2018 ANNUAL FINANCIAL REPORT

PORT OF TACOMA
1918 2018
OUR TIES RUN DEEP

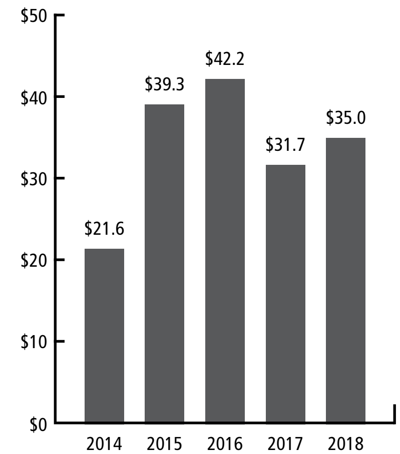
2018 Port of Tacoma Annual Financial Report

Contents

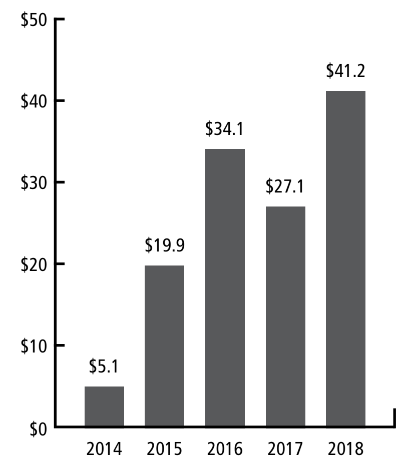
2018 Financial Highlights

(dollars in thousands)	
Revenues	$ 79,599
Increase in Net Position	$ 41,262
Working Capital	$ 164,199
Land, Facilities and Equipment, Net	$ 884,833
Net Long-term Debt	$ 626,610
Net Position	$ 605,647
Debt Service Coverage Ratio (senior lien)	6.2

Operating Income (dollars in millions)



Change in Net Position (dollars in millions)



Net Position Before Special Items

Port of Tacoma Leadership

The five members of the Port of Tacoma Commission are elected by Pierce County voters and serve as our governing body.

The commission sets policy, authorizes major expenditures, reviews all spending and appoints the chief executive officer. The commission's regular public meetings are streamed live on the web and archived for later viewing. Find meeting dates, agendas and memos at www.portoftacoma.com/commission.

Don Johnson

Elected to the commission in 2007, Don Johnson is the former vice president and general manager of Simpson Tacoma Kraft, a leading Tacoma pulp and paper producer.

Johnson serves on the boards of the Puget Sound Regional Council's Transportation Policy Board and Goodwill's Finance Committee. He chairs the Goodwill Board and is the 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. He is also the former chair of the University of Washington Business School Advisory Board, the United Way of Pierce County Board and the United Way's annual campaign. He chaired the search committee for the CEO of the Tacoma-Pierce County Chamber and is a member of the Transportation Club of Tacoma and Tacoma Propeller Club.

Johnson holds a bachelor's degree in mechanical engineering from the University of Washington.

Richard Marzano

A Tacoma longshore worker for more than 36 years, Dick Marzano served as president of the International Longshore and Warehouse Union Local 23 for six years. He was first elected to the commission in 1995.

Marzano is the co-chair of the State Route 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, appointed by former Washington Govs. Gary Locke and Christine Gregoire. Marzano is also a member of the Tacoma Propeller Club and Transportation Club of Tacoma, and a former board member of the Foss Waterway Development Authority and St. Leo's Hospitality Kitchen.

John McCarthy

A former Pierce County District and Superior Court judge for more than 22 years, John McCarthy recently retired from the bench. He worked as a longshoreman for 10 years and served previously on the Port of Tacoma Commission from 1983 to 1992.

McCarthy has been a member of the Washington State Bar Association since 1975 and volunteers at Mount Rainier National Park. He is an honorary life member of the Washington Public Ports Association. He also serves on the Pierce County Regional Council and as the Port of Tacoma's Tribal Liaison. He was the first member of the Boys and Girls Club of South Puget Sound's to be selected to their Alumni Hall of Fame, and he continues to officiate high school football.

He earned a bachelor's degree in Science with a minor in Mathematics from Seattle University and a law degree from the University of San Francisco.

Don Meyer

Don Meyer is the former executive director of the Foss Waterway Development Authority and a former deputy executive director of the Port of Tacoma. He was elected to the commission in 2010.

Meyer currently serves on the Pierce County Regional Council, South King County Transportation Board, Tacoma Waterfront Association and Tacoma-Pierce County Economic Development Board. He is a member of the Alaska State Chamber of Commerce, the Fife/Milton/Edgewood Area Chamber of Commerce and the Transportation Club of Tacoma.

He served on former Gov. Christine Gregoire's Connecting Washington Task Force on transportation issues, is a member of Tacoma Rotary #8 and owns a small business in Pierce County.

Born and raised on a South Dakota farm, Meyer holds a bachelor's degree in business from Pacific Lutheran University and a master's degree in business administration from the University of South Dakota.

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, an advisor to Tacoma Community Boat Building and deeply involved in maritime heritage research.

Petrich serves on the Joint Municipal Action Committee, Pacific Northwest Waterways Association, the Youth Marine Foundation, the Flood Control Zone District Committee and the Washington Council on International Trade. She was recently elected to the boards of Sister Cities International and the Washington State Trust for Historic Preservation.

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 board secretary for the Trade Development Alliance of Greater Seattle. Petrich graduated from Manhattanville College in New York and received her master's degree from the University of Virginia.

John Wolfe
Chief Executive Officer

John Wolfe was named the Port's chief executive officer in June 2010. He sets the organization's vision and strategy, and oversees a staff of about 250.

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 of the Port of Olympia, and before that as Olympia's director of operations and marine terminal general 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.

Independent Auditor's Report

The Board of Commissioners
Port of Tacoma
Tacoma, Washington

RSM US LLP

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and the Post-Employment Health Care Benefits Trust Fund of Port of Tacoma (the Port) as of and for the years ended December 31, 2018 and 2017, 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 and the standards applicable to financial audits contained Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018 and 2017, 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 and the required supplementary information as listed in the table of contents 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.

Other reporting required by government auditing standards: In accordance with Government Auditing Standards, we have also issued our report dated April 5, 2019 on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Port's internal control over financial reporting and compliance.

Emphasis of a matter: As described in Notes 1 and 9 to the financial statements, the Port has restated net position as of January 1, 2018 due to the implementation of GASB 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions.

RSM US LLP

Tacoma, Washington

April 5, 2019

INTRODUCTION

The Port of Tacoma's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the Port's 2018 and 2017 financial statements, which include the Enterprise Fund as well as the Post-Employment Health Care Benefits Trust Fund. Port management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements and the notes to the financial statements. The financial statements include: the statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows of the Enterprise Fund. The report also includes the following two basic financial statements for the Post-Employment Health Care Benefits Trust Fund: statements of 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 deferred outflows, and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Port is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Port's net position changed during the year. These changes are reported in the period in which the underlying event occurs, regardless of the timing of related cash flows.

Fund Financial Statements

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

Formation of The Northwest Seaport Alliance

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

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 that was deferred until 2019 by the Managing Members.

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.

On April 2, 2019, In lieu of completing the required reevaluation of Membership Interest, the Managing Members approved, and the Port of Seattle commission agreed to an additional contribution from the Port of Seattle to the NWSA of up to $32 million in recognition that certain forecasted revenue streams in the initial valuation were not secured by long-term contractual agreements. Additionally, the Managing Members authorized the completion of the one-time Membership Interest Affirmation of 50/50 for each homeport in satisfaction of the NWSA Charter. Additional information is provided in Note 18, Subsequent Events.

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 membership interests.

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

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

With respect to bonds of each home port that were outstanding at the time of the formation of the NWSA, the Managing Members 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 the 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.

Funding

In January 2016, each home port provided an initial contribution for working capital of $25.5 million, for total initial funding of $51.0 million. Working capital cannot be redirected to fund capital construction as defined in the Charter. Future funding needs are evaluated during the annual budget process or if the working capital reserve should decline below a target minimum established by the Managing Members. Managing Members must vote affirmatively to approve additional working capital contributions. The NWSA has generated enough cash from operations to cover its working capital requirements and the 2019 NWSA budget did not anticipate additional funding needs.

In January 2016, each home port also provided initial capital construction contribution of $13.5 million (totaling $27.0 million), equal to the budgeted capital investment plan and throughout 2016 the home ports provided additional combined contributions of $45.9 million to fund capital construction needs.

During 2018 and 2017, the home ports made capital construction contributions of $83.3 million and $69.1 million, respectively, for container terminal improvements at the North and South Harbors and container crane acquisitions at Husky terminal in the South Harbor.

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.

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):

	2018	2017	2016
Current assets	$ 232,735	$ 196,208	$ 204,255
Capital and intangible assets, net	952,435	955,557	968,529
Long-term investments	30,638	60,230	90,826
Investment in Joint Venture	142,508	104,273	66,077
Other assets	14,862	12,386	10,965
Total assets	**$ 1,373,178**	**$ 1,328,654**	**$ 1,340,652**
Deferred outflows of resources	$ 60,910	$ 71,811	$ 75,651
Current liabilities	68,537	58,572	67,024
Long-term debt, net	626,610	643,866	675,481
Other long-term liabilities	127,326	130,417	135,943
Total liabilities	**$ 822,473**	**$ 832,855**	**$ 878,448**
Deferred inflows of resources	$ 5,968	$ 3,225	$ 551
Net investment in capital assets	310,430	327,335	339,143
Restricted – bond reserves	13,251	13,496	13,077
Unrestricted	281,966	223,554	185,084
Total net position	**$ 605,647**	**$ 564,385**	**$ 537,304**

**Beginning net position for 2018 was adjusted for the adoption of GASB 75 (see Note 1).*

The Port's total net position increased by $41.2 million and 7.3 percent over the prior year to $605.6 million at December 31, 2018. Of this amount, $310.4 million is the net investment in capital assets, $13.2 million is restricted for bond reserves and $282.0 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 2018, the net investment in capital assets decreased by $16.9 million due primarily to a decrease in remaining unspent bond proceeds from the 2016 Revenue Bonds of $29.3 million, a net decrease in outstanding debt of $15.5 million and a $3.1 million decrease in net capital assets.

At December 31, 2017 the Port's total net position increased by $27.1 million and 5.0 percent over the prior year to $564.4 million. Of this amount, $327.3 million is the net investment in capital assets, $13.5 million is restricted for bond reserves and $223.6 million is unrestricted and can be used to finance operating activities.

In 2017, the net investment in capital assets decreased by $11.8 million due primarily to a decrease in remaining unspent bond proceeds from the 2016 Revenue Bonds of $31.0 million, a net decrease in outstanding debt of $32.2 million and a $13.0 million decrease in net capital assets attributable to depreciation of $28.5 million, offset by capital asset additions.

At December 31, 2016, the Port's total net position increased by $34.1 million and 6.7 percent over the prior year to $537.3 million. Of this amount, $339.1 million was the net investment in capital assets, $13.1 million was restricted for bond reserves and $185.1 million was unrestricted and could be used to finance operating activities.

Restricted components of net assets at December 31, 2018, 2017 and 2016, of $13.3, $13.5 and $13.1 million, respectively, are required reserves for the 2016 and 2014 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 2018, 2017 and 2016.

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

	2018	2017	2016
Operating income:			
Operating revenues	$ 23,607	$ 21,687	$ 23,545
Joint Venture income	55,992	54,925	61,584
Total	**79,599**	**76,612**	**85,129**
Operating expenses	44,598	44,899	42,956
Total operating income	**35,001**	**31,713**	**42,173**
Non-operating revenues (expenses):			
Ad valorem tax revenues	18,588	16,631	14,972
Interest on general obligation bonds	(4,933)	(5,482)	(7,609)
Net ad valorem tax revenues	**13,655**	**11,149**	**7,363**
Interest income	4,789	3,618	2,271
Net (decrease) increase in the fair value of investments	(1,125)	156	47
Interest expense	(19,926)	(19,717)	(20,011)
Other non-operating income (expenses), net	3,823	(931)	(3,601)
Total non-operating revenues (expenses), net	**1,216**	**(5,725)**	**(13,931)**
Increase in net position before capital contributions	**36,217**	**25,988**	**28,242**
Capital grant contributions	3,624	1,093	5,857
Increase in net position	39,841	27,081	34,099
Net position, beginning of year, as previously reported	564,385	537,304	503,205
Adjustment related to adoption of GASB 75	1,421	---	---
Net position, beginning of year as restated	565,806	537,304	503,205
Net position, end of year	**$ 605,647**	**$ 564,385**	**$ 537,304**

**Beginning net position for 2018 was adjusted for the adoption of GASB 75 (see Note 1).*

2018 Revenues, Expenses and Changes in Net Position versus the Prior Year

The Port's revenue for 2018 of $79.6 million was $3.0 million and 3.9 percent above the prior year. Port operating revenue was up $1.9 million due to new leases and rent escalations on existing leases. December was the first month of activity from a thirty-year lease with Wallenius Wilhelmsen Logistics (WWL) who is developing a state-of-the-art automotive processing center on the former Kaiser Aluminum site.

The NWSA Joint Venture income of $56.0 million was $1.1 million and 1.9 percent more than the prior year as increased grant and non-operating income of $7.8 million offset the $5.6 million decrease in operating income. The NWSA's operating income was down due to a decrease in revenue of $2.4 million driven by an early lease termination payment of $5.7 million in the prior year from APM Terminals offset by higher container volume at T18 which increased revenue by $2.6 million. The NWSA operating expenses increased by $3.2 million as depreciation expense increased by $3.9 million due to capital improvements at Pier 4 in the south harbor, offset by lower operating costs.

Port operating expense in 2018 of $44.6 million was $0.3 million less than the prior year. Operations costs were up $3.5 million, primarily for the write-off of net book values of assets disposed in connection with the Pier 4 reconfiguration project in the current year. Administration costs were up $0.5 million due to increases in wages and benefits for annual increases and the filling of vacant positions and for temps and consultants. Offsetting the increases, environmental costs were down $2.5 million due to lower project spending and prior year's increase in environmental remediation liability of $2.1 million and depreciation expense was below the prior year by $1.6 million and 6.0 percent due to assets becoming fully depreciated.

As a result of the above, operating income of $35.0 million was $3.3 million more than the prior year.

Non-operating income and expense: The 2018 net non-operating income was $1.2 million compared to non-operating expense of $5.7 million in the prior year.

Ad valorem tax revenue increased by $2.0 million compared to the prior year due to new construction and property valuation increases in Pierce County. The tax revenue increase, paired with lower interest rates on General Obligation debt due to a bond refunding in the prior year, increased net ad valorem tax revenue by $2.5 million.

Interest income, net of fair market value adjustments was $0.1 million lower than the prior year as the non-cash market value decrease on investments was $1.3 million more than the prior year, offset by interest income up $1.2 million due to rising rates. Interest expense was $0.2 million more than the prior year due to variable interest rates.

Capital grant contributions were $2.5 million more than the prior year due to the Kaiser Remediation grant of $2.3 million.

Net non-operating income was $4.8 million more than the prior year, primarily due to the claim settlement with Thurston County for Maytown property of $8.6 million, offset by the unfavorable Upper Clear Creek mediated settlement of $2.1 million and non-operating project costs.

As a result of the above, the increase in net position was $39.8 million, and $12.7 million more than the prior year (additionally, 2018 beginning net position increased $1.4 million due to adoption of GASB 75).

2017 Revenues, Expenses and Changes in Net Position versus the Prior Year

The Port's revenue for 2017 of $76.6 million was $8.5 million and 10.0 percent less than the prior year with port operating revenue down $1.9 million. Port operating revenue was down due to auto storage revenue of $0.9 million (for revenues generated by NWSA auto business on Port of Tacoma properties) which was less than the prior year by $1.6 million due to a customer's reduction of inventory. In addition, rent revenue was less than the prior year by $0.4 million as a result of a lease termination payment in prior year of $1.5 million, offset by new leases and lease escalations.

The NWSA Joint Venture income of $54.9 million was $6.7 million and 10.8 percent less than the prior year due to the prior year non-operating income contribution of $7.8 million for stormwater improvements paid by the tenant and lower operating income of $5.8 million, shared 50/50 by the home ports. The NWSA revenue of $195.0 million was flat compared to the prior year as container revenue decreased by $1.0 million due terminal lease expirations and the effects of the new carrier alliances but was offset by increased revenue from military cargoes in the non-container line of business. The NWSA operating expense was up $5.6 million on higher facility maintenance improvements of $2.6 million, post-formation asset depreciation for crane upgrades, building and rail improvements of $1.6 million and administration was up $1.2 million for IT system development and consulting charges that were recorded by the home ports in the prior year.

Operating expense in 2017 of $44.9 million was $1.9 million and 4.5 percent higher than the prior year.

Environmental expenses were up $3.1 million due to an increase in the environmental remediation liability of $2.1 million for parcel 15 (Portac) and increased spending on air quality and stormwater projects. Administration expenses were up $0.5 million as wages and benefits increased $0.2 million for additional staffing and annual increases as well as increases in hardware/software maintenance costs of $0.2 million, offset by lower pension and medical costs. Depreciation expense was less than the prior year by $1.8 million and 6.0 percent due to assets becoming fully depreciated, which offsets the increases in environmental and administrative expenses.

As a result of the above, operating income of $31.7 million was $10.5 million and 24.8 percent less than the prior year.

Non-operating expense: The 2017 net non-operating expense of $5.7 million was $8.2 million and 58.9 percent less than the prior year.

Ad valorem tax revenue increased by $1.3 million compared to the prior year due to new construction and property valuation increases in Pierce County. The tax revenue increase, paired with lower interest rates on government obligation debt due to bond refundings, increased net ad valorem tax revenue by $3.7 million.

Interest income in 2017 was $1.3 million higher than the prior year due to rising interest rates and interest earned on unspent proceeds of the 2016 revenue bond issue. Interest expense of $19.7 million decreased $0.3 million over the prior year as increased interest expense on variable rate debt was offset by an increase in bond premium amortization from the 2016 revenue bond issue.

Other non-operating expense in 2017 of $0.9 million was $2.7 million less than the prior year, primarily due to a $3.4 million write-down on the value of land held for sale in 2016, offset by current year election expense of $0.7 million.

Capital grant contributions of $1.1 million were $4.8 million lower than the prior year primarily due to grants received in the prior year for the Arkema Mound cleanup and North Leads Rail Track projects.

As a result of the above, the increase in net position was $27.1 million, and $7.0 million less than the prior year.

Capital Assets

The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2018, amounted to $952.4 million. This investment in capital assets includes land, buildings, improvements, machinery and equipment, intangible assets and construction in process. The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2017, amounted to $955.6 million. See Note 3, Capital and Intangible Assets, for additional information. Major capital additions in 2018 are presented in the table below (dollars in thousands):

Description:	
Auto terminal development	$ 22,951
Facility and building improvements	2,510
Property acquisition	1,056
Rail improvements	1,008
Machinery and equipment	798
Information technology infrastructure	757
	$ 29,080

Debt Administration

Long-term debt: At December 31, 2018, the Port's long-term debt, including current portion, outstanding totaled $641.2 million. Of this amount, general obligation bonds outstanding were $171.0 million and revenue bonds outstanding were $470.2 million. At December 31, 2017, the Port's long-term debt, including current portion, outstanding totaled $657.5 million. Of this amount, general obligation bonds outstanding were $176.0 million and revenue bonds outstanding were $481.5 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 September 2017, the Port refunded the 2008B General Obligation Bonds to achieve interest expense savings. The refunding General Obligation Bonds par value $20.0 million with interest rates between 2.5 percent and 3.4 percent, resulted in a reduction of the Port's total debt service requirements by $4.0 million which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2.8 million over the life of the bonds. The refunding met the requirements of an in-substance debt defeasance and the Series 2008B General Obligation Bonds were removed from the Port's financial statements.

Additional information on the Port's long-term debt activity may be found in Note 5 of this report.

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

Description:	Moody's	Standard & Poor's
General Obligation (Senior Lien)	Aa2	AA
Revenue Bonds (Senior Lien)	Aa3	AA-
Revenue Bonds (Subordinate)	A1	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, 2018, 2017 and 2016, and changes in net position for the years ended December 31, 2018, 2017 and 2016, are as follows (dollars in thousands):

	2018	2017	2016
Total assets	$ 4,986	$ 5,120	$ 5,507
Total liabilities	---	---	---
Total net position	**$ 4,986**	**$ 5,120**	**$ 5,507**
Total additions	$ 85	$ 44	$ 65
Total deductions	(219)	(431)	(449)
Decrease in net position	**(134)**	**(387)**	**(384)**
Net position – beginning of year	5,120	5,507	5,891
Net position – end of year	**$ 4,986**	**$ 5,120**	**$ 5,507**

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 or contact: Chief Financial Officer, P.O. Box 1837, 1 Sitcum Way, Tacoma, Washington, 98401-1837, Telephone 253.383.5841, Fax 253.597.7573.

Enterprise Fund Statements of Net Position

December 31, 2018 and 2017 (dollars in thousands)

ASSETS

	2018	2017
CURRENT ASSETS		
Cash	$ 2,091	$ 3,504
Investments, at fair value	215,802	167,618
Trade accounts receivable, net of allowance for doubtful accounts	817	421
Grants receivable	387	114
Taxes receivable	432	449
Related party receivables - Joint Venture	5,043	16,597
Prepayments and other current assets	8,163	7,505
Total current assets	**232,735**	**196,208**
NON-CURRENT ASSETS		
Long-term investments:		
Restricted investments at fair value	17,387	46,734
Restricted bond reserves at fair value	13,251	13,496
Long-term investments	**30,638**	**60,230**
Capital and intangible assets:		
Land	568,289	567,869
Buildings	100,658	104,413
Improvements	649,705	632,697
Machinery and equipment	87,960	114,517
Intangible assets	32,264	32,264
Construction in process	35,338	30,272
Total cost	**1,474,214**	**1,482,032**
Less accumulated depreciation	521,779	526,475
Capital and intangible assets, net	**952,435**	**955,557**
Investment in Joint Venture	142,508	104,273
Assets held for sale	7,840	7,840
Net OPEB asset	1,932	---
Other assets	5,090	4,546
Total non-current assets	**1,140,443**	**1,132,446**
Total assets	**$1,373,178**	**$1,328,654**
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	$ 51,744	$ 62,101
OPEB deferred outflow	441	---
Pension deferred outflow	1,955	2,197
Advance refunding deferred losses	6,770	7,513
Total deferred outflows of resources	**$ 60,910**	**$ 71,811**

**Beginning net position for 2018 was adjusted for the adoption of GASB 75 (see Note 1).*

See notes to financial statements.

LIABILITIES AND NET POSITION

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 18,455	$ 8,498
Payroll and taxes payable	5,183	4,506
Accrued interest	1,887	2,092
Related party payables – Joint Venture	3,460	4,873
Commercial paper	25,000	25,000
Current portion of long-term debt	14,552	13,603
Total current liabilities	**68,537**	**58,572**
NON-CURRENT LIABILITIES		
Long-term debt:		
General obligation bonds	166,840	172,416
Revenue bonds	459,770	471,450
Net long-term debt	**626,610**	**643,866**
Other long-term liabilities:		
Interest rate payment agreement	51,744	62,101
Net pension liability	10,652	16,281
Other	64,930	52,035
Other long-term liabilities	**127,326**	**130,417**
Total non-current liabilities	**753,936**	**774,283**
Total liabilities	**$ 822,473**	**$ 832,855**
DEFERRED INFLOWS OF RESOURCES		
OPEB deferred inflow	$ 655	---
Pension deferred inflow	5,313	3,225
Total deferred inflow of resources	**$ 5,968**	**$ 3,225**
NET POSITION		
Net investment in capital assets	$ 310,430	$ 327,335
Restricted – bond reserves	13,251	13,496
Unrestricted	281,966	223,554
Total net position	**$ 605,647**	**$ 564,385**

**Beginning net position for 2018 was adjusted for the adoption of GASB 75 (see Note 1).*

Enterprise Fund Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
OPERATING REVENUES		
Property rentals	$ 23,607	$ 21,687
Joint Venture income	55,992	54,925
Total operating revenues	**79,599**	**76,612**
OPERATING EXPENSES		
Operations	8,017	4,357
Maintenance	3,607	3,926
Administration	3,347	2,886
Security	377	367
Environmental	2,328	4,857
Total operating expenses, before depreciation	**17,676**	**16,393**
Depreciation	26,922	28,506
Total operating expenses	44,598	44,899
Operating income	**35,001**	**31,713**
NON-OPERATING REVENUES (EXPENSES)		
Ad valorem tax revenue	18,588	16,631
Interest on general obligation bonds	(4,933)	(5,482)
Net ad valorem tax revenues	**13,655**	**11,149**
Interest income	4,789	3,618
Net (decrease) increase in the fair value of investments	(1,125)	156
Interest expense	(19,926)	(19,717)
Other non-operating income (expenses), net	3,823	(931)
Total non-operating income (expenses), net	**1,216**	**(5,725)**
Increase in net position, before capital grant contributions	**36,217**	**25,988**
CAPITAL GRANT CONTRIBUTIONS	3,624	1,093
Increase in net position	**39,841**	**27,081**
NET POSITION		
Net position, beginning of year, as previously reported	564,385	537,304
Adjustment related to adoption of GASB 75	1,421	---
Net position, beginning of year as restated	565,806	537,304
End of year	**$ 605,647**	**$ 564,385**

**Beginning net position for 2018 was adjusted for the adoption of GASB 75 (see Note 1).*
See notes to financial statements.

Enterprise Fund Statements of Cash Flows

Years Ended December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 22,669	$ 20,570
Cash received for settlements	27,500	---
Cash paid to suppliers for goods and services	(21,081)	(14,366)
Cash paid to employees	(6,595)	(5,985)
Cash received from related party – Joint Venture	12,670	10,771
Cash received (paid) for other operating income (expense)	5,230	(876)
Net cash provided by operating activities	**40,393**	**10,114**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from operating grants	607	---
Net cash provided by non-capital financing activities	**607**	**---**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of property, plant and equipment	46	16
Borrowings on commercial paper	150,000	125,000
Repayments on commercial paper	(150,000)	(125,000)
Principal payments on general obligation and revenue bonds and other debt	(13,603)	(30,277)
Proceeds from refunding bond issues	---	20,099
Payments on refunded bonds	---	(20,099)
Acquisition and construction of capital assets	(25,663)	(15,572)
Interest paid on general obligation and revenue bonds and other debt	(27,237)	(27,374)
Cash received from federal and state grants	2,744	1,194
Cash received from property taxes for general obligation bonds	18,604	16,636
Net cash used in capital and related financing activities	**(45,109)**	**(55,377)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(203,420)	(190,372)
Proceeds from sales and maturities of investment securities	183,513	213,915
Cash used to fund investment in NWSA	(43,077)	(38,242)
Cash distributions received from Joint Venture	60,700	56,660
Interest received on investments	4,980	3,246
Net cash provided by investing activities	**2,696**	**45,207**
Net decrease in cash	**(1,413)**	**(56)**
CASH		
Beginning of year	3,504	3,560
End of year	$ 2,091	$ 3,504

(Continued)

Enterprise Fund Statements of Cash Flows (Continued)

Years Ended December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 35,001	$ 31,713
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	26,922	28,506
Cash received (paid) for non-operating income (expense)	5,230	(876)
Cash distributions received from related party – Joint Venture	(60,700)	(56,660)
Gain on disposal of facilities	4,391	414
Increase in environmental reserves	8,564	2,103
Changes in assets and liabilities:		
Decrease in related-party receivable – Joint Venture	10,274	10,771
Decrease in accounts receivable	1,746	305
Increase in other deferred assets	(543)	(1,421)
(Increase) decrease in prepayments	(634)	904
Decrease in investment in Joint Venture	4,708	1,735
Increase (decrease) in accounts payable and accrued liabilities	6,273	(6,069)
Decrease in payroll and taxes payable	(5,248)	(5,466)
Increase (decrease) in long-term liabilities	2,079	(164)
Decrease in net deferred pension inflows/outflows	2,330	4,319
Total adjustments and changes	**5,392**	**(21,599)**
Net cash provided by operating activities	**$ 40,393**	**$ 10,114**
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital asset additions and other purchases financed with accounts payable	$ 227	$ 56
Capital construction payable to related party - Joint Venture	(3,460)	(4,873)
Distributions receivable from related party – Joint Venture	3,790	5,070
(Decrease) increase in fair value of investments	(1,125)	156

See notes to financial statements.

Post-Employment Health Care Benefits Trust Fund Statements of Net Position

December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
ASSETS		
Cash	$ 216	$ 133
Fixed income securities, at fair value	4,770	4,987
Total assets	**$ 4,986**	**$ 5,120**
PLAN LIABILITIES		
Net position held in trust for other post-retirement benefits and other purposes	**$ 4,986**	**$ 5,120**

See notes to financial statements.

Post-Employment Health Care Benefits Trust Fund Statements of Changes in Net Position

Years Ended December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
ADDITIONS		
Employer contributions	$ ---	$ ---
Net decrease in fair value of investments	(1)	(36)
Interest	86	80
Total additions	**85**	**44**
DEDUCTIONS		
Benefit payments	207	418
Administrative expenses	12	13
Total deductions	**219**	**431**
Change in net position	**(134)**	**(387)**
NET POSITION HELD IN TRUST FOR OTHER POST RETIREMENT BENEFITS AND OTHER PURPOSES		
Beginning of year	5,120	5,507
End of year	$ 4,986	$ 5,120

See notes to financial statements.

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 within Pierce County, Washington, and is situated on Commencement Bay in Puget Sound.

The Port is independent from Pierce County government and is administered by a five-member Board of Commissioners elected by Pierce County voters. The Commission delegates administrative authority to 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 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 ownership of the managing members is accounted for as a joint venture by the home ports. Additional information about the formation of the NWSA is presented in the MD&A and Note 17, Joint Venture.

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

Nature of Business

The Enterprise Fund is used to account for the general operations of the Port as more fully described below.

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

Measurement Focus, Basis of Accounting and Presentation

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 amendments to existing agreements and leases and future capital contributions to the NWSA, must be approved by each Managing Member and, accordingly, the Port will need to reach agreement with the Port of Seattle on these matters prior to executing any changes.

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

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

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, 2018 and 2017 was $10,000 and $170,000, 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 Washington 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 Deposit. The investments are limited to high-quality obligations with limited maximum and average maturities. The pool is valued at amortized cost. Interest income on investments is recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20 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.

Bond Reserves – Restricted

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

Prepayments and Other Current Assets

Maintenance supply inventories of $4,998,000 and $4,777,000 at December 31, 2018 and 2017, 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	3-20

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

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 capital grant contributions. 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 2018, total interest incurred, excluding interest on general obligation bonds was $19,926,000, net of capitalized interest of $227,000. During 2017, total interest incurred, excluding interest on general obligation bonds was $19,717,000, net of capitalized interest of $56,000.

Intangible Assets

Intangible assets consist of assets that lack physical substance, are nonfinancial in nature and whose initial useful life extends beyond one reporting period. Intangibles assets primarily consist of a land exchange and right-of-way rights and are classified with capital assets in the accompanying financial statements. Management has determined that there are no factors that would limit the useful life of these assets therefore they are considered indefinite lived assets and are not being amortized.

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.

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

	2018	2017
Net investment in capital assets	$ 952,435	$ 955,557
Revenue bond proceeds restricted for construction	17,387	46,734
LESS:		
Net bond premium	47,346	50,050
Net advance refunding deferred losses	(6,770)	(7,513)
Long-term debt, including current portion	593,816	607,419
Commercial paper	25,000	25,000
Invested in capital assets, net of related debt, end of year	**$ 310,430**	**$ 327,335**

The restricted component of net position was $13,251,000 and $13,496,000 at December 31, 2018 and 2017, 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 $659,000 and $595,000 at December 31, 2018 and 2017, respectively. Retentions payable are included in accounts payable and accrued liabilities on the accompanying statements of net position.

Federal and State Grants

The Port may receive federal and state grants as reimbursement for construction of facilities and other capital projects. These grants are included in capital contributions on the accompanying statements of revenues, expenses and changes in net position.

Commercial Paper and Current Portion of Long-Term Debt

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

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, 2018 and 2017 (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 and the related Trust, are not recorded on the Port's financial statements. The difference between the reacquisition price and the carrying amount of defeased debt results in either a gain or loss that is amortized over the life of the new debt or old debt, whichever is shorter (see Note 5).

Employee Benefits

The Port accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation. Accrued vacation and sick leave included in payroll and taxes payable amounted to $1,022,000 and $700,000, respectively, at December 31, 2018, and $1,055,000 and $716,000, respectively, at December 31, 2017.

Vacation and sick leave paid in 2018 was $1,154,000 and $757,000, respectively, and $1,084,000 and $736,000, respectively, in 2017. The estimated total amount of vacation and sick leave expected to be paid in 2019 is $1,188,000 and $780,000, 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. Effective April 1, 2013, the plans were closed to employees not covered by collective bargaining agreements hired on or after April 1, 2013 and are subject to a 5-year vesting period. The plans require the Port to contribute $229 and $222 per month in 2018 and 2017, respectively, to the VEBA accounts of eligible employees. The Port contributed $346,000 and $361,000 to eligible employee VEBA accounts in 2018 and 2017, 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.

Post-Employment Health Care Benefit Trust

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

The net other post-employment benefits other than pensions (OPEB) asset complied with the provisions of GASB Statements 74 and 75 (see Note 9). The Plan's audited financial statements for 2018 and 2017 may be found on pages 18 and 19 of this report.

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).

Environmental Remediation Costs

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

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 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 January 2017, the 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.

In June 2017, GASB issued Statement No. 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In April 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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 June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the end of a Construction Period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Port is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In August 2018, GASB issued Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. 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.

Recent Accounting Pronouncements, Adopted

In June 2015, GASB issued Statement No. 75 (GASB 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. The Port adopted this standard and included the prescribed disclosures in Note 9, Post-Employment Health Care Benefits Trust Fund.

The Port adopted GASB 75 in 2018 which resulted in a restatement of net position to reflect the Port's net OPEB asset. The restatement increased net position at January 1, 2018 by $1.4 million and an offsetting OPEB asset of $1.4 million. There were no deferred inflows or outflows recognized as a part of this restatement. The prescribed disclosures are in Note 9, Post-Employment Health Care Benefits Trust Fund.

In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Port adopted this standard which did not have an effect on its financial statements and related disclosures.

NOTE 2 – DEPOSITS AND INVESTMENTS

Discretionary Deposits

The Port's cash and cash equivalents of $2.1 million and $3.5 million as of December 31, 2018 and 2017, 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 50 percent.

Investments

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

Risks

Concentration risk: Concentration risk is defined as holdings greater than 5 percent as noted in the table below.

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 LGIP is an unrated 2a7-like pool, as defined by the GASB.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. To minimize this risk, the Port's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the Port's safekeeping bank. With the exception of the Washington State 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 certificates of deposit 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 Federal Deposit Insurance Corporation (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.

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

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

	2018	2017
Investments	$ 215,802	$ 167,618
Unspent bond proceeds	17,387	46,734
Bond reserves	13,251	13,496
Total deposits and investments	**$ 246,440**	**$ 227,848**

See Note 9 for disclosures regarding the fiduciary fund investments.

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port investment portfolio (excluding investments held by the Post-Employment Health Care Benefits Trust Fund, see Note 9 for investment detail for the Trust) as of December 31, 2018 and 2017 (dollars in thousands):

2018	Maturities (in Years)				
Investment Type	**Carrying Value**	**Less than 1**	**1-3**	**More than 3**	**Percentage of Total Portfolio**
Certificate of Deposit	$ 327	$ 327	$ ---	$ ---	0.1%
Escrow Deposit with US Bank	53	53	---	---	0.0%
Federal Agricultural Mortgage Corporation	1,983	---	1,983	---	0.8%
Federal Farm Credit Bank	9,866	6,959	---	2,907	4.0%
Federal Home Loan Bank	4,942	---	1,963	2,979	2.0%
Federal Home Loan Mortgage Corporation	5,987	4,010	1,977	---	2.4%
Federal National Mortgage Association	8,809	4,949	1,946	1,914	3.6%
Municipal Bonds	65,920	---	7,123	58,797	26.7%
United States Treasury Bonds	12,576	4,489	---	8,087	5.1%
State Local Investment Pool *	135,977	135,977	---	---	55.3%
Total investments	**$246,440**	**$156,764**	**$14,992**	**$ 74,684**	**100.0%**
Percentage of total portfolio		63.6%	6.1%	30.3%	100.0%

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

2017	Maturities (in Years)				
Investment Type	**Carrying Value**	**Less than 1**	**1-3**	**More than 3**	**Percentage of Total Portfolio**
Certificate of Deposit	$ 3,331	$ 3,331	$ ---	$ ---	1.5%
Federal Agricultural Mortgage Corporation	2,988	1,001	1,987	---	1.3%
Federal Farm Credit Bank	10,842	997	6,953	2,892	4.8%
Federal Home Loan Bank	14,958	9,020	2,968	2,970	6.6%
Federal Home Loan Mortgage Corporation	13,001	7,991	5,010	---	5.7%
Federal National Mortgage Association	29,851	21,039	4,947	3,865	13.1%
Financing Corporation	1,030	1,030	---	---	0.5%
Municipal Bonds	72,378	3,669	8,251	60,458	31.8%
United States Treasury Bonds	9,754	1,006	---	8,748	4.3%
State Local Investment Pool *	69,715	69,715	---	---	30.4%
Total investments	**$227,848**	**$118,799**	**$30,116**	**$ 78,933**	**100.0%**
Percentage of total portfolio		52.2%	13.2%	34.6%	100.0%

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

The tables below identify the credit risk of the Port's investment portfolio as of December 31, 2018 and 2017 (dollars in thousands):

2018	Moody's Equivalent Credit Ratings						
Investment Type	**Fair Value**	**A1**	**Aa3**	**Aa2**	**Aa1**	**Aaa**	**No Rating**
Certificate of Deposit	$ 327	$ ---	$ ---	$ ---	$ ---	$ ---	$ 327
Escrow Deposit with US Bank	53	---	---	---	---	---	53
Federal Agricultural Mortgage Corporation	1,983	---	---	---	---	---	1,983
Federal Farm Credit Bank	9,866	---	---	---	---	9,866	---
Federal Home Loan Bank	4,942	---	---	---	---	4,942	---
Federal Home Loan Mortgage Corporation	5,987	---	---	---	---	5,987	---
Federal National Mortgage Association	8,809	---	---	---	---	8,809	---
Municipal Bonds	65,920	2,090	9,524	14,199	27,914	12,193	---
State Local Investment Pool*	12,576	---	---	---	---	12,576	---
United States Treasury Bonds	135,977	---	---	---	---	---	135,977
Total	**$246,440**	**$2,090**	**$9,524**	**$14,199**	**$27,914**	**$54,373**	**$138,340**

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

2017	Moody's Equivalent Credit Ratings						
Investment Type	**Fair Value**	**A1**	**Aa3**	**Aa2**	**Aa1**	**Aaa**	**No Rating**
Certificate of Deposit	$ 3,331	$ ---	$ ---	$ ---	$ ---	$ ---	$ 3,331
Federal Agricultural Mortgage Corporation	2,988	---	---	---	---	---	2,988
Federal Farm Credit Bank	10,842	---	---	---	---	10,842	---
Federal Home Loan Bank	14,958	---	---	---	---	14,958	---
Federal Home Loan Mortgage Corporation	13,001	---	---	---	---	13,001	---
Federal National Mortgage Association	29,851	---	---	---	---	29,851	---
Financing Corporation	1,030	---	---	---	---	---	1,030
Municipal Bonds	72,378	203	9,609	18,102	31,860	12,604	---
State Local Investment Pool*	69,715	---	---	---	---	---	69,715
United States Treasury Bonds	9,754	---	---	---	---	9,754	---
Total	**$227,848**	**$ 203**	**$9,609**	**$18,102**	**$31,860**	**$91,010**	**$77,064**

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

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

NOTE 3 – CAPITAL AND INTANGIBLE ASSETS

The following activity took place in capital and intangible assets during 2018 and 2017 (dollars in thousands):

2018	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
CAPITAL ASSETS NOT BEING DEPRECIATED					
Land	$ 567,869	$ ---	$ 689	$ (269)	$ 568,289
Intangible assets	32,264	---	---	---	32,264
Construction in process	30,272	25,890	(23,125)	2,301	35,338
Total capital assets not being depreciated	**630,405**	**25,890**	**(22,436)**	**2,032**	**635,891**
CAPITAL ASSETS BEING DEPRECIATED					
Buildings	104,413	---	21	(3,776)	100,658
Improvements	632,697	---	20,622	(3,614)	649,705
Machinery and equipment	114,517	---	1,793	(28,350)	87,960
Total capital assets being depreciated	**851,627**	**---**	**22,436**	**(35,740)**	**838,323**
LESS ACCUMULATED DEPRECIATION					
Buildings	(71,369)	(3,022)	---	2,765	(71,626)
Improvements	(360,655)	(20,108)	---	3,243	(377,520)
Machinery and equipment	(94,451)	(3,792)	---	25,610	(72,633)
Total accumulated depreciation	**(526,475)**	**(26,922)**	---	**31,618**	**(521,779)**
Net, capital assets being depreciated	**325,152**	**(26,922)**	**22,436**	**(4,122)**	**316,544**
Net, capital and intangible assets	**$ 955,557**	**$ (1,032)**	**$ ---**	**$ (2,090)**	**$ 952,435**

2017	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
CAPITAL ASSETS NOT BEING DEPRECIATED					
Land	$ 563,699	$ ---	$ 4,170	$ ---	$ 567,869
Intangible assets	32,264	---	---	---	32,264
Construction in process	25,593	15,628	(11,284)	335	30,272
Total capital assets not being depreciated	**621,556**	**15,628**	**(7,114)**	**335**	**630,405**
CAPITAL ASSETS BEING DEPRECIATED					
Buildings	101,351	---	5,496	(2,434)	104,413
Improvements	640,118	---	213	(7,634)	632,697
Machinery and equipment	115,030	---	1,405	(1,918)	114,517
Total capital assets being depreciated	**856,499**	**---**	**7,114**	**(11,986)**	**851,627**
LESS ACCUMULATED DEPRECIATION					
Buildings	(70,797)	(2,896)	---	2,324	(71,369)
Improvements	(347,647)	(20,324)	---	7,316	(360,655)
Machinery and equipment	(91,082)	(5,286)	---	1,917	(94,451)
Total accumulated depreciation	**(509,526)**	**(28,506)**	---	**11,557**	**(526,475)**
Net, capital assets being depreciated	**346,973**	**(28,506)**	**7,114**	**(429)**	**325,152**
Net, capital and intangible assets	**$ 968,529**	**$(12,878)**	**$ ---**	**$ (94)**	**$ 955,557**

NOTE 4 – COMMERCIAL PAPER

The Port is authorized to use Subordinate Lien Revenue Notes (commercial paper) in an amount not to exceed $100 million. Port issues commercial paper to provide interim financing for capital asset projects. The draws are secured by a bank letter of credit with an expiration date of April 2022.

The term of the commercial paper ranges from 1 to 270 days and the interest rate on the amount outstanding at December 31, 2018, was 1.88 percent. At December 31, 2017, the interest rate on the amount outstanding was 1.03 percent.

Commercial paper activity during 2018 and 2017 was as follows (dollars in thousands):

Beginning balance January 1, 2017	**$ 25,000**
Advances	125,000
Repayments	(125,000)
Ending December 31, 2017	**25,000**
Advances	150,000
Repayments	(150,000)
Ending December 31, 2018	**$ 25,000**

NOTE 5 – LONG-TERM DEBT

Long-term debt activity during 2018 and 2017 consists of the following (dollars in thousands):

2018								
Description and Date of Issue	**Original Coupon Rate**	**Original True Interest Cost**	**Earliest Year of Call**	**Last Year of Maturity**	**December 31, 2017**	**Issuance**	**Refundings/ Repayments**	**December 31, 2018**
GENERAL OBLIGATION BONDS								
02/25/16	1.06-2.36%	1.994%	*	2025	$ 25,344	$ ---	$ (451)	$ 24,893
09/08/16 A	3.00-5.00%	2.705%	2026	2038	108,650	---	(2,495)	106,155
09/06/17	2.50-3.40%	3.177%	2028	2038	19,995	---	(585)	19,410
					$153,989	**$ ---**	**$(3,531)**	**$150,458**
Net premium					21,958			20,509
Less current portion					3,531			4,127
Total long-term general obligation bonds, net of current portion					**$172,416**			**$166,840**
REVENUE BONDS								
3/07/08	Variable Rate	Variable Rate	*	2036	$ 68,040	$ ---	$ (2,850)	$ 65,190
07/15/09**	Variable Rate	Variable Rate	*	2044	122,180	---	---	122,180
06/04/14 A	2.50%	2.536%	*	2021	8,525	---	(2,052)	6,473
06/11/14 A	Variable Rate	Variable Rate	*	2035	84,390	---	(2,270)	82,120
10/24/14 B	2.55%	2.550%	2018	2029	30,775	---	(2,320)	28,455
09/08/16 A	4.00-5.00%	2.552%	2026	2034	36,535	---	---	36,535
09/08/16 B	2.00-5.00%	3.642%	2026	2043	102,985	---	(580)	102,405
					$453,430	**$ ---**	**$(10,072)**	**$443,358**
Net premium					28,092			26,837
Less current portion					10,072			10,425
Total long-term revenue bonds, net of current portion					**$471,450**			**$459,770**

* 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.

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

2017								
Description and Date of Issue	**Original Coupon Rate**	**Original True Interest Cost**	**Earliest Year of Call**	**Last Year of Maturity**	**December 31, 2016**	**Issuance**	**Refundings/ Repayments**	**December 31, 2017**
GENERAL OBLIGATION BONDS								
01/17/08 A	5.00%	4.517%	2018	2038	$ 2,655	$ ---	$ (2,655)	$ ---
01/17/08 B	4.75-4.875%	4.882%	2018	2038	20,260	---	(20,260)	---
02/25/16	1.06-2.36%	1.994%	*	2025	25,791	---	(447)	25,344
09/08/16 A	3.00-5.00%	2.705%	2026	2038	110,260	---	(1,610)	108,650
09/06/17	2.50-3.40%	3.177%	2028	2038	---	19,995	---	19,995
					$158,966	**$19,995**	**$(24,972)**	**$153,989**
Net premium					23,648			21,958
Less current portion					5,252			3,531
Total long-term general obligation bonds, net of current portion					**$177,362**			**$172,416**
REVENUE BONDS								
3/07/08	Variable Rate	Variable Rate	*	2036	$ 78,250	$ ---	$ (10,210)	$ 68,040
07/15/09**	Variable Rate	Variable Rate	*	2044	133,000	---	(10,820)	122,180
06/04/14 A	2.50%	2.536%	*	2021	8,525	---	---	8,525
06/11/14 A	Variable Rate	Variable Rate	*	2035	86,565	---	(2,175)	84,390
10/24/14 B	2.55%	2.550%	2018	2029	32,025	---	(1,250)	30,775
09/08/16 A	4.00-5.00%	2.552%	2026	2034	36,535	---	---	36,535
09/08/16 B	2.00-5.00%	3.642%	2026	2043	103,555	---	(570)	102,985
					$478,455	**$ ---**	**$(25,025)**	**$453,430**
Net premium					29,254			28,092
Less current portion					9,590			10,072
Total long-term revenue bonds, net of current portion					**$498,119**			**$471,450**

* 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.

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

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

General obligation bonds are limited tax general obligations of the Port. Per Chapter 53.36 RCW, the Port may incur general obligation bond debt up to 0.25 percent of the assessed value of the taxable property in the Port district without a vote. At December 31, 2018, the assessed value of the taxable property was $114,163,259,000, therefore total general obligation bond debt allowable without a vote was $285.4 million. The Port's outstanding non-voted general obligation bond debt as of December 31, 2018 was $171.0 million, resulting in a remaining non-voted general obligation bond capacity of $114.4 million.

The paying agent for bonded debt is:

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

In September 2017, the Port issued General Obligation Bonds par value $19,995,000 with coupon rates between 2.5 percent and 3.4 percent to refund 2008B General Obligation Bonds par value of $20,260,000. The newly issued General Obligation Bonds were issued at a premium and the net proceeds were $20,017,000. The net proceeds from the issuance of the General Obligation Bonds and cash contribution from the Port of $1,025,000 were used to purchase state and local government Series securities in the amount of approximately $21,042,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the earliest call dates. Bond issue costs associated with the refunding were $115,000 and paid from Port cash. The refunding met the requirements of an in-substance debt defeasance and the Series 2008B General Obligation Bonds were removed from the Port's financial statements.

As a result of the refunding of the 2008B General Obligation Bonds, the Port reduced its total debt service requirements by $3,970,000 which accumulates into an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,768,000 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 $687.6 million in bond principal and interest through 2044. During 2018, revenue bond principal and interest paid and total revenues were $29.3 million and $79.6 million, respectively. The revenue bonds contain coverage requirements related to maintaining adequate net revenues to support debt service.

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.

The Port's existing swap contracts and the outstanding notional amounts at December 31, 2018, 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	$ 22,793	None	9/25/08	9/25/08	12/1/36	Pay 3.320%, receive 70% of LIBOR (1)
3	Pay-fixed interest rate swap	$ 80,000	70,820	None	9/20/07	7/28/11	12/1/40	Pay 4.155%, receive 70% of LIBOR (1)
4	Pay-fixed interest rate swap	$ 130,000	116,005	None	9/20/07	7/26/12	12/1/41	Pay 4.200%, receive 70% of LIBOR (1)
5	Pay-fixed interest rate swap	$ 20,000	17,970	None	9/20/07	7/25/13	12/1/42	Pay 4.229%, receive 70% of LIBOR (1)
		$260,000	**$227,588**					

(1) One-month London Interbank Offered Rate.

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

Variable-Rate Debt	Outstanding Principal December 31, 2018	Outstanding Principal December 31, 2017
2008	$ 65,190	$ 68,040
2008B	122,180	122,180
2014A	82,120	84,390
Unhedged debt	(41,902)	(40,717)
	$ 227,588	**$ 233,893**

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2018 (dollars in thousands):

	2018 Changes in Fair Value		Fair Value at 12/31/18		
SWAP Reference	Classification	Amount	Classification	Amount	Original Notional Amount
2	Deferred outflow	$ 3,243	Debt	$ (205)	$ 30,000
3	Deferred outflow	5,470	Debt	(13,915)	80,000
4	Deferred outflow	775	Debt	(33,088)	130,000
5	Deferred outflow	869	Debt	(4,536)	20,000
		$ 10,357		**$ (51,744)**	**$ 260,000**

Note: Swap Reference 1 was terminated in 2016.

The following summarizes the change in fair value of the Port's pay-fixed, receive variable interest rate payment agreements at December 31, 2017 (dollars in thousands):

	2017 Changes in Fair Value		Fair Value at 12/31/17		
SWAP Reference	Classification	Amount	Classification	Amount	Original Notional Amount
2	Deferred outflow	$ 535	Debt	$ (3,448)	$ 30,000
3	Deferred outflow	636	Debt	(19,385)	80,000
4	Deferred outflow	288	Debt	(33,863)	130,000
5	Deferred outflow	61	Debt	(5,405)	20,000
		$ 1,520		**$ (62,101)**	**$ 260,000**

Risks

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

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

SWAP Reference	Notional Amount	Bank Counterparty	Credit Worthiness		Termination Value
			Moody's	S&P	
2	$ 30,000	Goldman Sachs	A1	A+	$ 205
3	80,000	Dexia	Baa3	BBB	13,915
4	130,000	Dexia	Baa3	BBB	33,088
5	20,000	Merrill Lynch	A3	A-	4,536
	$ 260,000				**$ 51,744**

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.

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, 2018.

Debt Service For Fixed Rate Bonds

The debt service requirements for fixed rate general obligation and revenue bonds outstanding as of December 31, 2018, are as follows (dollars in thousands):

Year Ending December 31:	Principal	Interest	Total
2019	$ 9,217	$ 13,635	$ 22,852
2020	9,420	13,434	22,854
2021	11,947	13,222	25,169
2022	12,120	12,877	24,997
2023	12,511	12,489	25,000
2024-2028	54,366	55,484	109,850
2029-2033	70,510	40,189	110,699
2034-2038	90,415	23,989	114,404
2039-2043	53,820	8,219	62,039
	$ 324,326	**$ 193,538**	**$ 517,864**

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 $122.2 million, 2008B Subordinate-Lien Variable Rate Revenue Bonds with a balance of $65.2 million and the 2014A Subordinate Lien Variable Rate Revenue Bonds with a balance of $82.1 million, and active swaps with Dexia, Goldman Sachs and Merrill Lynch outstanding as of December 31, 2018, are as follows (dollars in thousands):

Year Ending December 31:	Principal Payment	Variable Interest	Interest Rate Swap, Net (1)	Total
2019	$ 5,335	$ 6,015	$ 5,800	$ 17,150
2020	5,570	5,896	5,645	17,111
2021	5,820	5,771	5,484	17,075
2022	6,075	5,642	5,316	17,033
2023	6,345	5,505	5,141	16,991
2024-2028	36,225	25,267	22,825	84,317
2029-2033	61,665	20,248	17,266	99,179
2034-2038	20,275	14,234	10,522	45,031
2039-2043	---	13,659	3,006	16,665
2043-2048	122,180	5,464	---	127,644
	$ 269,490	**$ 107,701**	**$ 81,005**	**$ 458,196**

(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 2018 will remain the same over the term of the derivative contract.

The Port has three direct purchase agreements with banks for the Port's variable rate bonds. The Port has an agreement with a bank for a direct purchase of the 2008 Subordinate-Lien Variable Rate Revenue Bond that expires in July 2020, another direct purchase agreement with a bank for a direct purchase of the 2008B Subordinate-Lien that expires in November 2019, and a third direct purchase agreement for the 2014A bonds that expires in October 2019.

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 upon 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 $150 million in coverage, subject to a $25,000 deductible. All risk property insurance is purchased on a replacement value basis for most properties, subject to a limit of $500 million and a per occurrence deductible of $150,000. For flood losses, a sub-limit of $75 million applies and a per occurrence deductible of $100,000 to $250,000 for all flood zones. For earthquake and business interruption losses, sub-limits of $100 million apply. 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 $150,000. 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 2019. Excess loss coverage has been purchased through an outside provider to limit individual loss to $110,000. Self-insured claim activity for December 31, is as follows (dollars in thousands):

	2018	2017	2016
Claims liability, beginning of year	$ 1,030	$ 762	$ 1,316
Claims reserve	5,441	4,397	4,019
Payments on claims	(4,826)	(4,129)	(4,573)
Claims liability, end of year	**$ 1,645**	**$ 1,030**	**$ 762**

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, 2018, the estimated self-insurance liability for workers' compensation was $458,000 and this amount is expected to be paid in 2019. At December 31, 2017, the estimated self-insurance liability for workers' compensation was $447,000. 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, is as follows (dollars in thousands):

	2018	2017	2016
Claims liability, beginning of year	$ 447	$ 238	$ 530
Claims incurred during the year	189	454	89
Changes in estimate for prior year claims	510	220	(39)
Payments on claims	(688)	(465)	(342)
Claims liability, end of year	**$ 458**	**$ 447**	**$ 238**

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):

Years ending December 31:	
2019	$ 133
2020	22
2021	21
2022	15
2023	14
Thereafter	175
Total minimum payments required	**$380**

Total rent expense for the years ended December 31, 2018 and 2017 was $147,000 and $13,000, respectively.

The Port, as a lessor, leases land and facilities under terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. Minimum future rental revenue 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.

Years ending December 31:	
2019	$ 13,190
2020	11,682
2021	11,520
2022	11,384
2023	11,296
Thereafter	293,447
Total minimum future rents	**$352,519**

Assets held for rental and leasing purposes as of December 31, 2018, are as follows (dollars in thousands):

Land	$ 276,997
Buildings, improvements and equipment, net	20,828
Total, net of accumulated depreciation	**$ 297,825**

NOTE 8 – PENSION PLANS

Pension Plan

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

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

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, 2018, 398 employer and 772 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.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments; a COLA based on the Consumer Price Index, capped at 3 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, 2018, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	12.83%	12.83%	12.83%
Employee	6.00%	7.41%	***

The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2017, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	12.70%	12.70%	12.70%**
Employee	6.00%	7.38%	***

* The employer rates include the employer administrative expense fee of 0.18% for 2018 and 2017

** Plan 3 defined benefit portion only

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

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3	Total
2018	$ 9	$ 2,375	$ 415	$ 2,799
2017	8	2,103	331	2,442

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions

At December 31, 2018 and 2017, the Port reported a liability of approximately $10.7 million and $16.3 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2018, the Port's proportionate share of net pension liability and the change in proportionate share from June 30, 2017, are presented in the following tables (dollars in thousands):

Port's proportionate share of the net pension liability	PERS 1	PERS 2/3	Total
2018	$ 7,165	$ 3,487	$ 10,652
2017	8,412	7,869	16,281
Port's proportionate share of the net pension liability	**PERS 1**	**PERS 2/3**	
2018	0.1604%	0.2042%	
2017	0.1773%	0.2265%	
Change in proportionate share	**(0.0169%)**	**(0.0223%)**	
Port's pension expense (benefit)	**PERS 1**	**PERS 2/3**	**Total**
2018	$ (1,362)	$ (1,937)	$ (3,299)
2017	(1,134)	(535)	(1,669)

At December 31, 2018 and 2017, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

2018			
Sources of Deferred Outflow of Resources:	**PERS 1**	**PERS 2/3**	**Total**
Net difference between projected and actual earnings on pension plan investments (2)	$ ---	$ ---	$ ---
Changes in Assumptions (1)	---	41	41
Differences between expected and actual experience (1)	---	427	427
Changes in proportionate and differences between Port contributions and proportionate share of contributions (1)	---	75	75
Port contributions subsequent to measurement date	574	838	1,412
Total	**$ 574**	**$ 1,381**	**$ 1,955**
Sources of Deferred Inflow of Resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ (285)	$ (2,140)	$ (2,425)
Changes in Assumptions (1)	---	(992)	(992)
Differences between expected and actual experience (1)	---	(611)	(611)
Changes in proportionate and differences between Port contributions and proportionate share of contributions (2)	---	(1,285)	(1,285)
Total	**$ (285)**	**$(5,028)**	**$(5,313)**

(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.

2017			
Sources of Deferred Outflow of Resources:	**PERS 1**	**PERS 2/3**	**Total**
Net difference between projected and actual earnings on pension plan investments (2)	$ ---	$ ---	$ ---
Changes in assumptions (1)	---	84	84
Differences between expected and actual experience (1)	---	797	797
Changes in proportionate and differences between Port contributions and proportionate share of contributions (1)	---	---	---
Port contributions subsequent to measurement date	488	828	1,316
Total	**$ 488**	**$ 1,709**	**$ 2,197**
Sources of Deferred Inflow of Resources:			
Net difference between projected and actual earnings on pension plan investments (2)	$ (314)	$ (2,098)	$ (2,412)
Changes in assumptions (1)	---	---	---
Differences between expected and actual experience (1)	---	(259)	(259)
Changes in proportionate and differences between Port contributions and proportionate share of contributions (2)	---	(554)	(554)
Total	**$ (314)**	**$(2,911)**	**$(3,225)**

(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.

As of December 31, 2018, deferred outflows of resources related to pensions resulting from the Port's contributions subsequent to the measurement date was $1.4 million and will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. 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):

Years ending December 31:	PERS 1	PERS 2/3	Total
2019	12	(563)	(551)
2020	(62)	(912)	(974)
2021	(187)	(1,508)	(1,695)
2022	(48)	(683)	(731)
2023	---	(377)	(377)
Thereafter	---	(442)	(442)
Total	**$ (285)**	**$ (4,485)**	**$ (4,770)**

As of December 31, 2017, deferred outflows of resources related to pensions resulting from Port's contributions subsequent to the measurement date was $1.3 million and will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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):

Years ending December 31:	PERS 1	PERS 2/3	Total
2018	$ (227)	$ (1,012)	$ (1,239)
2019	88	195	283
2020	(15)	(251)	(266)
2021	(160)	(947)	(1,107)
2022	---	(6)	(6)
Thereafter	---	(9)	(9)
Total	**$ (314)**	**$ (2,030)**	**$ (2,344)**

Actuarial Assumptions

The 2018 pension liability (TPL) for each of the plans was determined by an actuarial valuation as of June 30, 2017 with the results rolled forward to June 30, 2018. Besides the discount rate, the actuarial assumptions used in the valuation are summarized in the Actuarial Section of Washington State Department of Retirement Systems' (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 and the 2017 Economic Experience Study.

The 2017 pension liability (TPL) for each of the plans was determined by an actuarial valuation as of June 30, 2016 with the results rolled forward to June 30, 2017. 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 and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report are as follows:

Inflation: 2.75 percent total economic inflation; 3.50 percent salary inflation. (2017: 3.0 percent for total economic inflation; 3.75 percent for salary inflation.)

Salary increases: In addition to the base 3.50 percent salary inflation assumption, salaries are also expected to grow by promotions and longevity. (2017: salaries were expected to grow 3.75 percent.)

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

Long-term expected rate of return: For 2018, the OSA selected a 7.40 percent long-term expected rate of return on pension plan investments using a building-block method (2017: 7.5 percent long-term expected rate of return). In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA) and simulated expected investment returns the Workplace Safety & Insurance Board (WSIB) provided.

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 future times.

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, are summarized in the tables below.

2018		
Asset Class	**Target Allocation**	**% Long-term Expected Real Rate of Return Arithmetic**
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

2017		
Asset Class	**Target Allocation**	**% Long-term Expected Real Rate of Return Arithmetic**
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

The inflation component used to create the table is 2.20 percent for June 30, 2018 and 2017 and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate: The discount rate used to measure the total 2018 pension liability was 7.40 percent for all plans (2017: 7.5 percent). 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.

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 7.40 percent (2017: 7.5 percent) was used as the discount rate to determine the total liability.

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 7.4 percent as well as what employers' net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate.

	Pension Trust	1% Decrease	Discount Rate	1% Increase
December 31, 2018				
Discount Rate		6.4%	7.4%	8.4%
Proportionate share of net pension liability	PERS 1	$ 8,805	$ 7,165	$ 5,744
Proportionate share of net pension liability (asset)	PERS 2/3	15,951	3,487	(6,731)
December 31, 2017				
Discount Rate		6.5%	7.5%	8.5%
Proportionate share of net pension liability	PERS 1	$ 10,247	$ 8,412	$ 6,822
Proportionate share of net pension liability (asset)	PERS 2/3	21,201	7,869	(3,054)

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 2018 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 are included in OSA's 2017 Actuarial Valuation Report.

NOTE 9 – POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND

The Port provides major medical coverage for eligible retired employees through the single-employer Post-Employment Defined Benefit Health Plan (the "Plan"). The Plan is administered through the Port of Tacoma's self-insured medical plan. The Port established the Port of Tacoma Post-Retirement Healthcare Funding Obligation Trust (the "Trust") to be used solely for the cost of medical coverage for eligible Plan participants and for payment of the cost of administering the Trust. The Port is the sole administrator and fiduciary of the Trust. Management and funding of the Trust is the responsibility of the Port Treasurer. The Port, shall have the right at any time, and from time to time, to modify, alter or amend the Plan in whole or in part effective as of a specified date, pursuant to the laws of the State of Washington. As noted in Note 1, GASB Statement No. 74, Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans (OPEB) was adopted in 2017.

The Plan's audited financial statements for December 31, 2018 and 2017 may be found on pages 18 and 19 of this report.

Plan Description

The Plan provides major medical coverage, subject to a deductible, and a maximum benefit limit of $2,000,000 per person for eligible retired employees and qualified dependent spouses. Retirees and their spouses are eligible for Port-paid, post-employment medical benefits upon attainment of age 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 benefits for up to 10 years, provided they have completed 20 years of service and are eligible to retire under PERS. The Plan is closed to employees hired on or after March 15, 2007. The Plan does not require employee or retiree contributions. There are 16 active members, 17 inactive members and zero inactive members entitled to but not yet receiving benefits in the Plan.

The Port will fund the Plan as necessary to enable the Plan to pay vested accrued benefits to participants as they become due. However, the Trust was fully funded at its inception and it has not needed additional contributions from the Port.

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

The Plan is administered through a qualifying trust per paragraph 4, item (b), of GASB 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions, which the Port adopted during 2018. The adoption of GASB 75 resulted in a restatement of net position at January 1, 2018 to reflect the Port's net OPEB asset. The restatement increased the 2018 beginning balance of net position by $1.4 million with an offsetting OPEB asset of $1.4 million. Management determined that it was not practical or cost effective to restate deferred inflows and outflow on January 1, 2018 nor was it practical to restate 2017 net position and related deferred inflows and outflows for the adoption of this standard. The measurement date is December 31, 2018.

Rate of Return

The long-term expected rate of return on OPEB plan investments for December 31, 2018 of 3.41 percent was determined using the Municipal Bond Rate (November 30, 2018). This rate best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The changes in net OPEB asset were as follows (dollars in thousands):

	Total OPEB Liability a	Plan Net Position b	Net OPEB (Asset) Liability (a-b)
Beginning balance, December 31, 2017	**$ 3,699**	**$ 5,120**	**$ (1,421)**
Service cost	75	---	75
Interest	101	---	101
Changes in benefit terms	---	---	---
Differences between expected and actual experience	(983)	---	(983)
Changes of assumptions	369	---	369
Benefit payments	(207)	(207)	---
Contributions – employer	---	---	---
Net investment income	---	85	(85)
Administrative expense	---	(12)	12
Net changes	(645)	(134)	(511)
Ending balance, December 31, 2018	**$ 3,054**	**$ 4,986**	**$ (1,932)**

OPEB Expense for December 31, 2018 is as follows (dollars in thousands):

Service cost	$ 75
Interest	101
Net investment income	(176)
Administrative expense	12
Deferred (inflows) outflows of resources:	
Differences between expected and actual experience	(328)
Net difference between projected and actual earnings on OPEB plan investments	49
Changes in assumptions	123
Contributions – employer	---
OPEB expense	**$ (144)**

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial present value of accumulated plan benefits is determined by an independent actuary. The results are based on the December 31, 2017 actuarial valuation date rolled forward to December 31, 2018, the measurement date and reporting date.

The 2018 actuarial valuation method used was entry age normal, the assumption for salary increases was 3.0 percent. Mortality rates were based on RP-2014 Combined Fully Generational Mortality Table with projected mortality improvements after year 2006 under Projection Scale MP-2018 (male and female scales). The 2017 actuarial valuation method used was entry age normal, the assumption for salary increases was 3.0 percent. Mortality rates were based on RP-2014 Combined Fully Generational Mortality Table with projected mortality improvements after year 2006 under Projection Scale MP-2015 (male and female scales).

The 2018 long-term expected rate of return on OPEB plan investments was determined using the 20 year long-term municipal bond rate of 3.41 percent (the November 30, 2018 S&P Municipal Bond Index), which best estimates expected future real rates of return (expected returns, net of investment expense and inflation). The 2017 long-term expected rate of return on OPEB plan investments was determined using the 20 year long-term municipal bond rate of 3.1 percent (the November 30, 2017 Municipal Bond Index), which best estimates expected future real rates of return (expected returns, net of investment expense and inflation).

Discount Rate

The discount rate for 2018 used to measure the total OPEB liability was 3.41 percent based on the November 30, 2018 S&P Municipal Bond Index. The discount rate for 2017 used to measure the total OPEB liability was 3.1 percent based on the November 30, 2017 S&P Municipal Bond Index. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset of the Port, as well as what the Port's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
	2.41%	3.41%	4.41%
Net OPEB Asset	$ 1,806	$ 1,932	$ 2,052

Sensitivity of the Net OPEB Asset to Changes in the Health Care Cost Trend Rates

The 2018 health care cost trend rate was 7.0 percent in 2019 graded down to 5.0 percent in 2022 and applying the SOA Getzen Model with baseline long-run growth factors. The 2017 health care cost trend rate was 7.0 percent in 2018 graded down to 5.0 percent in 2021 and applying the SOA Getzen Model with baseline long-run growth factors.

The following presents the net OPEB asset of the Plan, as well as what the Plan's net OPEB asset would be if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1 percentage-point higher than the current health care cost trend rates (dollars in thousands):

	1% Decrease 6.0% decreasing to 4% over 5 years	Discount Rate 7.0% decreasing to 5% over 5 years	1% Increase 8.0% decreasing to 6% over 5 years
Net OPEB Asset	$ 2,114	$ 1,932	$ 1,734

For the year ended December 31, 2018, the recognized OPEB expense was $144,000 and deferred outflows of resources and deferred inflows of resources related to OPEB were as follows (dollars in thousands):

	Deferred Outflow of Resources	Deferred Inflow of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 195	$ ---
Change in assumptions	246	---
Differences between expected and actual experience	---	(655)
Total	**$ 441**	**$ (655)**

Differences between expected and actual experience are amortized over the average remaining service lives of all participants which for the current period is 3 years. Changes in actuarial assumptions are amortized over the average remaining service lives of all participants, 3 years. Net difference between projected and actual earnings on OPEB plan investments are amortized over 5 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ended December 31 (dollars in thousands):

Years ending December 31:	
2019	$ (156)
2020	(156)
2021	49
2022	49
	$ (214)

Investments

Investment policy: As of December 31, 2018, the Plan's investments were deposited in qualified depositories as required by state statutes. Those statutes authorize the Trust to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and certain municipal bonds. Investments are valued at fair value. The following is the Plan's asset allocation at December 31:

	Target Allocation	
Asset Class	**2018**	**2017**
Fixed income	96%	97%
Cash	4%	3%
	100%	**100%**

Rate of return: The annual money-weighted rate of return on the OPEB plan investments, net of investment expense for December 31, 2018 and 2017, was 1.49 percent and 0.59 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for changing amounts actually invested.

Risks

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

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 tables below present investment types, durations and amount by issuer.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty or the Trust, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The deposits 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 tables below present investment types, durations and amount by issuer.

Concentration risk: Concentration risk is defined as holdings in any one organization greater than 5 percent as noted in the tables below.

Trust Deposits and Investments

The Trust's cash and cash equivalents of $216,000 and $133,000 as of December 31, 2018 and 2017, respectively, were deposited in qualified depositories as required by state statute.

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

2018	Maturities (in years)				
Investment type	**Fair value**	**Less than 1**	**1-3**	**More than 3**	**Percentage of Total Portfolio**
Federal Farm Credit Bank	$ 251	$ ---	$ 251	$ --	5.2%
Federal Home Loan Bank	1,490	299	893	298	31.3%
Federal Home Loan Mortgage Corporation	199	199	---	---	4.2%
Federal National Mortgage Association	1,679	500	933	246	35.2%
United States Treasury Bonds	1,151	100	247	804	24.1%
Total investments	**$ 4,770**	**$ 1,098**	**$ 2,324**	**$ 1,348**	**100.0%**
Percentage of total portfolio		**23.0%**	**48.7%**	**28.3%**	**100.0%**

2017	Maturities (in years)				
Investment type	**Fair value**	**Less than 1**	**1-3**	**More than 3**	**Percentage of Total Portfolio**
Federal Home Loan Bank	$ 1,900	$ 400	$ 598	$ 902	38.1%
Federal Home Loan Mortgage Corporation	198	---	198	---	4.0%
Federal National Mortgage Association	2,243	549	962	732	45.0%
United States Treasury Bonds	646	299	347	---	12.9%
Total investments	**$ 4,987**	**$ 1,248**	**$ 2,105**	**$ 1,634**	**100.0%**
Percentage of total portfolio		**25.0%**	**42.2%**	**32.8%**	**100.0%**

The Trust investments are rated AAA by Moody's equivalent credit rating as of December 31, 2018 and 2017.

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

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

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

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

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

Fair value of Trust investments as of December 31, 2018	Level 1	Level 2	Total
Federal Farm Credit Bank	$ ---	$ 251	$ 251
Federal Home Loan Bank	598	893	1,491
Federal Home Loan Mortgage Corporation	199	---	199
Federal National Mortgage Association	1,427	252	1,679
United States Treasury Bonds	1,150	---	1,150
Total Post-Employment Health Care Benefits Trust Fund	**$ 3,374**	**$ 1,396**	**$ 4,770**

Fair value of Trust investments as of December 31, 2017	Level 1	Level 2	Total
Federal Home Loan Bank	$ 1,600	$ 300	$ 1,900
Federal Home Loan Mortgage Corporation	198	---	198
Federal National Mortgage Association	1,752	491	2,243
United States Treasury Bonds	646	---	646
Total Post-Employment Health Care Benefits Trust Fund	**$ 4,196**	**$ 791**	**$ 4,987**

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 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 2018 the Port's regular tax levy was $0.184 per $1,000 on a total assessed valuation of $101,393,431,000, for a total regular levy amount of $18,623,000. In 2017 the Port's regular tax levy was $0.184 per $1,000 on a total assessed valuation of $90,491,815,000, for a total regular levy amount of $16,660,000.

NOTE 11 – COMMITMENTS AND OTHER LONG-TERM LIABILITIES

Commitments

The Port has entered into contractual agreements for terminal maintenance, infrastructure improvements, environmental projects, and professional and personal services. At December 31, 2018, these future commitments are as follows (dollars in thousands):

Description	Remaining Commitments
Terminal projects	$ 6,928
Environmental	1,987
Other	5,722
	$ 14,637

Included in the commitments above are $448,000 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 17, 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 12.5 acres of the Blair waterway for the Port's use as a right-of-way. As a part of this agreement, the Port agreed to pay for dredging the channel width from 650 feet to 850 feet at some point in the future. The estimated cost of this project is $28.0 million. The $28.0 million is recorded in other long-term liabilities on the statements of net position at December 31, 2018 and 2017.

The Port accounted for this transaction as a "like-kind" property exchange without commercial substance. The assets received in this exchange have an indefinite life and, therefore, per GASB 51, Accounting and Financial Reporting for Intangible Assets, will be recorded as intangible assets in the statements of net position. Also, since the acquired assets have an indefinite life, they will not be amortized.

NOTE 12 – ENVIRONMENTAL LIABILITIES

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

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

Future expenditures for environmental remediation obligations using the expected cash flow technique were $28.8 million at December 31, 2018, and $18.3 million at December 31, 2017. 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 2017, a feasibility study was completed for the re-development of a log processing facility for future terminal expansion. In 2018 a settlement was reached with the previous owner and a cash payment of $8.6 million was received to pay for future environmental costs. The cash received by the Port increased the Port's environmental liability for this project to $11.1 million.

In 2014, the Port recorded $5.2 million 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 $4.7 million at December 31, 2018 and 2017.

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 $5.2 million and $5.4 million at December 31, 2018 and 2017, 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 $1.2 million and $1.5 million at December 31, 2018 and 2017, respectively.

At December 31, 2018, the estimated cost of the environmental remediation projects expected to be capitalized in future periods is approximately $15.1 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.

NOTE 14 – MAJOR CUSTOMERS

Effective January 1, 2016, the accounting for revenues and expenses associated with Licensed Properties became the responsibility of the NWSA and that activity is reflected on statements of revenues, expenses and changes in net position as joint venture income. NWSA joint venture income in 2018 and 2017 was $56.0 million and $54.9 million, respectively, and 70.3 percent and 71.6 percent of total revenue, respectively. Further information on joint venture activity with the NWSA can be found in Note 17, Joint Venture.

NOTE 15 – RELATED-PARTY TRANSACTIONS

The commissioners of the Port, 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 2019. 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 17, Joint Venture.

NOTE 16 – FAIR VALUE MEASUREMENTS

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

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

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

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

In determining the appropriate levels, the Port performs a detailed analysis of the assets and liabilities that are subject to the guidance. The Port's fair value measurements are evaluated by an independent third-party vendor. The third-party vendor uses a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 1 inputs are quoted prices in active markets for identical assets assessed at the measurement date. An active market for the asset is a principal market in which transactions for the asset are open to many and occur with sufficient frequency and volume. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. Level 2 investments that do not have observable trade data are valued using the present value of expected future cash flow model option or the adjusted discounted cash flow model technique. The Port does not have any Level 3 assets or liabilities at December 31, 2018 and 2017.

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

The tables below present the balances of assets and liabilities measured at fair value by level within the hierarchy at December 31, 2018 and 2017 (dollars in thousands):

Fair Value of Assets and Liabilities as of December 31, 2018	Level 1	Level 2	Total
Investments – Enterprise Fund:			
Federal Agricultural Mortgage Corporation	$ ---	$ 1,983	$ 1,983
Federal Farm Credit Bank	---	9,866	9,866
Federal Home Loan Bank	---	4,942	4,942
Federal Home Loan Mortgage Corporation	1,013	4,974	5,987
Federal National Mortgage Association	3,926	4,883	8,809
Municipal Bonds	11,718	54,203	65,921
United States Treasury Bonds	7,424	5,148	12,572
Total investments – Enterprise Fund	**$ 24,081**	**$ 85,999**	**$ 110,080**
Long-term Debt – interest rate swaps	**$ ---**	**$ 51,744**	**$ 51,744**

Fair Value of Assets and Liabilities as of December 31, 2017	Level 1	Level 2	Total
Investments – Enterprise Fund:			
Federal Agricultural Mortgage Corporation	$ ---	$ 2,988	$ 2,988
Federal Farm Credit Bank	---	10,842	10,842
Federal Home Loan Bank	3,020	10,940	13,960
Federal Home Loan Mortgage Corporation	6,030	7,970	14,000
Federal National Mortgage Association	15,961	13,890	29,851
Financing Corporation	---	1,030	1,030
Housing Urban Development	---	5,794	5,794
Municipal Bonds	13,579	58,797	72,376
United States Treasury Bonds	3,961	---	3,961
Total investments – Enterprise Fund	**$ 42,551**	**$ 112,251**	**$ 154,802**
Long-term Debt – interest rate swaps	**$ ---**	**$ 62,101**	**$ 62,101**

NOTE 17 – JOINT VENTURE

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

The investment in joint venture as of December 31, 2018, is presented as follows (dollars in thousands):

Description	January 1, 2018	2018 Activity	December 31, 2018
Working capital contributions	$ 25,500	$ ---	$ 25,500
Capital construction contributions	62,630	41,663	104,293
Noncash capital work-in-process	8,906	---	8,906
Total contributions	**97,036**	**41,663**	**138,699**
Joint Venture income	116,509	55,992	172,501
Cash distributions from Joint Venture	(109,272)	(59,420)	(168,692)
End balance	**$ 104,273**	**$ 38,235**	**$ 142,508**

The investment in joint venture as of December 31, 2017, is presented as follows (dollars in thousands):

Description	January 1, 2017	2017 Activity	December 31, 2017
Working capital contributions	$ 25,500	$ ---	$ 25,500
Capital construction contributions	28,070	34,560	62,630
Noncash capital work-in-process	8,906	---	8,906
Total contributions	**62,476**	**34,560**	**97,036**
Joint Venture income	61,584	54,925	116,509
Cash distributions from Joint Venture	(57,983)	(51,289)	(109,272)
End balance	**$ 66,077**	**$ 38,196**	**$ 104,273**

Cash distributions from the NWSA are generally received in the following month. The Port's receivable for cash distributions earned through December 31, 2018 and 2017, was $3.8 million and $5.1 million, respectively, 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 set up back office infrastructure and staff positions. The support services provided by the Port to the NWSA include equipment and facilities maintenance, security, facilities development, finance and accounting, procurement, public affairs, information technology, risk management, and office infrastructure. The costs for these services are provided by the Port to the NWSA are based on agreed-upon direct charges and allocations. These support services totaled $29.9 million in 2018 and $30.4 million in 2017.

Support services provided by the NWSA to the Port include executive management, commercial management, planning, and environmental support services. The costs for these services provided by the NWSA to the Port are based on agreed-upon direct charges and allocations. These support services totaled $1.4 million in 2018 and 2017.

The Port invoices the net amount of the support services, capital construction spending and operating costs incurred for NWSA operations to the NWSA monthly and payments are typically received in the following month. The net amount of these receivables at December 31, 2018 and 2017 is $1.2 million and $11.5 million, respectively and is included in related-party receivables – joint venture on the statements of net position.

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

	2018	2017
Total assets and deferred outflows	$ 343,804	$ 269,072
Total liabilities and deferred inflows	59,805	61,544
Total net position	**$ 283,999**	**$ 207,528**
Total operating revenues	$ 192,574	$ 194,985
Total operating expenses	89,132	85,895
Non-operating income, net	4,638	437
Capital grant contributions	3,905	324
Increase in net position before Managing Member contributions and distributions	**111,985**	**109,851**
Managing Member contributions and distributions, net	(35,514)	(33,460)
Increase in net position	**76,471**	**76,391**
Net position, beginning of year	207,528	131,137
Net position, end of year	**$ 283,999**	**$ 207,528**

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

NOTE 18 – SUBSEQUENT EVENTS

In February 2019, the Port and its contractors who were engaged to construct a habitat restoration site reached a mediated settlement for all the claims that existed between the parties. The settlement agreement released all claims between the parties and ordered payments to the Port of $650,000.

On April 2, 2019, the Managing Members and the Port of Seattle commission authorized the completion of the one-time Membership Interest Affirmation of 50/50 for each homeport in satisfaction of the NWSA's Charter. In lieu of completing the required reevaluation of Membership Interest, the Port of Seattle agreed to pay up to $32 million additional contribution to the NWSA. This additional contribution was in recognition that certain forecasted revenue streams not secured by long-term contractual agreements in the initial valuation may not be archived without the redevelopment of Terminal 5. This additional contribution will be made to the NWSA in three installments. The first two installments of $11 million each will be made on or around March 31, 2020 and 2021, respectively. The final installment will be made in 2024 and may be adjusted if the actual redevelopment costs are less than the program authorization. The Managing Members also authorized the distribution of these affirmation payments to the homeports equally after the NWSA receives the funds from the Port of Seattle.

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

December 31, 2018, 2017, 2016 and 2015 (dollars in thousands)

	2018	2017	2016	2015 (1)
PERS PLAN 1				
Port's proportion of NPL	0.1604%	0.1773%	0.1902%	0.1874%
Port's proportionate share of NPL	$ 7,165	$ 8,412	$ 10,213	$ 9,803
Port's covered-employee payroll	$ 72	$ 70	$ 67	$ 84
Port's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9951.4%	12017.1%	15243.3%	11732.9%
Plan fiduciary net pension position as a percentage of the total pension liability	63.2%	61.2%	57.0%	59.1%
Contractually required contribution	$ 1,032	$ 1,059	$ 1,136	$ 954
Contributions in relation to the contractually required contribution	(1,118)	(963)	(1,152)	(954)
Contribution deficiency (excess)	**$ (86)**	**$ 96**	**$ (16)**	**$ ---**
Port's covered-employee payroll	$ 72	$ 70	$ 67	$ 84
Contributions as a percentage of covered-employee payroll	1532%	1376%	1719%	1141%
PERS PLAN 2/3				
Port's proportion of NPL	0.2042%	0.2265%	0.2395%	0.2397%
Port's proportionate share of NPL	$ 3,487	$ 7,869	$ 12,057	$ 8,565
Port's covered-employee payroll	$ 21,200	$ 20,352	$ 23,892	$ 21,554
Port's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	16.4%	38.7%	50.5%	39.7%
Plan fiduciary net pension position as a percentage of the total pension liability	95.8%	91.0%	85.8%	89.2%
Contractually required contribution	$ 1,631	$ 1,479	$ 1,526	$ 1,252
Contributions in relation to the contractually required contribution	(1,641)	(1,479)	(1,526)	(1,252)
Contribution deficiency (excess)	**$ (10)**	**$ ---**	**$ ---**	**$ ---**
Port's covered-employee payroll	$ 21,887	$ 20,352	$ 23,892	$ 21,554
Contributions as a percentage of covered-employee payroll	7.5%	7.1%	6.2%	5.8%

(1) Information presented prospectively beginning with 2015 due to implementation of GASB Statement 68.

Notes to Required Supplementary Information: See Note 8 of the financial statements for additional information on the plan.

Post-Employment Health Care Benefits Trust Fund Schedule of Changes in Port of Tacoma's Net OPEB Asset and Related Ratios

December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
Total OPEB liability:		
Service cost	$ 75	$ 89
Interest	101	111
Change of benefit terms	---	---
Differences between expected and actual experience	(983)	---
Changes of assumptions	369	---
Benefit payments	(207)	(384)
Net change in total OPEB liability	(645)	(184)
Total OPEB liability – beginning	**3,699**	**3,883**
Total OPEB liability – ending (a)	**3,054**	**3,699**
Plan fiduciary net position:		
Contributions – employer	$ ---	$ ---
Net investment income	85	44
Benefit payments	207	418
Administrative expense	12	13
Net change in fiduciary net position	(134)	(387)
Plan fiduciary net position – beginning	5,120	5,507
Plan fiduciary net position – ending (b)	**4,986**	**5,120**
Net OPEB asset ending (a)-(b)	**$ 1,932**	**$ 1,421**
Plan fiduciary net position as a percentage of the total OPEB liability	163.3%	138.4%
Covered-employee payroll	**$ 1,615**	**$ 1,488**
Net OPEB liability as a percentage of covered-employee payroll	119.6%	95.5%

Post-Employment Health Care Benefits Trust Fund Schedule of Port of Tacoma's Contributions

December 31, 2018 and 2017 (dollars in thousands)

	2018	2017
Schedule of contributions:		
Actuarially determined contribution	$ 93	$ 106
Contribution in relation to the actuarially determined contribution	---	---
Contribution deficiency	$ 93	$ 106
Contributions as a percentage of covered-employee payroll	0.0%	0.0%
Schedule of investment returns:		
Annual money-weighted rate of return, net of investment expense	1.49%	0.59%

Information for Bondholders

This information is provided as a convenience to bondholders and other institutions to assist them in reviewing historical financial information

COMPARATIVE SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE

(dollars in thousands)

	2018	2017	2016	2015	2014
REVENUES					
Total Operating Revenues	**$79,600**	**$76,612**	**$85,129**	**$143,897**	**$134,322**
Joint Venture Depreciation Cash Adjustment (1)	(201)	1,090	(3,921)	---	---
Non-operating Revenues (2), (3), (4), (5)	5,004	3,585	2,206	2,381	2,775
Total Revenues Available for Senior Debt Service	**84,403**	**81,287**	**83,414**	**146,277**	**137,096**
EXPENSES					
Total Operating Expenses, excluding depreciation (6)	**13,695**	**16,393**	**12,656**	**72,577**	**81,951**
Non-operating Expenses (7), (8), (9), (10)	258	345	98	201	461
Total Expenses, excluding depreciation	**13,953**	**16,738**	**12,755**	**72,778**	**82,412**
Less Levy Available for Capital Improvement (7) (11)	9,033	4,683	1,641	348	---
Net Expenses	**4,920**	**12,055**	**11,114**	**72,430**	**82,412**
Net Revenues Available for Senior Debt Service	**79,483**	**69,232**	**72,300**	**73,847**	**54,684**
Debt Service Senior Lien debt	12,802	9,713	5,531	4,399	7,403
DEBT SERVICE COVERAGE (Senior Lien Debt)	**6.21**	**7.13**	**13.07**	**16.79**	**7.39**
Net Revenues Available for Senior Debt Service	**79,483**	**69,232**	**72,300**	**73,847**	**54,684**
Less Subordinate Lien Rate Stabilization (12)	---	---	(2,000)	(6,000)	---
Less Senior Lien Debt Service	(12,802)	(9,713)	(5,531)	(4,399)	(7,403)
Net Revenues Available for Subordinate Debt Service	**66,681**	**59,519**	**64,769**	**63,448**	**47,281**
Debt Service Subordinate Debt (13) (14)	18,095	20,135	21,786	22,034	22,125
DEBT SERVICE COVERAGE (Subordinate Lien Debt) (13)	**3.69**	**2.96**	**2.97**	**2.88**	**2.14**
Net Revenues Available for Senior Debt Service	**79,483**	**69,232**	**72,300**	**73,847**	**54,684**
Less Subordinate Lien Rate Stabilization	---	---	(2,000)	(6,000)	---
Net Revenues Available for fully Diluted Debt Service	**79,483**	**69,232**	**70,300**	**67,847**	**54,684**
Debt Service; Senior, Subordinate and lowest lien debt (15)	30,897	29,848	27,316	26,432	29,529
DEBT SERVICE COVERAGE – Fully Diluted (13), (15)	**2.57**	**2.32**	**2.57**	**2.57**	**1.85**

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

(Continued)

COMPARATIVE SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE (CONTINUED)

(dollars in thousands)

	2018	2017	2016	2015	2014
FOOTNOTES:					
(1) JV revenues are adjusted for cash flows from revenues or expenditures that would be excluded from debt service coverage if directly applied to the Port financials					
(2) Excluded from non-operating revenues is interest earned on investment of:					
General Obligation Bonds	$ ---	$ 82	$ 24	$ 7	$ 6
Construction funds	534	487	154	---	21
(3) Excluded from non-operating revenues is capital contribution and other miscellaneous non-operating income	12,753	1,012	7,116	1,690	2,636
(4) Excluded from non-operating revenues is gain(loss) on disposal or impairment of property	---	---	(3,534)	(5,846)	(5,030)
(5) Excluded from non-operating revenues is gain(loss) on market value of investments	(1,125)	156	47	72	2,505
(6) Excluded from operating expenses are other expenses not attributable to operations	(3,982)	---	---	---	---
(7) Excluded from non-operating expenses is cost of bond issue, net of discounts, premiums and other debt costs and election expense	(859)	(34)	124	767	(113)
(8) Excluded from non-operating expense is interest expense and interest funded from bond proceeds	20,825	20,258	18,516	18,087	21,649
(9) Excluded from interest expense is capitalized interest	227	56	85	597	654
(10) Excluded from non-operating expense are contributions to other agencies and other expenses not attributable to operations	5,998	594	1,407	4,813	2,537

(11) Washington Port Districts are authorized by statute to levy $0.45 per $1,000 of actual value of taxable property ad valorem tax upon all taxable property within their jurisdiction for operations, maintenance, capital improvements and general Port purposes

(12) Amounts withdrawn from the Rate Stabilization Account shall increase Gross Revenue for the period in which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Gross Revenue for the period during which they are deposited

(13) The Port is authorized to issue from time to time an aggregate principal amount not to exceed $100,000,000 under the port's Subordinate Lien Commercial Paper Program. Debt service shown in this table for the commercial paper program is based on the actual interest payments only on the amount outstanding under this program during the period of calculation

(14) Included payment made to credit and liquidity providers

(15) Included the debt service of lowest lien

REVENUE BOND DEBT SERVICE SCHEDULE

(dollars in thousands)

Bond Series	2008 Subordinate Refunding			2008 Subordinate			2014A Subordinate Refunding			2014A Senior Refunding			2014B Senior Refunding			2016A Senior Refunding			2016B Senior		
	Original Issue Amount $117,210			Original Issue Amount $133,000			Original Issue Amount $92,635			Original Issue Amount $8,525			Original Issue Amount $34,345			Original Issue Amount $36,535			Original Issue Amount $103,555		
Payment Date	Principal	Interest (1)	Total	Principal	Interest (1)	Total	Principal	Interest (1)	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	2,960	1477	4,437		2,732	2,732	2,375	1,806	4,181	2,105	162	2,267	2,380	726	3,106		1744	1,744	605	5,084	5,689
2020	3,080	1411	4,491		2,733	2,733	2,490	1,755	4,245	2,159	109	2,268	2,440	665	3,105		1744	1,744	630	5,060	5,690
2021	3,205	1340	4,545		2,731	2,731	2,615	1,698	4,313	2,209	55	2,264	2,505	603	3,108		1744	1,744	655	5,035	5,690
2022	3,330	1268	4,598		2,732	2,732	2,745	1,642	4,387				2,570	539	3,109	2,090	1744	3,834	685	5,002	5,687
2023	3,465	1192	4,657		2,732	2,732	2,880	1,581	4,461				2,635	473	3,108	2,200	1639	3,839	720	4,968	5,688
2024	3,605	1114	4,719		2,733	2,733	3,025	1,519	4,544				2,700	406	3,106	2,285	1551	3,836	755	4,932	5,687
2025	3,750	1032	4,782		2,731	2,731	3,175	1,451	4,626				2,770	337	3,107	2,400	1437	3,837	795	4,894	5,689
2026	3,900	947	4,847		2,732	2,732	3,335	1,382	4,717				2,840	267	3,107	2,500	1341	3,841	835	4,855	5,690
2027	4,055	859	4,914		2,732	2,732	3,495	1,308	4,803				2,915	194	3,109	2,625	1216	3,841	875	4,813	5,688
2028	4,215	767	4,982		2,733	2,733	3,670	1,232	4,902				2,985	120	3,105	2,760	1085	3,845	920	4,769	5,689
2029	4,385	671	5,056		2,731	2,731	5,070	1,150	6,220				1,715	44	1,759	2,895	947	3,842	965	4,723	5,688
2030	4,560	572	5,132		2,732	2,732	7,625	1,039	8,664							3,040	802	3,842	1,015	4,675	5,690
2031	4,745	469	5,214		2,732	2,732	8,005	871	8,876							3,185	650	3,835	1,065	4,624	5,689
2032	4,935	361	5,296		2,733	2,733	8,395	696	9,091							3,350	491	3,841	1,120	4,571	5,691
2033	5,130	249	5,379		2,731	2,731	8,815	510	9,325							3,515	323	3,838	1,175	4,515	5,690
2034	5,335	133	5,468		2,732	2,732	9,255	317	9,572							3,690	148	3,838	1,230	4,456	5,686
2035	535	12	547		2,732	2,732	5,150	113	5,263										8,015	4,395	12,410
2036					2,733	2,733													8,415	3,994	12,409
2037					2,731	2,731													8,835	3,573	12,408
2038					2,732	2,732													9,275	3,131	12,406
2039					2,732	2,732													9,740	2,668	12,408
2040					2,733	2,733													10,225	2,181	12,406
2041					2,731	2,731													10,740	1,669	12,409
2042					2,732	2,732													11,275	1,132	12,407
2043					2,732	2,732													11,840	569	12,409
2044				122,180	2,733	124,913															
Grand Total*	**$65,190**	**$13,874**	**$79,064**	**$122,180**	**$71,033**	**$193,213**	**$82,120**	**$20,070**	**$102,190**	**$6,473**	**$326**	**$6,799**	**$28,455**	**$4,373**	**$32,828**	**$36,535**	**$18,606**	**$55,141**	**$102,405**	**$100,288**	**$202,693**

* Debt outstanding as of the date of the financial report is equal to principal amount shown in the Grand Total line.

(1) Calculated using 79% of the December 2018 1-Month LIBOR (1.856%) plus the Applicable Spread of the specified series.

(2) Calculated using 80% of the December 2018 1-Month LIBOR (1.879%) plus the Applicable Spread of the specified series.

(2) Calculated using a weighted swap determined annually.

(3) Calculated using 70% of the December 2018 1-Month LIBOR (1.645%).

(Continued)

REVENUE BOND DEBT SERVICE SCHEDULE (CONTINUED)

(dollars in thousands)

Swaps			TOTAL			
Payments (3)	Receipts (4)	Net Payments	Principal	Interest	Net Swap Payments	Total
9,331	-3,743	5,588	10,425	13,731	5,588	29,744
9,064	-3,636	5,428	10,799	13,477	5,428	29,705
8,787	-3,521	5,266	11,189	13,206	5,266	29,661
8,498	-3,406	5,092	11,420	12,927	5,092	29,439
8,198	-3,285	4,913	11,900	12,586	4,913	29,399
7,885	-3,160	4,725	12,370	12,256	4,725	29,351
7,560	-3,025	4,535	12,890	11,883	4,535	29,308
7,222	-2,890	4,332	13,410	11,523	4,332	29,265
6,870	-2,748	4,122	13,965	11,122	4,122	29,209
6,504	-2,601	3,903	14,550	10,706	3,903	29,159
6,123	-2,445	3,678	15,030	10,266	3,678	28,974
5,727	-2,286	3,441	16,240	9,820	3,441	29,501
5,315	-2,119	3,196	17,000	9,346	3,196	29,542
4,886	-1,947	2,939	17,800	8,852	2,939	29,591
4,440	-1,765	2,675	18,635	8,328	2,675	29,638
3,976	-1,578	2,398	19,510	7,786	2,398	29,693
3,493	-1,383	2,110	13,700	7,252	2,110	23,061
2,990	-1,180	1,810	8,415	6,727	1,810	16,952
2,468	-968	1,500	8,835	6,304	1,500	16,639
1,983	-778	1,205	9,275	5,863	1,205	16,344
1,480	-581	899	9,740	5,400	899	16,039
956	-375	581	10,225	4,914	581	15,720
411	-161	250	10,740	4,400	250	15,391
48	-19	29	11,275	3,864	29	15,169
			11,840	3,301	0	15,141
			122,180	2,733	0	124,913
$124,218	**$(49,600)**	**$74,618**	**443,358**	**228,570**	**74,618**	**746,546**

* Debt outstanding as of the date of the financial report is equal to principal amount shown in the Grand Total line.

(1) Calculated using 79% of the December 2018 1-Month LIBOR (1.856%) plus the Applicable Spread of the specified series.

(2) Calculated using 80% of the December 2018 1-Month LIBOR (1.879%) plus the Applicable Spread of the specified series.

(2) Calculated using a weighted swap determined annually.

(3) Calculated using 70% of the December 2018 1-Month LIBOR (1.645%).

TAX COLLECTION INFORMATION

(dollars in thousands)

	Amount of Tax Levy	Tax Collected as of 12/31/18	% Collected
2018	$18,624	$18,318	98.36%
2017	16,660	16,572	98.47%
2016	15,013	14,972	99.73%
2015	14,206	14,201	99.96%
2014	13,116	13,113	99.98%
2013	12,666	12,664	99.99%

PORT TAXING DISTRICT ASSESSED VALUATION

2019	$114,011,707,624
2018	101,406,430,390
2017	90,713,390,689
2016	81,750,009,927
2015	77,353,617,531

PROPERTY TAX LEVY AVAILABLE FOR CAPITAL IMPROVEMENTS

(dollars in thousands)

	2018	2017	2016	2015	2014
Total Levy	$18,624	$16,660	$15,013	$14,206	$13,116
Less Designation for G.O. Debt Service	9,556	11,948	13,332	13,669	13,665
Subtotal	**9,068**	**4,712**	**1,681**	**537**	**(549)**
Supplements, Cancellations Refunds – Net	(35)	(41)	(41)	(19)	(33)
Levy Available for Capital Improvement	**$ 9,033**	**$ 4,671**	**$ 1,640**	**$ 518**	**$ ---**

Note: Starting 2016, Using accrual amount for debt service, in-line with accrual amount historically used for tax levy

CURRENT BOND RATINGS

Rating Agency	Senior Revenue Bonds	Subordinate Revenue Bonds	General Obligation Bonds
Moody's Investor Services	Aa3	A1	Aa2
Standard & Poor's Corporation	AA-	A+	AA

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