



*Solid Waste Management
Financial Report
June 2015*

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, 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 June 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 \$228,000 in the first six months of 2015, compared to \$247,000 for the same period in 2014.
- The first six months operating revenues are \$29.1 million in 2015 and \$28.5 million in 2014.
- Total net position is \$20 million as of June 30, 2015, compared to \$20.3 million a year ago.
- Cash and equity in pooled investments or operating fund is \$24.1 million and \$29.8 million at June 30, 2015 and 2014, respectively.

Financial Analysis – Condensed Net Position

	June 30,		Increase
	2015	2014	(Decrease)
Current, restricted, and other assets	\$ 60,832,257	\$ 40,686,953	\$ 20,145,304
Capital assets	84,219,946	85,968,514	(1,748,568)
Deferred outflows of resources	180,705	255,479	(74,774)
Total assets and deferred outflows of resources	<u>\$ 145,232,908</u>	<u>\$ 126,910,946</u>	<u>\$ 18,321,962</u>
Current liabilities and liabilities payable from restricted assets	\$ 7,967,702	\$ 6,420,847	\$ 1,546,855
Noncurrent liabilities	111,299,578	94,172,935	17,126,643
Deferred inflows of resources	6,000,000	6,000,000	-
Total liabilities and deferred inflows of resources	<u>125,267,280</u>	<u>106,593,782</u>	<u>18,673,498</u>
Invested in capital assets, net of related debt	28,145,939	28,057,898	88,041
Restricted for bond reserves	7,428,592	1,727,986	5,700,606
Unrestricted	(15,608,903)	(9,468,720)	(6,140,183)
Total net position	<u>19,965,628</u>	<u>20,317,164</u>	<u>(351,536)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 145,232,908</u>	<u>\$ 126,910,946</u>	<u>\$ 18,321,962</u>

Current, restricted, and other assets

Current, restricted, and other assets increased by \$20.1 million over the past twelve months. The most significant changes were:

- Cash and equity in pooled investments operating funds decreased \$5.6 million partially due to a transfer \$1.7 million cash from operating fund to Nuisance Code Enforcement fund, \$1.3 million for first half interest 2015 and rolling stock for containers.
- Account receivable and unbilled revenue decreased \$456,000 and \$335,000 decreased in Allowance for uncollectible accounts due to old accounts written-off earlier this year.
- Bond reserves and debt service accounts increased \$8.1 million in both the 2006 series and 2015 Revenue bond due to bond covenant requirements.
- Construction funds increased \$18 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 \$1.5 million. The significant changes from year to year include:

- Accounts payable decreased \$465,000 compared to last year due to reduced project spending and 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 \$369,000 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 \$2.7 million due to a \$3.2 bond premium realized the 2015 Revenue bond and a reduction of \$500,000 amortized costs recognized over the past twelve 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.

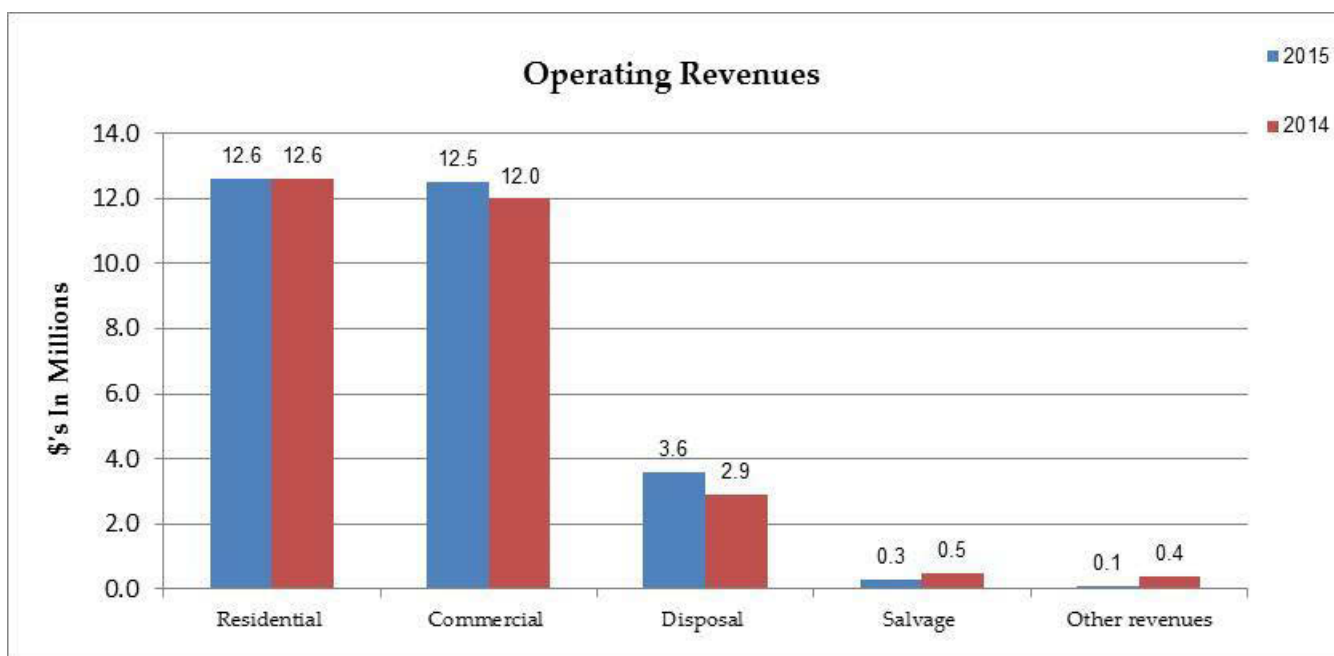
Deferred inflows of resources:

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

	June Year-to-Date		Increase (Decrease)
	2015	2014	
Operating revenues	\$ 29,128,260	\$ 28,455,091	\$ 673,169
Operating expenses	25,257,090	24,760,725	496,365
Net operating income	3,871,170	3,694,366	176,804
Nonoperating revenues (expenses):			
Investment income	200,208	154,591	45,617
Interest on revenue bonds	(1,883,697)	(1,527,150)	(356,547)
Other expenses	367,068	209,874	157,194
Total nonoperating revenues (expenses)	(1,316,421)	(1,162,685)	(153,736)
Net income before transfers	2,554,749	2,531,681	23,068
Gross earnings taxes	(2,326,304)	(2,284,870)	(41,434)
Change in net position	228,445	246,811	(18,366)
Net position - beginning	19,737,183	20,070,353	(333,170)
Net position - ending	\$ 19,965,628	\$ 20,317,164	\$ (351,536)

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues increased \$673,000 the first six months of 2015, compared to a decrease of \$29,000 the same period last year. The Division did have a 5% rate increase begin January 1, 2015. The most significant changes are:

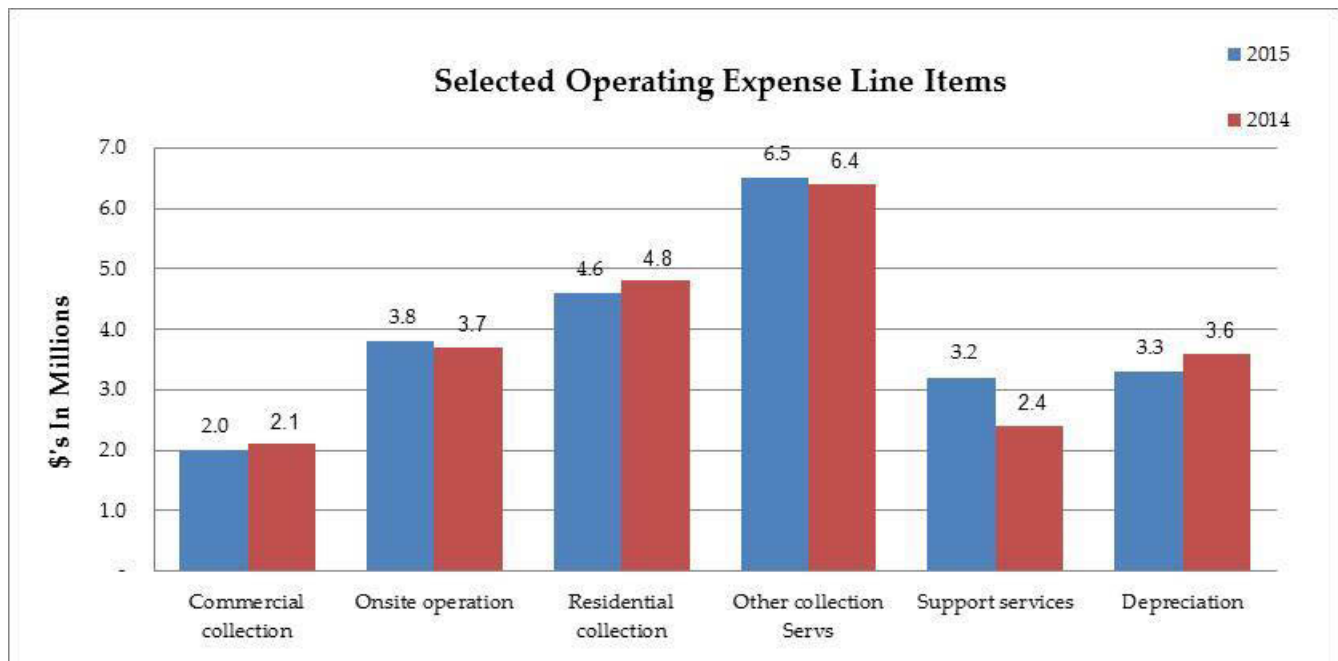
- Commercial collection revenue increased \$478,000 compared to the first six months in 2014 and the placement of commercial food waste recycling in service.
- Disposal revenues increased \$709,000 (37%) due to rate increase for landfill disposal fee which began in 2015.
- Salvage revenues decreased \$213,000 (44%) due to a low demand for recycling material and decreases in prices.
- Other operating revenue decreased \$306,000 (74%) because the Nuisance Code Enforcement program has been tremendously reduced and some payments from Pierce County household hazard waste contract payment are late.

Operating expenses

Operating expenses are \$25.3 million first six month 2015 compared to \$24.8 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 \$224,000 primarily in labor costs and overhead assessments.
- Support services expenses increased \$811,000 (33%). The variance is due to external services LRI contract accruals are now recorded in other collection services.
- Depreciation expense decreased \$305,000 due to adjustment in value for capital lease building at year-end 2014.
- Taxes increased \$205,000 in first six months due to the Excise tax refund of \$278,000 was credited in 2014 from Department of Revenue.

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 \$357,000 (23%). Payment of \$165,000 was for the 2015 revenue bond issuance cost and \$190,000 was for the new 2015 bond interest.

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 \$365,000 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 \$911,000. This includes \$3.9 million for purchased vehicles, \$975,000 for garbage containers, offset was disposals of \$3.9 million for vehicles.
- Accumulated depreciation increased \$2.7 million since June 30, 2014.
- Construction in progress decreased \$257,000 due to the completion and ongoing capitalization projects.

Debt Administration

As of June 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 June 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 1.83 for June 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)

ASSETS	June 31,		Increase
	2015	2014	(Decrease)
Current assets:			
Cash and equity in pooled investments:			
Operating funds	\$ 18,114,312	\$ 23,756,547	\$ (5,642,235)
Rate Stabilization Fund	6,000,000	6,000,000	-
Total cash and equity in pooled investments	<u>24,114,312</u>	<u>29,756,547</u>	<u>(5,642,235)</u>
GABS 31 market rate adjustment	19,327	1,078	18,249
Accounts receivable	6,734,533	6,990,849	(256,316)
Allowance for uncollectible accounts	(3,613,361)	(3,948,629)	335,268
Unbilled revenue	2,865,000	3,065,000	(200,000)
Grant receivable - operating	44,365	263,319	(218,954)
Total current assets	<u>30,164,176</u>	<u>36,128,164</u>	<u>(5,963,988)</u>
Restricted cash and equity in pooled investments:			
Bond reserve and debt service accounts	11,888,585	3,787,452	8,101,133
Customer deposits	98,584	84,281	14,303
Construction funds	17,993,855	-	17,993,855
Total restricted cash and equity in pooled investments	<u>29,981,024</u>	<u>3,871,733</u>	<u>26,109,291</u>
Capital assets:			
Land	3,119,782	3,119,782	-
Buildings	65,385,280	63,883,998	1,501,282
Building - capital lease	6,024,273	7,568,000	(1,543,727)
Landfill infrastructure	65,192,174	64,826,573	365,601
Machinery and equipment	48,100,655	47,189,402	911,253
Computer software	4,717,718	4,701,829	15,889
Less accumulated depreciation	(109,895,877)	(107,154,387)	(2,741,490)
Assets in service, net of depreciation	<u>82,644,004</u>	<u>84,135,197</u>	<u>(1,491,193)</u>
Construction in progress	1,575,942	1,833,317	(257,375)
Total capital assets	<u>84,219,946</u>	<u>85,968,514</u>	<u>(1,748,568)</u>
Other noncurrent assets	687,056	687,056	-
Total assets	<u>145,052,203</u>	<u>126,655,467</u>	<u>18,396,736</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bond refunding costs	180,705	255,479	(74,774)
Total deferred outflows of resources	<u>180,705</u>	<u>255,479</u>	<u>(74,774)</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 145,232,908</u>	<u>\$ 126,910,946</u>	<u>\$ 18,321,962</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	June 30,		Increase
	2015	2014	(Decrease)
Current liabilities:			
Accounts payable	\$ 1,216,798	\$ 1,681,948	\$ (465,150)
Accrued wages payable and compensated absences	755,496	693,950	61,546
Accrued taxes payable	263,585	246,750	16,835
Customer deposits	22,994	21,697	1,297
Current portion of landfill closure	642,016	273,483	368,533
Current portion of long-term debt	1,910,417	1,285,417	625,000
Current portion of capital lease obligation	60,837	75,494	(14,657)
Total current liabilities	4,872,143	4,278,739	593,404
Liabilities payable from restricted assets:			
Deposits payable	96,886	82,642	14,244
Bond interest payable	324,090	259,883	64,207
Current portion of long-term debt	2,674,583	1,799,583	875,000
Total liabilities payable from restricted assets	3,095,559	2,142,108	953,451
Noncurrent liabilities:			
Long-term debt - revenue bonds	78,521,760	59,275,115	19,246,645
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	1,418,400	288,846
Total noncurrent liabilities	111,299,578	94,172,935	17,126,643
Total liabilities	119,267,280	100,593,782	18,673,498
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	6,000,000	6,000,000	-
Total deferred inflows of resources	6,000,000	6,000,000	-
NET POSITION			
Net investment in capital assets	28,145,939	28,057,898	88,041
Restricted for bond reserves	7,428,592	1,727,986	5,700,606
Unrestricted	(15,608,903)	(9,468,720)	(6,140,183)
Total net position	19,965,628	20,317,164	(351,536)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 145,232,908	\$ 126,910,946	\$ 18,321,962

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
	2015	2014	2015	2014	
OPERATING REVENUES					
Residential collection	\$ 2,209,600	\$ 2,108,448	\$ 12,634,118	\$ 12,629,403	0%
Commercial collection	2,310,475	2,006,111	12,517,467	12,039,276	4%
Disposal revenues	611,110	517,238	3,602,785	2,893,697	25%
Salvage revenue	113,776	92,659	267,668	480,809	-44%
Other operating revenue	14,066	102,798	106,222	411,906	-74%
Total operating revenues	<u>5,259,027</u>	<u>4,827,254</u>	<u>29,128,260</u>	<u>28,455,091</u>	2%
OPERATING EXPENSES					
Commercial collection	323,519	336,804	2,031,192	2,111,487	(4%)
Onsite operations	654,977	712,888	3,750,484	3,733,607	0%
Residential collection	985,564	914,439	4,572,756	4,797,528	(5%)
Other collection Services	1,658,962	1,526,196	6,460,915	6,429,178	0%
Support services	597,870	114,626	3,242,715	2,431,820	33%
Other operating expenses:					
Insurance	16,818	28,896	100,908	173,745	(42%)
Depreciation	556,815	593,181	3,263,935	3,568,465	(9%)
Taxes	75,712	70,833	425,631	220,840	93%
IT services	100,229	77,635	615,141	501,465	23%
Customer services	162,862	121,032	793,413	792,590	0%
Subtotal other operating expenses	<u>912,436</u>	<u>891,577</u>	<u>5,199,028</u>	<u>5,257,105</u>	(1%)
Total operating expenses	<u>5,133,328</u>	<u>4,496,530</u>	<u>25,257,090</u>	<u>24,760,725</u>	2%
Net operating income	<u>125,699</u>	<u>330,724</u>	<u>3,871,170</u>	<u>3,694,366</u>	5%
NONOPERATING REVENUES (EXPENSES)					
Investment income	40,862	24,972	200,208	154,591	30%
Rental income	9,999	8,039	62,981	63,982	(2%)
Operating grants	100,615	7,397	120,134	211,790	(43%)
Interest paid net of capitalized interest	(318,284)	(252,099)	(1,883,697)	(1,527,150)	23%
Interest on capital lease	(23,635)	(30,997)	(141,812)	(185,982)	(24%)
Amort. of premium and refunding costs	61,182	19,689	277,383	118,133	135%
Other expense	(14,883)	427	48,382	1,951	(N/A)
Total nonoperating expenses	<u>(144,144)</u>	<u>(222,572)</u>	<u>(1,316,421)</u>	<u>(1,162,685)</u>	13%
CHANGE IN NET POSITION					
Net income before transfers	(18,445)	108,152	2,554,749	2,531,681	1%
Transfers - gross earnings taxes	(417,244)	(388,181)	(2,326,304)	(2,284,870)	2%
CHANGE IN NET POSITION	<u>\$ (435,689)</u>	<u>\$ (280,029)</u>	<u>228,445</u>	<u>246,811</u>	
NET POSITION - BEGINNING			<u>19,737,183</u>	<u>20,070,353</u>	
NET POSITION - ENDING			<u>\$ 19,965,628</u>	<u>\$ 20,317,164</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,		Increase
	2015	2014	(Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 28,691,340	\$ 28,405,536	\$ 285,804
Payments to suppliers	(12,750,456)	(12,344,769)	(405,687)
Payments to employees	(9,531,078)	(9,286,133)	(244,945)
Taxes paid	(432,007)	(197,558)	(234,449)
Net cash from operating activities	<u>5,977,799</u>	<u>6,577,076</u>	<u>(599,277)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(2,721,532)	(2,673,709)	(47,823)
Debt service related to environmental cleanup	(1,665,687)	-	(1,665,687)
Operating grants received	30,894	211,790	(180,896)
Net cash from noncapital financing activities	<u>(4,356,325)</u>	<u>(2,461,919)</u>	<u>(1,894,406)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(5,373,166)	(1,403,223)	(3,969,943)
Bond refunding costs	3,203,562	-	3,203,562
Debt financing and principal payments	21,095,000	-	21,095,000
Capital lease obligation	(202,262)	(260,988)	58,726
Interest expense, net of capitalized interest	(139,830)	(1,527,214)	1,387,384
Proceeds from sale of capital assets	63,151	-	63,151
Net cash from capital and related financing activities	<u>18,646,455</u>	<u>(3,191,425)</u>	<u>21,837,880</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	180,881	153,512	27,369
Rental income	62,981	63,982	(1,001)
Other investing proceeds	115	2,019	(1,904)
Net cash from investing activities	<u>243,977</u>	<u>219,513</u>	<u>26,368</u>
Net change in cash and equity in pooled investments	<u>20,511,906</u>	<u>1,143,245</u>	<u>19,370,565</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>\$ 54,095,336</u>	<u>\$ 33,628,280</u>	<u>\$ 20,467,056</u>

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

	Year-to-Date June 30, 2015	2014	Increase (Decrease)
Reconciliation of cash and equity in pooled investments to balance sheets:			
Operating funds	\$ 24,114,312	\$ 29,756,547	\$ (5,642,235)
Restricted funds	29,981,024	3,871,733	26,109,291
	<u>\$ 54,095,336</u>	<u>\$ 33,628,280</u>	<u>\$ 20,467,056</u>
Reconciliation of operating income to net cash from operating activities:			
Operating income	\$ 3,871,172	\$ 3,694,365	\$ 176,807
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	3,263,935	3,568,465	(304,530)
Change in assets, liabilities, and deferred inflows of resources:			
Accounts receivable, net of allowance	(14,544)	241,004	(255,548)
Due from other funds	498,161	107,344	390,817
Due from other governmental units	-	(263,319)	263,319
Accounts payable	(23,820)	27,297	(51,117)
Accrued wages and compensated absences	(40,449)	(65,462)	25,013
Current environmental liabilities	(264,984)	92,083	(357,067)
Accrued taxes payable	(6,379)	23,282	(29,661)
Deposits payable and customer deposits	9,124	14,551	(5,427)
Due other funds	(1,168,351)	(722,226)	(446,125)
Unearned revenue	(146,066)	(140,308)	(5,758)
Total adjustments	<u>2,106,627</u>	<u>2,882,711</u>	<u>(776,084)</u>
Net cash from operating activities	<u>\$ 5,977,799</u>	<u>\$ 6,577,076</u>	<u>\$ (599,277)</u>

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