



*Solid Waste Management  
Financial Report  
September 2015*

City of Tacoma  
Environmental Services Department  
Prepared By: Louis Nguyen



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## *Notification*

These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles. Immaterial differences may occur due to rounding.

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# *Management's Discussion and Analysis*

**City of Tacoma, Washington**  
**Environmental Services Department**  
**Solid Waste Management**  
**Management's Discussion and Analysis**  
**September 30, 2015**

**Introduction**

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Solid Waste Management Division (the Division) for the periods ended September 30, 2015 and 2014. The MD&A is designed to focus on significant financial transactions and activities and to identify changes in financial position. This information should be read in conjunction with the financial statements.

**Financial Highlights**

- The change in net position is \$1.1 million in the first nine months of 2015, compared to \$702,000 for the same period in 2014.
- The first nine months operating revenues are \$44.2 million in 2015 and \$42.9 million in 2014.
- Total net position is \$20.9 million as of September 30, 2015, compared to \$20.8 million a year ago.
- Cash and equity in pooled investments or operating fund is \$24.1 million and \$24.0 million at September 30, 2015 and 2014, respectively.

**Financial Analysis – Condensed Net Position**

	September 30,		Increase
	2015	2014	(Decrease)
Current, restricted, and other assets	\$ 62,299,848	\$ 42,097,501	\$ 20,202,347
Capital assets	84,082,207	84,601,899	(519,692)
Deferred outflows of resources	162,013	236,787	(74,774)
Total assets and deferred outflows of resources	<u>\$ 146,544,068</u>	<u>\$ 126,936,187</u>	<u>\$ 19,607,881</u>
Current liabilities and liabilities payable from restricted assets	\$ 8,569,342	\$ 6,068,397	\$ 2,500,945
Noncurrent liabilities	111,097,339	94,095,174	17,002,165
Deferred inflows of resources	6,000,000	6,000,000	-
Total liabilities and deferred inflows of resources	<u>125,666,681</u>	<u>106,163,571</u>	<u>19,503,110</u>
Invested in capital assets, net of related debt	28,995,936	27,559,103	1,436,833
Restricted for bond reserves	9,373,132	6,897,986	2,475,146
Unrestricted	(17,491,681)	(13,684,473)	(3,807,208)
Total net position	<u>20,877,387</u>	<u>20,772,616</u>	<u>104,771</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 146,544,068</u>	<u>\$ 126,936,187</u>	<u>\$ 19,607,881</u>

### Current, restricted, and other assets

Current, restricted, and other assets increased by \$20.2 million over the past twelve months. The most significant changes were:

- Account receivable and unbilled revenue decreased \$348,000 and \$342,000 increased in Allowance for uncollectible accounts due to old customer accounts.
- Bond reserves and debt service accounts increased \$3.5 million in both the 2006 series and 2015 Revenue bond due to bond covenant requirements.
- Construction funds increased \$17.5 million due to the new 2015 Revenue bond issued on March 18, 2015 and the proceeds will be used for capital projects and green vehicle purchases.

### Deferred outflows of resources

- Unamortized bond refunding costs decreased \$75,000 due to amortizing the cost over the past twelve months.

### Current liabilities and liabilities payable from restricted assets

Total current liabilities and liabilities payable from restricted assets increased \$2.5 million. The significant changes from year to year include:

- Accounts payable increased \$304,000 compared to last year due to project spending and payment timing.
- The current portion of long-term debt increased \$1.5 million compared to last year due to increased bond principal payments due on December 1, 2015.
- The current portion landfill post closure liability increased \$361,000 due to current year spending for landfill post closure project cost in 2015.

### Noncurrent liabilities

Noncurrent liabilities consist of long-term debt, related debt accounts, noncurrent compensated absences, and other post-employment benefits (OPEB) liabilities. The most significant changes were:

- The long-term debt of revenue bond principal increased by \$16.5 million due to a new \$21.1 million 2015 Revenue bond and \$4.6 million principal payments being reclassified to current liabilities for the 2006A, 2006B and 2008 Bonds due in December 1, 2015.
- Capital lease obligation decreased \$1.7 million due to the reduction in ownership of Urban Water Center property from 20% to 15.5 % effective December 31, 2014.
- Unamortized bond premium cost increased \$2.6 million due to a \$3.2 bond premium realized the 2015 Revenue bond and a reduction of \$517,000 amortized costs recognized over the past nine months for 2006, 2008 and 2015 bonds.
- Accrued landfill post closure costs decreased \$697,000 when \$907,000 was moved to current portion liability in 2015.
- OPEB liabilities increased \$289,000 because of the annual accrual recorded at year-end 2014.

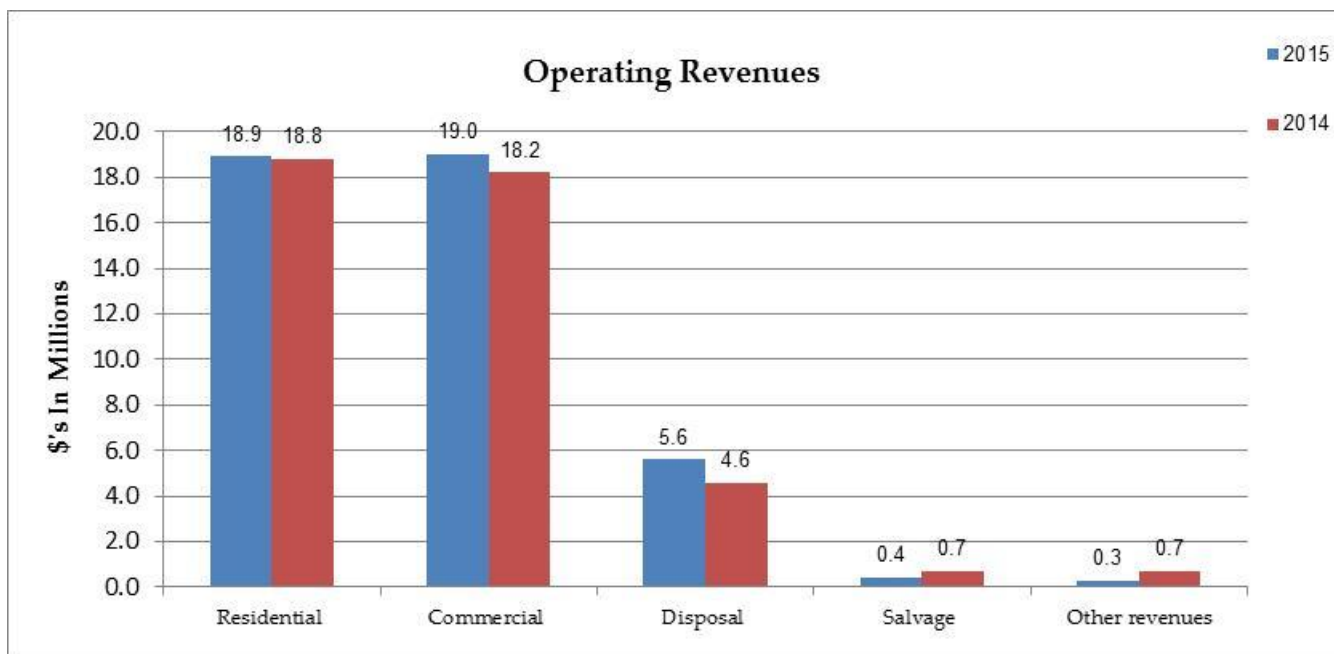
### Deferred inflows of resources:

Deferred inflows of resources include the rate stabilization credit. Rate stabilization has not changed in the past year.

## Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

	September 2015	Year-to-Date 2014	Increase (Decrease)
Operating revenues	\$ 44,177,897	\$ 42,946,232	\$ 1,231,665
Operating expenses	37,643,005	37,279,879	363,126
Net operating income	6,534,892	5,666,353	868,539
Nonoperating revenues (expenses):			
Investment income	322,376	230,120	92,256
Interest on revenue bonds	(2,868,356)	(2,282,874)	(585,482)
Other expenses	681,496	514,242	167,254
Total nonoperating revenues (expenses)	(1,864,484)	(1,538,512)	(325,972)
Net income before transfers	4,670,408	4,127,841	542,567
Gross earnings taxes	(3,530,204)	(3,425,578)	(104,626)
Change in net position	1,140,204	702,263	437,941
Net position - beginning	19,737,183	20,070,353	(333,170)
Net position - ending	<u>\$ 20,877,387</u>	<u>\$ 20,772,616</u>	<u>\$ 104,771</u>

The following graph provides a comparison of operating revenues:





Operating revenues

Overall operating revenues increased \$1.2 million the first nine months of 2015, compared to a decrease of \$112,000 the same period last year. The Division did have a 5% rate increase begin January 1, 2015. The most significant changes are:

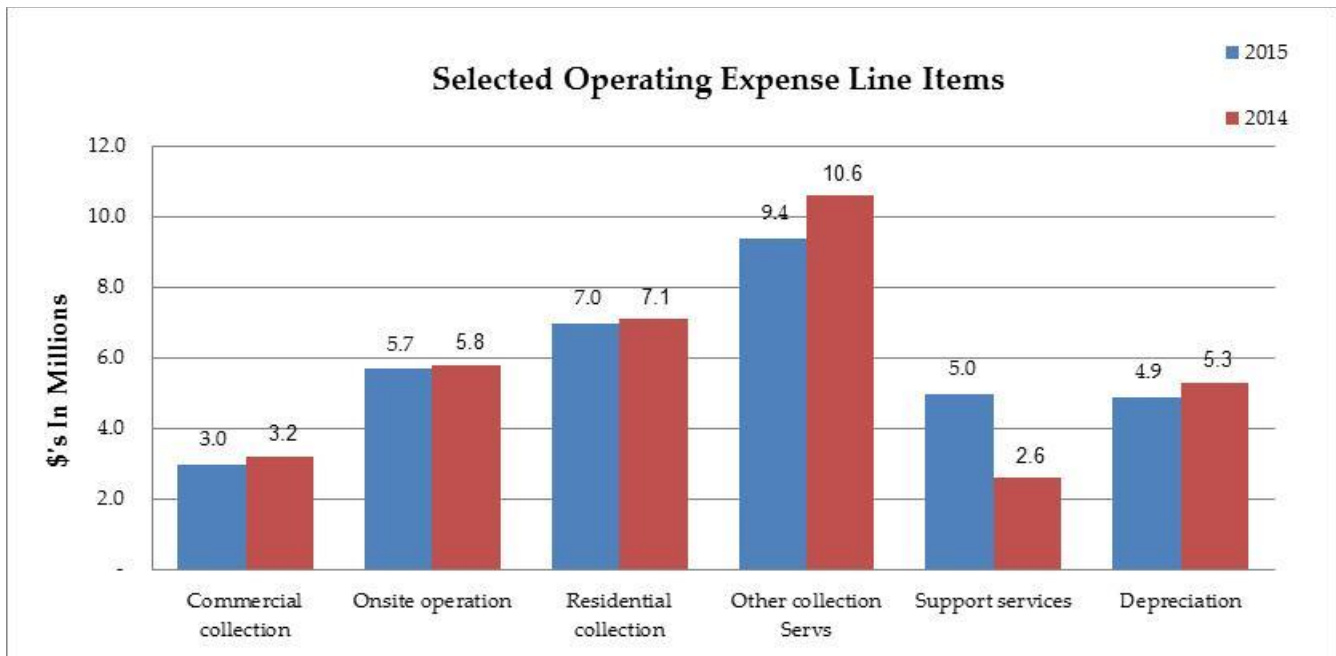
- Commercial collection revenue increased \$804,000 compared to the first nine months in 2014 and the placement of commercial food waste recycling in service.
- Disposal revenues increased \$1.1 million (23%) due to the rate increase for landfill disposal fee which began in 2015.
- Salvage revenues decreased \$369,000 (50%) due to a low demand for recycling material and decreases in prices.
- Other operating revenue decreased \$381,000 (56%) because the Nuisance Code Enforcement program has been tremendously reduced and the 3rd quarter late payment from Pierce County household hazard waste contract.

Operating expenses

Operating expenses are \$37.6 million first nine month 2015 compared to \$37.3 million in 2014. The areas of significant change between the years are:

- Residential collection expenses, including residential waste, comingle recycle, yard waste and call-to-haul decreased \$399,000 primarily in labor costs and overhead assessments.
- Other collection services expenses decreased \$1.2 million due to a \$2.5 million external service LRI contract should be recorded here instead of in Support Services cost center group, and also a \$1.4 million increased in Collection Administration and Container Services due to the operational structure change implement in 2015.
- Support services expenses increased \$2.6 million. The variance is due to external services LRI contract accruals are now recorded in other collection services.
- Depreciation expense decreased \$394,000 due to an adjustment in value for capital lease building at year-end 2014.
- Taxes increased \$217,000 in first six months due to the Excise tax refund of \$278,000 was credited in 2014 from Department of Revenue.
- IT services expense increased \$173,000 compared to the same period last year.

The following graph provides a comparison of operating expenses for each of the major cost centers:



### Non-operating revenues (expenses)

Significant changes include:

- Interest paid net of capitalized interest increased \$584,000 (26%). A payment of \$165,000 was for the 2015 revenue bond issuance cost and \$503,000 was for the new 2015 bond interest.
- Cash received from disposal assets year-to-date \$136,000 mostly from collection vehicles.

### Capital assets, net

The total capital asset balance is \$84.2 million, a decrease of \$1.7 million compared to the balance at June 30, 2014.

Significant changes from year to year include:

- Landfill infrastructure increased \$354,000 due to the completion of the Landfill Paving project.
- Building increased \$1.5 million due to the completion of the Tacoma Asphalt Building.
- Machinery and equipment costs increased \$1.2 million. This includes \$4.2 million for purchased vehicles; \$1.1 million for garbage containers, offset was disposals of \$2.1 million for vehicles.
- Accumulated depreciation increased \$2.4 million since September 30, 2014.
- Construction in progress decreased \$332,000 due to the completion and ongoing capitalization projects.

### Debt Administration

As of September 30, 2015, the Division had \$79.2 million in long-term debt of which \$4.6 million is due in December 2015. This compares to long-term debt of \$61.2 million as of September 30, 2014. The bonds have underlying ratings of A2 by Moody's Investors Service, AA by Standard & Poor's, and AA-by Fitch, Inc.

The bond coverage ratio is estimated at 1.97 for September 30, 2015 compared to a ratio of 2.08 at the end of 2014. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

# *Financial Statements*

**City of Tacoma**  
**Environmental Services Department**  
**Solid Waste Management**  
**Statements of Net Position (Unaudited)**

<b>ASSETS</b>	<b>September 30,</b>		<b>Increase</b>
	<b>2015</b>	<b>2014</b>	<b>(Decrease)</b>
<b>Current assets:</b>			
Cash and equity in pooled investments:			
Operating funds	\$ 18,143,474	\$ 18,049,278	\$ 94,196
Rate Stabilization Fund	6,000,000	6,000,000	-
Total cash and equity in pooled investments	<u>24,143,474</u>	<u>24,049,278</u>	94,196
GABS 31 market rate adjustment	19,327	1,078	18,249
Accounts receivable	6,588,889	6,736,619	(147,730)
Allowance for uncollectible accounts	(3,682,340)	(3,340,526)	(341,814)
Unbilled revenue	2,865,000	3,065,000	(200,000)
Grant receivable - operating	85,324	302,326	(217,002)
Total current assets	<u>30,019,674</u>	<u>30,813,775</u>	(794,101)
<b>Restricted cash and equity in pooled investments:</b>			
Bond reserve and debt service accounts	14,007,106	10,508,351	3,498,755
Customer deposits	102,180	88,319	13,861
Construction funds	17,483,833	-	17,483,833
Total restricted cash and equity in pooled investments	<u>31,593,118</u>	<u>10,596,670</u>	20,996,448
<b>Capital assets:</b>			
Land	3,119,782	3,119,782	-
Buildings	65,394,127	63,874,457	1,519,670
Building - capital lease	6,024,273	7,568,000	(1,543,727)
Landfill infrastructure	65,190,790	64,836,358	354,432
Machinery and equipment	48,487,153	47,285,760	1,201,393
Computer software	4,717,718	4,734,766	(17,048)
Less accumulated depreciation	(111,121,403)	(108,754,674)	(2,366,729)
Assets in service, net of depreciation	<u>81,812,440</u>	<u>82,664,449</u>	(852,009)
Construction in progress	2,269,767	1,937,450	332,317
Total capital assets	<u>84,082,207</u>	<u>84,601,899</u>	(519,692)
Other noncurrent assets	687,056	687,056	-
Total assets	<u>146,382,055</u>	<u>126,699,400</u>	19,682,655
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized bond refunding costs	162,013	236,787	(74,774)
Total deferred outflows of resources	<u>162,013</u>	<u>236,787</u>	(74,774)
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 146,544,068</u>	<u>\$ 126,936,187</u>	<u>\$ 19,607,881</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report

**City of Tacoma**  
**Environmental Services Department**  
**Solid Waste Management**  
**Statements of Net Position (Unaudited)**

<b>LIABILITIES</b>	September 30,		Increase
	2015	2014	(Decrease)
Current liabilities:			
Accounts payable	\$ 1,144,070	\$ 839,833	\$ 304,237
Accrued wages payable and compensated absences	532,504	490,593	41,911
Accrued taxes payable	259,498	226,125	33,373
Customer deposits	22,172	22,586	(414)
Current portion of landfill closure	602,626	241,137	361,489
Current portion of long-term debt	764,167	514,167	250,000
Current portion of capital lease obligation	30,612	37,991	(7,379)
Total current liabilities	<u>3,355,649</u>	<u>2,372,432</u>	<u>983,217</u>
Liabilities payable from restricted assets:			
Deposits payable	96,500	85,601	10,899
Bond interest payable	1,296,360	1,039,531	256,829
Current portion of long-term debt	3,820,833	2,570,833	1,250,000
Total liabilities payable from restricted assets	<u>5,213,693</u>	<u>3,695,965</u>	<u>1,517,728</u>
Noncurrent liabilities:			
Long-term debt - revenue bonds	78,319,521	59,197,355	19,122,166
Capital lease obligation	5,195,988	6,861,002	(1,665,014)
Accrued landfill post closure costs	24,813,100	25,509,832	(696,732)
Compensated absences	1,061,484	1,108,586	(47,102)
Net OPEB obligation	1,707,246	1,418,399	288,847
Total noncurrent liabilities	<u>111,097,339</u>	<u>94,095,174</u>	<u>17,002,165</u>
Total liabilities	<u>119,666,681</u>	<u>100,163,571</u>	<u>19,503,110</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Rate stabilization	6,000,000	6,000,000	-
Total deferred inflows of resources	<u>6,000,000</u>	<u>6,000,000</u>	<u>-</u>
<b>NET POSITION</b>			
Net investment in capital assets	28,995,936	27,559,103	1,436,833
Restricted for bond reserves	9,373,132	6,897,986	2,475,146
Unrestricted	(17,491,681)	(13,684,473)	(3,807,208)
Total net position	<u>20,877,387</u>	<u>20,772,616</u>	<u>104,771</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 146,544,068</u>	<u>\$ 126,936,187</u>	<u>\$ 19,607,881</u>

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**City of Tacoma, Washington**  
**Environmental Services Department**  
**Solid Waste Management**

**Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)**

	Month of September		September Year-to-Date		% Chg
	2015	2014	2015	2014	
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,069,888	\$ 2,002,459	\$ 18,898,212	\$ 18,776,550	1%
Commercial collection	2,164,674	2,050,069	18,995,846	18,192,032	4%
Disposal revenues	670,245	573,698	5,610,097	4,554,489	23%
Salvage revenue	26,812	83,176	372,958	741,853	-50%
Other operating revenue	57,297	89,613	300,784	681,308	-56%
Total operating revenues	<u>4,988,916</u>	<u>4,799,015</u>	<u>44,177,897</u>	<u>42,946,232</u>	3%
<b>OPERATING EXPENSES</b>					
Commercial collection	344,733	344,663	3,040,547	3,157,128	(4%)
Onsite operations	626,287	745,060	5,677,339	5,808,603	(2%)
Residential collection	671,185	705,277	6,697,301	7,096,568	(6%)
Other collection Services	558,279	1,568,605	9,352,946	10,588,707	(12%)
Support services	556,004	105,164	5,048,987	2,624,428	92%
Other operating expenses:					
Insurance	16,818	28,896	165,977	274,479	(40%)
Depreciation	556,535	568,404	4,927,515	5,321,790	(7%)
Taxes	71,700	65,669	645,301	428,226	51%
IT services	108,153	86,627	961,278	788,105	22%
Customer services	124,831	121,375	1,125,814	1,191,845	(6%)
Subtotal other operating expenses	<u>878,037</u>	<u>870,971</u>	<u>7,825,885</u>	<u>8,004,445</u>	(2%)
Total operating expenses	<u>3,634,525</u>	<u>4,339,740</u>	<u>37,643,005</u>	<u>37,279,879</u>	1%
Net operating income	<u>1,354,391</u>	<u>459,275</u>	<u>6,534,892</u>	<u>5,666,353</u>	15%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	43,478	26,560	322,376	230,120	40%
Rental income	10,012	17,607	92,990	97,489	(5%)
Operating grants	-	-	202,320	514,116	(61%)
Gain/loss disposal assets	-	-	137,867	1,950	6,970%
Interest paid net of capitalized interest	(324,090)	(251,808)	(2,868,356)	(2,282,874)	26%
Interest on capital lease	(23,635)	(30,997)	(212,718)	(278,973)	(24%)
Amort. of premium and refunding costs	61,182	19,691	460,928	177,199	160%
Other expense	(15)	-	109	2,461	(N/A)
Total nonoperating expenses	<u>(233,068)</u>	<u>(218,947)</u>	<u>(1,864,484)</u>	<u>(1,538,512)</u>	21%
<b>CHANGE IN NET POSITION</b>					
Net income before transfers	1,121,323	240,328	4,670,408	4,127,841	13%
Transfers - gross earnings taxes	(393,500)	(363,695)	(3,530,204)	(3,425,578)	3%
<b>CHANGE IN NET POSITION</b>	<u>\$ 727,823</u>	<u>\$ (123,367)</u>	<u>1,140,204</u>	<u>702,263</u>	
<b>NET POSITION - BEGINNING</b>			<u>19,737,183</u>	<u>20,070,353</u>	
<b>NET POSITION - ENDING</b>			<u>\$ 20,877,387</u>	<u>\$ 20,772,616</u>	

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

**City of Tacoma  
Environmental Services Department  
Solid Waste Management  
Statements of Cash Flows (Unaudited)**

	Year-to-Date 2015	September 30, 2014	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 43,831,085	\$ 42,755,943	\$ 1,075,142
Payments to suppliers	(18,417,538)	(18,781,761)	364,223
Payments to employees	(14,578,468)	(14,431,373)	(147,095)
Taxes paid	(655,766)	(425,570)	(230,196)
Net cash from operating activities	<u>10,179,313</u>	<u>9,117,239</u>	<u>1,062,074</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(3,925,942)	(3,814,418)	(111,524)
Debt service related to environmental cleanup	(1,665,687)	-	(1,665,687)
Operating grants received	117,506	211,790	(94,284)
Net cash from noncapital financing activities	<u>(5,474,123)</u>	<u>(3,602,628)</u>	<u>(1,871,495)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(6,943,882)	(1,789,934)	(5,153,948)
Bond refunding costs	3,203,562	-	3,203,562
Debt financing and principal payments	21,095,000	-	21,095,000
Capital lease obligation	(303,393)	(391,482)	88,089
Interest expense, net of capitalized interest	(152,233)	(1,503,289)	1,351,056
Proceeds from sale of capital assets	152,750	1,950	150,800
Net cash from capital and related financing activities	<u>17,051,804</u>	<u>(3,682,755)</u>	<u>20,734,559</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	303,049	229,041	74,008
Rental income	92,990	97,489	(4,499)
Other investing proceeds	129	2,527	(2,398)
Net cash from investing activities	<u>396,168</u>	<u>329,057</u>	<u>69,509</u>
Net change in cash and equity in pooled investments	<u>22,153,162</u>	<u>2,160,913</u>	<u>19,994,647</u>
Cash and equity in pooled investments beginning	<u>33,583,430</u>	<u>32,485,035</u>	<u>1,098,395</u>
Cash and equity in pooled investments ending	<u>\$ 55,736,592</u>	<u>\$ 34,645,948</u>	<u>\$ 21,090,644</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.



**City of Tacoma  
Environmental Services Department  
Solid Waste Management  
Statements of Cash Flows (Unaudited)**

	Year-to-Date 2015	September 30, 2014	Increase (Decrease)
<b>Reconciliation of cash and equity in pooled investments to balance sheets:</b>			
Operating funds	\$ 24,143,474	\$ 24,049,278	\$ 94,196
Restricted funds	31,593,118	10,596,670	20,996,448
	<u>\$ 55,736,592</u>	<u>\$ 34,645,948</u>	<u>\$ 21,090,644</u>
<b>Reconciliation of operating income to net cash from operating activities:</b>			
Operating income	\$ 6,534,892	\$ 5,666,353	\$ 868,539
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	4,927,515	5,321,790	(394,275)
Change in assets, liabilities, and deferred inflows of resources:			
Accounts receivable, net of allowance	200,078	150,450	49,628
Due from other funds	498,161	107,344	390,817
Due from other governmental units	-	(263,319)	263,319
Accounts payable	(96,549)	(814,818)	718,269
Accrued wages and compensated absences	(263,441)	(268,820)	5,379
Current environmental liabilities	(296,692)	59,737	(356,429)
Accrued taxes payable	(10,465)	2,657	(13,122)
Deposits payable and customer deposits	7,916	18,399	(10,483)
Due other funds	(1,168,351)	(722,226)	(446,125)
Unearned revenue	(146,066)	(140,308)	(5,758)
Other	(7,685)		(7,685)
Total adjustments	<u>3,644,421</u>	<u>3,450,886</u>	<u>193,535</u>
Net cash from operating activities	<u>\$ 10,179,313</u>	<u>\$ 9,117,239</u>	<u>\$ 1,062,074</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.



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