December 31, 2017

ANNUAL FINANCIAL REPORT

Port of Tacoma

2017 Port of Tacoma Annual Financial Report

Contents

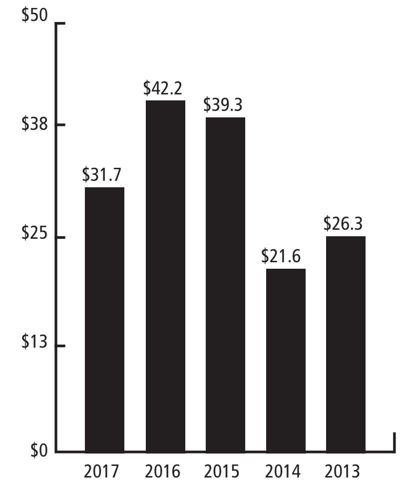
2017 Financial Highlights

	dollars in thousands
Revenues	$ 76,612
Increase in Net Position	$ 27,081
Working Capital	$ 137,636
Land, Facilities and Equipment, net	$ 893,021
Net Long-term Debt	$ 643,866
Net Position	$ 564,385
Debt Service Coverage Ratio (senior lien)*	7.1

* See Information for Bondholders, page 32

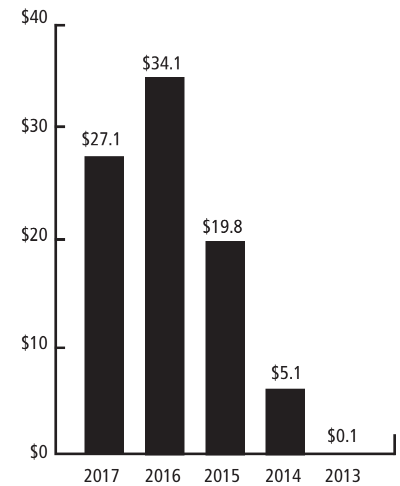
Operating Income

(dollars in millions)



Change in Net Position

(dollars in millions)



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.

Connie Bacon

Connie Bacon was elected to the commission in 1997.

She serves as advisor to the Asia Pacific Cultural Center and Fuzhou Committee and is co-founder of Water Partners Tacoma. Bacon also serves on the Urban Waters Board and the Port of Tacoma Audit Committee.

A member of the Transportation Club of Tacoma and Tacoma Propeller Club, she is a senior fellow of the American Leadership Forum and member of the advisory board to the Port of Tacoma Endowed Chair at the University of Washington Tacoma. She is an emeritus member of the Northwest Sinfonietta Board of Directors.

Bacon is a former executive director of the World Trade Center Tacoma and served eight years as special assistant to former Washington Gov. Booth Gardner. She is a graduate of Syracuse University and earned a master's degree from The Evergreen State College.

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.

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.

RSM US LLP

The Board of Commissioners
Port of Tacoma
Tacoma, Washington

Report on the Financial Statements
We have audited the accompanying financial statements of the Enterprise Fund and the Post-Employment Health Care Benefits Trust Fund of Port of Tacoma (the Port) as of and for the years ended December 31, 2017 and 2016, 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 in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Port's basic financial statements as of and for the year ended December 31, 2016 were not audited in accordance with Governmental Auditing Standards.

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, 2017 and 2016, 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.

Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018 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 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.

RSM US LLP

Tacoma, Washington
March 29, 2018

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Management's Discussion and Analysis

Years ended December 31, 2017 and 2016

INTRODUCTION

The Port of Tacoma's (the Port) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the Port's 2017 and 2016 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.

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

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 in 2018. The revaluation review is to determine if material changes in cash flows from the Licensed Properties have occurred since the initial valuation. A change in the valuation of the cash flow forecasts of these facilities could result in a change in Membership Interests. The Managing Members shall approve any change in Membership Interest by vote, to include provision for addressing any change to distributions and allocations as a result of the change in Membership Interest. Changes in Membership Interest do not affect a Managing Member's voting rights under the Charter, as votes are not weighted by or otherwise determined by Membership Interest.

Financial Framework

The NWSA intends to support the credit profiles of both home ports, and its financial framework will preserve both ports' commitment to financial strength and fiscal stewardship. The NWSA distributes cash to each home port based on cash flow from operations, calculated pursuant to Generally Accepted Accounting Principles. Cash distributions are to be made no less than quarterly based on each home port's 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 budget for approval by each Managing Member. Funding will be provided by joint contributions from the home ports; cash flow from operations will be distributed to the home ports and not retained by the NWSA for funding capital investments. Each Managing Member must approve its capital contributions.

The NWSA Charter recognizes that each home port's respective share of revenues received by the NWSA with respect to the Licensed Properties 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 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. During 2016 and 2017, cash generated from operations covered working capital requirements and the 2018 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. Throughout the year the home ports provided additional combined contributions of $29.1 million to fund capital construction cash flow needs for 2016. The Port of Tacoma and the Port of Seattle also provided $8.9 million and $7.9 million, respectively, in noncash construction in process for capital projects that started in the home ports and will be completed by NWSA. During 2017, the home ports made capital construction contributions of $69.1 million of which $62.0 million was spent on container terminal improvements and container crane acquisitions at Husky terminal in the South Harbor and $3.4 million for T5 design and terminal improvements in the North 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:

Statements of Net Position (dollars in thousands)

	2017	2016	2015
Current assets	$ 196,208	$ 204,255	$ 238,301
Capital assets, net	923,293	936,265	956,323
Long-term investments	60,230	90,826	9,429
Investment in Joint Venture	104,273	66,077	---
Other assets	44,650	43,229	45,891
Total assets	**$ 1,328,654**	**$ 1,340,652**	**$ 1,249,944**
Deferred outflows of resources	$ 71,811	$ 75,651	$ 87,764
Current liabilities	58,572	67,024	114,938
Long-term debt, net	643,866	675,481	563,710
Other long-term liabilities	130,417	135,943	152,815
Total liabilities	**$ 832,855**	**$ 878,448**	**$ 831,463**
Deferred inflows of resources	3,225	551	3,040
Net investment in capital assets	295,071	306,879	302,092
Restricted – bond reserves	13,496	13,077	9,429
Unrestricted	255,818	217,348	191,684
Total net position	**$ 564,385**	**$ 537,304**	**$ 503,205**

The Port's total net position increased by $27.1 million and 5.0 percent over the prior year to $564.4 million at December 31, 2017. Of this amount, $295.1 million is the net investment in capital assets, $13.5 million is restricted for bond reserves and $255.8 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 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, $306.9 million was the net investment in capital assets, $13.1 million was restricted for bond reserves and $217.3 million was unrestricted and could be used to finance operating activities.

In 2016, the net investment in capital assets increased by $4.8 million due primarily to a net decrease in outstanding debt (net of unspent proceeds from the 2016 Revenue Bonds series 2016B) of $20.0 million and a $24.8 million decrease in net capital assets attributable to depreciation.

Restricted components of net assets at December 31, 2017, 2016 and 2015, of $13.5, $13.1 and $9.4 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 2017, 2016 and 2015.

Statements of Revenues, Expenses and Changes in Net Position (dollars in thousands)	2017	2016	2015
Operating income:			
Operating revenues	$ 21,687	$ 23,545	$ 143,897
Joint Venture income	54,925	61,584	---
Total	**76,612**	**85,129**	**143,897**
Operating expenses	44,899	42,956	104,611
Total operating income	**31,713**	**42,173**	**39,286**
Non-operating revenues (expenses):			
Ad valorem tax revenues	16,631	14,972	14,198
Interest on general obligation bonds	(5,482)	(7,609)	(8,759)
Net ad valorem tax revenues	**11,149**	**7,363**	**5,439**
Interest income	3,618	2,271	2,293
Net increase in the fair value of investments	156	47	72
Interest expense	(19,717)	(20,011)	(17,712)
Other non-operating expense, net	(931)	(3,601)	(10,861)
Total non-operating expenses, net	**(5,725)**	**(13,931)**	**(20,769)**
Increase in net position before capital contributions	**25,988**	**28,242**	**18,517**
Capital grant contributions	1,093	5,857	1,320
Increase in net position	27,081	34,099	19,837
Net position, beginning of year	537,304	503,205	483,368
Net position, end of year	**$ 564,385**	**$ 537,304**	**$ 503,205**

In 2016 the Port adopted Joint Venture accounting to reflect the activity generated by the formation of the NWSA. The most significant change is on the statements of revenues, expenses and changes in net position which now reflect the recognition of joint venture income related to 50 percent of NWSA's net income, which is consistent with the terms of the licensing agreements. This change in presentation results in lower total revenues and total operating expenses than under the prior year presentation. The Port's real estate and other revenues not licensed to the NWSA will continue to be reported as operating revenue.

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.

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. NWSA revenue of $195.0 million was flat compared to the prior year as container revenue decreased by $1.0 million due to 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. 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 expenses

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 General Obligation (GO) 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.

2016 Revenues, Expenses and Changes in Net Position versus the Prior Year

The Port's statements of net position changed in 2016 to reflect the formation of the NWSA and Joint Venture accounting. Hence, year over year comparisons of operating revenues and operating expenses for 2016 were not available, therefore the following discussion will be limited to significant operating activity and non-operating expense activity.

Port of Tacoma operating income for 2016 of $42.2 million increased $2.9 million over the previous year. The increase was driven by receipt of a $1.5 million lease termination payment and $1.3 million from a new lease for a warehouse and distribution center.

Environmental expenses were down $2.6 million versus the prior year that included remediation costs related to contamination on the General Central Peninsula. Ownership of the licensed facilities remains with the Port, not with the NWSA, and the depreciation for these assets is recorded in operating expenses. The depreciation recorded by the Port for assets licensed to NWSA for the year ended December 31, 2016 was $23.6 million.

As a result of the above, the 2016 operating income of $42.2 million increased by $2.9 million and 7.3 percent from 2015.

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

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

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

Other non-operating expense in 2016 was $3.6 million compared with $10.9 million in the prior year. The 2016 costs include: a reduction in value of asset held for sale of $3.4 million and contribution to rail improvements of $1.5 million, offset by reversal of container customer incentives of $1.2 million.

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

As a result of the above, the 2016 increase in net position was $34.1 million.

CAPITAL ASSETS

The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2017, amounted to $923.3 million. This investment in capital assets includes land, buildings, improvements, machinery and equipment, and construction in process. The Port's investment in capital assets, net of depreciation, for its business activities as of December 31, 2016, amounted to $936.3 million. See Note 3, Capital Assets, for additional information. Major capital additions in 2017 are presented in the table below (dollars in thousands):

Description:	
Rail improvements	$ 6,328
Property acquisition	5,038
Machinery and equipment	2,122
Facility and building improvements	1,966
Total	**$ 15,454**

DEBT ADMINISTRATION

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

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 GO 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.

In 2016, the Port partially refunded the 2006 and the 2008A GO bonds to achieve interest expense savings. Additionally, the Port refunded the outstanding balances of the 2006 senior lien revenue bonds to achieve savings, and at the same time issued new revenue bonds to fund the construction of Pier 4 and the purchase of four container cranes. The GO refunding bonds par value $136.6 million, resulted in a 20.2 percent savings ($25.8 million net present value savings) on the par amount of refunded debt, while the revenue refunding bonds par value $36.5 million resulted in a 19.6 percent savings ($8.8 million net present value savings) on the par amount of refunded debt. The new revenue bond issue par value $103.6 million was issued at a premium, totaling $133.7 million at a total interest cost of 3.64 percent.

In September 2016, the Port issued Revenue Bonds series 2016B (AMT) par value $103.6 million issued at a premium of $20.4 million. Total proceeds after underwriter's discount of $344,000 and repayment of $30.0 million in commercial paper was $93.7 million and will be used to fund expansion and redevelopment of Pier 4 in the south harbor and to purchase four post-panamax container cranes to support operations at Pier 4.

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

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

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

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

POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND

The Post-Employment Health Care Benefits Trust Fund (the Trust) accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. A summarized comparison of the assets, liabilities and net position of the Trust as of December 31, 2017, 2016 and 2015, and changes in net position for the years ended December 31, 2017, 2016 and 2015, are as follows (dollars in thousands):

	2017	2016	2015
Total assets	$ 5,120	$ 5,507	$ 5,891
Total liabilities	---	---	---
Total net position	**$5,120**	**$ 5,507**	**$ 5,891**
Total additions	$ 44	$ 65	$ 48
Total deductions	(431)	(449)	(490)
Decrease in net position	**(387)**	**(384)**	(442)
Net position – beginning of year	5,507	5,891	6,333
Net position – end of year	**$ 5,120**	**$ 5,507**	**$ 5,891**

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, 2017 and 2016 (dollars in thousands)

ASSETS

	2017	2016
CURRENT ASSETS		
Cash	$ 3,504	$ 3,560
Investments, at fair value	167,618	160,037
Trade accounts receivable, net of allowance for doubtful accounts	421	726
Grants receivable	114	216
Taxes receivable	449	453
Related party receivables - Joint Venture	16,597	30,854
Prepayments and other current assets	7,505	8,409
Total current assets	**196,208**	**204,255**
NON-CURRENT ASSETS		
Long-term investments:		
Restricted Investments at fair value	46,734	77,749
Restricted Bond reserves at fair value	13,496	13,077
Long-term investments	**60,230**	**90,826**
Capital assets		
Land	567,869	563,699
Buildings	104,413	101,351
Improvements	632,697	640,118
Machinery and equipment	114,517	115,030
Construction in process	30,272	25,593
Total cost	**1,449,768**	**1,445,791**
Less accumulated depreciation	526,475	509,526
Capital assets, net	**923,293**	**936,265**
Investment in Joint Venture	104,273	66,077
Assets held for sale	7,840	7,840
Other assets	36,810	35,389
Total non-current assets	**1,132,446**	**1,136,397**
Total assets	**$1,328,654**	**$1,340,652**
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	$ 62,101	$ 63,621
Pension deferred outflow	2,197	3,842
Advance refunding deferred losses	7,513	8,188
Total deferred outflows of resources	**$ 71,811**	**$ 75,651**

LIABILITIES AND NET POSITION

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 8,498	$ 12,682
Payroll and taxes payable	4,506	3,972
Accrued interest	2,092	1,973
Related party payables - Joint Venture	4,873	8,555
Commercial paper	25,000	25,000
Current portion of long-term debt	13,603	14,842
Total current liabilities	**58,572**	**67,024**
NON-CURRENT LIABILITIES		
Long-term debt:		
General obligation bonds	172,416	177,362
Revenue bonds	471,450	498,119
Net long-term debt	**643,866**	**675,481**
OTHER LONG-TERM LIABILITIES		
Interest rate payment agreement	62,101	63,621
Net pension liability	16,281	22,270
Other	52,035	50,052
Other long-term liabilities	**130,417**	**135,943**
Total non-current liabilities	**774,283**	**811,424**
Total liabilities	**$ 832,855**	**$ 878,448**
DEFERRED INFLOWS OF RESOURCES		
Pension deferred inflow	$ 3,225	$ 551
NET POSITION		
Net investment in capital assets	$ 295,071	$ 306,879
Restricted - bond reserves	13,496	13,077
Unrestricted	255,818	217,348
Total net position	**$ 564,385**	**$ 537,304**

See notes to financial statements.

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

Years ended December 31, 2017 and 2016 (dollars in thousands)

	2017	2016
OPERATING REVENUES		
Property rentals	$ 21,687	$ 23,545
Joint Venture income	54,925	61,584
Total operating revenues	**76,612**	**85,129**
OPERATING EXPENSES		
Operations	4,357	3,939
Maintenance	3,926	4,120
Administration	2,886	2,428
Security	367	381
Environmental	4,857	1,788
Total operating expenses, before depreciation	**16,393**	**12,656**
Depreciation	28,506	30,300
Total operating expenses	**44,899**	**42,956**
Operating income	**31,713**	**42,173**
NON-OPERATING REVENUES (EXPENSES)		
Ad valorem tax revenue	16,631	14,972
Interest on general obligation bonds	(5,482)	(7,609)
Net ad valorem tax revenues	**11,149**	**7,363**
Interest income	3,618	2,271
Net increase in the fair value of investments	156	47
Interest expense	(19,717)	(20,011)
Other non-operating expenses, net	(931)	(3,601)
Total non-operating expenses, net	**(5,725)**	**(13,931)**
Increase in net position, before capital contributions	**25,988**	**28,242**
Capital grant contributions	1,093	5,857
NET POSITION		
Increase in net position	**27,081**	**34,099**
Beginning of year	537,304	503,205
End of year	$ 564,385	$ 537,304

See notes to financial statements.

Enterprise Fund Statements of Cash Flows

Years ended December 31, 2017 and 2016 (dollars in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 20,570	$ 33,091
Cash paid to suppliers for goods and services	(14,366)	(8,127)
Cash paid to employees	(5,985)	(6,522)
Cash received from (paid to) related party - Joint Venture	10,771	(20,414)
Cash (paid) received for non-operating income, (expense)	(876)	366
Net cash provided by (used in) operating activities	**10,114**	**(1,606)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of property, plant and equipment	16	54
Borrowings on commercial paper	125,000	436,000
Repayments on commercial paper	(125,000)	(493,000)
Principal payments on general obligation and revenue bonds and other debt	(30,277)	(14,368)
Proceeds from bond issues	---	123,749
Proceeds from refunding bond issues	20,099	205,972
Payments on refunded bonds	(20,099)	(205,972)
Acquisition and construction of capital assets	(15,572)	(22,768)
Interest paid on general obligation and revenue bonds and other debt	(27,374)	(27,942)
Cash received from federal and state grants	1,194	5,721
Cash received from property taxes for general obligation bonds	16,636	15,011
Net cash provided by (used in) capital and related financing activities	**(55,377)**	**22,457**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(190,372)	(219,348)
Proceeds from sales and maturities of investment securities	213,915	194,120
Cash used to fund investment in NWSA	(38,242)	(45,015)
Cash distributions received from Joint Venture	56,660	47,542
Interest received on investments	3,246	2,217
Net cash provided by (used in) investing activities	**45,207**	**(20,484)**
CASH		
Net (decrease) increase in cash	**(56)**	**367**
Beginning of year	3,560	3,193
End of year	$ 3,504	$ 3,560

See notes to financial statements.

Enterprise Fund Statements of Cash Flows (Continued)

Years ended December 31, 2017 and 2016 (dollars in thousands)

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	$ 31,713	$ 42,173
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation	28,506	30,300
Cash (paid) received for non-operating income (expense)	(876)	366
Cash distributions received from related party - Joint Venture	(56,660)	(47,542)
Gain (loss) on disposal of facilities	414	(140)
Increase (decrease) in environmental reserves	2,103	(3,813)
Changes in assets and liabilities:		
Decrease (increase) in related-party receivable - Joint Venture	10,771	(20,414)
Decrease in accounts receivable	305	9,247
Increase in other deferred assets	(1,421)	(698)
Decrease in prepayments	904	52
Decrease (increase) in investment in Joint Venture	1,735	(14,042)
(Decrease) increase in accounts payable and accrued liabilities	(6,069)	4,861
(Decrease) increase in payroll and taxes payable	(5,466)	2,583
Decrease in long-term liabilities	(164)	(350)
Decrease (increase) in net deferred pension inflows/outflows	4,319	(4,189)
Total adjustments and changes	**(21,599)**	**(43,779)**
Net cash provided by (used in) operating activities	**$ 10,114**	**$ (1,606)**
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Capital asset additions and other purchases financed with accounts payable	$ 56	$ 178
Capital construction payable to related party - Joint Venture	4,873	8,555
Distributions receivable from related party - Joint Venture	5,070	10,440
Increase in fair value of investments	156	47

See notes to financial statements.

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

December 31, 2017 and 2016 (dollars in thousands)

	2017	2016
PLAN ASSETS		
Cash	$ 133	$ 94
Investments, at fair value	4,987	5,413
Total assets	**$ 5,120**	**$ 5,507**
PLAN LIABILITIES		
Net position held in trust for other post-retirement benefits and other purposes	**$ 5,120**	**$ 5,507**

See notes to financial statements.

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

Years ended December 31, 2017 and 2016 (dollars in thousands)

	2017	2016
ADDITIONS		
Employer contributions	$ ---	$ ---
Net decrease in fair value of investments	(36)	(9)
Interest	80	74
Total additions	**44**	**65**
DEDUCTIONS		
Benefit payments	418	435
Administrative expenses	13	14
Total deductions	**431**	**449**
Change in net position	**(387)**	**(384)**
NET POSITION HELD IN TRUST FOR OTHER POST RETIREMENT BENEFITS AND OTHER PURPOSES		
Beginning of year	5,507	5,891
End of year	$ 5,120	$ 5,507

See notes to financial statements.

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

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

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

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

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

Effective January 1, 2016, the accounting for revenues and expenses associated with Licensed Properties became the responsibility of the NWSA and the 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 the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included with the Post-Employment Health Care Benefits Trust Fund.

Nature of Business

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

The Port is authorized by Washington law to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities, for waterborne commerce. The Port may also provide freight and passenger terminals, 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 proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port is accounted for on a flow of economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Port include depreciation and environmental liabilities. Actual results could differ from those estimates.

Significant Risks and Uncertainties

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

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

Under the NWSA Interlocal Agreement and the Charter, the Port has agreed to work cooperatively with the Port of Seattle, and accordingly has agreed not to act unilaterally with respect to certain matters. Decisions that could have a material effect on the Port, including new business agreements and leases or 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 to take any action that would reasonably reduce its income below this minimum net operating income level unless each Managing Member votes separately to approve that action. This minimum net operating level is established based on the amount required at formation of the NWSA for the home ports to meet their then current bond rate covenants, and may not always reflect the amount required to meet bond rate covenants on a going-forward basis.

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

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

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

Trade Accounts Receivable
Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts at December 31, 2017 and 2016 was $170,000 and $172,000, 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 Deposits. The investments are limited to high-quality obligations with limited maximum and average maturities. The pool is valued at amortized cost. Interest income on investments is recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20 percent of its holdings in any one investment. See Note 2 for further information.

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

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

Prepayments and Other Current Assets
Maintenance supply inventories of $4,777,000 and $4,755,000 at December 31, 2017 and 2016, 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 deferred pending construction of the facility. As projects are constructed, the project costs are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

Capitalized Interest
The Port follows the policy of capitalizing interest as a component of the cost of capital assets constructed for projects greater than $300,000 that are not funded by 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 2017, total interest incurred, excluding interest on general obligation bonds was $19,773,000, of which $19,717,000 was charged to non-operating expense and $56,000 was capitalized. During 2016, total interest incurred, excluding interest on general obligation bonds was $20,097,000, of which $20,011,000 was charged to non-operating expense and $86,000 was capitalized.

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):

	2017	2016
Net investment in capital assets	$ 923,293	$ 936,265
Revenue bond proceeds restricted for construction	46,734	77,749
LESS		
Net bond premium	50,050	52,902
Net advance refunding deferred losses	(7,513)	(8,188)
Long-term debt, including current portion	607,419	637,421
Commercial paper	25,000	25,0000
Invested in capital assets, net of related debt, end of year	**$ 295,071**	**$ 306,879**

The restricted component of net position was $13,496,000 and $13,077,000 at December 31, 2017 and 2016, 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 $595,000 and $482,000 at December 31, 2017 and 2016, respectively. Retentions payable are included in accounts payable and accrued liabilities on the accompanying statements of net position.

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

Commercial Paper and Current Portion of Long-term Debt
Commercial paper includes borrowings with original maturities of less than one year and current portion of long-term debt is the portion of long-term debt payable within 12 months (see Note 4).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016 (see Note 5).

Refunds of Debt

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

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 $1,055,000 and $716,000, respectively, at December 31, 2017, and $1,008,000 and $725,000, respectively, at December 31, 2016. Vacation and sick leave paid in 2017 was $1,084,000 and $736,000, respectively, and $1,046,000 and $700,000, respectively, in 2016. The estimated total amount of vacation and sick leave expected to be paid in 2018 is $1,117,000 and $758,000, respectively.

The Port provides health care benefits for eligible employees through the voluntary employees' beneficiary association (VEBA) which is a tax-exempt health and welfare trust and through the health reimbursement arrangement (HRA) plans. Employees hired after May 1, 2007 are eligible for the plans, subject to a 5-year vesting period. Effective April 1, 2013, the plans were closed to employees not covered by collective bargaining agreements hired on or after April 1, 2013. The plans require the Port to contribute $222 and $217 per month in 2017 and 2016, respectively, to the VEBA accounts of eligible employees. The Port contributed $361,000 and $377,000 to eligible employee VEBA accounts in 2017 and 2016, respectively.

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

The Port established a profit sharing plan for non-represented employees in accordance with Internal Revenue Code Section 401. The plan has been used periodically since its inception and provides for an annual contribution to each eligible employee's 401 account based on the Port meeting financial targets. The minimum contribution of $100 or a maximum contribution of 4 percent of total salaries of eligible employees may be made annually to the 401 accounts. In addition to the employer contribution, eligible employees may defer a portion of their salary until future years. The Port has not utilized this performance plan and hence did not contribute to the plan in 2017 or 2016. This plan is fully funded and held in an external trust.

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

Pensions

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

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

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Port reviewed the requirements of this statement and determined that it does not have asset retirement obligations at December 31, 2017.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and this statement establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The adoption of this guidance did not have a material impact on net position and changes in net position.

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 is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In May 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.

Recent Accounting Pronouncements, Adopted

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans (OPEB).* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions are effective for reporting periods beginning after December 15, 2016. The Port adopted this standard and included the prescribed disclosures in Note 9 Post-Employment Health Care Benefits Trust Fund.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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 $3.5 million and $3.6 million as of December 31, 2017 and 2016, 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.

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 2a-7 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 certificate of deposits are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the 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.

In 2016, the Port adopted the requirements of GASB 79 related to LGIP investments. The LGIP transacts with its participants at a stable net asset value per share of $1.00, the same method used for reporting. LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over $1 million 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 financial position at December 31, are as follows (dollars in thousands):

	2017	2016
Investments	$ 167,618	$ 160,037
Unspent bond proceeds	46,734	77,749
Bond reserves	13,496	13,077
Total deposits and investments	**$ 227,848**	**$ 250,863**

See Note 9 for disclosures regarding the fiduciary fund investments.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

The tables below identify the type of investments, concentration of investments in any one issuer, and maturities of the Port investment portfolio (excluding investments held by the Post- Employment Health Care Benefits Trust Fund, see Note 9 for investment detail for the Trust) as of December 31, 2017 and 2016 (dollars in thousands):

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 Corp	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	31.7%
United States Treasury Bonds	9,754	1,006	---	8,748	4.3%
State Local Investment Pool *	69,715	69,715	---	---	30.5%
Total investments	**$227,848**	**$118,799**	**$30,116**	**$ 78,933**	**100.0%**
Percentage of total portfolio		52.2%	13.2%	34.6%	100.0%

2016	Maturities (in Years)				
Investment Type	Carrying Value	Less than 1	1-3	More than 3	Percentage of Total Portfolio
Certificate of Deposit	$ 3,328	$ 3,328	$ ---	$ ---	1.3%
Federal Agricultural Mortgage Corp	998	---	998	---	0.3%
Federal Farm Credit Bank	9,921	2,001	5,990	1,930	4.0%
Federal Home Loan Bank	18,110	1,503	11,618	4,989	7.2%
Federal Home Loan Mortgage Corporation	20,712	3,004	15,707	2,001	8.3%
Federal National Mortgage Association	42,544	8,532	27,998	6,014	17.0%
Financing Corporation	1,019	---	1,019	---	0.4%
Municipal Bonds	49,686	1,018	6,896	41,772	19.8%
United States Treasury Bonds	25,490	18,526	1,004	5,960	10.2%
State Local Investment Pool *	79,055	79,055	---	---	31.5%
Total investments	**$250,863**	**$116,967**	**$71,230**	**$ 62,666**	**100.0%**
Percentage of total portfolio		46.6%	28.4%	25.0%	100.0%

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

The tables below identify the credit risk of the Port's Investment portfolio as of December 31, 2017 and 2016 (dollars in thousands):

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 Corp	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 the same as the amortized cost of the pool shares.

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

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

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

NOTE 3 – CAPITAL ASSETS

The following activity took place in capital assets during 2017 and 2016 (dollars in thousands):

2017	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Land	$ 563,699	$ ---	$ 4,170	$ ---	$ 567,869
Construction in process	25,593	15,628	(11,284)	335	30,272
Total capital assets not being depreciated	**589,292**	**15,628**	**(7,114)**	**335**	**598,141**
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 assets	**$ 936,265**	**$ (12,878)**	**$ ---**	**$ (94)**	**$ 923,293**

2016	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Land	$ 543,203	$ ---	$ 20,496	$ ---	$ 563,699
Construction in process	39,414	22,946	(24,152)	(12,615)	25,593
Total capital assets not being depreciated	**582,617**	**22,946**	**(3,656)**	**(12,615)**	**589,292**
Capital assets being depreciated:					
Buildings	102,618	---	789	(2,056)	101,351
Improvements	639,290	---	1,551	(723)	640,118
Machinery and equipment	114,587	---	1,316	(873)	115,030
Total capital assets being depreciated	**856,495**	**---**	**3,656**	**(3,652)**	**856,499**
Less accumulated depreciation:					
Buildings	(69,738)	(3,036)	---	1,977	(70,797)
Improvements	(327,362)	(21,008)	---	723	(347,647)
Machinery and equipment	(85,689)	(6,256)	---	863	(91,082)
Total accumulated depreciation	**(482,789)**	**(30,300)**	---	**3,563**	**(509,526)**
Net, capital assets being depreciated	**373,706**	**(30,300)**	**3,656**	**(89)**	**346,973**
Net, capital assets	**$ 956,323**	**$ (7,354)**	**$ ---**	**$(12,704)**	**$ 936,265**

NOTE 4 – COMMERCIAL PAPER

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

The term of the commercial paper ranges from 1 to 270 days and the interest rate on the amount outstanding at December 31, 2017, was 1.03 percent. At December 31, 2016, the interest rate on the amount outstanding was 0.80 percent.

Commercial paper activity during 2017 and 2016 was as follows (dollars in thousands):

Beginning balance January 1, 2016	**$ 82,000**
Advances	436,000
Repayments	(493,000)
Ending December 31, 2016	**25,000**
Advances	125,000
Repayments	(125,000)
Ending December 31, 2017	**$ 25,000**

NOTE 5 – LONG-TERM DEBT

Long-term debt activity during 2017 and 2016 consists of the following (dollars in thousands):

2017

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2016	Issuance	Repayments	December 31, 2017
GENERAL OBLIGATION BONDS							
01/17/08 A	5.00%	2018	2038	$ 2,655	$ ---	$ (2,655)	$ ---
01/17/08 B	4.75-4.875%	2018	2038	20,260	---	(20,260)	---
02/25/16	1.06-2.36%	*	2025	25,791	---	(447)	25,344
09/08/16 A	3.00-5.00%	2026	2038	110,260	---	(1,610)	108,650
09/06/17	2.50-3.40%	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							
3/7/2008	Variable Rate	*	2036	$ 78,250	$ ---	$ (10,210)	$ 68,040
07/15/09**	Variable Rate	*	2044	133,000	---	(10,820)	122,180
06/04/14 A	2.50%	*	2021	8,525	---	---	8,525
06/11/14 A	Variable Rate	*	2035	86,565	---	(2,175)	84,390
10/24/14 B	2.55%	2018	2029	32,025	---	(1,250)	30,775
09/08/16 A	4.00-5.00%	2026	2034	36,535	---	---	36,535
09/08/16 B	2.00-5.00%	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**

2016

Description and Date of Issue	Original Interest Rate	Earliest Year of Call	Last Year of Maturity	December 31, 2015	Issuance	Repayments	December 31, 2016
GENERAL OBLIGATION BONDS							
12/20/06	4.00-5.50%	2016	2033	$ 53,970	$ ---	$ (53,970)	$ ---
01/17/08 A	5.00%	2018	2038	104,830	---	(102,175)	2,655
01/17/08 B	4.75-4.875%	2018	2038	20,775	---	(515)	20,260
02/25/16	1.06-2.36%	*	2025	---	26,384	(593)	25,791
09/08/16 A	3.00-5.00%	2026	2038	---	110,260	---	110,260
				$179,575	**$136,644**	**$(157,253)**	**$158,966**
Net premium				5,865			23,648
Less current portion				5,130			5,252
Total long-term general obligation bonds, net of current portion				**$180,310**			**$177,362**
REVENUE BONDS							
12/20/06	4.00-4.45%	2016	2034	$ 45,185	$ ---	$ (45,185)	$ ---
3/7/2008	Variable Rate	*	2036	83,595	---	(5,345)	78,250
07/15/09**	Variable Rate	*	2044	133,000	---	---	133,000
06/04/14 A	2.50%	*	2021	8,525	---	---	8,525
06/11/14 A	Variable Rate	*	2035	88,645	---	(2,080)	86,565
10/24/14 B	2.55%	2018	2029	33,245	---	(1,220)	32,025
09/08/16 A	4.00-5.00%	2026	2034	---	36,535	---	36,535
09/08/16 B	2.00-5.00%	2026	2043	---	103,555	---	103,555
				$392,195	**$140,090**	**$(53,830)**	**$478,455**
Net premium (discount)				5			29,254
Less current portion				8,800			9,590
Total long-term revenue bonds, net of current portion				**$383,400**			**$498,119**

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

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

The Port uses ad valorem tax revenues to pay the general obligation bond principal and the related interest. Ad valorem tax revenues may not be used to pay revenue bond debt.

General Obligation Bonds

General Obligation (GO) bonds are limited tax general obligations of the Port. Per Revised Code of Washington (RCW) Chapter 53.36, 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, 2017, the assessed value of the taxable property was $101,393,431,000, therefore total general obligation bond debt allowable without a vote was $253.5 million. The Port's outstanding non-voted general obligation bond debt as of December 31, 2017 was $154.0 million, resulting in a remaining non-voted general obligation bond capacity of $99.5 million. RCW Chapter 53.36 also provides that additional general obligation bond debt can be incurred upon approval by the voters of the Port district.

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

The paying agent for bonded debt is:

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 interest 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.

In February 2016, the Port issued General Obligation Bonds par value $26,384,000 with interest rates between 1.06 percent and 2.36 percent to partially refund 2008A General Obligation Bonds par value of $23,850,000. The newly issued General Obligation Bonds were issued at par and, after paying issuance costs of $60,000, the net proceeds were $26,324,000. The net proceeds from the issuance of the General Obligation Bonds and additional Port cash of $59,000 were used to purchase State and Local Government Series securities in the amount of approximately $26,383,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the earliest call dates. The advance refunding met the requirements of an in-substance debt defeasance and $23,850,000 of the Series 2008A General Obligation Bonds were removed from the Port's financial statements.

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

In September 2016, the Port issued General Obligation Bonds par value $110,260,000 at a premium with interest rates between 3.00 percent and 5.00 percent to partially refund 2006 and 2008A outstanding limited tax General Obligation Bonds par value $127,680,000. After paying issuance costs of $267,000, the net proceeds were $133,701,000. The net proceeds from the issuance of the General Obligation Bonds and cash contribution from the Port of $1,613,000 were used to purchase State and Local Government Series securities in the amount of approximately $135,314,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the earliest call dates. The advance refunding met the requirements of an in-substance debt defeasance and $127,680,000 of the Series 2006 and 2008A General Obligation Bonds were removed from the Port's financial statements.

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

Revenue Bonds

The revenue bonds are secured by a pledge of the Port's net operating revenues as defined by bond documents. Revenue bond proceeds finance acquisition, expansion, improvements and equipment for Port terminal and industrial development facilities. The Port has pledged future net operating revenues to repay $674.2 million in bond principal and interest through 2044. During 2017, revenue bond principal and interest paid and total revenues were $35.1 million and $76.6 million, respectively. During 2016, revenue bond principal and interest paid and total revenues were $13.8 million and $85.1 million, respectively. The revenue bonds contain coverage requirements related to maintaining adequate net revenues to support debt service.

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2016, the Port issued Revenue Bonds (non-AMT) par value $36,535,000 issued at a premium of $9,041,000 with interest rates between 4 percent and 5 percent. After paying issuance costs of $91,000, the net proceeds were $45,455,000. The net proceeds from the issuance of the Revenue Bonds and cash contribution from the Port of $527,000 were used to purchase State and Local Government Series securities in the amount of approximately $45,981,000. Those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the earliest call dates. The advance refunding met the requirements of an in-substance debt defeasance and $45,185,000 of the Series 2006 Revenue Bonds were removed from the Port's financial statements.

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

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

Interest Rate Payment Agreements (Swaps)

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

In December 2016 the Port cancelled, at no cost, the interest rate payment agreement with Morgan Stanley (Swap Reference 1). The swap was effective until December 2036 unless terminated earlier. Cancelling the swap results in the Port having an additional $57,865,000 of unhedged variable rate long-term debt. Total swaps outstanding was reduced by $57,096,000 to $239,950,000. The effective interest rate on the unhedged $57,865,000 will be short term variable rates, which are approximately 0.5 percent and will fluctuate with market changes. The annual interest savings on $57,865,000 at 0.5 percent compared to 3.795 percent is approximately $1,900,000. Variable rate bonds were used to purchase a majority of the land on the Hylebos Peninsula in the mid 2000's. This created restrictions on how the property purchased with these bond proceeds can be used. The termination of the swap removes the restriction to allow the land to be used for activities other than "docks and wharfs." The Port's swap contracts outstanding notional amounts at December 31, 2017 are as follows (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	$ 23,648	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	72,805	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	119,030	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	18,410	None	9/20/07	7/25/13	12/1/42	Pay 4.229%, receive 70% of LIBOR (1)
		$260,000	$233,893					

Note: Swap Reference 1 was terminated in 2016.
(1) One-month London Interbank Offered Rate.

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

Variable-Rate Debt	Outstanding Principal December 31, 2017	Outstanding Principal December 31, 2016
2008	$ 68,040	$ 78,250
2008B	122,180	133,000
2014A	84,390	86,565
Unhedged debt	(40,717)	(57,865)
	$ 233,893	**$ 239,950**

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
Total		**$ 1,520**		**$ (62,101)**	**$ 260,000**

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

	2016 Changes in Fair Value		Fair Value at 12/31/16		
SWAP Reference	Classification	Amount	Classification	Amount	Original Notional Amount
2	Deferred outflow	$ 883	Debt	$ (3,983)	$ 30,000
3	Deferred outflow	4,351	Debt	(20,021)	80,000
4	Deferred outflow	7,511	Debt	(34,151)	130,000
5	Deferred outflow	1,220	Debt	(5,466)	20,000
Total		**$ 13,965**		**$ (63,621)**	**$ 260,000**

Swap Reference 1 was terminated in 2016.

Risks

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

Counterparty or Credit Risk

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

SWAP Reference	Notional Amount	Bank Counterparty	Credit Worthiness Moody's	S&P	Termination Value
2	$ 30,000	Goldman Sachs	A1	A+	$ 3,448
3	80,000	Dexia	Baa3	BBB	19,385
4	130,000	Dexia	Baa3	BBB	33,863
5	20,000	Merrill Lynch	Baa1	BBB+	5,405
Total	**$ 260,000**				**$ 62,101**

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, 2017.

Debt Service for Fixed Rate Bonds

The debt service requirements for fixed rate general obligation and revenue bonds outstanding as of December 31, 2017, are as follows (dollars in thousands):

Year Ending December 31,	Principal	Interest	Total
2018	$ 8,483	$ 14,030	$ 22,513
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
2023-2027	66,877	57,969	124,846
2028-2032	70,510	43,505	114,015
2033-2037	73,420	27,245	100,665
2038-2042	58,975	11,082	70,057
2043-2048	11,840	569	12,409
Total	**$ 332,809**	**$ 207,568**	**$ 540,377**

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 $68.0 million and the 2014A Subordinate Lien Variable Rate Revenue Bonds with a balance of $84.4 million, and active swaps with Dexia, Goldman Sachs and Merrill Lynch outstanding as of December 31, 2017, are as follows (dollars in thousands):

Year	Principal Payment	Variable Interest	Interest Rate Swap, Net (1)	Total
2018	$ 5,120	$ 3,898	$ 7,534	$ 16,552
2019	5,335	3,827	7,333	16,495
2020	5,570	3,752	7,124	16,446
2021	5,820	3,674	6,907	16,401
2022	6,075	3,593	6,681	16,349
2023-2027	34,685	16,617	29,678	80,980
2028-2032	55,605	13,760	22,484	91,849
2033-2037	34,220	9,636	13,717	57,573
2038-2042	---	8,782	3,867	12,649
2043-2048	122,180	3,513	---	125,693
Total	**$ 274,610**	**$ 71,052**	**$ 105,325**	**$ 450,987**

(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 2017 will remain the same over the term of the derivative contract.

The Port entered into a 3-year agreement with a bank in April 2014 for a direct purchase of the 2008 Subordinate-Lien Variable Rate Revenue Bonds. The agreement was renewed in April 2017 and expires in April 2020. In May 2015, the Port entered into a 3-year agreement with a bank for a direct purchase of the 2008B Subordinate-Lien Variable Rate Revenue bonds. This agreement expires in May 2018. With changes in the market place due to the new corporate tax code, the Port is currently negotiating a three-month extension of this agreement. The Port may pursue a longer term extension of a direct purchase or may pursue a change to a Direct Pay Letter of Credit depending on market reaction to the changes in the tax code.

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

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 $50,000. 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 2018. Excess loss coverage has been purchased through an outside provider to limit individual loss to $110,000. Self-insured claim activity for December 31, 2017 and 2016, is as follows (dollars in thousands):

	2017	2016
Claims liability, beginning of year	$ 762	$ 1,316
Claims reserve	4,397	4,019
Payments on claims	(4,129)	(4,573)
Claims liability, end of year	**$ 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, 2017, the estimated self-insurance liability for workers' compensation was $447,000 and this amount is expected to be paid in 2018. At December 31, 2016, the estimated self-insurance liability for workers' compensation was $238,000. 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, 2017 and 2016, are as follows (dollars in thousands):

	2017	2016
Claims liability, beginning of year	$ 238	$ 530
Claims incurred during the year	454	89
Changes in estimate for prior year claims	220	(39)
Payments on claims	(465)	(342)
Claims liability, end of year	**$ 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	
2018	$ 13
2019	13
2020	13
2021	13
2022	13
Thereafter	205
Total minimum payments required	**$270**

Total rent expense for the years ended December 31, 2017 and 2016 was $13,000 and $17,000, 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	
2018	$ 11,356
2019	10,594
2020	10,109
2021	10,140
2022	10,132
Thereafter	286,304
Total minimum future rents	**$ 338,635**

Assets held for rental and leasing purposes as of December 31, 2017, are as follows (dollars in thousands):

Land	$ 277,317
Buildings, improvements and equipment, net	22,736
Total, net of accumulated depreciation	**$ 300,053**

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 are defined. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

As of June 30, 2017, 393 employers and 756 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 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, 2017, were:

2017	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	12.70%	12.70%	12.70%**
Employee	6.00%	7.38%	***

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

2016	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	11.18%	11.18%	11.18%**
Employee	6.00%	6.12%	***

* The employer rates include the employer administrative expense fee of 0.18% for 2017 and 2016

** 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
2017	$ 8	$ 2,103	$ 331	$ 2,442
2016	8	2,383	287	2,678
2015	9	1,926	271	2,206

Pension liabilities, pension expense, and deferred inflows and outflows of resources and related to pensions

At December 31, 2017 and 2016, the Port reported a liability of approximately $16.3 million and $22.3 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017, the Port's proportionate share of net pension liability and the change in proportionate share from June 30, 2016, are presented in the following tables (dollars in thousands):

Port's proportionate share of the net pension liability	PERS 1	PERS 2/3	Total
2017	$ 8,412	$ 7,869	$16,281
2016	10,213	12,057	22,270

	PERS 1	PERS 2/3
Change of Port's proportionate share from 2016 to 2017	-0.0129%	-0.0130%

For the years ended December 31, 2017 and 2016, the Port recognized pension benefit of $1,669,000 and $287,000, respectively.

At December 31, 2017 and 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

2017 Sources of Deferred Outflow of Resources:	PERS 1	PERS 2/3	Total
Changes in Assumptions	$ ---	$ 84	$ 84
Differences between expected and actual experience (1)	---	797	797
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)
Differences between expected and actual experience (1)	---	(259)	(259)
Changes in proportion and differences between Port contributions and proportionate share of contributions (2)	---	(554)	(554)
Total	**$ (314)**	**$ (2,911)**	**$ (3,225)**

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

(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.

NOTE 8 – PENSION PLANS (Continued)

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)**

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

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

Actuarial Assumptions

The total 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 Report and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report are as follows:

Inflation

3.0 percent total economic inflation; 3.75 percent salary inflation.

Salary Increases

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

Investment Rate of Return

The investment rate of return is 7.50 percent.

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

Long-Term Expected Rate of Return

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

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

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

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

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

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, 2017 and 2016 are summarized in the tables below.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	**100%**	

The inflation component used to create the table is 2.20 percent for June 30, 2017 and 2016, and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate

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

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

Sensitivity Net Pension Liability to Changes in the Discount Rate

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

	Pension Trust	1% Decrease	Discount Rate	1% Increase
December 31, 2017				
Discount Rate		6.50%	7.50%	8.50%
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)
December 31, 2016				
Discount Rate		6.50%	7.50%	8.50%
Proportionate share of net pension liability	PERS 1	$ 12,316	$10,213	$ 8,404
Proportionate share of net pension liability/(asset)	PERS 2/3	22,198	12,057	(6,276)

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 2017 CAFR, including descriptions of actuarial data, assumptions, methods, and plan provisions relied on for the preparation of GASB 67 and GASB 68. Additional details regarding this information is included in OSA's 2015 Report on Financial Condition and Economic Experience Study on the OSA website.

NOTE 9 – POST-EMPLOYMENT HEALTH CARE BENEFITS TRUST FUND

The Port provides major medical coverage for eligible retired employees through the 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, 2017 may be found on page 11 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 for up to 10 years, provided they have completed 20 years of service and are eligible to retire under PERS. There are 18 active members, 21 in-active members and zero in-active 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 and payable. The Plan currently operates as a frozen plan, and does not accept the participation of employees hired on or after March 15, 2007.

Summary of Accounting Policies

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

Investment Policy

As of December 31, 2017, 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	**2017**	**2016**	**2015**
Fixed income	97%	98%	96%
Cash	3%	2%	4%
	100%	**100%**	**100%**

Rate of Return

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

Net OPEB Liability

The components of net OPEB liability at December 31, 2017 were as follows (dollars in thousands):

Total OPEB liability	$ 3,699
Plan fiduciary net position	(5,120)
Net OPEB asset	**$(1,421)**

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The actuarial present value of accumulated plan benefits is determined by an independent actuary. The results are based on the December 31, 2016 actuarial valuation date rolled forward to a measurement date and reporting date of December 31, 2017.

The actuarial valuation method used was entry age normal, the assumption for salary increases was 4.0 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 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 Rate). The rate was reduced from 4.0 percent in the previous year to better reflect future expectation. The health care cost trend was 7.5 percent, graded down to 5 percent over 5 years.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.1 percent based on the November 30, 2017 Municipal Bond Rate. The projection of cash flows used to determine the discount rate assumed that Port contributions will be made at rates equal to the actuarially determined contribution rates. The OPEB 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 on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

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

Net OPEB Asset	1% Decrease	Discount Rate	1% Increase
	2.10%	3.10%	4.10%

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

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 healthcare cost trend rates that are one percentage point lower or higher than the current healthcare cost trend rates (dollars in thousands):

	1% Decrease 6.5% decreasing to 4% over 5 years	Discount Rate 7.5% decreasing to 5% over 5 years	1% Increase 8.5% decreasing to 6% over 5 years
Net OPEB Asset	$ 1,805	$ 1,573	$ 1,321

Risks

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

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

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

The DB Plan does not limit the amount invested in any one issuer. At December 31, 2017, 2016 and 2015, the DB Plan had the following investments (dollars in thousands):

Investment Type	2017	2016	2015
Money market fund	$ 133	$ 94	$ 265
Fixed income securities	4,987	5,413	5,626
	$ 5,120	**$ 5,507**	**$ 5,891**

Trust Deposits and Investments

The Trust's cash and cash equivalents of $133,000 and $94,000 as of December 31, 2017 and 2016, 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, 2017 and 2016 (dollars in thousands):

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	38.0%
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	---	13.0%
Total investments	**$ 4,987**	**$ 1,248**	**$ 2,105**	**$ 1,634**	**100.0%**
Percentage of total portfolio		**25.0%**	**42.2%**	**32.8%**	**100.0%**

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

The Trust investments are rated AAA by Moody's equivalent credit rating as of December 31, 2017 and 2016.

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, 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**

Fair Value of Trust investments as of December 31, 2016	**Level 1**	**Level 2**	**Total**
Federal Home Loan Bank	$ 700	$ 601	$ 1,301
Federal Home Loan Mortgage Corporation	800	---	800
Federal National Mortgage Association	2,011	250	2,261
United States Treasury Bonds	1,051	---	1,051
Total Post-Employment Health Care Benefits Trust Fund	**$ 4,562**	**$ 851**	**$ 5,413**

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 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. In 2016 the Port's regular tax levy was $0.183 per $1,000 on a total assessed valuation of $82,178,126,000, for a total regular levy amount of $15,013,000.

NOTE 11 – COMMITMENTS AND OTHER LONG-TERM LIABILITIES

Commitments

The Port has entered into contractual agreements for terminal maintenance, infrastructure improvements, environmental projects, professional and personal services. At December 31, 2017, these future commitments are as follows (dollars in thousands):

Description	Remaining Commitments
Terminal projects	$ 46,797
Environmental	2,940
Other	4,832
Total	**$ 54,569**

Included in the commitments above are $512,000 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 and dredge 12.50 acres of the Blair waterway for the Port's use as a right-of-way. As a part of this agreement, the Port agreed to pay for dredging the channel width from 650 feet to 850 feet at some point in the future. The estimated cost of this project is $28.0 million. The $28.0 million is recorded in other long-term liabilities on the statements of net position at December 31, 2017 and 2016.

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

NOTE 12 – ENVIRONMENTAL LIABILITIES

The Port monitors 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 $18.3 million at December 31, 2017, and $16.2 million at December 31, 2016. 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. The Port's liability net of estimated cost recovery was $2.8 million at December 31, 2017.

In 2016, the Port completed remediation on Pier 4 on the General Central Peninsula which had an obligation of $3.1 million at December 31, 2016.

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, 2017 and 2016.

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 $5.4 million at December 31, 2017 and 2016.

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 $1.5 million and $1.7 million at December 31, 2017 and 2016, respectively.

At December 31, 2017, the estimated cost of the environmental remediation projects expected to be capitalized in future periods is approximately $13.7 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. Joint venture income in 2017 and 2016 was $54.9 million and $61.6 million respectively, and 71.6 percent and 72.3 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 Officers also serve as officers and directors of other private and public agencies. The Revised Code of Washington, Section 53, authorizes the Port District to cooperate and invest with such agencies, including trade centers, economic development and other municipal entities. The Port supports such agencies in its normal course of business.

The Port commissioners also govern the NWSA. The NWSA is a separate governmental entity established as a Port Development Authority and is governed by the ports of Tacoma and Seattle as equal members (each a "Managing Member" and collectively, "Managing Members") with each port acting through its elected commissioners. The Port CEO also serves as the CEO of the NWSA and will transition out of the Port following the hiring of a new CEO in late 2018. 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. The Port does not have any Level 3 assets or liabilities at December 31, 2017 and 2016.

TThe 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, 2017 and 2016 (dollars in thousands):

Fair Value of Assets and Liabilities as of December 31, 2017

	Level 1	Level 2	Total
Investments – Enterprise Fund:			
Federal Agricultural Mortgage Corp.	$ ---	$ 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**

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

	Level 1	Level 2	Total
Investments – Enterprise Fund:			
Money Market	$ 952	$ ---	$ 952
Federal Agricultural Mortgage Corp.	---	995	995
Federal Farm Credit Bank	---	9,899	9,899
Federal Home Loan Bank	6,026	12,017	18,043
Federal Home Loan Mortgage Corporation	2,996	17,665	20,661
Federal National Mortgage Association	19,938	22,492	42,430
Financing Corporation	---	1,019	1,019
Housing Urban Development	---	---	---
Municipal Bonds	12,539	36,589	49,128
United States Treasury Bonds	14,504	10,845	25,349
Total investments - Enterprise Fund	**$ 56,955**	**$ 111,521**	**$ 168,476**
Long-term Debt - Interest rate swaps	**$ ---**	**$ 63,621**	**$ 63,621**

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, 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
Non-cash 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)
Total	**$ 66,077**	**$ 38,196**	**$ 104,273**

The investment in joint venture as of December 31, 2016, is presented as follows (dollars in thousands):

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

Cash distributions from the NWSA are generally received in the following month. The Port's receivable for cash distributions earned through December 31, 2017 and 2016, was $5.1 million and $10.4 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 provided by the Port to the NWSA are based on agreed-upon direct charges and allocations. These support services totaled $30.4 million in 2017 and $28.3 million in 2016.

Support services provided by NWSA to the Port include executive management, commercial management, planning, and environmental support services. The costs for these services provided by the NWSA to the Port are based on agreed-upon direct charges and allocations. These support services totaled $1.4 million in 2017 and $1.1 million in 2016.

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 and the cash distribution receivable from the NWSA at December 31, 2017 and 2016, is $16.6 million and $30.9 million, respectively and is included in related-party receivables - joint venture on the statements of net position.

The NWSA's summarized statements of net position and its statements of revenues, expenses, and changes in net position for the year ended December 31, is as follows (dollars in thousands):

	2017	2016
Total assets and deferred outflows	$ 269,072	$ 203,719
Total liabilities and deferred inflows	61,544	72,582
Total net position	**$ 207,528**	**$ 131,137**
Total operating revenues	$ 194,985	$ 195,170
Total operating expenses	85,895	80,264
Non-operating income, net	437	8,262
Capital grant contributions	324	---
Increase in net position before Managing Member contributions and distributions	**109,851**	**123,168**
Managing Member contributions and distributions, net	(33,460)	7,969
Increase in net position	**76,391**	**131,137**
Net position, beginning of year	131,137	---
Net position, end of year	**$ 207,528**	**$ 131,137**

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

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

	2017	2016	2015
PERS PLAN 1			
Port's proportion of NPL	0.177%	0.190%	0.187%
Port's proportionate share of NPL	$ 8,412	$ 10,213	$ 9,803
Port's covered-employee payroll	$ 70	$ 67	$ 84
Port's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12017.1%	15243.3%	11732.9%
Plan fiduciary net pension position as a percentage of the total pension liability	61.2%	57.0%	59.1%
Contractually required contribution	$ 963	$ 1,152	$ 954
Contributions in relation to the contractually required contribution	(963)	(1,152)	(954)
Contribution deficiency (excess)	$ ---	$ ---	$ ---
Port's covered-employee payroll	$ 70	$ 67	$ 84
Contributions as a percentage of covered-employee payroll	1376%	1719%	1141%
PERS PLAN 2/3			
Port's proportion of NPL	0.226%	0.239%	0.240%
Port's proportionate share of NPL	$ 7,869	$ 12,057	$ 8,565
Port's covered-employee payroll	$ 20,352	$ 23,892	$ 21,554
Port's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.7%	50.5%	39.7%
Plan fiduciary net pension position as a percentage of the total pension liability	91.0%	85.8%	89.2%
Contractually required contribution	$ 1,479	$ 1,526	$ 1,252
Contributions in relation to the contractually required contribution	(1,479)	(1,526)	(1,252)
Contribution deficiency (excess)	$ ---	$ ---	$ ---
Port's covered-employee payroll	$ 20,352	$ 23,892	$ 21,554
Contributions as a percentage of covered-employee payroll	7.1%	6.2%	5.8%

(1) Information presented prospectively beginning with 2014 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

Ratios December 31, 2017 (dollars in thousands)

Total OPEB liability:	
Service cost	$ 89
Interest	111
Change of benefit terms	---
Differences between expected and actual experience	---
Changes of assumptions	---
Benefit payments	(384)
Net change in total OPEB liability	(184)
Total OPEB liability - beginning	**3,883**
Total OPEB liability - ending (a)	**$ 3,699**
Plan fiduciary net position:	
Contributions - employer	$ ---
Net investment income	44
Benefit payments	418
Administrative expense	13
Net change in fiduciary net position	(387)
Plan fiduciary net position - beginning	5,507
Plan fiduciary net position - ending (b)	**5,120**
Net OPEB asset ending (a)-(b)	**$ 1,421**
Plan fiduciary net position as a percentage of the total OPEB liability	138.4%
Covered-employee payroll	**$ 1,488**
Net OPEB liability as a percentage of covered-employee payroll	95.5%

(1) Information presented prospectively beginning with 2017 due to implementation of GASB Statement 74.

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

December 31, 2017 (Dollars in thousands)

Schedule of contributions:	
Actuarially determined contribution	$ 106
Contribution in relation to the actuarially determined contribution	---
Contribution deficiency (excess)	$ 106
Covered-employee payroll	$ 1,488
Contributions as a percentage of covered-employee payroll	0.0%
Schedule of investment returns:	
Annual money-weighted rate of return, net of investment expense	3.1%

(1) Information presented prospectively beginning with 2017 due to adoption of GASB Statement 74.

Post Employment Health Care Benefits Trust Fund Schedule of Employer Contributions

(Dollars in thousands)

YEAR ENDED	Annual Required Contribution	Percentage Contributed
December 31, 2017	$ 423	100%
December 31, 2016	394	100%
December 31, 2015	331	100%
December 31, 2014	488	100%
December 31, 2013	186	100%
December 31, 2012	347	100%
December 31, 2011	298	100%
December 31, 2010	415	100%
December 31, 2009	375	100%
December 31, 2008	7,315	100%

Post Employment Health Care Benefits Trust Fund Funded Status of the Plan

(Dollars in thousands)

Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Actuarial AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2017	$ 5,320	$ 3,510	$ ---	151.6%	$ 1,548	0.0%
January 1, 2016	5,507	3,609	---	152.6%	1,488	0.0%
January 1, 2015	5,891	3,077	---	191.5%	1,551	0.0%
January 1, 2014	6,333	3,941	---	160.7%	1,925	0.0%
January 1, 2013	6,493	3,536	---	183.6%	2,025	0.0%
January 1, 2012	6,859	4,348	---	157.7%	2,323	0.0%
January 1, 2011	7,074	4,326	---	163.5%	2,535	0.0%
January 1, 2010	7,353	5,148	---	142.8%	2,601	0.0%
January 1, 2009	7,569	5,252	---	144.1%	2,902	0.0%
January 1, 2008	---	7,121	7,121	0.0%	3,300	215.8%
January 1, 2007	---	6,782	6,782	0.0%	3,180	213.3%

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)

	2017	2016	2015	2014	2013
REVENUES					
Total Operating Revenues	**$76,612**	**$85,129**	**$143,897**	**$134,322**	**$125,342**
Joint Venture Depreciation Cash Adjustment	1,090				
Non-operating Revenues (1), (2), (3), (4)	3,585	2,206	2,381	2,775	2,508
Total Revenues Available for Senior Debt Service	**81,287**	**87,335**	**146,277**	**137,096**	**127,850**
EXPENSES					
Total Operating Expenses, excluding depreciation	**16,393**	**12,656**	**72,577**	**81,951**	**68,212**
Non-operating Expenses (5), (6), (7), (8)	345	98	201	461	121
Total Expenses, excluding depreciation	**16,738**	**12,755**	**72,778**	**82,412**	**68,333**
Less Levy Available for Capital Improvement (5) (9)	4,683	1,641	348	---	1,497
Net Expenses	**12,055**	**11,114**	**72,430**	**82,412**	**66,836**
Net Revenues Available for Senior Debt Service	**69,232**	**76,221**	**73,847**	**54,684**	**61,013**
Debt Service Senior Lien debt	9,713	5,531	4,399	7,403	11,770
DEBT SERVICE COVERAGE (Senior Lien Debt)	**7.13**	**13.78**	**16.79**	**7.39**	**5.18**
Net Revenues Available for Senior Debt Service	**69,232**	**76,221**	**73,847**	**54,684**	**61,013**
Less Subordinate Lien Rate Stabilization (10)	---	(2,000)	(6,000)	---	---
Less Senior Lien Debt Service	(9,713)	(5,531)	(4,399)	(7,403)	(11,770)
Net Revenues Available for Subordinate Debt Service	**59,519**	**68,690**	**63,448**	**47,281**	**49,243**
Debt Service Subordinate Debt (11) (12)	20,135	21,786	22,034	22,125	19,219
DEBT SERVICE COVERAGE (Subordinate Lien Debt) (11)	**2.96**	**3.15**	**2.88**	**2.14**	**2.56**
Net Revenues Available for Senior Debt Service	**69,232**	**76,221**	**73,847**	**54,684**	**61,013**
Less Subordinate Lien Rate Stabilization	---	(2,000)	(6,000)	---	---
Net Revenues Available for fully Diluted Debt Service	**69,232**	**74,221**	**67,847**	**54,684**	**61,013**
Debt Service; Senior, Subordinate and lowest lien debt (13)	29,848	27,316	26,432	29,529	30,989
DEBT SERVICE COVERAGE - Fully Diluted (11), (13)	**2.32**	**2.72**	**2.57**	**1.85**	**1.97**
NOTE: Above schedule does not include levies for general obligation bond issues outstanding.					
FOOTNOTES:					
(1) Excluded from non-operating revenues is interest earned on investment of:					
General Obligation Bonds	$ 82	$ 24	$ 7	$ 6	$ 2
Construction funds	487	154	---	21	9
(2) Excluded from non-operating revenues is capital contribution and other miscellaneous non-operating income	1,012	7,116	1,690	2,636	6,815
(3) Excluded from non-operating revenues is gain(loss) on disposal or impairment of property	---	(3,534)	(5,846)	(5,030)	(1,786)
(4) Excluded from non-operating revenues is gain(loss) on market value of investments	156	47	72	2,505	(5,135)
(5) Excluded from non-operating expenses is cost of bond issue, net of discounts, premiums and other debt costs and election expense	(34)	124	767	(113)	627
(6) Excluded from non-operating expense is interest expense and interest funded from bond proceeds	20,258	18,516	18,087	21,649	23,549
(7) Excluded from interest expense is capitalized interest	56	85	597	654	285
(8) Excluded from non-operating expense are contributions to other agencies and other expenses not attributable to operations	594	1,407	4,813	2,537	7,804

(9) 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

(10) 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

(11) 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

(12) Included payment made to credit and liquidity providers

(13) 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		
Pmt 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
2018	2,850	1118	3,968		1,756	1,756	2,270	1,485	3,755	2,052	213	2,265	2,320	785	3,105		1744	1,744	580	5108	5,688
2019	2,960	1072	4,032		1,756	1,756	2,375	1,445	3,820	2,105	162	2,267	2,380	726	3,106		1744	1,744	605	5084	5,689
2020	3,080	1023	4,103		1,757	1,757	2,490	1,404	3,894	2,159	109	2,268	2,440	665	3,105		1744	1,744	630	5060	5,690
2021	3,205	972	4,177		1,756	1,756	2,615	1,358	3,973	2,209	55	2,264	2,505	603	3,108		1744	1,744	655	5035	5,690
2022	3,330	920	4,250		1,756	1,756	2,745	1,313	4,058				2,570	539	3,109	2,090	1744	3,834	685	5002	5,687
2023	3,465	865	4,330		1,756	1,756	2,880	1,265	4,145				2,635	473	3,108	2,200	1639	3,839	720	4968	5,688
2024	3,605	808	4,413		1,757	1,757	3,025	1,215	4,240				2,700	406	3,106	2,285	1551	3,836	755	4932	5,687
2025	3,750	748	4,498		1,756	1,756	3,175	1,160	4,335				2,770	337	3,107	2,400	1437	3,837	795	4894	5,689
2026	3,900	687	4,587		1,756	1,756	3,335	1,105	4,440				2,840	267	3,107	2,500	1341	3,841	835	4855	5,690
2027	4,055	623	4,678		1,756	1,756	3,495	1,046	4,541				2,915	194	3,109	2,625	1216	3,841	875	4813	5,688
2028	4,215	557	4,772		1,757	1,757	3,670	985	4,655				2,985	120	3,105	2,760	1085	3,845	920	4769	5,689
2029	4,385	487	4,872		1,756	1,756	5,070	920	5,990				1,715	44	1,759	2,895	947	3,842	965	4723	5,688
2030	4,560	415	4,975		1,756	1,756	7,625	831	8,456							3,040	802	3,842	1,015	4,675	5,690
2031	4,745	340	5,085		1,756	1,756	8,005	697	8,702							3,185	650	3,835	1,065	4,624	5,689
2032	4,935	262	5,197		1,757	1,757	8,395	556	8,951							3,350	491	3,841	1,120	4,571	5,691
2033	5,130	181	5,311		1,756	1,756	8,815	408	9,223							3,515	323	3,838	1,175	4,515	5,690
2034	5,335	96	5,431		1,756	1,756	9,255	253	9,508							3,690	148	3,838	1,230	4,456	5,686
2035	535	9	544		1,756	1,756	5,150	91	5,241										8,015	4,395	12,410
2036					1,757	1,757													8,415	3,994	12,409
2037					1,756	1,756													8,835	3,573	12,408
2038					1,756	1,756													9,275	3,131	12,406
2039					1,756	1,756													9,740	2,668	12,408
2040					1,757	1,757													10,225	2,181	12,406
2041					1,756	1,756													10,740	1,669	12,409
2042					1,756	1,756													11,275	1,132	12,407
2043					1,756	1,756													11,840	569	12,409
2044				122,180	1,757	123,937															
Grand Total*	**$68,040**	**$11,182**	**$79,222**	**$122,180**	**$47,421**	**$169,601**	**$84,390**	**$17,538**	**$101,928**	**$8,525**	**$539**	**$9,065**	**$30,775**	**$5,158**	**$35,933**	**$36,535**	**$20,350**	**$56,885**	**$102,985**	**105,395**	**$208,380**

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

(1) Calculated using 70% of the December 2017 1-Month LIBOR (0.952%) plus the Applicable Spread of the specified series.
(2) Calculated using a weighted swap determined annually.
(3) Calculated using 70% of the December 2017 1-Month LIBOR (0.952%).

REVENUE BOND DEBT SERVICE SCHEDULE (continued) (dollars in thousands)

Swaps			TOTAL			
Pymts (2)	Receipts (3)	Total	Principal	Interest	Net Swap Pmts	Total
9,588	-2,228	7,360	10,072	12,209	7,360	29,641
9,331	-2,168	7,164	10,425	11,988	7,164	29,577
9,064	-2,106	6,958	10,799	11,762	6,958	29,520
8,787	-2,039	6,748	11,189	11,523	6,748	29,459
8,498	-1,973	6,525	11,420	11,274	6,525	29,219
8,198	-1,902	6,295	11,900	10,967	6,295	29,162
7,885	-1,830	6,055	12,370	10,670	6,055	29,095
7,560	-1,752	5,808	12,890	10,333	5,808	29,031
7,222	-1,674	5,548	13,410	10,011	5,548	28,969
6,870	-1,592	5,279	13,965	9,649	5,279	28,892
6,504	-1,507	4,998	14,550	9,273	4,998	28,820
6,123	-1,416	4,707	15,030	8,876	4,707	28,613
5,727	-1,324	4,403	16,240	8,479	4,403	29,122
5,315	-1,227	4,087	17,000	8,067	4,087	29,155
4,886	-1,128	3,759	17,800	7,637	3,759	29,196
4,440	-1,022	3,418	18,635	7,183	3,418	29,235
3,976	-914	3,062	19,510	6,710	3,062	29,282
3,493	-801	2,692	13,700	6,250	2,692	22,642
2,990	-684	2,307	8,415	5,751	2,307	16,473
2,468	-561	1,907	8,835	5,329	1,907	16,070
1,983	-451	1,533	9,275	4,888	1,533	15,695
1,480	-336	1,144	9,740	4,424	1,144	15,308
956	-217	739	10,225	3,938	739	14,902
411	-93	318	10,740	3,425	318	14,483
48	-11	37	11,275	2,889	37	14,201
			11,840	2,325	0	14,165
			122,180	1,757	0	123,937
$133,805	$(30,956)	$102,849	$453,430	$207,584	$102,849	$763,864

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

(1) Calculated using 70% of the December 2017 1-Month LIBOR (0.952%) plus the Applicable Spread of the specified series.

(2) Calculated using a weighted swap determined annually.

(3) Calculated using 70% of the December 2017 1-Month LIBOR (0.952%).

TAX COLLECTION INFORMATION (dollars in thousands)

	Amount of Tax Levy	Tax Collected	% Collected
2017	$16,660	$16,354	98.16%
2016	15,013	14,925	99.41%
2015	14,206	14,165	99.71%
2014	13,116	13,111	99.96%
2013	12,666	12,663	99.98%
2012	13,719	13,717	99.99%

PORT TAXING DISTRICT ASSESSED VALUATION

2018	$101,406,430,390
2017	90,713,390,689
2016	81,750,009,927
2015	77,353,617,531
2014	71,417,153,388

PROPERTY TAX LEVY AVAILABLE FOR CAPITAL IMPROVEMENTS (dollars in thousands)

	2017	2016	2015	2014	2013
Total Levy	$16,660	$15,013	$14,206	$13,116	$12,666
Less Designation for G.O. Debt Service	11,948	13,332	13,669	13,665	11,280
Subtotal	**4,712**	**1,681**	**537**	**(549)**	**1,386**
Supplements, Cancellations Refunds-Net	(29)	(41)	(19)	(33)	(69)
Levy Available for Capital Improvement	**$ 4,683**	**$ 1,640**	**$ 518**	**$ ---**	**$ 1,317**

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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