



*Solid Waste Management
Financial Report
September 2013*

**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
September 30, 2013

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, 2013 and 2012. 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.

Accounting Change

GASB 65 has been retroactively implemented with 2013 reporting. This results in the accounting restatement to expense unamortized bond issuance costs; bond issuance costs incurred in future periods will be expensed as incurred. Two new categories have been added to the balance sheet: deferred outflows and deferred inflows. The effect is to segregate deferred accounting transactions from assets and liabilities.

Financial Highlights

- The change in net position is \$69,000 in the first nine months of 2013, compared to \$2.3 million for the same period in 2012.
- The first nine months operating revenues are \$43.1 million in 2013 and \$42.4 million in 2012.
- Total net position is \$23.5 million as of September 30, 2013, compared to \$25.6 million a year ago.
- Cash and equity in pooled investments is \$39.4 million and \$44.7 million at September 30, 2013 and 2012, respectively.

Financial Analysis – Condensed Net Position

	September 30,		Increase
	2013	2012	(Decrease)
Current, restricted, and other assets	\$ 46,823,982	\$ 51,546,425	\$ (4,722,443)
Capital assets	86,861,499	85,461,311	1,400,188
Deferred outflows	358,721	604,918	(246,197)
Total assets and deferred outflows	<u>\$ 134,044,202</u>	<u>\$ 137,612,654</u>	<u>\$ (3,568,452)</u>
Current liabilities and liabilities payable from restricted assets	\$ 9,188,707	\$ 5,740,299	\$ 3,448,408
Noncurrent liabilities	96,702,216	101,661,285	(4,959,069)
Deferred inflows	4,650,000	4,650,000	-
Total liabilities	<u>110,540,923</u>	<u>112,051,584</u>	<u>(1,510,661)</u>
Invested in capital assets, net of related debt	26,500,598	17,578,597	8,922,001
Restricted for bond reserves	1,727,986	3,845,902	(2,117,916)
Unrestricted	(4,725,305)	4,136,571	(8,861,876)
Total net position	<u>23,503,279</u>	<u>25,561,070</u>	<u>(2,057,791)</u>
Total liabilities and net position	<u>\$ 134,044,202</u>	<u>\$ 137,612,654</u>	<u>\$ (3,568,452)</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:

- Operating cash and equity in pooled investments decreased \$4.0 million.
- Restricted bond reserves and debt service accounts increased \$367,000: \$202,000 due to an increase in the 2009 TES Bond reserve requirement and \$165,000 in debt service.
- Bond construction funds decreased \$1.6 million primarily due to the ongoing Landfill Closure project.
- Accounts receivable increased \$402,000, including the allowance for uncollectible accounts and unbilled revenues.

Deferred Outflows

- Unamortized loss on refunding decreased \$246,000 due to amortizing the loss over the past twelve months.

Current liabilities and liabilities payable from restricted assets

Total current liabilities and liabilities payable from restricted assets increased \$3.4 million. The significant changes from year to year include:

- Accounts payable increased \$1.4 million compared to last year due primarily to external contract services and garbage container purchases.
- The current portion of long-term debt increased \$255,000 compared to last year due to increased bond principal payments due on December 1st, 2013.
- Environmental liabilities decreased \$165,000 due to a final cash settlement with the EPA.
- The accrued landfill closure and post closure liability increased \$1.9 million recognizing the increase in the current portion.

Noncurrent liabilities

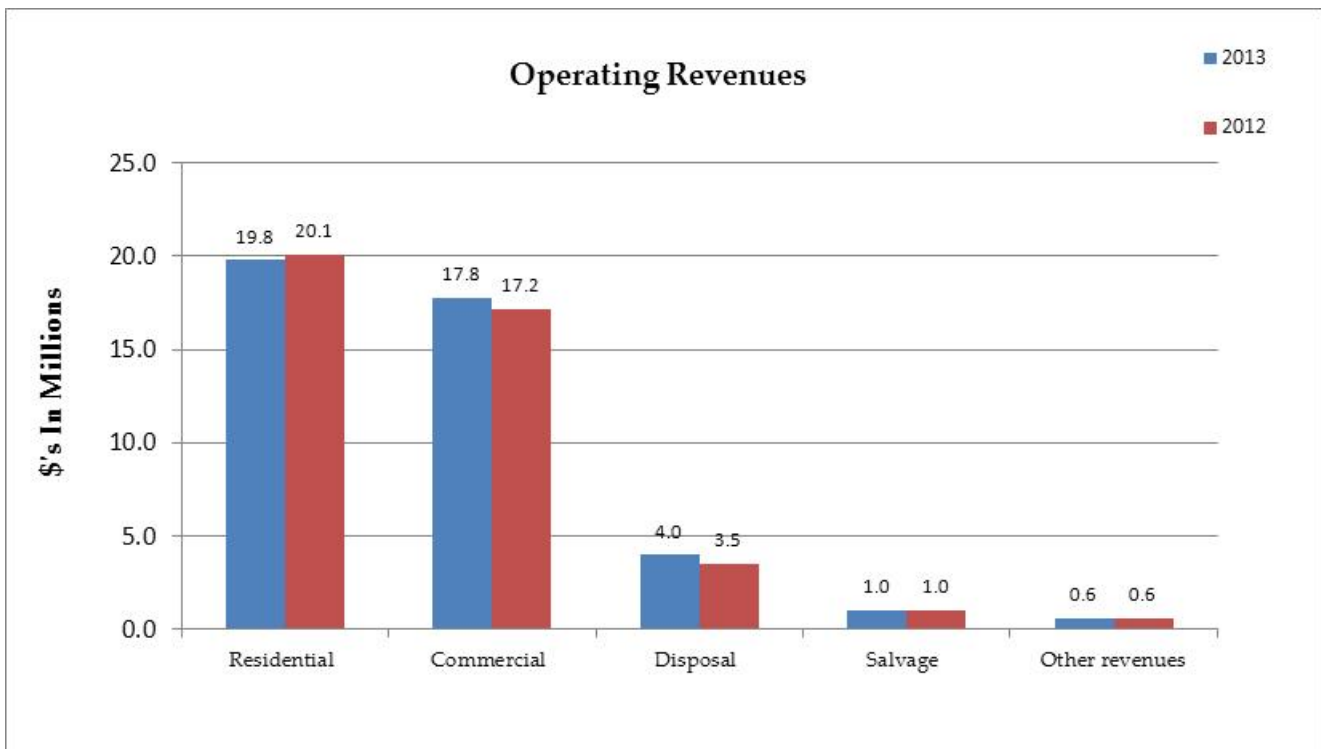
Noncurrent liabilities consist of long-term debt, related debt accounts, noncurrent compensated absences, and OPEB (other post employment benefits) liabilities. The most significant changes for the \$5.0 million decrease were:

- The long-term debt of revenue bond principal decreased \$2.6 million due to principal payments being reclassified to current liabilities for the 2006 and 2008 Bonds.
- Unamortized bond premium cost decreased \$347,000 due to amortized costs recognized over the past twelve months.
- The accrued landfill closure and post closure costs decreased \$2.0 million due to the reclassification to current and a decrease in the overall estimated liability.
- OPEB liabilities increased \$189,000 because of the additional accrual recorded at year-end 2012.

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

	September Year-to-Date		Increase (Decrease)
	2013	2012	
Operating revenues	\$ 43,131,067	\$ 42,367,880	\$ 763,187
Operating expenses	37,522,273	35,567,610	1,954,663
Net operating income	5,608,794	6,800,270	(1,191,476)
Nonoperating revenues (expenses):			
Investment income	332,355	668,100	(335,745)
Interest on revenue bonds	(2,430,487)	(2,518,870)	88,383
Other expenses	318,028	(165,187)	483,215
Total nonoperating expenses	(1,780,104)	(2,015,957)	235,853
Net income before transfers	3,828,690	4,784,313	(955,623)
Transfers - from other funds	(289,428)	900,630	(1,190,058)
Transfers - gross earnings tax	(3,470,705)	(3,412,325)	(58,380)
Change in net position	68,557	2,272,618	(2,204,061)
Total net position - beginning	23,434,722	23,288,452	146,270
Total net position - ending	\$ 23,503,279	\$ 25,561,070	\$ (2,057,791)

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues increased \$763,000 for the first nine months of 2013 compared to the same period last year. Solid Waste has a zero rate increase in 2013 for commercial customers. There was an average of 3.5% increase for residential customers who have a 60 gallon size container and over with no increase of rates for smaller containers. The most significant changes are:

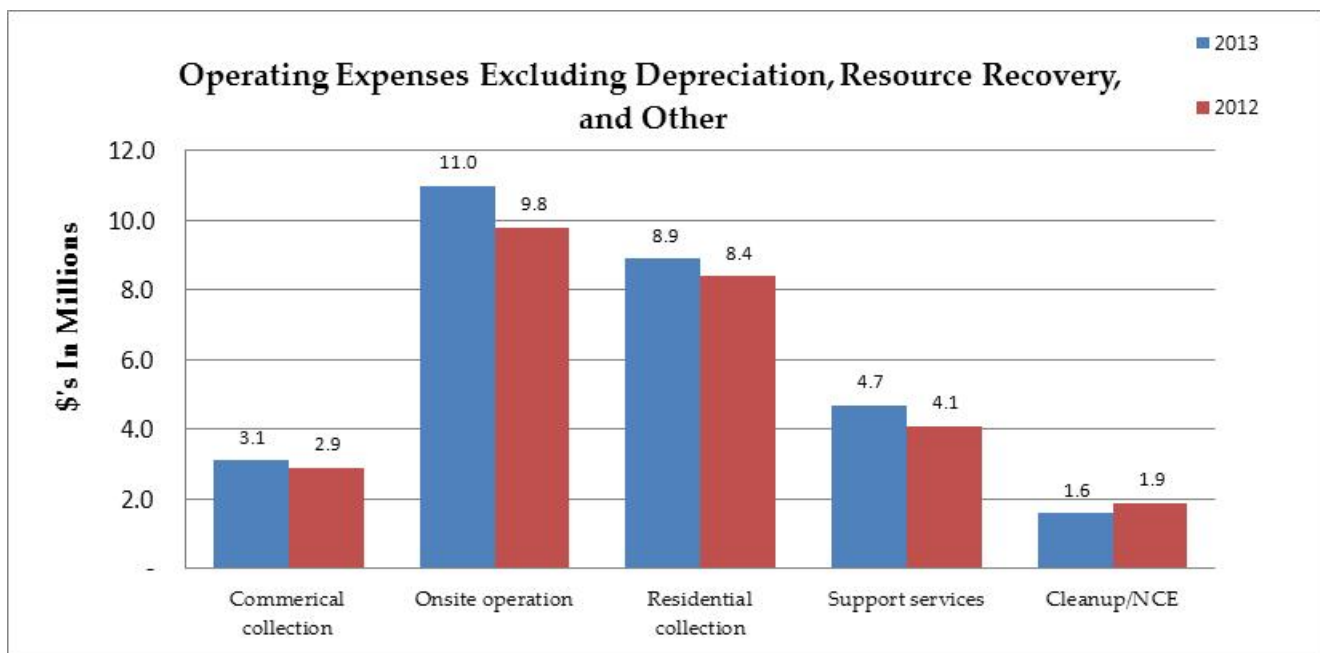
- Residential collection revenue decreased \$372,000 due to customers downsizing their garbage container during the Every-Other-Week (EOW) collection implementation.
- Commercial collection revenue increased \$638,000 due to increased business activity.
- Likewise, disposal revenues increased \$512,000 (15%).

Operating expenses

Operating expenses are \$37.5 million year-to-date 2013 compared to \$35.6 million in 2012. This is an increase of \$2.0 million. The areas of significant changes between the years are:

- Commercial collection expenses, including all commercial activities such as pick-up barrel, front load, drop-of-box, and recycle increased \$166,000 due to labor and Fleet services.
- Onsite operation expenses increased \$1.2 million (12%) due to an increase of \$486,000 for labor and \$1.4 million for the LRI contract and Fleet services. The LRI contract expense was increased due to higher garbage tonnage transferred to the Pierce County landfill site due to the City's landfill closure. Operating supplies decreased \$507,000.
- Residential collection expenses, including residential waste, commingle recycle, yard waste, and call-to-haul, increased \$536,000. This is primarily due to an increase of \$917,000 in labor due to the EOW collection implementation and the decrease of \$130,000 in supplies and \$353,000 in services.
- Support services expenses increased \$644,000 (16%) due to an increase of \$936,000 for LRI contract service and \$120,000 in overall assessments. Labor decreased \$468,000 in the first nine months.

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



Non-operating revenues (expenses)

Non-operating expenses decreased \$236,000 (12%).

Significant changes include:

- Investment income decreased \$336,000 (50%) compared to the same period in 2012 due to lower interest earned on the City's investment pool.
- Operating grant revenue increased \$564,000 due principally for the Coordinated Prevention Grant.

Capital assets

The total capital asset balance is \$86.9 million, an increase of \$1.4 million compared to the balance at September 30, 2012.

Significant changes from year to year include:

- Buildings increased \$743,000 due to additional capitalization of costs related to the Landfill Administration Building and the Transfer Station Facility.
- Landfill infrastructure increased \$434,000 due to completed projects such as the Gas Extraction System and the Urban Water Parking Lot.
- Machinery and equipment increased \$6.0 million. This includes \$3.1 million for purchased vehicles, \$3.3 million for garbage containers, and vehicle disposals of \$237,000.
- Accumulated depreciation increased \$6.1 million over the past year.
- CIP has \$1.5 million under construction and not yet in service.

Debt Administration

September 30, 2013, the Division had \$65.2 million in long-term debt of which \$2.6 million due in December 2013. This compares to long-term debt of \$67.9 million as of September 30, 2012. 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 2.65 for 2013. This compares to a ratio of 2.76 at the end of 2012. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

Financial Statements

City of Tacoma, Washington
Environmental Services Department
Solid Waste Management
Statements of Net Position (Unaudited)

ASSETS	September 30,		Increase
	2013	2012	(Decrease)
Current assets:			
Cash and equity in pooled investments	\$ 24,017,982	\$ 28,003,454	\$ (3,985,472)
Rate stabilization cash in pooled investments	4,650,000	4,650,000	-
GASB 31 market rate adjustment	285,431	307,173	(21,742)
Accounts receivable	6,956,685	6,794,127	162,558
Allowance for uncollectible accounts	(3,760,265)	(3,734,596)	(25,669)
Unbilled revenue	3,065,000	2,800,000	265,000
Grant receivable - operating	148,710	-	148,710
Total current assets	35,363,543	38,820,158	(3,456,615)
Restricted cash and equity in pooled investments:			
Bond reserve and debt service accounts	4,986,007	4,618,911	367,096
Customer deposits	71,269	63,230	8,039
Construction funds	2,935,703	4,576,666	(1,640,963)
Reserve for landfill closure	2,780,404	2,780,404	-
Total restricted assets	10,773,383	12,039,211	(1,265,828)
Capital assets:			
Land	3,119,781	3,076,911	42,870
Buildings	63,908,815	63,165,464	743,351
Building - Capital lease	7,568,000	7,568,000	-
Landfill infrastructure	62,460,597	62,026,363	434,234
Machinery and equipment	46,821,975	40,786,526	6,035,449
Computer software	4,536,940	4,254,934	282,006
Less accumulated depreciation	(103,035,390)	(96,972,046)	(6,063,344)
Assets in service net of depreciation	85,380,718	83,906,152	1,474,566
Construction in progress	1,480,781	1,555,159	(74,378)
Total capital assets	86,861,499	85,461,311	1,400,188
Other noncurrent assets	687,056	687,056	-
Total assets	133,685,481	137,007,736	(3,322,255)
DEFERRED OUTFLOWS			
Unamortized loss on refunding	358,721	604,918	(246,197)
Total deferred outflows	358,721	604,918	(246,197)
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 134,044,202	\$ 137,612,654	\$ (3,568,452)

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
Solid Waste Management
Statements of Net Position (Unaudited)

LIABILITIES	September 30,		Increase
	2013	2012	(Decrease)
Current liabilities:			
Accounts payable	\$ 2,410,346	\$ 993,550	\$ 1,416,796
Accrued wages payable	425,730	294,747	130,983
Accrued taxes payable	204,218	224,154	(19,936)
Accrued low income liabilities	(7,175)	7,047	(14,222)
Customer deposits	30,044	16,031	14,013
Current portion of long-term debt	434,167	391,667	42,500
Current portion of capital lease obligation	37,172	34,476	2,696
Environmental liabilities	-	165,122	(165,122)
Total current liabilities	<u>3,534,502</u>	<u>2,126,794</u>	<u>1,407,708</u>
Liabilities payable from restricted assets:			
Deposits payable	69,071	60,092	8,979
Bond interest payable	1,087,187	1,134,187	(47,000)
Current portion of long-term debt	2,170,833	1,958,333	212,500
Current portion of landfill closure	2,327,114	460,893	1,866,221
Total liabilities payable from restricted assets	<u>5,654,205</u>	<u>3,613,505</u>	<u>2,040,700</u>
Noncurrent liabilities:			
Long-term debt - revenue bonds	61,150,000	63,755,000	(2,605,000)
Unamortized bond premiums	1,449,985	1,797,070	(347,085)
Unamortized bond discounts	-	(961)	961
Capital lease obligation	7,011,502	7,156,000	(144,498)
Accrued landfill closure and post closure costs	24,958,019	26,955,015	(1,996,996)
Compensated absences	1,032,036	1,087,692	(55,656)
Net OPEB obligation	1,100,674	911,469	189,205
Total noncurrent liabilities	<u>96,702,216</u>	<u>101,661,285</u>	<u>(4,959,069)</u>
Total liabilities	<u>105,890,923</u>	<u>107,401,584</u>	<u>(1,510,661)</u>
DEFERRED INFLOWS			
Deferred credit - rate stabilization	4,650,000	4,650,000	-
Total deferred inflows	<u>4,650,000</u>	<u>4,650,000</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	26,500,598	17,578,597	8,922,001
Restricted for bond reserves	1,727,986	3,845,902	(2,117,916)
Unrestricted	(4,725,305)	4,136,571	(8,861,876)
Total net position	<u>23,503,279</u>	<u>25,561,070</u>	<u>(2,057,791)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 134,044,202</u>	<u>\$ 137,612,654</u>	<u>\$ (3,568,452)</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
Solid Waste Management
Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)

	Month of September		September Year-to-Date		% Chg
	2013	2012	2013	2012	
OPERATING REVENUES					
Residential collection	\$ 2,032,288	\$ 2,070,909	\$ 19,761,820	\$ 20,134,273	-2%
Commercial collection	1,968,914	1,692,560	17,821,082	17,183,105	4%
Disposal revenues	457,764	391,335	3,970,593	3,458,472	15%
Salvage revenue	105,437	81,735	950,391	995,913	-5%
Other operating revenue	72,345	52,133	627,181	596,117	5%
Total operating revenues	<u>4,636,748</u>	<u>4,288,672</u>	<u>43,131,067</u>	<u>42,367,880</u>	2%
OPERATING EXPENSES					
Commercial collection	316,922	294,015	3,077,711	2,911,301	6%
Onsite operations	848,862	822,439	11,035,633	9,826,962	12%
Residential collection	888,306	823,529	8,920,033	8,384,033	6%
Resource recovery	-	35,862	-	219,121	N/A
Support services	486,091	359,199	4,723,132	4,078,731	16%
Tacoma cares cleanup	40,520	48,139	348,056	442,663	(21%)
Nuisance code enforcement	134,310	154,702	1,285,482	1,444,324	(11%)
Other operating expenses:			-		
Insurance	28,896	40,615	274,356	272,104	1%
Depreciation	573,476	559,557	5,094,057	5,170,791	(1%)
Taxes	59,474	75,310	711,650	735,380	(3%)
IT services	80,170	82,900	786,141	829,728	(5%)
Customer services	132,742	129,811	1,266,022	1,252,472	1%
Subtotal other operating expenses	<u>874,758</u>	<u>888,193</u>	<u>8,132,226</u>	<u>8,260,475</u>	(2%)
Total operating expenses	<u>3,589,769</u>	<u>3,426,078</u>	<u>37,522,273</u>	<u>35,567,610</u>	5%
Net operating income	<u>1,046,979</u>	<u>862,594</u>	<u>5,608,794</u>	<u>6,800,270</u>	(18%)

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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
	2013	2012	2013	2012	
NONOPERATING REVENUES (EXPENSES)					
Investment income	\$ 29,181	\$ 62,222	\$ 332,355	\$ 668,100	(50%)
Rental income	8,039	14,182	96,614	98,541	(2%)
Operating grants	-	-	619,412	55,327	N/A
Disposal of capital assets	-	-	(122,771)	23,794	N/A
Interest paid net of capitalized interest	(259,502)	(273,850)	(2,430,487)	(2,518,870)	(4%)
Interest on capital lease	(31,477)	(31,420)	(283,179)	(282,778)	0%
Amortization of premium, discount and refunding costs	22,234	673	78,346	6,057	1,193%
Other expense	(8,113)	384	(70,394)	(66,128)	6%
Total nonoperating expenses	<u>(239,638)</u>	<u>(227,809)</u>	<u>(1,780,104)</u>	<u>(2,015,957)</u>	(12%)
CHANGE IN NET POSITION					
Net income before transfers	807,341	634,785	3,828,690	4,784,313	(20%)
Transfers - from/to other funds	(289,428)	675,387	(289,428)	900,630	N/A
Transfers - gross earnings taxes	(329,196)	(347,890)	(3,470,705)	(3,412,325)	2%
CHANGE IN NET POSITION	<u>\$ 188,717</u>	<u>\$ 962,282</u>	<u>68,557</u>	<u>2,272,618</u>	(97%)
TOTAL NET POSITION - BEGINNING			<u>23,434,722</u>	<u>23,288,452</u>	
TOTAL NET POSITION - ENDING			<u>\$ 23,503,279</u>	<u>\$ 25,561,070</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
Solid Waste Management
Statements of Cash Flows (Unaudited)

	September 2013	Year-to-Date 2012	Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 42,636,153	\$ 42,139,845	\$ 496,308
Payments to suppliers	(17,849,263)	(20,992,933)	3,143,670
Payments to employees	(14,521,896)	(13,743,381)	(778,515)
Taxes paid	(745,026)	(776,206)	31,180
Net cash from operating activities	<u>9,519,968</u>	<u>6,627,325</u>	<u>2,892,643</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(3,846,853)	(3,827,076)	(19,777)
Operating grants received	501,363	126,342	375,021
Transfer-other operating	(289,428)	900,630	(1,190,058)
Net cash from noncapital financing activities	<u>(3,634,918)</u>	<u>(2,800,104)</u>	<u>(834,814)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(7,823,398)	(1,576,211)	(6,247,187)
Interest paid net of capitalized interest	(1,615,245)	(1,668,269)	53,024
Capital lease obligation	(390,506)	(387,718)	(2,788)
Proceeds from sale of capital assets	10,750	39,750	(29,000)
Net cash from capital and related financing activities	<u>(9,818,399)</u>	<u>(3,592,448)</u>	<u>(6,225,951)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received	46,924	360,927	(314,003)
Rental income	96,615	98,540	(1,925)
Other, net	2,882	(1,089)	3,971
Net cash from investing activities	<u>146,421</u>	<u>458,378</u>	<u>(315,928)</u>
Net change in cash and equity in pooled investments	<u>(3,786,928)</u>	693,151	(4,484,050)
Cash and equity in pooled investments beginning	<u>43,228,293</u>	43,999,514	(771,221)
Cash and equity in pooled investments ending	<u>\$ 39,441,365</u>	<u>\$ 44,692,665</u>	<u>\$ (5,251,300)</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
Solid Waste Management
Statements of Cash Flows (Unaudited)

	September 2013	Year-to-Date 2012	Increase (Decrease)
Reconciliation of cash and equity in pooled investments to balance sheets:			
Operating funds	\$ 28,667,982	\$ 32,653,454	\$ (3,985,472)
Restricted funds	10,773,383	12,039,211	(1,265,828)
	<u>\$ 39,441,365</u>	<u>\$ 44,692,665</u>	<u>\$ (5,251,300)</u>
Reconciliation of operating income to net cash from operating activities:			
Operating income	\$ 5,608,794	\$ 6,800,270	\$ (1,191,476)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	5,094,057	5,170,791	(76,734)
Low income assistance	(73,125)	(65,000)	(8,125)
Change in assets and liabilities:			
Accounts receivable, net of allowance	(30,623)	325,882	(356,505)
Due from other funds	25,550	117,116	(91,566)
Due from other governmental units	112,362	71,000	41,362
Accounts payable	566,632	(2,092,952)	2,659,584
Accrued wages and compensated absences	(232,234)	(447,055)	214,821
Current environmental liabilities	(672,886)	(1,996,254)	1,323,368
Accrued taxes payable	(33,376)	(40,826)	7,450
Deposits payable	37,196	522	36,674
Accrued low income liabilities	(7,178)	7,045	(14,223)
Due other funds	(685,152)	(723,247)	38,095
Deferred revenue	(212,453)	(165,930)	(46,523)
Claims and judgments payable	-	(334,037)	334,037
Closure and post-closure liability	22,404	-	22,404
Total adjustments	<u>3,911,174</u>	<u>(172,945)</u>	<u>4,084,119</u>
Net cash from operating activities	<u>\$ 9,519,968</u>	<u>\$ 6,627,325</u>	<u>\$ 2,892,643</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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