



*Solid Waste Management
Financial Report
June 2014*

City of Tacoma
Environmental Services Department
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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
June 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 June 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 \$247,000 in the first six months of 2014, compared to \$218,000 for the same period in 2013.
- The first six months operating revenues are \$28.5 million in 2014 and the same amount in 2013.
- Total net position is \$20.3 million as of June 30, 2014, compared to \$23.7 million a year ago.
- Cash and equity in pooled investments is \$33.6 million and \$40.9 million at June 30, 2014 and 2013, respectively.

Financial Analysis – Condensed Net Position

	June 30,		Increase
	2014	2013	(Decrease)
Current, restricted, and other assets	\$ 40,686,953	\$ 48,351,878	\$ (7,664,925)
Capital assets	85,968,514	85,667,273	301,241
Deferred outflows of resources	255,479	408,854	(153,375)
Total assets and deferred outflows of resources	<u>\$ 126,910,946</u>	<u>\$ 134,428,005</u>	<u>\$ (7,517,059)</u>
Current liabilities and liabilities payable from restricted assets	\$ 6,420,847	\$ 9,340,594	\$ (2,919,747)
Noncurrent liabilities	94,172,935	96,784,426	(2,611,491)
Deferred inflows of resources	6,000,000	4,650,000	1,350,000
Total liabilities and deferred inflows of resources	<u>106,593,782</u>	<u>110,775,020</u>	<u>(4,181,238)</u>
Invested in capital assets, net of related debt	28,057,898	22,446,684	5,611,214
Restricted for bond reserves	1,727,986	1,727,986	-
Unrestricted	(9,468,720)	(521,685)	(8,947,035)
Total net position	<u>20,317,164</u>	<u>23,652,985</u>	<u>(3,335,821)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 126,910,946</u>	<u>\$ 134,428,005</u>	<u>\$ (7,517,059)</u>

Current, restricted, and other assets

Current, restricted, and other assets decreased by \$7.7 million over the past twelve months. The most significant changes were:

- Cash and equity in pooled investments operating funds decreased \$2.7 million and the rate stabilization fund increased \$1.4 million reflecting cash transferred from operating fund.
- Restricted cash and equity in pooled investments decreased \$5.9 million; construction funds decreased \$3.4 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 closed out to the operating fund.

Deferred outflows of resources

- Unamortized bond refunding costs decreased 153,000 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 \$2.9 million. The significant changes from year to year include:

- Accounts payable decreased \$841,000 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 \$2.6 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 \$326,000 due to amortized costs recognized over the past twelve months.
- Accrued landfill post closure costs increased \$556,000 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 additional accrual recorded at year-end 2013.

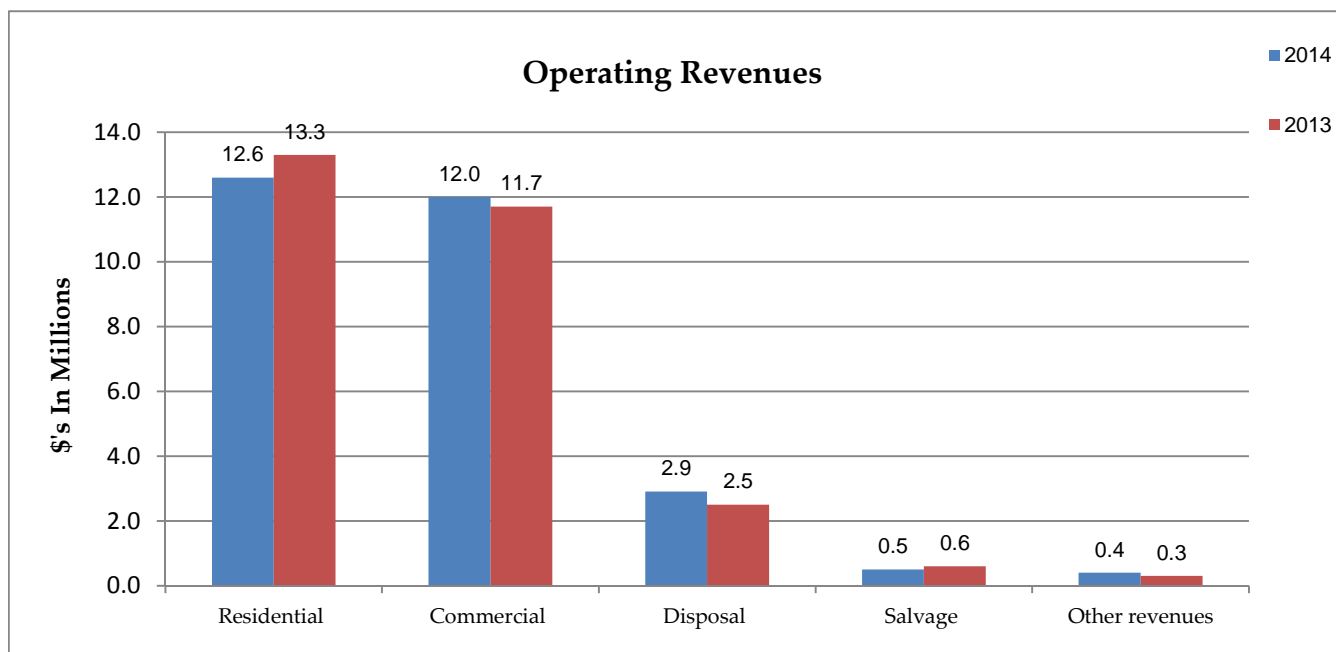
Deferred inflows of resources:

Deferred inflows of resources is includes 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

	June Year-to-Date		Increase (Decrease)
	2014	2013	
Operating revenues	\$ 28,455,091	\$ 28,483,877	\$ (28,786)
Operating expenses	24,760,726	24,604,619	156,107
Net operating income	3,694,365	3,879,258	(184,893)
Nonoperating revenues (expenses):			
Investment income	154,591	245,593	(91,002)
Interest on revenue bonds	(1,527,150)	(1,629,425)	102,275
Other expenses	209,877	38,862	171,015
Total nonoperating revenues (expenses)	(1,162,682)	(1,344,970)	182,288
Net income before transfers	2,531,683	2,534,288	(2,605)
Gross earnings taxes	(2,284,872)	(2,316,025)	31,153
Change in net position	246,811	218,263	28,548
Net position - beginning	20,070,353	23,434,722	(3,364,369)
Net position - ending	\$ 20,317,164	\$ 23,652,985	\$ (3,335,821)

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues remained relatively the same at \$28.5 million the first six 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:

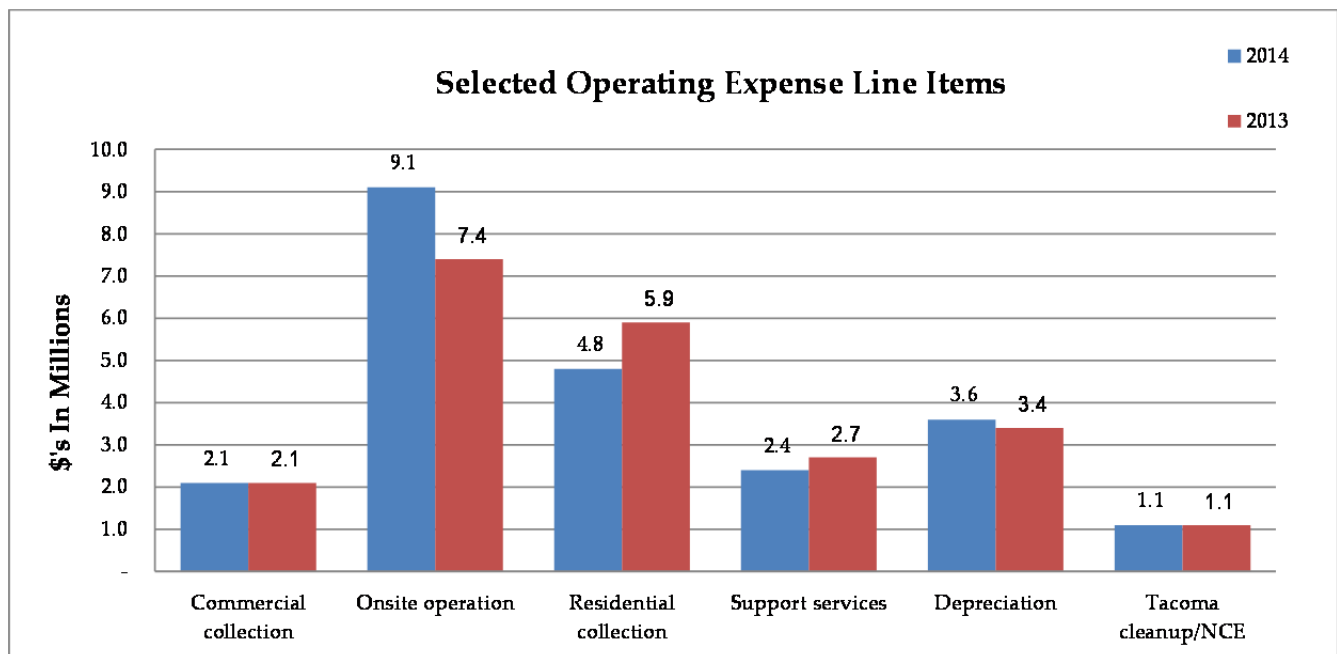
- Residential collection revenue decreased \$689,000 as customer right sized their can size and recycled more.
- Commercial collection revenue increased \$332,000 compared to the first six months in 2013.
- Disposal revenues increased \$368,000 (15%) and recycling sales decreased \$128,000 (21%) due to low demand for recycling materials and decreases in prices.

Operating expenses

Operating expenses are \$24.8 million first half year 2014 compared to \$24.6 million in 2013. The areas of significant change between the years are:

- Onsite operation expenses increased \$1.7 million (23%) this includes public receiving, the facility maintenance, and off-site transfer. \$1.5 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 also an increase of \$183,000 in related labor costs.
- Residential collection expenses, including residential waste, comingle recycle, yard waste and call-to-haul decreased \$1.1 million (19%) primarily in labor costs due to completing the Every Other Week (EOW) implementation.
- Support services expenses decreased \$305,000 (11%). Significant changes included a decrease of \$870,000 for the external services LRI contract now recorded in Onsite operations and an increase of \$467,094 in labor costs due to filling most of the vacant positions in support services.
- Taxes decreased \$278,000 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 \$181,000 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 \$91,000 (37%) 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 \$86.0 million, an increase of \$301,000 compared to the balance at June 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 \$4.1 million. This includes \$2.8 million for purchased vehicles and \$2.3 million for garbage containers offset by disposals of \$683,000 million for vehicles and \$719,000 for containers at year-end 2013.
- Accumulated depreciation increased \$5.8 million since June 30, 2013.
- Construction in progress decreased \$724,000 due to capitalized projects at year-end 2013.

Debt Administration

As of June 30, 2014, the Division had \$62.4 million in long-term debt of which \$3.1 million is due in December 2014. This compares to long-term debt of \$65.3 million as of June 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 2.14 for 2014. This compares 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)

ASSETS	June 30,		Increase
	2014	2013	(Decrease)
Current assets:			
Cash and equity in pooled investments:			
Operating funds	\$ 23,756,547	\$ 26,440,549	\$ (2,684,002)
Rate Stabilization Fund	6,000,000	4,650,000	1,350,000
Total cash and equity in pooled investments	29,756,547	31,090,549	(1,334,002)
GASB 31 market rate adjustment	1,078	285,431	(284,353)
Accounts receivable	6,990,849	7,028,204	(37,355)
Allowance for uncollectible accounts	(3,948,629)	(3,696,377)	(252,252)
Unbilled revenue	3,065,000	3,065,000	-
Grant receivable - operating	-	105,977	(105,977)
Other receivables	263,319	-	263,319
Total current assets	36,128,164	37,878,784	(1,750,620)
Restricted cash and equity in pooled investments:			
Bond reserve and debt service accounts	3,787,452	3,519,367	268,085
Customer deposits	84,281	69,736	14,545
Construction funds	-	3,416,531	(3,416,531)
Reserve for landfill closure	-	2,780,404	(2,780,404)
Total restricted cash and equity in pooled investments	3,871,733	9,786,038	(5,914,305)
Capital assets:			
Land	3,119,782	3,119,782	-
Buildings	63,883,998	63,894,257	(10,259)
Building - capital lease	7,568,000	7,568,000	-
Landfill infrastructure	64,826,573	62,460,597	2,365,976
Machinery and equipment	47,189,402	43,049,981	4,139,421
Computer software	4,701,829	4,389,115	312,714
Less accumulated depreciation	(107,154,387)	(101,371,301)	(5,783,086)
Assets in service, net of depreciation	84,135,197	83,110,431	1,024,766
Construction in progress	1,833,317	2,556,842	(723,525)
Total capital assets	85,968,514	85,667,273	301,241
Other noncurrent assets	687,056	687,056	-
Total assets	126,655,467	134,019,151	(7,363,684)
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bond refunding costs	255,479	408,854	(153,375)
Total deferred outflows of resources	255,479	408,854	(153,375)
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 126,910,946	\$ 134,428,005	\$ (7,517,059)

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)**

LIABILITIES	June 30,		Increase
	2014	2013	(Decrease)
Current liabilities:			
Accounts payable	\$ 1,681,948	\$ 2,523,375	\$ (841,427)
Accrued wages payable and compensated absences	693,950	656,609	37,341
Accrued taxes payable	246,750	241,761	4,989
Accrued low income liabilities	-	(12,997)	12,997
Customer deposits	21,697	26,549	(4,852)
Current portion of landfill closure	273,483	2,887,565	(2,614,082)
Current portion of long-term debt	1,285,417	1,085,417	200,000
Current portion of capital lease obligation	75,494	73,175	2,319
Total current liabilities	4,278,739	7,481,454	(3,202,715)
Liabilities payable from restricted assets:			
Deposits payable	82,642	67,759	14,883
Bond interest payable	259,883	271,798	(11,915)
Current portion of long-term debt	1,799,583	1,519,583	280,000
Total liabilities payable from restricted assets	2,142,108	1,859,140	282,968
Noncurrent liabilities:			
Long-term debt - revenue bonds	59,275,115	62,686,379	(3,411,264)
Capital lease obligation	6,861,002	7,011,502	(150,500)
Accrued landfill post closure costs	25,509,832	24,953,835	555,997
Compensated absences	1,108,586	1,032,036	76,550
Net OPEB obligation	1,418,400	1,100,674	317,726
Total noncurrent liabilities	94,172,935	96,784,426	(2,611,491)
Total liabilities	100,593,782	106,125,020	(5,531,238)
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	6,000,000	4,650,000	1,350,000
Total deferred inflows of resources	6,000,000	4,650,000	1,350,000
NET POSITION			
Net investment in capital assets	28,057,898	22,446,684	5,611,214
Restricted for bond reserves	1,727,986	1,727,986	-
Unrestricted	(9,468,720)	(521,685)	(8,947,035)
Total net position	20,317,164	23,652,985	(3,335,821)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 126,910,946	\$ 134,428,005	\$ (7,517,059)

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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City of Tacoma, Washington
Environmental Services Department
Solid Waste Management

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

	Month of June		June Year-to-Date		% Chg
	2014	2013	2014	2013	
OPERATING REVENUES					
Residential collection	\$ 2,108,448	\$ 2,262,092	\$ 12,629,403	\$ 13,318,508	-5%
Commercial collection	2,006,111	2,159,732	12,039,276	11,707,472	3%
Disposal revenues	517,238	475,091	2,893,697	2,525,524	15%
Salvage revenue	92,659	102,057	480,809	608,446	-21%
Other operating revenue	102,798	66,314	411,906	323,927	27%
Total operating revenues	<u>4,827,254</u>	<u>5,065,286</u>	<u>28,455,091</u>	<u>28,483,877</u>	(0%)
OPERATING EXPENSES					
Commercial collection	336,804	347,954	2,111,487	2,073,581	2%
Onsite operations	2,050,446	838,656	9,089,686	7,381,049	23%
Residential collection	914,439	943,145	4,797,528	5,905,725	(19%)
Support services	114,626	412,555	2,431,816	2,736,662	(11%)
Tacoma cares/Nuisance code enforcement	188,638	181,843	1,073,104	1,088,031	(1%)
Other operating expenses:					
Insurance	28,896	28,896	173,745	173,732	0%
Depreciation	593,181	562,611	3,568,465	3,387,416	5%
Taxes	70,833	80,800	220,840	498,598	(56%)
IT services	77,635	91,877	501,465	523,166	(4%)
Customer services	121,033	134,663	792,590	836,659	(5%)
Subtotal other operating expenses	<u>891,578</u>	<u>898,847</u>	<u>5,257,105</u>	<u>5,419,571</u>	(3%)
Total operating expenses	<u>4,496,531</u>	<u>3,623,000</u>	<u>24,760,726</u>	<u>24,604,619</u>	1%
Net operating income	<u>330,723</u>	<u>1,442,286</u>	<u>3,694,365</u>	<u>3,879,258</u>	(5%)
NONOPERATING REVENUES (EXPENSES)					
Investment income	24,972	30,499	154,591	245,593	(37%)
Rental income	8,039	11,033	63,982	66,198	(3%)
Operating grants	7,397	163,379	211,790	155,560	N/A
Proceed sale assets	-	2,750	-	10,750	N/A
Interest paid net of capitalized interest	(252,099)	(271,796)	(1,527,150)	(1,629,425)	(6%)
Interest on capital lease	(30,997)	(31,477)	(185,982)	(188,748)	(1%)
Amort. of premium and refunding costs	19,689	7,014	118,133	42,083	181%
Other expense	428	(7,742)	1,954	(46,981)	(104%)
Total nonoperating expenses	<u>(222,571)</u>	<u>(96,340)</u>	<u>(1,162,682)</u>	<u>(1,344,970)</u>	(14%)
CHANGE IN NET POSITION					
Net income before transfers	108,152	1,345,946	2,531,683	2,534,288	(0%)
Transfers - gross earnings taxes	(388,181)	(388,500)	(2,284,872)	(2,316,025)	(1%)
CHANGE IN NET POSITION	<u>\$ (280,029)</u>	<u>\$ 957,446</u>	<u>246,811</u>	<u>218,263</u>	
NET POSITION - BEGINNING			<u>20,070,353</u>	<u>23,434,722</u>	
NET POSITION - ENDING			<u>\$ 20,317,164</u>	<u>\$ 23,652,985</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 June 30, 2014	2013	Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 28,405,536	\$ 27,961,081	\$ 444,455
Payments to suppliers	(12,344,769)	(11,139,516)	(1,205,253)
Payments to employees	(9,286,133)	(9,427,284)	141,151
Taxes paid	(197,558)	(494,431)	296,873
Net cash from operating activities	<u>6,577,076</u>	<u>6,899,850</u>	<u>(322,774)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(2,673,709)	(2,692,173)	18,464
Operating grants received	211,790	80,245	131,545
Net cash from noncapital financing activities	<u>(2,461,919)</u>	<u>(2,611,928)</u>	<u>150,009</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,403,223)	(4,789,011)	3,385,788
Capital lease obligation	(260,988)	(260,072)	(916)
Interest expense, net of capitalized interest	(1,527,214)	(1,629,572)	102,358
Proceeds from sale of capital assets	-	10,750	(10,750)
Net cash from capital and related financing activities	<u>(3,191,425)</u>	<u>(6,667,905)</u>	<u>3,476,480</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	153,512	(39,838)	193,350
Rental income	63,982	66,198	(2,216)
Other investing proceeds	2,019	1,916	103
Net cash from investing activities	<u>219,513</u>	<u>28,276</u>	<u>191,134</u>
Net change in cash and equity in pooled investments	<u>1,143,245</u>	<u>(2,351,707)</u>	<u>3,494,849</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>\$ 33,628,280</u>	<u>\$ 40,876,587</u>	<u>\$ (7,248,307)</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 June 30, 2014	2013	Increase (Decrease)
Reconciliation of cash and equity in pooled investments to balance sheets:			
Operating funds	\$ 29,756,547	\$ 31,090,549	\$ (1,334,002)
Restricted funds	3,871,733	9,786,038	(5,914,305)
	<u>\$ 33,628,280</u>	<u>\$ 40,876,587</u>	<u>\$ (7,248,307)</u>
Reconciliation of operating income to net cash from operating activities:			
Operating income	<u>\$ 3,694,365</u>	<u>\$ 3,879,258</u>	<u>\$ (184,893)</u>
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	3,568,465	3,387,416	181,049
Low income assistance	-	(48,750)	48,750
Change in assets, liabilities, and deferred inflows of resources:			
Accounts receivable, net of allowance	241,004	(166,030)	407,034
Due from other funds	107,344	25,550	81,794
Due from other governmental units	(263,319)	112,362	(375,681)
Accounts payable	27,297	679,661	(652,364)
Accrued wages and compensated absences	(65,462)	(1,355)	(64,107)
Current environmental liabilities	92,083	(94,214)	186,297
Accrued taxes payable	23,282	4,166	19,116
Deposits payable and customer deposits	14,551	32,389	(17,838)
Due other funds	(722,226)	(685,152)	(37,074)
Unearned revenue	(140,308)	(212,453)	72,145
Other	-	(12,998)	12,998
Total adjustments	<u>2,882,711</u>	<u>3,020,592</u>	<u>(137,881)</u>
Net cash from operating activities	<u>\$ 6,577,076</u>	<u>\$ 6,899,850</u>	<u>\$ (322,774)</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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