



*Solid Waste Management  
Financial Report  
September 2014*

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, 2014**

**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, 2014 and 2013. 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 \$702,000 in the first nine months of 2014, compared to \$69,000 for the same period in 2013.
- The first nine months operating revenues are \$42.9 million in 2014 and \$43.1 million in 2013.
- Total net position is \$20.8 million as of September 30, 2014, compared to \$23.5 million a year ago.
- Cash and equity in pooled investments is \$34.6 million and \$39.4 million at September 30, 2014 and 2013, respectively.

**Financial Analysis – Condensed Net Position**

	September 30,		Increase
	2014	2013	(Decrease)
Current, restricted, and other assets	\$ 42,097,501	\$ 46,823,982	\$ (4,726,481)
Capital assets	84,601,899	86,861,499	(2,259,600)
Deferred outflows of resources	236,787	358,721	(121,934)
Total assets and deferred outflows of resources	<u>\$ 126,936,187</u>	<u>\$ 134,044,202</u>	<u>\$ (7,108,015)</u>
Current liabilities and liabilities payable from restricted assets	\$ 6,068,397	\$ 9,188,707	\$ (3,120,310)
Noncurrent liabilities	94,095,174	96,702,216	(2,607,042)
Deferred inflows of resources	6,000,000	4,650,000	1,350,000
Total liabilities and deferred inflows of resources	<u>106,163,571</u>	<u>110,540,923</u>	<u>(4,377,352)</u>
Invested in capital assets, net of related debt	27,559,103	26,500,598	1,058,505
Restricted for bond reserves	6,897,986	1,727,986	5,170,000
Unrestricted	(13,684,473)	(4,725,305)	(8,959,168)
Total net position	<u>20,772,616</u>	<u>23,503,279</u>	<u>(2,730,663)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 126,936,187</u>	<u>\$ 134,044,202</u>	<u>\$ (7,108,015)</u>

### Current, restricted, and other assets

Current, restricted, and other assets decreased by \$4.7 million over the past twelve months. The most significant changes were:

- Cash and equity in pooled investments operating funds decreased \$6.0 million, and the rate stabilization fund increased \$1.4 million reflecting cash transferred from operating fund.
- Bond reserves increased \$5.2 million for both the 2006 series due to bond covenant requirements.
- Construction funds decreased \$2.9 million and the landfill closure reserve decreased \$2.8 million. The landfill closure project used the remaining bond construction funds, and the landfill closure reserve was transferred to the operating fund.

### Deferred outflows of resources

- Unamortized bond refunding costs decreased \$122,000 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 decreased \$3.1 million. The significant changes from year to year include:

- Accounts payable decreased \$1.6 million compared to last year due to reduced project spending and timing.
- The current portion of long-term debt increased \$480,000 compared to last year due to increased bond principal payments due on December 1, 2014.
- The accrued landfill closure and post closure liability decreased \$2.1 million recognizing the final stage for the landfill closure project.

### Noncurrent liabilities

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

- The long-term debt of revenue bond principal decreased by \$3.1 million due to principal payments being reclassified to current liabilities for the 2006A, 2006B and 2008 Bonds.
- Unamortized bond premium cost decreased \$318,000 due to amortized costs recognized over the past twelve months.
- Accrued landfill post closure costs increased \$552,000 due to an increase in the overall estimated liability recorded at year-end 2013. This includes additional cap repair costs to eliminate storm water pooling.
- OPEB liabilities increased \$318,000 because of the annual accrual recorded at year-end 2013.

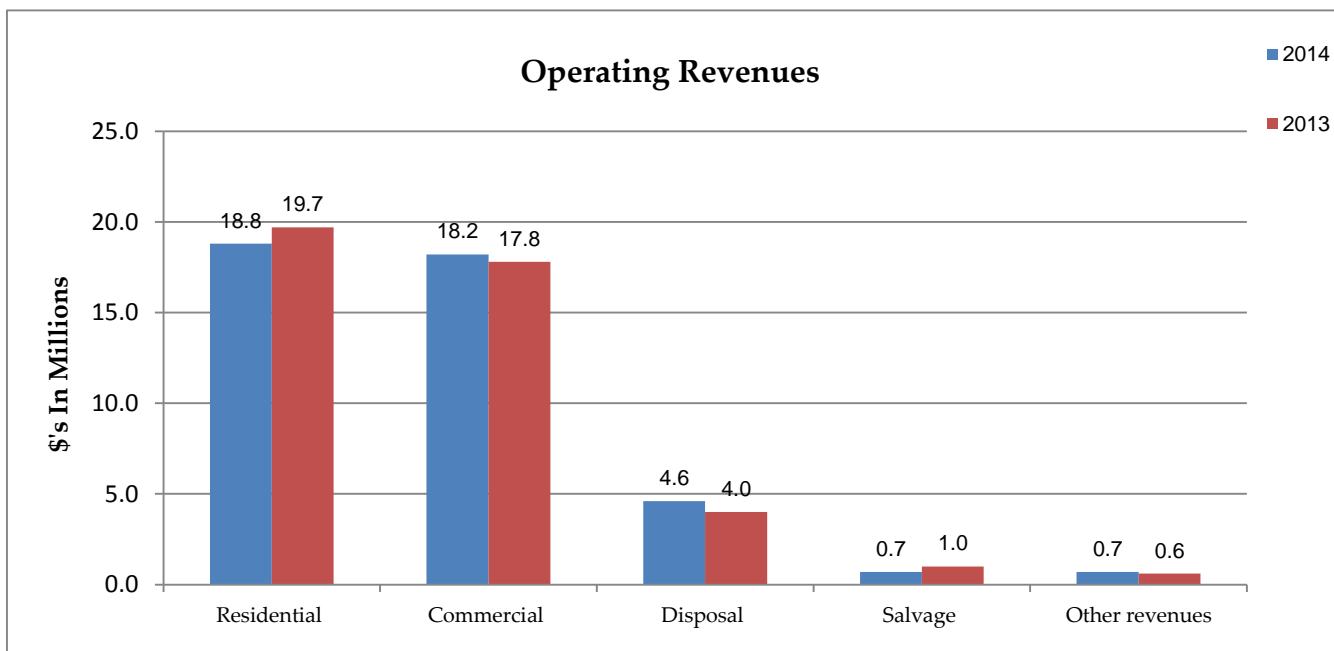
### Deferred inflows of resources:

Deferred inflows of resources include the rate stabilization credit. \$1.4 million in revenues were deferred to better match revenues with future costs.

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

	September Year-to-Date		Increase
	2014	2013	(Decrease)
Operating revenues	\$ 42,946,232	\$ 43,057,940	\$ (111,708)
Operating expenses	37,279,879	37,522,273	(242,394)
Net operating income	5,666,353	5,535,667	130,686
Nonoperating revenues (expenses):			
Investment income	230,120	332,355	(102,235)
Interest on revenue bonds	(2,282,874)	(2,430,487)	147,613
Other expenses	514,242	391,155	123,087
Total nonoperating revenues (expenses)	(1,538,512)	(1,706,977)	168,465
Net income before transfers	4,127,841	3,828,690	299,151
Transfer - from/to other funds	-	(289,428)	289,428
Gross earnings taxes	(3,425,578)	(3,470,705)	45,127
Change in net position	702,263	68,557	633,706
Net position - beginning	20,070,353	23,434,722	(3,364,369)
Net position - ending	\$ 20,772,616	\$ 23,503,279	\$ (2,730,663)

The following graph provides a comparison of operating revenues:





### Operating revenues

Overall operating revenues remained relatively the same at \$43.0 million the first nine months of 2014, compared to the same period last year. The Division did not have a rate increase in 2014. The most significant changes are:

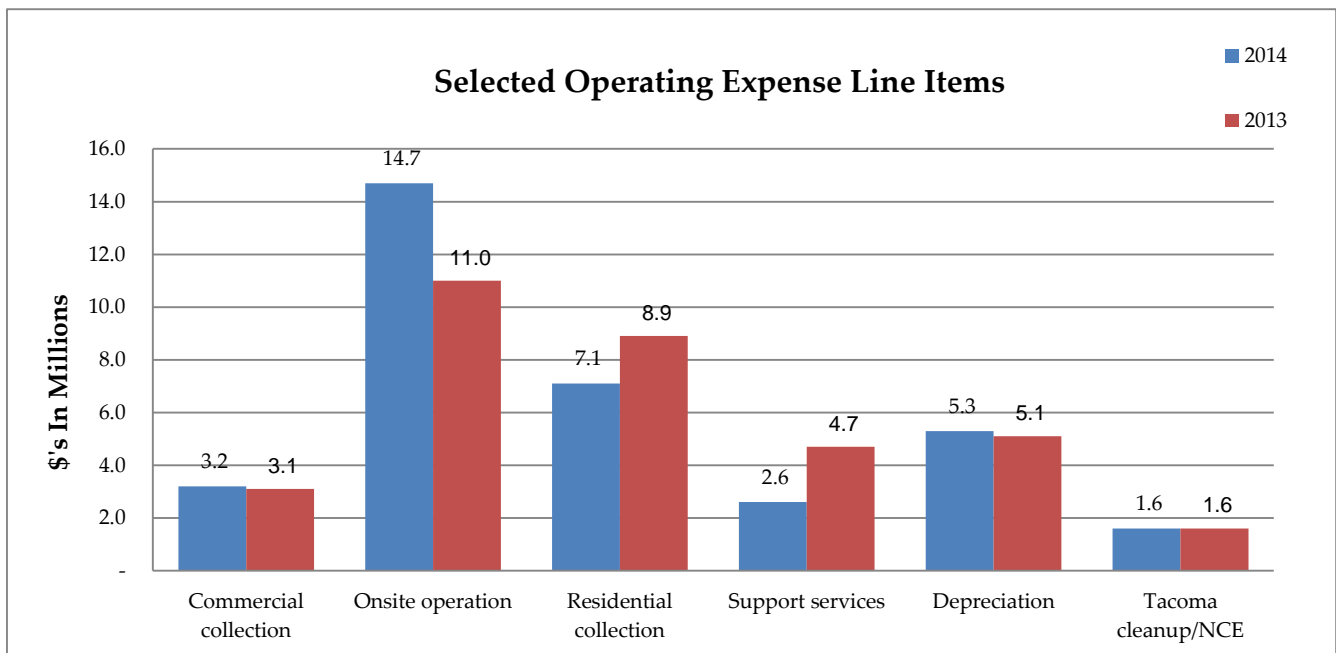
- Residential collection revenue decreased \$912,000 as customers reduced their can size and recycled more. The decrease is expected within the Solid Waste management's estimate for 2014.
- Commercial collection revenue increased \$371,000 compared to the first nine months in 2013.
- Disposal revenues increased \$584,000 (15%) and recycling sales decreased \$209,000 (22%) due to low demand for recycling materials and decreases in prices.

### Operating expenses

Operating expenses are \$37.3 million first nine month 2014 compared to \$37.5 million in 2013. The areas of significant change between the years are:

- Onsite operation expenses increased \$3.7 million (34%) this includes public receiving, the facility maintenance, and off-site transfer. \$3.1 million of the increase is due to the accrual for external contract services to transfer solid waste to the Pierce County Landfill which was booked in Support services for 2013 instead of Onsite operations. There was an increase of \$378,000 in related labor costs and \$200,000 from the Environmental Service lab for services related to the Solid Waste operation.
- Residential collection expenses, including residential waste, comingle recycle, yard waste and call-to-haul decreased \$1.8 million (20%) primarily in labor costs due to completing the Every Other Week (EOW) implementation.
- Support services expenses decreased \$2.1 million (44%). Significant changes included a decrease of \$3.1 million for the external services LRI contract now recorded in Onsite operations and an increase of \$709,000 in labor costs due to moving and filling most of the vacant positions in support services. Change in staff were due to the re-organization and balancing the work load in support services.
- Taxes decreased \$283,000 due to an excise tax refund from the Department of Revenue audit for the period from January 1, 2009 through September 30, 2012.
- Depreciation expense increased \$228,000 due to increases in capital purchased and completed projects capitalized at year-end 2013.

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



### Non-operating revenues (expenses)

Significant changes include:

- Investment income decreased \$102,000 (31%) compared to the same period in 2013 due to lower interest earned in the City's investment pool.

### Capital assets, net

The total capital asset balance is \$84.6 million, a decrease of \$2.3 million compared to the balance at September 30, 2013.

Significant changes from year to year include:

- Landfill infrastructure increased \$2.4 million due to the completion of the West Truck Parking project.
- Machinery and equipment increased \$464,000. This includes \$805,000 for purchased vehicles, \$757,000 for garbage containers offset by disposals of \$836,000 for vehicles and \$719,000 for containers at year-end 2013. Plus \$230,000 in preprocessing equipment and \$227,000 in other purchases.
- Accumulated depreciation increased \$5.7 million since September 30, 2013.
- Construction in progress increased \$457,000 due to ongoing capitalized projects.

### Debt Administration

As of September 30, 2014, the Division had \$62.3 million in long-term debt of which \$3.1 million is due in December 2014. This compares to long-term debt of \$65.2 million as of September 30, 2013. 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 2.52 for 2014 compared to a ratio of 2.10 at the end of 2013. 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>2014</b>	<b>2013</b>	<b>(Decrease)</b>
Current assets:			
Cash and equity in pooled investments:			
Operating funds	\$ 18,049,278	\$ 24,017,982	\$ (5,968,704)
Rate Stabilization Fund	6,000,000	4,650,000	1,350,000
Total cash and equity in pooled investments	24,049,278	28,667,982	(4,618,704)
GASB 31 market rate adjustment	1,078	285,431	(284,353)
Accounts receivable	6,473,300	6,956,685	(483,385)
Allowance for uncollectible accounts	(3,340,526)	(3,760,265)	419,739
Unbilled revenue	3,065,000	3,065,000	-
Grant receivable - operating	302,326	148,710	153,616
Other receivables	263,319	-	263,319
Total current assets	30,813,775	35,363,543	(4,549,768)
Restricted cash and equity in pooled investments:			
Bond reserve and debt service accounts	10,508,351	4,986,007	5,522,344
Customer deposits	88,319	71,269	17,050
Construction funds	-	2,935,703	(2,935,703)
Reserve for landfill closure	-	2,780,404	(2,780,404)
Total restricted cash and equity in pooled investments	10,596,670	10,773,383	(176,713)
Capital assets:			
Land	3,119,781	3,119,781	-
Buildings	63,874,457	63,908,815	(34,358)
Building - capital lease	7,568,000	7,568,000	-
Landfill infrastructure	64,836,358	62,460,597	2,375,761
Machinery and equipment	47,285,760	46,821,975	463,785
Computer software	4,734,766	4,536,940	197,826
Less accumulated depreciation	(108,754,673)	(103,035,390)	(5,719,283)
Assets in service, net of depreciation	82,664,449	85,380,718	(2,716,269)
Construction in progress	1,937,450	1,480,781	456,669
Total capital assets	84,601,899	86,861,499	(2,259,600)
Other noncurrent assets	687,056	687,056	-
Total assets	126,699,400	133,685,481	(6,986,081)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized bond refunding costs	236,787	358,721	(121,934)
Total deferred outflows of resources	236,787	358,721	(121,934)
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 126,936,187</b>	<b>\$ 134,044,202</b>	<b>\$ (7,108,015)</b>

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,		<b>Increase</b>
	2014	2013	<b>(Decrease)</b>
Current liabilities:			
Accounts payable	\$ 839,833	\$ 2,410,346	\$ (1,570,513)
Accrued wages payable and compensated absences	490,593	425,730	64,863
Accrued taxes payable	226,125	204,218	21,907
Accrued low income liabilities	-	(7,175)	7,175
Customer deposits	22,586	30,044	(7,458)
Current portion of landfill closure	241,137	2,327,114	(2,085,977)
Current portion of long-term debt	514,167	434,167	80,000
Current portion of capital lease obligation	37,991	37,172	819
Total current liabilities	<u>2,372,432</u>	<u>5,861,616</u>	<u>(3,489,184)</u>
Liabilities payable from restricted assets:			
Deposits payable	85,601	69,071	16,530
Bond interest payable	1,039,531	1,087,187	(47,656)
Current portion of long-term debt	2,570,833	2,170,833	400,000
Total liabilities payable from restricted assets	<u>3,695,965</u>	<u>3,327,091</u>	<u>368,874</u>
Noncurrent liabilities:			
Long-term debt - revenue bonds	59,197,355	62,599,985	(3,402,630)
Capital lease obligation	6,861,002	7,011,502	(150,500)
Accrued landfill post closure costs	25,509,832	24,958,019	551,813
Compensated absences	1,108,586	1,032,036	76,550
Net OPEB obligation	1,418,399	1,100,674	317,725
Total noncurrent liabilities	<u>94,095,174</u>	<u>96,702,216</u>	<u>(2,607,042)</u>
Total liabilities	<u>100,163,571</u>	<u>105,890,923</u>	<u>(5,727,352)</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Rate stabilization	6,000,000	4,650,000	1,350,000
Total deferred inflows of resources	<u>6,000,000</u>	<u>4,650,000</u>	<u>1,350,000</u>
<b>NET POSITION</b>			
Net investment in capital assets	27,559,103	26,500,598	1,058,505
Restricted for bond reserves	6,897,986	1,727,986	5,170,000
Unrestricted	(13,684,473)	(4,725,305)	(8,959,168)
Total net position	<u>20,772,616</u>	<u>23,503,279</u>	<u>(2,730,663)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 126,936,187</u>	<u>\$ 134,044,202</u>	<u>\$ (7,108,015)</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
	2014	2013	2014	2013	
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,002,459	\$ 2,032,288	\$ 18,776,550	\$ 19,688,693	-5%
Commercial collection	2,050,069	1,968,914	18,192,032	17,821,082	2%
Disposal revenues	573,698	457,764	4,554,489	3,970,593	15%
Salvage revenue	83,176	105,437	741,853	950,391	-22%
Other operating revenue	89,613	72,345	681,308	627,181	9%
Total operating revenues	<u>4,799,015</u>	<u>4,636,748</u>	<u>42,946,232</u>	<u>43,057,940</u>	(0%)
<b>OPERATING EXPENSES</b>					
Commercial collection	344,663	316,922	3,157,128	3,077,711	3%
Onsite operations	2,135,572	848,862	14,748,797	11,035,633	34%
Residential collection	705,277	888,306	7,096,568	8,920,033	(20%)
Support services	107,565	486,091	2,648,334	4,723,132	(44%)
Tacoma cares/Nuisance code enforcement	175,692	174,830	1,624,607	1,633,538	(1%)
Other operating expenses:					
Insurance	28,896	28,896	274,479	274,356	0%
Depreciation	568,404	573,476	5,321,790	5,094,057	4%
Taxes	65,669	59,474	428,226	711,650	(40%)
IT services	86,627	80,170	788,105	786,141	0%
Customer services	121,375	132,742	1,191,845	1,266,022	(6%)
Subtotal other operating expenses	<u>870,971</u>	<u>874,758</u>	<u>8,004,445</u>	<u>8,132,226</u>	(2%)
Total operating expenses	<u>4,339,740</u>	<u>3,589,769</u>	<u>37,279,879</u>	<u>37,522,273</u>	(1%)
Net operating income	<u>459,275</u>	<u>1,046,979</u>	<u>5,666,353</u>	<u>5,535,667</u>	2%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	26,560	29,181	230,120	332,355	(31%)
Rental income	17,607	8,039	97,489	96,614	1%
Operating grants	-	-	514,116	619,412	N/A
Gain/loss disposal assets	-	-	1,950	(122,771)	(102%)
Interest paid net of capitalized interest	(251,808)	(259,502)	(2,282,874)	(2,430,487)	(6%)
Interest on capital lease	(30,997)	(31,477)	(278,973)	(283,179)	(1%)
Amort. of premium and refunding costs	19,691	22,234	177,199	78,346	126%
Other expense	-	(8,113)	2,461	2,733	(10%)
Total nonoperating expenses	<u>(218,947)</u>	<u>(239,638)</u>	<u>(1,538,512)</u>	<u>(1,706,977)</u>	(10%)
<b>CHANGE IN NET POSITION</b>					
Net income before transfers	240,328	807,341	4,127,841	3,828,690	8%
Transfers - from/to other funds	-	(289,428)	-	(289,428)	N/A
Transfers - gross earnings taxes	(363,695)	(329,196)	(3,425,578)	(3,470,705)	(1%)
<b>CHANGE IN NET POSITION</b>	<u>\$ (123,367)</u>	<u>\$ 188,717</u>	<u>702,263</u>	<u>68,557</u>	
<b>NET POSITION - BEGINNING</b>			<u>20,070,353</u>	<u>23,434,722</u>	
<b>NET POSITION - ENDING</b>			<u>\$ 20,772,616</u>	<u>\$ 23,503,279</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 September 30, 2014	2013	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 42,755,943	\$ 42,636,153	\$ 119,790
Payments to suppliers	(18,781,761)	(17,849,263)	(932,498)
Payments to employees	(14,431,373)	(14,521,896)	90,523
Taxes paid	(425,570)	(745,026)	319,456
Net cash from operating activities	<u>9,117,239</u>	<u>9,519,968</u>	<u>(402,729)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(3,814,418)	(3,846,853)	32,435
Operating grants received	211,790	211,934	(144)
Net cash from noncapital financing activities	<u>(3,602,628)</u>	<u>(3,634,919)</u>	<u>32,291</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,789,934)	(7,823,398)	6,033,464
Capital lease obligation	(391,482)	(390,506)	(976)
Interest expense, net of capitalized interest	(1,503,289)	(1,615,245)	111,956
Proceeds from sale of capital assets	1,950	10,750	(8,800)
Net cash from capital and related financing activities	<u>(3,682,755)</u>	<u>(9,818,399)</u>	<u>6,135,644</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	229,041	46,924	182,117
Rental income	97,489	96,615	874
Other investing proceeds	2,527	2,882	(355)
Net cash from investing activities	<u>329,057</u>	<u>146,421</u>	<u>182,991</u>
Net change in cash and equity in pooled investments	<u>2,160,913</u>	<u>(3,786,929)</u>	<u>5,948,197</u>
Cash and equity in pooled investments beginning	<u>32,485,035</u>	<u>43,228,294</u>	<u>(10,743,259)</u>
Cash and equity in pooled investments ending	<u>\$ 34,645,948</u>	<u>\$ 39,441,365</u>	<u>\$ (4,795,417)</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 September 30, 2014	2013	Increase (Decrease)
<b>Reconciliation of cash and equity in pooled investments to balance sheets:</b>			
Operating funds	\$ 24,049,278	\$ 28,667,982	\$ (4,618,704)
Restricted funds	10,596,670	10,773,383	(176,713)
	<u>\$ 34,645,948</u>	<u>\$ 39,441,365</u>	<u>\$ (4,795,417)</u>
<b>Reconciliation of operating income to net cash from operating activities:</b>			
Operating income	\$ 5,666,353	\$ 5,535,667	\$ 130,686
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	5,321,790	5,094,057	227,733
Change in assets, liabilities, and deferred inflows of resources:			
Accounts receivable, net of allowance	150,450	(30,622)	181,072
Due from other funds	107,344	25,550	81,794
Due from other governmental units	(263,319)	112,362	(375,681)
Accounts payable	(814,818)	566,632	(1,381,450)
Accrued wages and compensated absences	(268,820)	(232,234)	(36,586)
Current environmental liabilities	59,737	(650,482)	710,219
Accrued taxes payable	2,657	(33,376)	36,033
Deposits payable and customer deposits	18,399	37,196	(18,797)
Due other funds	(722,226)	(685,152)	(37,074)
Unearned revenue	(140,308)	(212,453)	72,145
Other	-	(7,177)	7,177
Total adjustments	<u>3,450,886</u>	<u>3,984,301</u>	<u>(533,415)</u>
Net cash from operating activities	<u>\$ 9,117,239</u>	<u>\$ 9,519,968</u>	<u>\$ (402,729)</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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