



*Wastewater and Surface Water
Management
Interim Financial Report
March 2016*

City of Tacoma
Environmental Services
Prepared by Eun Joo Ebenhoh

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Notification

These financial statements are interim, unaudited reports prepared primarily for the use of management.

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Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Management's Discussion and Analysis
March 31, 2016 and 2015

Introduction

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Wastewater and Surface Water 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 taken as a whole. 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.

Financial Highlights

- Total net position is \$410.9 million at March 31, 2016 compared to \$397.3 million at March 31, 2015.
- The change in net position for the first three months is \$1.6 million in 2016 compared to \$965,000 in 2015.
- Total assets and deferred outflows of resources are \$701.6 million, an increase of \$11.4 million from \$690.2 million in 2015.
- Liabilities and deferred inflows of resources are \$290.7 million, a decrease of \$2.1 million from \$292.8 million in 2015.

Financial Analysis - Condensed Statements of Net Position

	March 31,		Increase
	2016	2015	(Decrease)
Current and restricted assets	\$ 132,476,260	\$ 143,493,284	\$ (11,017,024)
Noncurrent assets	5,199,040	4,193,396	1,005,644
Capital assets	557,998,248	538,428,347	19,569,901
Deferred outflows of resources	5,947,501	4,052,544	1,894,957
Total assets and deferred outflows of resources	<u>\$ 701,621,049</u>	<u>\$ 690,167,571</u>	<u>\$ 11,453,478</u>
Current liabilities and liabilities payable from restricted assets	\$ 16,466,380	\$ 10,605,838	\$ 5,860,542
Noncurrent liabilities	248,096,581	257,238,083	(9,141,502)
Deferred inflows of resources	26,181,543	25,000,000	1,181,543
Total liabilities and deferred inflows of resources	<u>290,744,504</u>	<u>292,843,921</u>	<u>\$ (2,099,417)</u>
Net investment in capital assets	391,878,815	399,669,425	(7,790,610)
Restricted for:			
Debt service	14,697,305	14,594,758	102,547
Net pension asset	1,119,219	-	1,119,219
Unrestricted	3,181,206	(16,940,533)	20,121,739
Total net position	<u>410,876,545</u>	<u>397,323,650</u>	<u>13,552,895</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 701,621,049</u>	<u>\$ 690,167,571</u>	<u>\$ 11,453,478</u>

Current and restricted assets

Current and restricted assets decreased \$11.0 million compared to a year ago. The overall decrease is comprised of a \$14.8 million decrease in cash and a \$2.3 million increase in debt service funds.

Cash spending on capital projects reached \$34.9 million; \$2.4 million was funded from operating activities and \$32.5 million was funded from the 2015 Sewer Revenue and Refunding bonds.

Principal payments on the 2006 and 2015 Sewer bonds are scheduled on December 1st, and monthly accrual has been transferred to debt service funds.

Deferred outflows of resources

Deferred outflows of resources increased \$1.9 million; unamortized loss on refunding decreased \$762,000 primarily due to the amortization on refunding costs of the 2015 Sewer Revenue and Refunding bonds. A deferred outflow of resources for pensions was reported at \$2.7 million in 2015 in compliance with GASB 68.

Current liabilities and liabilities payable from restricted assets

Total current liabilities including payables from restricted assets increased \$ 5.9 million primarily due to reclassification of principal payments scheduled in December for the 2006 and 2015 Sewer bonds.

Noncurrent liabilities

Noncurrent liabilities decreased \$9.1 million mainly due to a \$4.8 million decrease in bonds payable and a \$4.4 million decrease in notes and leases related to the State Revolving Funds (SRF) loans.

Deferred inflows of resources

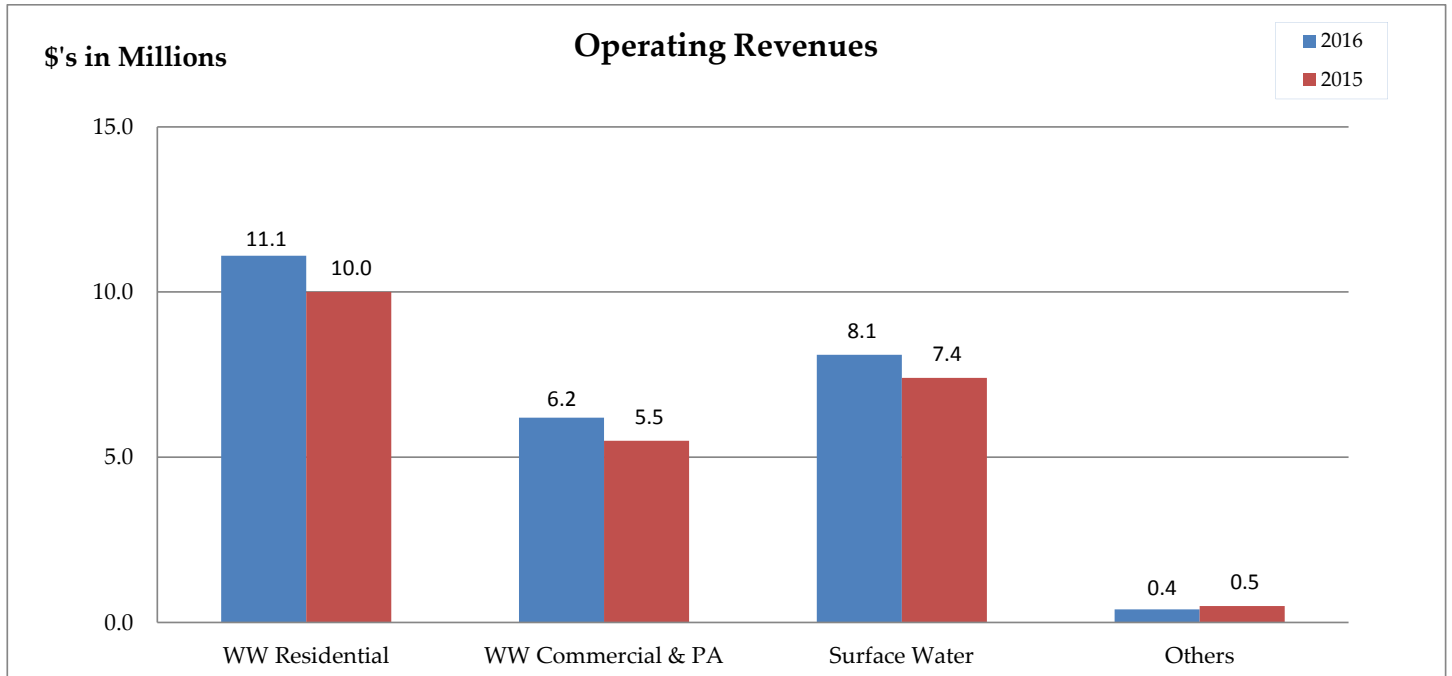
Deferred inflows of resources include rate stabilization and deferred inflows related to pensions. There is no change in rate stabilization. A deferred inflow of resources for pensions was reported at \$1.2 million in compliance with GASB 68.

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

	March Year-to-Date		Increase (Decrease)
	2016	2015	
Operating revenues	\$ 25,806,263	\$ 23,372,791	\$ 2,433,472
Operating expenses	20,644,638	18,866,640	1,777,998
Net operating income	5,161,625	4,506,151	655,474
Nonoperating revenues (expenses)	(1,552,604)	(1,630,755)	78,151
Income before contributions and transfers	3,609,021	2,875,396	733,625
Contributions	47,727	29,429	18,298
Transfers & gross earnings tax	(2,084,254)	(1,939,910)	(144,344)
Change in net position	1,572,494	964,915	607,579
Net position - January 1	409,304,051	396,358,735	12,945,316
Net position - March 31	\$ 410,876,545	\$ 397,323,650	\$ 13,552,895

Operating revenues

The following graph provides a comparison of operating revenues for the first three months of year 2016 and 2015.

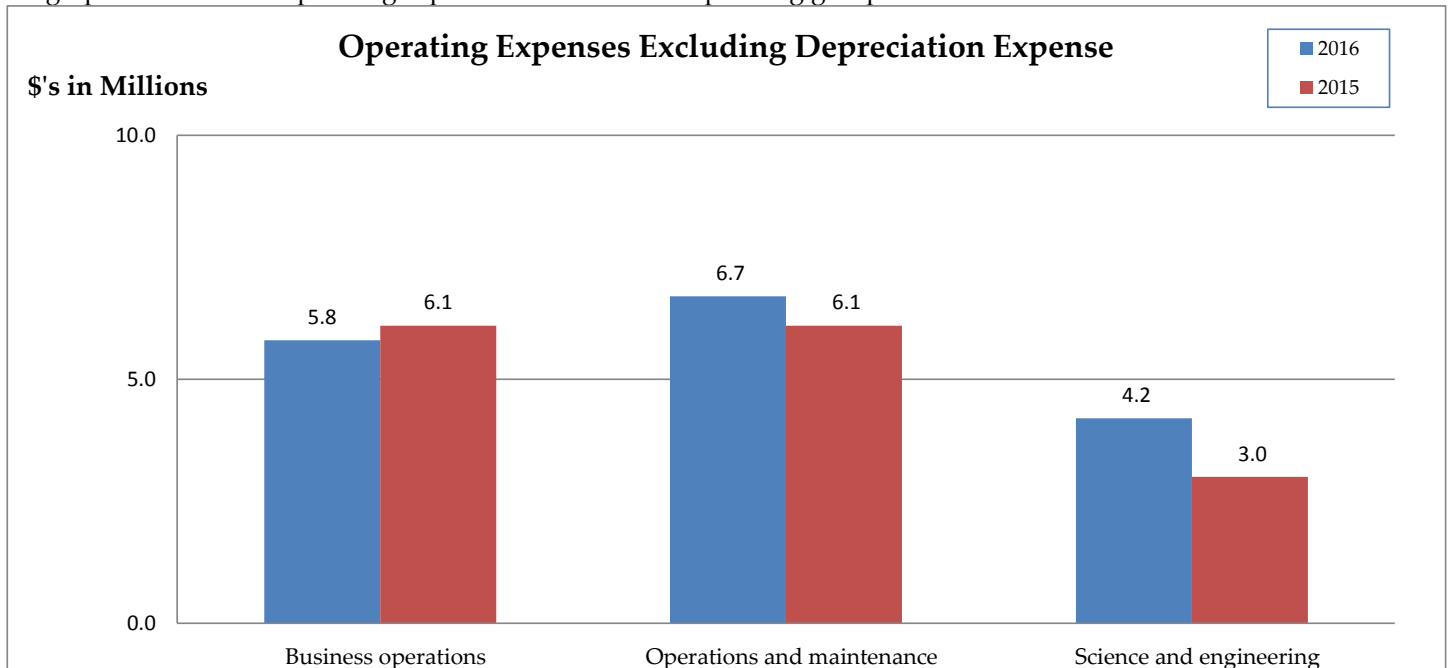


The approved average rate increases for year 2016 and 2015 were 6% for Wastewater and 5.5% for Surface Water. The rate increases for 2016 and 2015 were effective January 1.

Operating revenues for the first three months of 2016 increased \$2.4 million compared to the same period last year. Revenues from Wastewater residential and Surface Water increased 11%, Wastewater commercial and public authorities increased 13%, and Surface Water revenues increased 9% primarily due to the effect of the 2016 rate increase. Other revenues decreased 5%, which include revenues from septic tank and chemical toilet waste disposals, and leachates from the LRI landfill.

Operating expenses

The graph below shows operating expenses for each of the operating groups:



Total operating expenses excluding depreciation expense increased \$1.6 million compared to the same period last year.

- Business operation costs decreased \$294,000.
- Operations and maintenance costs increased \$661,000. The significant events were:
 - Chemicals used at Plant #1 and #3 increased \$93,000.
 - Repairs and maintenance materials purchased for Plant #1 and Transmission increased \$102,000.
 - Maintenance fees charged by Fleet through work orders increased \$101,000.
 - Electricity costs increased \$206,000 due to delayed payments due to the billing cycle on 2015 electricity bills.
- Science and engineering costs increased \$1.2 million. The significant events were:
 - Labor costs reallocated to capital projects or outside activities decreased \$569,000.
 - Professional service costs increased \$446,000, which includes the inspection services rendered by Ace Pipe Cleaning Inc. for the Wastewater Trunk Line Condition Assessment project.
 - Interfund services increased \$206,000 due to a payment to the Public Works per the agreement for the Schuster Parkway Promenade project.

Capital Assets

Capital assets net of depreciation increased \$19.6 million over the prior year. Buildings increased \$11.5 million for the Central Treatment Plant Solids Dewatering Facility Upgrade project and Point Defiance Regional Treatment Facility project. Transmission lines and other improvements increased \$22.5 million: 8,177 feet of donated lines were recorded for \$1.8 million, 11,473 feet of old lines were retired at the historical cost of \$44,000, and 10,019 feet of new replacement lines and extended sewer lines were recorded for \$10.8 million. Other improvements reported \$9.9 million for the Central Treatment Plant's Flood Protection Improvement project. Accumulated depreciation increased \$14.8 million and construction in progress increased \$233,000.

Debt Administration

The bond coverage ratio is calculated by dividing net revenue by debt service as defined by bond covenants. Net revenue is calculated using the January through March actual results and estimates for the remainder of the year for both Wastewater and Surface Water. The State Revolving Fund loans are junior lien debt and excluded from the debt service in the bond coverage ratio calculation. However, 100% of the capital lease obligation on the Center for Urban Waters building was included as parity debt although 15.5% is expected to be received from the Solid Waste Division.

The bond coverage ratio is estimated at 2.80 for year 2016. This compares to a ratio of 4.18 at the end of year 2015. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

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Joint Financial Statements

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position (Unaudited)

	March 31,		Increase
	2016	2015	(Decrease)
ASSETS			
Current Assets:			
Cash and cash equivalents (C&CE)	\$ 60,143,414	\$ 42,446,145	\$ 17,697,269
Accounts receivable (net)	13,806,971	12,887,319	919,652
Due from other governments	592,933	-	592,933
Inventory	1,062,946	1,013,767	49,179
Prepayments	140,631	156,705	(16,074)
Other current assets	-	34,669	(34,669)
Current restricted assets:			
C&CE - debt service, deposits and replacements	18,310,028	15,991,230	2,318,798
C&CE - construction accounts	38,419,337	70,963,449	(32,544,112)
Total restricted assets	<u>56,729,365</u>	<u>86,954,679</u>	<u>(30,225,314)</u>
Total current assets	<u>132,476,260</u>	<u>143,493,284</u>	<u>(11,017,024)</u>
Non-current assets:			
Net pension asset	1,119,219	-	1,119,219
Other non-current assets	4,079,821	4,193,396	(113,575)
Total non-current assets	<u>5,199,040</u>	<u>4,193,396</u>	<u>1,005,644</u>
Capital assets:			
Land and easements	19,672,854	19,621,412	51,442
Property, plant, and equipment	748,604,896	714,533,859	34,071,037
Less: accumulated depreciation	(239,974,934)	(225,189,852)	(14,785,082)
Construction work in progress	29,695,432	29,462,928	232,504
Total capital assets, net of depreciation	<u>557,998,248</u>	<u>538,428,347</u>	<u>19,569,901</u>
Total non-current assets	<u>563,197,288</u>	<u>542,621,743</u>	<u>20,575,545</u>
TOTAL ASSETS	<u>695,673,548</u>	<u>686,115,027</u>	<u>9,558,521</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on refunding	3,290,284	4,052,544	(762,260)
Deferred outflows - pensions	2,657,217	-	2,657,217
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,947,501</u>	<u>4,052,544</u>	<u>1,894,957</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 701,621,049</u>	<u>\$ 690,167,571</u>	<u>\$ 11,453,478</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, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position (Unaudited)

	March 31,		Increase
	2016	2015	(Decrease)
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,566,170	\$ 1,631,487	\$ 934,683
Due to other governments	553,930	1,120,403	(566,473)
State Revolving Loan interest payable	475,751	508,973	(33,222)
Accrued wages and benefits payable	1,283,934	1,041,281	242,653
Accrued taxes	195,189	149,339	45,850
Environmental liability - current	625,926	598,901	27,025
Notes & leases - current	4,242,951	4,158,982	83,969
Revenue bonds - current	2,576,668	-	2,576,668
Unavailable revenue	333,138	-	333,138
Current payable from restricted assets:			
Debt principal payable	1,288,332	-	1,288,332
Debt interest payable	2,324,391	1,396,472	927,919
Total current liabilities	16,466,380	10,605,838	5,860,542
Non-current liabilities:			
Revenue bonds payable (net)	166,852,890	171,663,639	(4,810,749)
Compensated absences	2,691,710	2,646,180	45,530
Environmental liability - non-current	150,000	400,000	(250,000)
Notes & leases - non-current	75,882,600	80,296,661	(4,414,061)
Net OPEB obligation	2,519,381	2,231,603	287,778
Total non-current liabilities	248,096,581	257,238,083	(9,141,502)
TOTAL LIABILITIES	264,562,961	267,843,921	(3,280,960)
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	25,000,000	25,000,000	-
Deferred inflows - pensions	1,181,543	-	1,181,543
TOTAL DEFERRED INFLOWS OF RESOURCES	26,181,543	25,000,000	1,181,543
NET POSITION			
Net investment in capital assets	391,878,815	399,669,425	(7,790,610)
Restricted for:			
Debt service	14,697,305	14,594,758	102,547
Net pension asset	1,119,219	-	1,119,219
Unrestricted	3,181,206	(16,940,533)	20,121,739
TOTAL NET POSITION	410,876,545	397,323,650	13,552,895
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 701,621,049	\$ 690,167,571	\$ 11,453,478

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
Wastewater and Surface Water Management
Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)

	March Year-to-Date		% Change
	2016	2015	
OPERATING REVENUES			
Wastewater residential	\$ 11,091,236	\$ 9,988,673	11%
Wastewater commercial and public authorities	6,192,936	5,478,257	13%
Surface water	8,088,193	7,446,927	9%
Other revenues	433,898	458,934	(5%)
Total operating revenues	<u>25,806,263</u>	<u>23,372,791</u>	<u>10%</u>
OPERATING EXPENSES			
Business operations	5,832,543	6,126,217	(5%)
Operations and maintenance	6,712,226	6,051,596	11%
Science and engineering	4,198,031	2,985,975	41%
Depreciation	3,901,838	3,702,852	5%
Total operating expenses	<u>20,644,638</u>	<u>18,866,640</u>	<u>9%</u>
Net operating income	<u>5,161,625</u>	<u>4,506,151</u>	<u>15%</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and other earnings	276,237	137,632	101%
Interest and other related costs	(2,094,974)	(1,936,902)	8%
Amortization of bond premium and loss on refunding	155,851	62,407	150%
Other non revenues	113,970	106,108	7%
Loss on disposition of property	(3,688)	-	n/a
Total nonoperating revenues (expenses)	<u>(1,552,604)</u>	<u>(1,630,755)</u>	<u>(5%)</u>
Net income before contributions and transfers	<u>3,609,021</u>	<u>2,875,396</u>	<u>26%</u>
Capital contributions	47,727	29,429	62%
Transfer out & gross earnings tax	(2,084,254)	(1,939,910)	7%
Total contributions and transfers	<u>(2,036,527)</u>	<u>(1,910,481)</u>	<u>7%</u>
CHANGE IN NET POSITION	1,572,494	964,915	63%
NET POSITION - JANUARY 1	409,304,051	396,358,735	3%
NET POSITION - MARCH 31	<u>\$ 410,876,545</u>	<u>\$ 397,323,650</u>	<u>3%</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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Financial Statements by Utility

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position (Unaudited)

	Wastewater		Surface Water	
	March 31,		March 31,	
	2016	2015	2016	2015
ASSETS				
Current Assets:				
Cash and cash equivalents (C&CE)	\$ 32,956,913	\$ 21,841,672	\$ 27,186,501	\$ 20,604,473
Accounts receivable (net)	9,905,752	8,999,349	3,901,219	3,887,970
Due from other governments	-	-	592,933	-
Inventory	1,062,946	1,013,767	-	-
Prepayments	129,987	130,484	10,644	26,221
Other current assets	-	18,781	-	15,888
Current restricted assets:				
C&CE- debt service, deposits and replacements	11,659,475	10,256,329	6,650,553	5,734,901
C&CE- construction accounts	30,285,015	50,720,137	8,134,322	20,243,312
Total restricted assets	<u>41,944,490</u>	<u>60,976,466</u>	<u>14,784,875</u>	<u>25,978,213</u>
Total current assets	<u>86,000,088</u>	<u>92,980,519</u>	<u>46,476,172</u>	<u>50,512,765</u>
Non-current assets:				
Net pension asset	766,219	-	353,000	-
Other non-current assets	2,808,767	2,922,342	1,271,054	1,271,054
Total non-current assets	<u>3,574,986</u>	<u>2,922,342</u>	<u>1,624,054</u>	<u>1,271,054</u>
Capital assets:				
Land and easements	7,594,620	7,561,938	12,078,234	12,059,474
Property, plant, and equipment	549,069,880	523,192,092	199,535,016	191,341,767
Less: accumulated depreciation	(193,183,003)	(182,131,192)	(46,791,931)	(43,058,660)
Construction work in progress	19,016,028	23,382,710	10,679,404	6,080,218
Total capital assets, net of depreciation	<u>382,497,525</u>	<u>372,005,548</u>	<u>175,500,723</u>	<u>166,422,799</u>
Total non-current assets	<u>386,072,511</u>	<u>374,927,890</u>	<u>177,124,777</u>	<u>167,693,853</u>
TOTAL ASSETS	<u>472,072,599</u>	<u>467,908,409</u>	<u>223,600,949</u>	<u>218,206,618</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding	1,137,069	1,443,051	2,153,215	2,609,493
Deferred outflows - pensions	1,819,135	-	838,082	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,956,204</u>	<u>1,443,051</u>	<u>2,991,297</u>	<u>2,609,493</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 475,028,803</u>	<u>\$ 469,351,460</u>	<u>\$ 226,592,246</u>	<u>\$ 220,816,111</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, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position (Unaudited)**

	Wastewater March 31,		Surface Water March 31,	
	2016	2015	2016	2015
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,314,010	\$ 801,388	\$ 1,252,160	\$ 830,099
Due to other governments	553,930	1,120,403	-	-
State Revolving Loan interest payable	472,929	506,003	2,822	2,970
Accrued wages and benefits payable	890,802	730,417	393,132	310,864
Accrued taxes	132,824	105,482	62,365	43,857
Environmental liability - current	-	-	625,926	598,901
Notes & leases - current	3,954,145	3,879,593	288,806	279,389
Revenue bonds - current	1,318,382	-	1,258,286	-
Unavailable revenue	223,260	-	109,878	-
Current payable from restricted assets:				
Debt principal payable	659,188	-	629,144	-
Debt interest payable	1,137,256	495,837	1,187,135	900,635
Total current liabilities	<u>10,656,726</u>	<u>7,639,123</u>	<u>5,809,654</u>	<u>2,966,715</u>
Non-current liabilities:				
Revenue bonds payable (net)	83,319,270	85,741,998	83,533,620	85,921,641
Compensated absences	2,021,343	1,977,586	670,367	668,594
Environmental liability - non-current	-	-	150,000	400,000
Notes & leases - non-current	61,090,370	65,126,325	14,792,230	15,170,336
Net OPEB obligation	2,036,203	1,761,706	483,178	469,897
Total non-current liabilities	<u>148,467,186</u>	<u>154,607,615</u>	<u>99,629,395</u>	<u>102,630,468</u>
TOTAL LIABILITIES	<u>159,123,912</u>	<u>162,246,738</u>	<u>105,439,049</u>	<u>105,597,183</u>
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - pensions	808,886	-	372,657	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>17,808,886</u>	<u>17,000,000</u>	<u>8,372,657</u>	<u>8,000,000</u>
NET POSITION				
Net investment in capital assets	264,237,442	269,420,820	127,641,373	130,248,605
Restricted for:				
Debt service	9,863,031	9,760,492	4,834,274	4,834,266
Net pension asset	766,219	-	353,000	-
Unrestricted	23,229,313	10,923,410	(20,048,107)	(27,863,943)
TOTAL NET POSITION	<u>298,096,005</u>	<u>290,104,722</u>	<u>112,780,540</u>	<u>107,218,928</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 475,028,803</u>	<u>\$ 469,351,460</u>	<u>\$ 226,592,246</u>	<u>\$ 220,816,111</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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City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)

	Wastewater		Surface Water	
	March Year-to-Date		March Year-to-Date	
	2016	2015	2016	2015
OPERATING REVENUES				
Wastewater residential	\$ 11,091,236	\$ 9,988,673	\$ -	\$ -
Wastewater commercial and public authorities	6,192,936	5,478,257	-	-
Surface water			8,088,193	7,446,927
Other revenues	370,734	421,592	63,164	37,342
Total operating revenues	<u>17,654,906</u>	<u>15,888,522</u>	<u>8,151,357</u>	<u>7,484,269</u>
OPERATING EXPENSES				
Business operations	4,050,976	4,174,853	1,781,567	1,951,364
Operations and maintenance	5,825,222	5,348,987	887,004	702,609
Science and engineering	1,846,693	1,270,157	2,351,338	1,715,818
Depreciation	2,956,655	2,773,264	945,183	929,588
Total operating expenses	<u>14,679,546</u>	<u>13,567,261</u>	<u>5,965,092</u>	<u>5,299,379</u>
Net operating income	<u>2,975,360</u>	<u>2,321,261</u>	<u>2,186,265</u>	<u>2,184,890</u>
NONOPERATING REVENUES (EXPENSES)				
Interest and other earnings	178,357	78,258	97,880	59,374
Interest and other related costs	(1,123,209)	(920,518)	(971,765)	(1,016,384)
Amortization of bond premium and loss on refunding	75,524	13,410	80,327	48,997
Other non revenues	56,823	51,540	57,147	54,568
Loss on disposition of property	(1,844)	-	(1,844)	-
Total nonoperating revenues (expenses)	<u>(814,349)</u>	<u>(777,310)</u>	<u>(738,255)</u>	<u>(853,445)</u>
Net income before contributions and transfers	<u>2,161,011</u>	<u>1,543,951</u>	<u>1,448,010</u>	<u>1,331,445</u>
Capital contributions	37,994	28,934	9,733	495
Transfer out & gross earnings tax	(1,430,386)	(1,334,064)	(653,868)	(605,846)
Total contributions and transfers	<u>(1,392,392)</u>	<u>(1,305,130)</u>	<u>(644,135)</u>	<u>(605,351)</u>
CHANGE IN NET POSITION	768,619	238,821	803,875	726,094
NET POSITION - JANUARY 1	<u>297,327,386</u>	<u>289,865,901</u>	<u>111,976,665</u>	<u>106,492,834</u>
NET POSITION - MARCH 31	<u>\$ 298,096,005</u>	<u>\$ 290,104,722</u>	<u>\$ 112,780,540</u>	<u>\$ 107,218,928</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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