



*Solid Waste Management
Interim Financial Report
March 2016*

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
March 31, 2016

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 March 31, 2016 and 2015. 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 \$1.0 million in the first three months of 2016, compared to \$36,000 for the same period in 2015.
- The first three months operating revenues are \$15.2 million in 2016 and \$13.9 million in 2015.
- Total net position is \$28.9 million as of March 31, 2016, compared to \$19.8 million a year ago.
- Cash and cash equivalents is \$23.4 million and \$24.6 million at March 31, 2016 and 2015, respectively.

Financial Analysis – Condensed Net Position

	March 31,		Increase
	2016	2015	(Decrease)
Current, restricted, and other assets	\$ 57,828,614	\$ 60,912,121	\$ (3,083,507)
Capital assets	85,214,131	84,574,252	639,879
Deferred outflows of resources	1,381,616	199,399	1,182,217
Total assets and deferred outflows of resources	<u>\$ 144,424,361</u>	<u>\$ 145,685,772</u>	<u>\$ (1,261,411)</u>
Current liabilities and liabilities payable from restricted assets	\$ 9,571,773	\$ 8,410,706	\$ 1,161,067
Noncurrent liabilities	99,366,442	111,501,817	(12,135,375)
Deferred inflows of resources	6,558,927	6,000,000	558,927
Total liabilities and deferred inflows of resources	<u>115,497,142</u>	<u>125,912,523</u>	<u>(10,415,381)</u>
Net investment in capital assets	30,815,746	25,719,418	5,096,328
Restricted	7,339,339	8,889,912	(1,550,573)
Unrestricted	(9,227,866)	(14,836,081)	5,608,215
Total net position	<u>28,927,219</u>	<u>19,773,249</u>	<u>9,153,970</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 144,424,361</u>	<u>\$ 145,685,772</u>	<u>\$ (1,261,411)</u>

Current, restricted, and other assets

Current, restricted, and other assets decreased by \$3.1 million over the past twelve months. The most significant changes were:

- Cash and cash equivalents decreased \$1.3 million due to operation spending.
- Bond reserves and debt service account increased \$279,000 due to the new 2015 Revenue bonds.
- Construction funds decreased \$2.7 million due to purchase for capital projects and green vehicles.
- Net pension assets increased \$529,000 due to GASB 68 implementation at year-end 2015.

Deferred outflows of resources

- Unamortized loss on refunding decreased \$77,000 due to amortizing the cost over the past twelve months.
- Deferred outflows-pension increased \$1.3 million due to the GASB 68 implementation at year-end 2015.

Current liabilities and liabilities payable from restricted assets

Total current liabilities and liabilities payable from restricted assets increased \$1.2 million. The significant changes from year to year include:

- Accounts payable increased \$947,000 compared to last year due to capital purchases and timing of payments.
- The current portion of long-term debt increased \$245,000 compared to last year due to increased bond principal payments due on December 1, 2016.
- Bond interest payable increased \$197,000 primarily due to the new 2015 revenue bonds.
- The current portion landfill post closure liability decreased \$346,000 set for current year spending for landfill post closure project cost in 2016.

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 - revenue bonds decreased by \$5.6 million due primarily to \$4.8 million in principal payments being reclassified to current liabilities for the 2006A, 2006B and 2008 Bonds due in December 1, 2016. The balance includes additional \$760,000 reduction for unamortized premium.
- Accrued landfill post closure costs decreased \$6.6 million due to the annual re-evaluation of the estimated total cost of landfill post closure expenses at year-end 2015.
- OPEB liabilities increased \$215,000 because of the annual accrual recorded at year-end 2015.

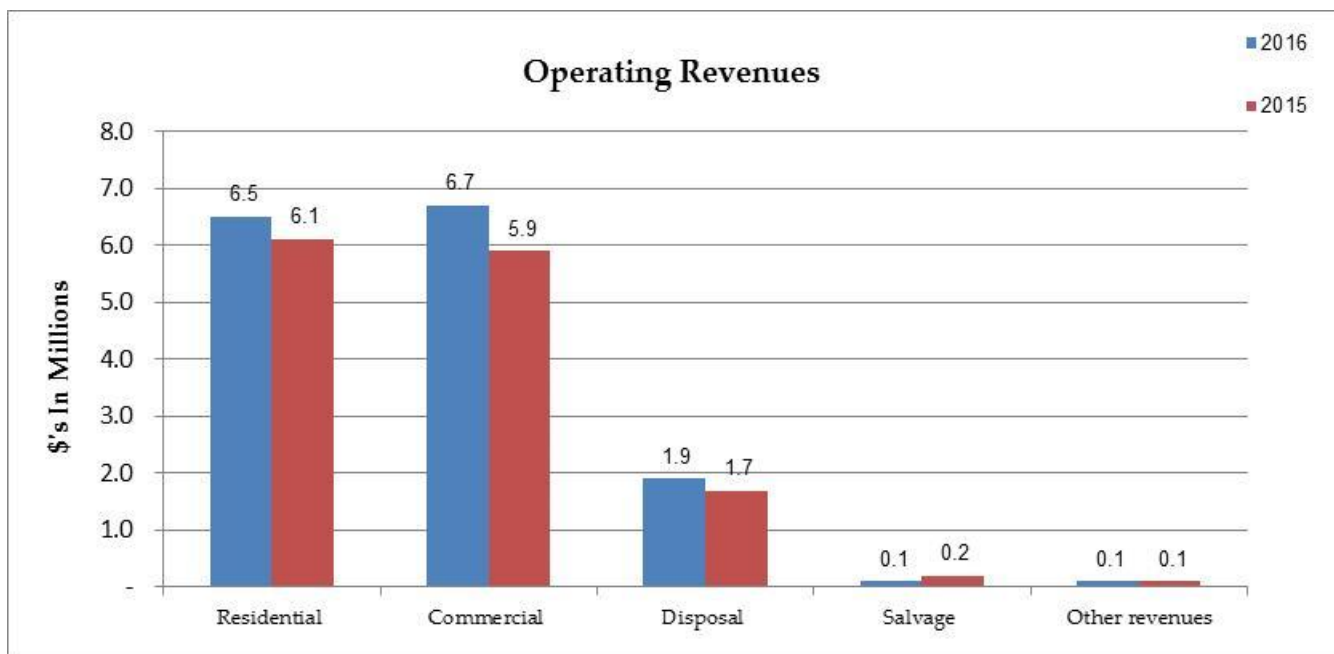
Deferred inflows of resources:

Deferred inflows of resources include the rate stabilization credit and net pension asset. The implementation of GASB 68 in 2015 resulted in recording a pension related deferred inflow in the amount of \$559,000.

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

	March Year-to-Date		Increase (Decrease)
	2016	2015	
Operating revenues	\$ 15,228,642	\$ 13,900,082	\$ 1,328,560
Operating expenses	12,363,267	12,030,622	332,645
Net operating income	2,865,375	1,869,460	995,915
Nonoperating revenues (expenses):			
Investment income	118,438	76,463	41,975
Interest on revenue bonds	(906,276)	(911,429)	5,153
Other expenses	194,688	104,933	89,755
Total nonoperating revenues (expenses)	(593,150)	(730,033)	136,883
Net income before transfers	2,272,225	1,139,427	1,132,798
Transfers - gross earnings taxes	(1,222,922)	(1,103,361)	(119,561)
Change in net position	1,049,303	36,066	1,013,237
Net position - January 1	27,877,916	19,737,183	8,140,733
Net position - March 31	\$ 28,927,219	\$ 19,773,249	\$ 9,153,970

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues increased \$1.3 million the first three months of 2016, compared to the decrease of \$213,000 in the same period last year. The Division did have a 5% rate increase begin January 1, 2016. The most significant changes are:

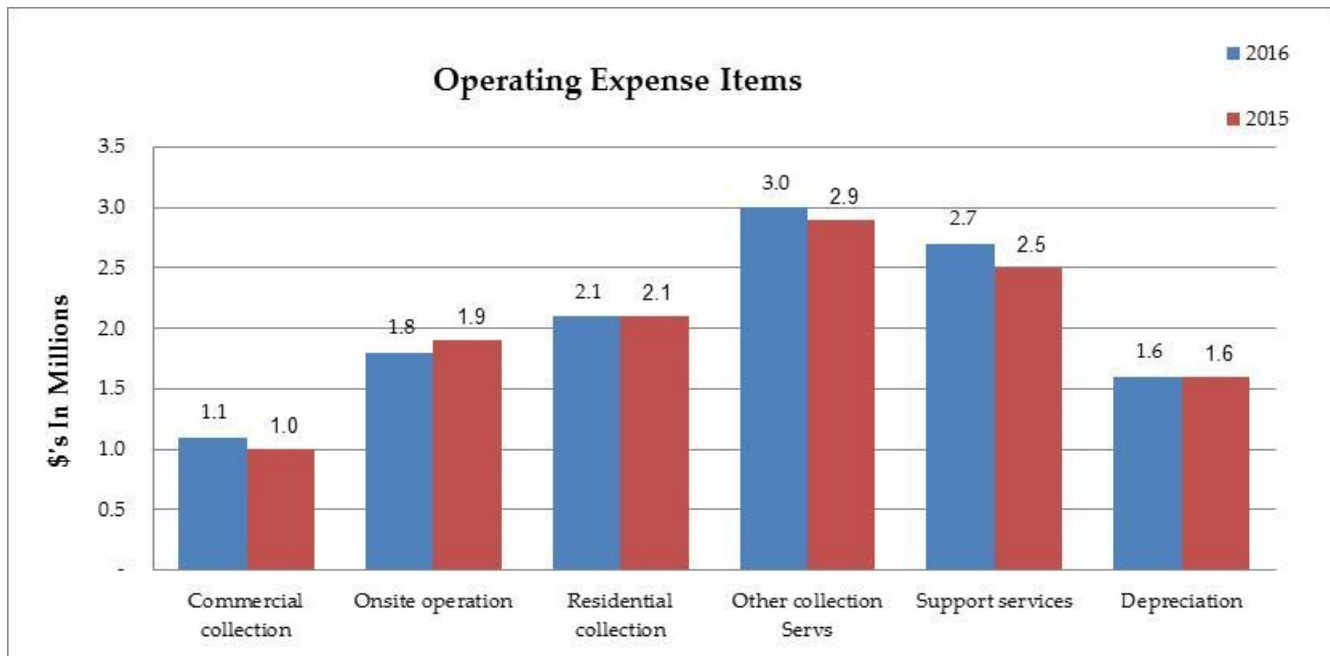
- Residential collection revenue increased \$381,000 compared to the first three months in 2015.
- Commercial collection revenue increased \$839,000 (14%) but salvage revenue continue decreased in 2016.
- Disposal revenues increased \$216,000 (13%) due to rate increase for landfill disposal fee begin 2016.

Operating expenses

Operating expenses are \$12.4 million first three month 2016 compared to \$12.0 million in 2015. The areas of significant change between the years are:

- Onsite operation expenses decreased \$105,000, this includes; the public receiving, the environmental system cost centers. The decrease is mainly due to professional services related to landfill post closure costs and labor costs associated with the public receiving cost center.
- Support services expenses increased \$204,000 due to the increase in the general fund assessments and a newly created cost center for environmental policy and sustainability.

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



Non-operating revenues (expenses)

Significant changes include:

- Proceeds from the sale of capital assets increased \$117,000 due to the disposal of vehicles in current year 2016.

Capital assets, net

The total capital asset balance is \$85.2 million, an increase of \$640,000 compared to the balance at March 31, 2015.

Significant changes from year to year include:

- Landfill infrastructure increased \$1.3 million primarily due to the completion the Compressed Natural Gas (CNG) Fuel Station project.
- Machinery and equipment increased \$1.8 million. This includes \$3.4 million for purchased vehicles, \$1.3 million for garbage containers offset by disposals of \$2.8 million for vehicles.
- Accumulated depreciation increased \$3.3 million since March 31, 2015.
- Construction in progress increased \$775,000 due to ongoing capitalized projects.

Debt Administration

As of March 31, 2016, the Division had \$78.0 million in long-term debt of which \$4.8 million is due in December 2016. This compares to long-term debt of \$83.3 million as of March 31, 2015. 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 2.20 for March 31, 2016 compared to a ratio of 1.94 at the end of 2015. 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	March 31,		Increase
	2016	2015	(Decrease)
Current assets:			
Cash and cash equivalents	\$ 23,353,479	\$ 24,638,576	\$ (1,285,097)
GASB 31 market rate adjustment	(142,165)	19,327	(161,492)
Accounts receivable	6,549,743	6,365,245	184,498
Allowance for uncollectible accounts	(3,428,502)	(3,474,714)	46,212
Unbilled revenue	2,790,000	2,865,000	(75,000)
Grant receivable - operating	131,101	19,009	112,092
Total current assets	<u>29,253,656</u>	<u>30,432,443</u>	<u>(1,178,787)</u>
Restricted cash and cash equivalents:			
Bond reserve and debt service accounts	11,715,081	11,435,751	279,330
Customer deposits	88,189	96,871	(8,682)
Construction funds	15,555,188	18,260,000	(2,704,812)
Total restricted cash and cash equivalents	<u>27,358,457</u>	<u>29,792,622</u>	<u>(2,434,165)</u>
Capital assets:			
Land	3,119,782	3,119,782	-
Buildings	65,420,534	65,374,926	45,608
Building - capital lease	6,024,273	6,024,273	-
Landfill infrastructure	66,449,017	65,181,534	1,267,483
Machinery and equipment	50,799,097	48,992,622	1,806,475
Computer software	4,771,064	4,717,718	53,346
Less accumulated depreciation	(113,032,915)	(109,724,796)	(3,308,119)
Assets in service, net of depreciation	<u>83,550,852</u>	<u>83,686,059</u>	<u>(135,207)</u>
Construction in progress	1,663,279	888,193	775,086
Total capital assets	<u>85,214,131</u>	<u>84,574,252</u>	<u>639,879</u>
Other noncurrent assets			
Building lease deferred	687,056	687,056	-
Net pension asset	529,445	-	529,445
Total other noncurrent assets	<u>1,216,501</u>	<u>687,056</u>	<u>529,445</u>
Total assets	<u>143,042,745</u>	<u>145,486,373</u>	<u>(2,443,628)</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on refunding	124,625	199,399	(74,774)
Deferred outflows-pensions	1,256,991	-	1,256,991
Total deferred outflows of resources	<u>1,381,616</u>	<u>199,399</u>	<u>1,182,217</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 144,424,361</u>	<u>\$ 145,685,772</u>	<u>\$ (1,261,411)</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)**

LIABILITIES	March 31,		Increase
	2016	2015	(Decrease)
Current liabilities:			
Accounts payable	\$ 2,063,070	\$ 1,115,834	\$ 947,236
Accrued wages payable and compensated absences	595,364	484,661	110,703
Accrued taxes payable	252,498	249,929	2,569
Customer deposits	29,014	21,442	7,572
Current portion of landfill closure	404,920	750,663	(345,743)
Current portion of long-term debt	3,220,000	3,056,667	163,333
Current portion of capital lease obligation	94,502	91,062	3,440
Total current liabilities	<u>6,659,368</u>	<u>5,770,258</u>	<u>889,110</u>
Liabilities payable from restricted assets:			
Deposits payable	87,236	94,609	(7,373)
Bond interest payable	1,215,169	1,017,506	197,663
Current portion of long-term debt	1,610,000	1,528,333	81,667
Total liabilities payable from restricted assets	<u>2,912,405</u>	<u>2,640,448</u>	<u>271,957</u>
Noncurrent liabilities:			
Long-term debt - revenue bonds (net)	73,134,143	78,723,999	(5,589,856)
Capital lease obligation	5,069,986	5,195,988	(126,002)
Accrued landfill post closure costs	18,245,893	24,813,100	(6,567,207)
Compensated absences	994,360	1,061,484	(67,124)
Net OPEB obligation	1,922,060	1,707,246	214,814
Total noncurrent liabilities	<u>99,366,442</u>	<u>111,501,817</u>	<u>(12,135,375)</u>
Total liabilities	<u>108,938,215</u>	<u>119,912,523</u>	<u>(10,974,308)</u>
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	6,000,000	6,000,000	-
Deferred inflows pension	558,927	-	558,927
Total deferred inflows of resources	<u>6,558,927</u>	<u>6,000,000</u>	<u>558,927</u>
NET POSITION			
Net investment in capital assets	30,815,746	25,719,418	5,096,328
Restricted for:			-
Debt service	6,780,412	8,889,912	(2,109,500)
Net pension asset	529,445	-	529,445
Unrestricted	(9,198,384)	(14,836,081)	5,637,697
Total net position	<u>28,927,219</u>	<u>19,773,249</u>	<u>9,153,970</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 144,424,361</u>	<u>\$ 145,685,772</u>	<u>\$ (1,261,411)</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 March		March Year-to-Date		% Chg
	2016	2015	2016	2015	
OPERATING REVENUES					
Residential collection	\$ 2,540,712	\$ 2,176,152	\$ 6,476,011	\$ 6,095,101	6%
Commercial collection	2,409,756	1,998,742	6,717,082	5,878,211	14%
Disposal revenues	675,620	597,237	1,924,210	1,708,614	13%
Salvage revenue	35,287	24,327	55,699	154,602	-64%
Other operating revenue	19,619	11,973	55,640	63,554	-12%
Total operating revenues	<u>5,680,994</u>	<u>4,808,431</u>	<u>15,228,642</u>	<u>13,900,082</u>	10%
OPERATING EXPENSES					
Commercial collection	381,028	349,486	1,073,677	1,032,951	4%
Onsite operations	646,427	696,364	1,820,167	1,925,318	(5%)
Residential collection	699,517	824,930	2,124,979	2,087,479	2%
Other collection Services	1,076,572	978,987	3,021,800	2,932,116	3%
Support services	1,228,452	794,462	2,678,659	2,474,466	8%
Depreciation	543,965	526,872	1,643,985	1,578,292	4%
Subtotal other operating expenses	<u>543,965</u>	<u>526,872</u>	<u>1,643,985</u>	<u>1,578,292</u>	4%
Total operating expenses	<u>4,575,961</u>	<u>4,171,101</u>	<u>12,363,267</u>	<u>12,030,622</u>	3%
Net operating income	<u>1,105,033</u>	<u>637,330</u>	<u>2,865,375</u>	<u>1,869,460</u>	53%
NONOPERATING REVENUES (EXPENSES)					
Investment income	41,574	31,464	118,438	76,463	55%
Rental income	13,514	9,871	30,241	33,242	(9%)
Operating grants	-	-	-	19,009	N/A
Proceeds from sale of capital assets	-	19,009	146,700	29,750	393%
Gain/loss disposal assets	-	-	(60,527)	-	N/A
Interest paid net of capitalized interest	(298,689)	(375,281)	(906,276)	(911,429)	(1%)
Interest on capital lease	(23,197)	(23,635)	(69,592)	(70,906)	(2%)
Amortization of premium and refunding loss	48,904	61,182	146,719	93,838	56%
Contributions and donations - cash	-	-	1,147	-	n/a
Total nonoperating revenues (expenses)	<u>(217,894)</u>	<u>(277,390)</u>	<u>(593,150)</u>	<u>(730,033)</u>	(19%)
Net income before transfers	887,139	359,940	2,272,225	1,139,427	99%
Transfers - gross earnings taxes	(404,584)	(388,608)	(1,222,922)	(1,103,361)	11%
CHANGE IN NET POSITION	<u>\$ 482,555</u>	<u>\$ (28,668)</u>	<u>1,049,303</u>	<u>36,066</u>	2,809%
NET POSITION - JANUARY 1			<u>27,877,916</u>	<u>19,737,183</u>	
NET POSITION - MARCH 31			<u>\$ 28,927,219</u>	<u>\$ 19,773,249</u>	

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

	Year-to-Date 2016	March 31, 2015	Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 14,963,858	\$ 13,870,747	\$ 1,093,111
Payments to suppliers	(6,465,341)	(6,324,024)	(141,317)
Payments to employees	(4,500,266)	(5,084,640)	584,374
Taxes paid	(226,102)	(221,634)	(4,468)
Net cash from operating activities	<u>3,772,149</u>	<u>2,240,449</u>	<u>1,531,700</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(1,555,338)	(1,498,419)	(56,919)
Contributions and donations	1,147	510	637
Net cash from noncapital financing activities	<u>(1,554,191)</u>	<u>(1,497,909)</u>	<u>(56,282)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,772,340)	(4,072,500)	2,300,160
Loss on bond refunding	-	3,203,562	(3,203,562)
Proceeds from the issuance of revenue bonds	-	21,095,000	(21,095,000)
Capital lease obligation	(101,093)	(101,131)	38
Interest expense, net of capitalized interest	5,101	(139,830)	144,931
Proceeds from sale of capital assets	146,700	29,750	116,950
Net cash from capital and related financing activities	<u>(1,721,632)</u>	<u>20,014,851</u>	<u>(21,736,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	260,603	57,136	203,467
Rental income	30,241	33,241	(3,000)
Net cash from investing activities	<u>290,844</u>	<u>90,377</u>	<u>200,467</u>
Net change in cash and cash equivalents	<u>787,170</u>	<u>20,847,768</u>	<u>(20,060,598)</u>
Cash and cash equivalents beginning	<u>49,924,766</u>	<u>33,583,430</u>	<u>16,341,336</u>
Cash and cash equivalents ending	<u>\$ 50,711,936</u>	<u>\$ 54,431,198</u>	<u>\$ (3,719,262)</u>

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

	Year-to-Date 2016	March 31, 2015	Increase (Decrease)
Reconciliation of cash and cash equivalents to balance sheets:			
Operating funds	\$ 23,353,479	\$ 24,638,576	\$ (1,285,097)
Restricted funds	27,358,457	29,792,622	(2,434,165)
	<u>\$ 50,711,936</u>	<u>\$ 54,431,198</u>	<u>\$ (3,719,262)</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 2,865,375	\$ 1,869,460	\$ 995,915
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	1,643,986	1,578,292	65,694
Change in assets, liabilities, and deferred inflows of resources:			
Accounts receivable, net of allowance	(150,948)	216,097	(367,045)
Due from other funds	138,857	498,161	(359,304)
Accounts payable	(147,937)	(124,784)	(23,153)
Accrued wages and compensated absences	275,416	(311,284)	586,700
Current environmental liabilities	(200,392)	(156,337)	(44,055)
Accrued taxes payable	(1,659)	(20,034)	18,375
Deposits payable and customer deposits	(3,106)	5,295	(8,401)
Due to other funds	(647,443)	(1,168,351)	520,908
Unearned revenue	-	(146,066)	146,066
Total adjustments	<u>906,774</u>	<u>370,989</u>	<u>535,785</u>
Net cash provided (used) by operating activities	<u>\$ 3,772,149</u>	<u>\$ 2,240,449</u>	<u>\$ 1,531,700</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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