175,074	-

(a) Measured in short tons for years 2007-2015 and metric tons beginning 2016.

(b) As of January 1, 2016, the Ports marine terminal operation was licensed to the NWSA; hence starting in 2016, volume reported represents total activities in the joint venture.