



*Solid Waste Management
Financial Report
March 2014*

Table of Contents

Management's Discussion and Analysis	3
Financial Statements	9

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, 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 March 31, 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 \$104,000 in the first three months of 2014, compared to \$1,000 for the same period in 2013.
- The first three months operating revenues are \$13.7 million in 2014 and \$13.8 million in 2013.
- Total net position is \$20.2 million as of March 31, 2014, compared to \$23.4 million a year ago.
- Cash and equity in pooled investments is \$33.4 million and \$42.3 million at March 31, 2014 and 2013, respectively.

Financial Analysis – Condensed Net Position

	March 31,		Increase
	2014	2013	(Decrease)
Current, restricted, and other assets	\$ 39,972,210	\$ 49,419,096	\$ (9,446,886)
Capital assets	86,866,023	84,489,476	2,376,547
Deferred outflows of resources	274,174	474,708	(200,534)
Total assets and deferred outflows of resources	<u>\$ 127,112,407</u>	<u>\$ 134,383,280</u>	<u>\$ (7,270,873)</u>
Current liabilities and liabilities payable from restricted assets	\$ 6,687,060	\$ 9,422,528	\$ (2,735,468)
Noncurrent liabilities	94,250,694	96,875,454	(2,624,760)
Deferred inflows of resources	6,000,000	4,650,000	1,350,000
Total liabilities and deferred inflows of resources	<u>106,937,754</u>	<u>110,947,982</u>	<u>(4,010,228)</u>
Invested in capital assets, net of related debt	28,087,589	20,656,580	7,431,009
Restricted for bond reserves	1,727,986	1,727,986	-
Unrestricted	(9,640,922)	1,050,732	(10,691,654)
Total net position	<u>20,174,653</u>	<u>23,435,298</u>	<u>(3,260,645)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 127,112,407</u>	<u>\$ 134,383,280</u>	<u>\$ (7,270,873)</u>

Current, restricted, and other assets

Current, restricted, and other assets decreased by \$9.4 million over the past twelve months. The most significant changes were:

- Cash and equity in pooled investments operating funds decreased \$4.2 million and the rate stabilization fund increased \$1.4 million.
- Restricted cash and equity in pooled investments decreased \$6.2 million; construction funds decreased \$3.5 million and the landfill closure reserve \$2.8 million.
- GABS 31 market rate adjustment decreased \$284,000 compared to previous year.
- Account receivable increased \$188,000 off-set by an increase of \$253,000 in allowance for uncollectible accounts.

Deferred outflows of resources

- Unamortized bond refunding costs decreased \$201,000 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 \$2.7 million. The significant changes from year to year include:

- Accounts payable decreased \$565,000 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 1st, 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 \$3.1 million due to principal payments being reclassified to current liabilities for the 2006A, 2006B and 2008 Bonds.
- Unamortized bond premium cost decreased \$335,000 due to amortized costs recognized over the past twelve months.
- Accrued landfill post closure costs increased \$552,000 due to an increase in the overall estimated liability recorded at year-end 2013.
- OPEB liabilities increased \$318,000 because of the additional accrual recorded at year-end 2013.

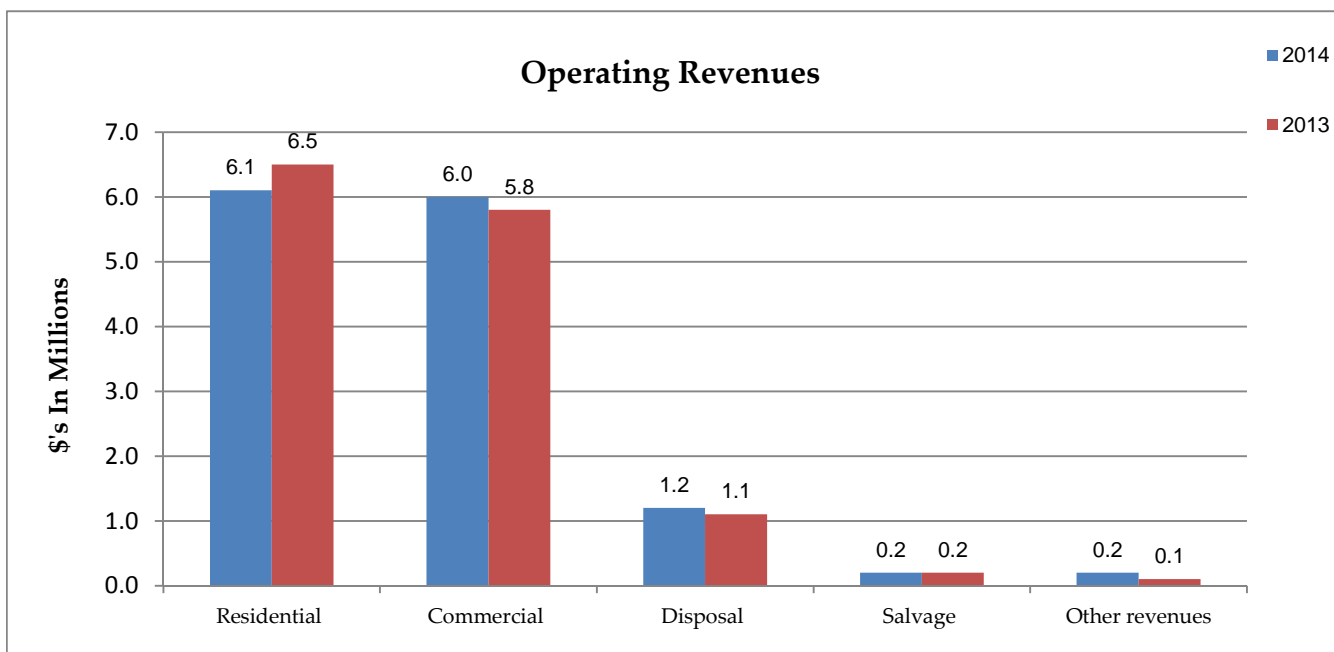
Deferred inflows of resources:

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

	March Year-to-Date		Increase (Decrease)
	2014	2013	
Operating revenues	\$ 13,697,135	\$ 13,763,142	\$ (66,007)
Operating expenses	11,793,844	11,879,838	(85,994)
Net operating income	1,903,291	1,883,304	19,987
Nonoperating revenues (expenses):			
Investment income	71,723	115,408	(43,685)
Interest on revenue bonds	(767,526)	(815,302)	47,776
Other expenses	(9,896)	(55,585)	45,689
Total nonoperating revenues (expenses)	(705,699)	(755,479)	49,780
Net income before transfers	1,197,592	1,127,825	69,767
Gross earnings taxes	(1,093,292)	(1,127,249)	33,957
Change in net position	104,300	576	103,724
Net position - beginning	20,070,353	23,434,722	(3,364,369)
Net position - ending	\$ 20,174,653	\$ 23,435,298	\$ (3,260,645)

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues decreased \$66,000 the first three 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:

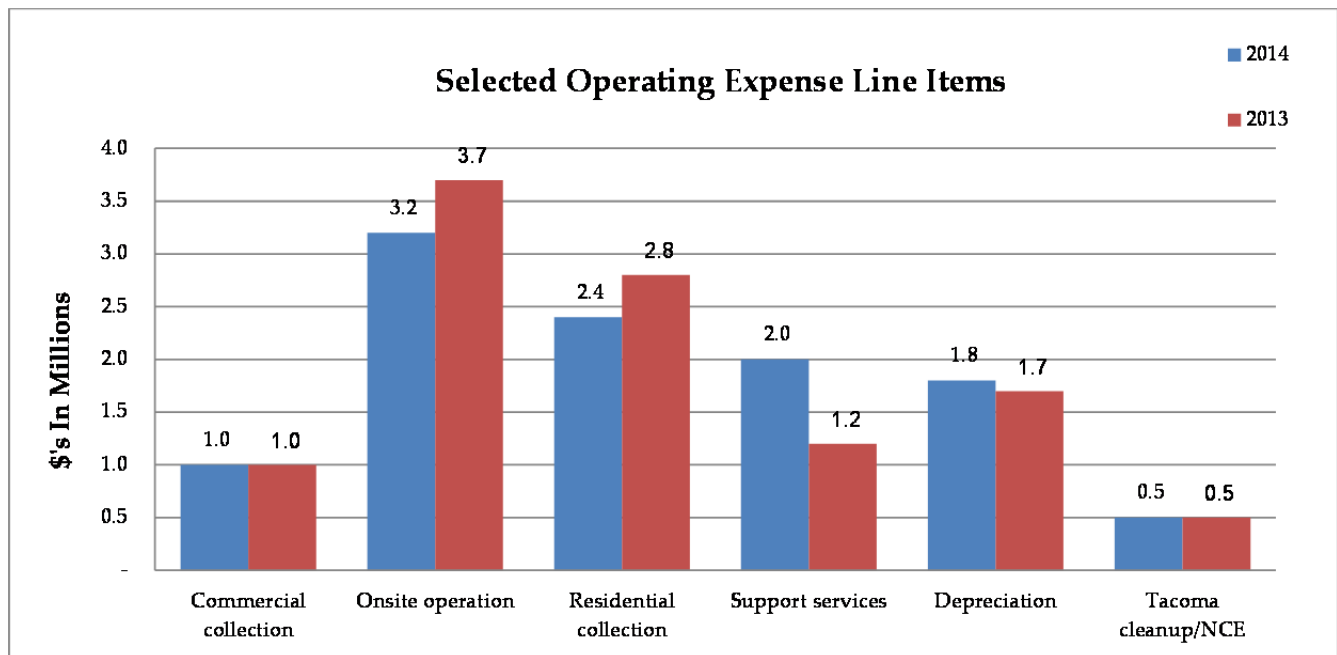
- Residential collection revenue decreased \$369,000 as customers continue to downsize their can size and recycle more.
- Commercial collection revenue increased \$133,000 compared to the first three months in 2013.
- Disposal revenues increased \$118,000 (10%).

Operating expenses

Operating expenses are \$11.8 million year-to-date 2014 compared to \$11.9 million in 2013. The areas of significant changes between the years are:

- Onsite operation expenses decreased \$477,000 (13%) which includes public receiving, the facility maintenance, and off-site transfer. Costs decreased due to an accrual for external contract services to transfer solid waste to the Pierce County Landfill charged to support services expenses.
- Residential collection expenses, including residential waste, comingle recycle, yard waste and call-to-haul decreased \$441,000 (16%) primarily due to completing Every Other Week (EOW).
- Support services expenses increased \$848,000. Significant changes included a \$450,000 accrual for the external services LRI contract and 158,000 in labor costs.

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 \$44,000 (38%) 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 \$86.9 million, an increase of \$2.4 million compared to the balance at March 31, 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 \$4.4 million. This includes \$2.7 million for purchased vehicles and \$3.0 million for garbage containers and disposals of \$683,000 million for vehicles and \$719,000 for containers at year-end 2013.
- Accumulated depreciation increased \$5.7 million since March 31st, 2013.
- Construction in progress increased \$1.1 million due to an ongoing capital project that has not been completed.

Debt Administration

March 31, 2014, the Division had \$62.4 million in long-term debt of which \$3.1 million due in December 2014. This compares to long-term debt of \$65.2 million as of March 31, 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	March 31,		Increase
	2014	2013	(Decrease)
Current assets:			
Cash and equity in pooled investments:			
Operating funds	\$ 23,486,123	\$ 27,650,440	\$ (4,164,317)
Rate Stabilization Fund	6,000,000	4,650,000	1,350,000
Total cash and equity in pooled investments	29,486,123	32,300,440	(2,814,317)
GABS 31 market rate adjustment	1,078	285,431	(284,353)
Accounts receivable	6,745,293	6,557,670	187,623
Allowance for uncollectible accounts	(3,878,054)	(3,625,395)	(252,659)
Unbilled revenue	3,065,000	3,065,000	-
Grant receivable - operating	-	115,422	(115,422)
Total current assets	35,419,440	38,698,568	(3,279,128)
Restricted cash and equity in pooled investments:			
Bond reserve and debt service accounts	3,795,851	3,683,506	112,345
Customer deposits	69,863	69,385	478
Construction funds	-	3,500,176	(3,500,176)
Reserve for landfill closure	-	2,780,404	(2,780,404)
Total restricted cash and equity in pooled investments	3,865,714	10,033,471	(6,167,757)
Capital assets:			
Land	3,119,781	3,119,781	-
Buildings	63,874,457	63,894,137	(19,680)
Building - capital lease	7,568,000	7,568,000	-
Landfill infrastructure	64,826,573	62,460,597	2,365,976
Machinery and equipment	46,767,884	42,402,778	4,365,106
Computer software	4,586,208	4,389,113	197,095
Less accumulated depreciation	(105,376,815)	(99,697,080)	(5,679,735)
Assets in service, net of depreciation	85,366,088	84,137,326	1,228,762
Construction in progress	1,499,935	352,150	1,147,785
Total capital assets	86,866,023	84,489,476	2,376,547
Other noncurrent assets	687,056	687,056	-
Total assets	126,838,233	133,908,571	(7,070,338)
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bond refunding costs	274,174	474,709	(200,535)
Total deferred outflows of resources	274,174	474,709	(200,535)
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 127,112,407	\$ 134,383,280	\$ (7,270,873)

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
	2014	2013	(Decrease)
Current liabilities:			
Accounts payable	\$ 1,431,778	\$ 1,996,400	\$ (564,622)
Accrued wages payable and compensated absences	424,507	378,483	46,024
Accrued taxes payable	231,717	244,664	(12,947)
Accrued low income liabilities	-	(9,387)	9,387
Customer deposits	19,676	17,868	1,808
Current portion of landfill closure	278,665	2,926,000	(2,647,335)
Current portion of long-term debt	2,056,667	1,736,667	320,000
Current portion of capital lease obligation	112,997	108,837	4,160
Total current liabilities	<u>4,556,007</u>	<u>7,399,532</u>	<u>(2,843,525)</u>
Liabilities payable from restricted assets:			
Deposits payable	63,188	67,476	(4,288)
Bond interest payable	1,039,532	1,087,187	(47,655)
Current portion of long-term debt	1,028,333	868,333	160,000
Total liabilities payable from restricted assets	<u>2,131,053</u>	<u>2,022,996</u>	<u>108,057</u>
Noncurrent liabilities:			
Long-term debt - revenue bonds	59,352,875	62,773,274	(3,420,399)
Capital lease obligation	6,861,002	7,011,502	(150,500)
Accrued landfill post closure costs	25,509,832	24,957,968	551,864
Compensated absences	1,108,586	1,032,036	76,550
Net OPEB obligation	1,418,399	1,100,674	317,725
Total noncurrent liabilities	<u>94,250,694</u>	<u>96,875,454</u>	<u>(2,624,760)</u>
Total liabilities	<u>100,937,754</u>	<u>106,297,982</u>	<u>(5,360,228)</u>
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	6,000,000	4,650,000	1,350,000
Total deferred inflows of resources	<u>6,000,000</u>	<u>4,650,000</u>	<u>1,350,000</u>
NET POSITION			
Net investment in capital assets	28,087,589	20,656,580	7,431,009
Restricted for bond reserves	1,727,986	1,727,986	-
Unrestricted	(9,640,922)	1,050,732	(10,691,654)
Total net position	<u>20,174,653</u>	<u>23,435,298</u>	<u>(3,260,645)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 127,112,407</u>	<u>\$ 134,383,280</u>	<u>\$ (7,270,873)</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
	2014	2013	2014	2013	
OPERATING REVENUES					
Residential collection	\$ 2,034,222	\$ 2,111,844	\$ 6,111,821	\$ 6,480,436	-6%
Commercial collection	2,030,160	1,810,411	5,966,860	5,834,242	2%
Disposal revenues	465,816	411,760	1,247,022	1,129,170	10%
Salvage revenue	91,165	94,026	195,592	205,277	-5%
Other operating revenue	61,995	67,593	175,840	114,017	54%
Total operating revenues	<u>4,683,358</u>	<u>4,495,634</u>	<u>13,697,135</u>	<u>13,763,142</u>	(0%)
OPERATING EXPENSES					
Commercial collection	338,516	329,057	1,024,984	979,255	5%
Onsite operations	1,288,088	1,648,782	3,175,372	3,652,318	(13%)
Residential collection	806,660	1,021,036	2,356,183	2,797,368	(16%)
Support services	(250,039)	414,463	2,032,181	1,183,719	72%
Tacoma cares cleanup	33,543	35,010	127,686	112,787	13%
Nuisance code enforcement	133,436	139,894	383,684	435,785	(12%)
Other operating expenses:					
Insurance	28,896	28,896	87,058	87,045	0%
Depreciation	592,803	561,941	1,790,892	1,693,509	6%
Taxes	67,403	78,479	200,049	245,532	(19%)
IT services	89,549	89,863	239,077	264,755	(10%)
Customer services	131,015	151,438	376,678	427,765	(12%)
Subtotal other operating expenses	<u>909,666</u>	<u>910,617</u>	<u>2,693,754</u>	<u>2,718,606</u>	(1%)
Total operating expenses	<u>3,259,870</u>	<u>4,498,859</u>	<u>11,793,844</u>	<u>11,879,838</u>	(1%)
Net operating income	<u>1,423,488</u>	<u>(3,225)</u>	<u>1,903,291</u>	<u>1,883,304</u>	1%
NONOPERATING REVENUES (EXPENSES)					
Investment income	24,897	38,554	71,723	115,408	(38%)
Rental income	11,189	14,587	33,566	33,503	0%
Proceed sale assets	-	-	-	8,000	N/A
Interest paid net of capitalized interest	(247,423)	(271,796)	(767,526)	(815,302)	(6%)
Interest on capital lease	(30,997)	(31,420)	(92,991)	(94,374)	(1%)
Amort. of premium and refunding costs	19,689	7,014	59,066	21,042	181%
Other expense	333	(7,741)	(9,537)	(23,756)	(60%)
Total nonoperating expenses	<u>(222,312)</u>	<u>(250,802)</u>	<u>(705,699)</u>	<u>(755,479)</u>	(7%)
CHANGE IN NET POSITION					
Net income before transfers	1,201,176	(254,027)	1,197,592	1,127,825	6%
Transfers - gross earnings taxes	(372,293)	(362,780)	(1,093,292)	(1,127,249)	(3%)
CHANGE IN NET POSITION	<u>\$ 828,883</u>	<u>\$ (616,807)</u>	<u>104,300</u>	<u>576</u>	
NET POSITION - BEGINNING			<u>20,070,353</u>	<u>23,434,722</u>	
NET POSITION - ENDING			<u>\$ 20,174,653</u>	<u>\$ 23,435,298</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 2014	March 31, 2013	Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 13,905,351	\$ 13,758,030	\$ 147,321
Payments to suppliers	(5,971,139)	(5,695,667)	(275,472)
Payments to employees	(4,856,872)	(4,954,968)	98,096
Taxes paid	(191,800)	(238,463)	46,663
Net cash from operating activities	<u>2,885,540</u>	<u>2,868,932</u>	16,608
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(1,482,132)	(1,503,397)	21,265
Debt service related to environmental cleanup	-	(84,760)	84,760
Net cash from noncapital financing activities	<u>(1,482,132)</u>	<u>(1,588,157)</u>	106,025
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(523,160)	(1,917,309)	1,394,149
Capital lease obligation	(130,494)	(130,036)	(458)
Interest expense, net of capitalized interest	12,069	(60)	12,129
Proceeds from sale of capital assets	-	8,000	(8,000)
Net cash from capital and related financing activities	<u>(641,585)</u>	<u>(2,039,405)</u>	1,397,820
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	70,645	(170,023)	240,668
Rental income	33,566	33,503	63
Other investing proceeds	768	767	1
Net cash from investing activities	<u>104,979</u>	<u>(135,753)</u>	240,731
Net change in cash and equity in pooled investments	<u>866,802</u>	<u>(894,383)</u>	1,761,184
Cash and equity in pooled investments beginning	<u>32,485,035</u>	<u>43,228,294</u>	(10,743,259)
Cash and equity in pooled investments ending	<u>\$ 33,351,837</u>	<u>\$ 42,333,911</u>	<u>\$ (8,982,074)</u>

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

	Year-to-Date 2014	March 31, 2013	Increase (Decrease)
Reconciliation of cash and equity in pooled investments to balance sheets:			
Operating funds	\$ 29,486,123	\$ 32,300,440	\$ (2,814,317)
Restricted funds	3,865,714	10,033,471	(6,167,757)
	<u>\$ 33,351,837</u>	<u>\$ 42,333,911</u>	<u>\$ (8,982,074)</u>
Reconciliation of operating income to net cash from operating activities:			
Operating income	<u>\$ 1,903,291</u>	<u>\$ 1,883,304</u>	<u>\$ 19,987</u>
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation expense	1,790,892	1,693,509	97,383
Low income assistance	(10,250)	(24,375)	14,125
Change in assets, liabilities, and deferred inflows of resources:			
Accounts receivable, net of allowance	415,985	233,522	182,463
Due from other funds	107,344	25,550	81,794
Due from other governmental units	-	112,362	(112,362)
Accounts payable	(222,872)	152,685	(375,557)
Accrued wages and compensated absences	(334,905)	(279,480)	(55,425)
Current environmental liabilities	97,265	(51,646)	148,911
Accrued taxes payable	8,249	7,070	1,179
Deposits payable and customer deposits	(6,925)	23,424	(30,349)
Due other funds	(722,226)	(685,152)	(37,074)
Unearned revenue	(140,308)	(212,453)	72,145
Other	-	(9,388)	9,388
Total adjustments	<u>982,249</u>	<u>985,628</u>	<u>(3,379)</u>
Net cash from operating activities	<u>\$ 2,885,540</u>	<u>\$ 2,868,932</u>	<u>\$ 16,608</u>

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The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.