
March 2020

SOLID WASTE MANAGEMENT

INTERIM FINANCIAL REPORT



Prepared by the City of Tacoma - Finance Department

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Table of Contents

Note: 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.

Management's Discussion and Analysis	3
Interim Financial Statements	9
Statement of Net Position (Unaudited)	10
Statement of Revenues, Expenses, and change in Net Position (Unaudited)	12
Statement of Cash Flows (Unaudited)	14

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Management's Discussion and Analysis

Management's Discussion and Analysis

For the quarters ended March 31, 2020 and 2019

Overview of the Interim Financial Statements

- The change in net position is \$2.3 million in the first three months of 2020, compared to \$2.6 million for the same period in 2019.
- The first three months operating revenues are \$18.0 million in 2020 and \$17.1 million in 2019.
- Total net position is \$56.4 million as of March 31, 2020, compared to \$48.7 million a year ago.
- Cash and equity in pooled investments unrestricted is \$51.9 million and \$44.6 million as of March 31, 2020 and 2019, respectively.

Financial Analysis – Condensed Statements of Net Position

Net position may serve over time as a useful indicator of an entity's financial position. The following condensed statement of net position provides a comparison of net position for the quarters ending March 31, 2020 and 2019.

	March 31,		Increase (Decrease)
	2020	2019	
Current, restricted, and other assets	\$ 65,325,448	\$ 63,192,015	\$ 2,133,433
Net capital assets	81,320,191	79,467,480	1,852,711
Total assets	146,645,639	142,659,495	3,986,144
Deferred outflows of resources	7,965,875	3,066,617	\$ 4,899,258
Total assets and deferred outflows of resources	<u>\$ 154,611,514</u>	<u>\$ 145,726,112</u>	<u>\$ 8,885,402</u>
Long-term liabilities	\$ 81,940,882	\$ 78,916,968	\$ 3,023,914
Other liabilities	7,887,666	6,887,600	1,000,066
Total liabilities	89,828,548	85,804,568	4,023,980
Deferred inflows of resources	8,406,612	11,212,949	(2,806,337)
Total liabilities and deferred inflows of resources	98,235,160	97,017,517	1,217,643
Net position:			
Net investment in capital assets	32,034,637	27,967,309	4,067,328
Restricted	2,459,845	7,076,049	(4,616,204)
Unrestricted	21,881,872	13,665,237	8,216,635
Total net position	56,376,354	48,708,595	7,667,759
Total liabilities, deferred inflows of resources, and net position	<u>\$ 154,611,514</u>	<u>\$ 145,726,112</u>	<u>\$ 8,885,402</u>

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$56.4 million as of March 31, 2020, compared to \$48.7 million in 2019. The Division's net position increased by \$7.7 million in the first quarter of 2020 compared to an increase of \$8.7 million in the same quarter of 2019.

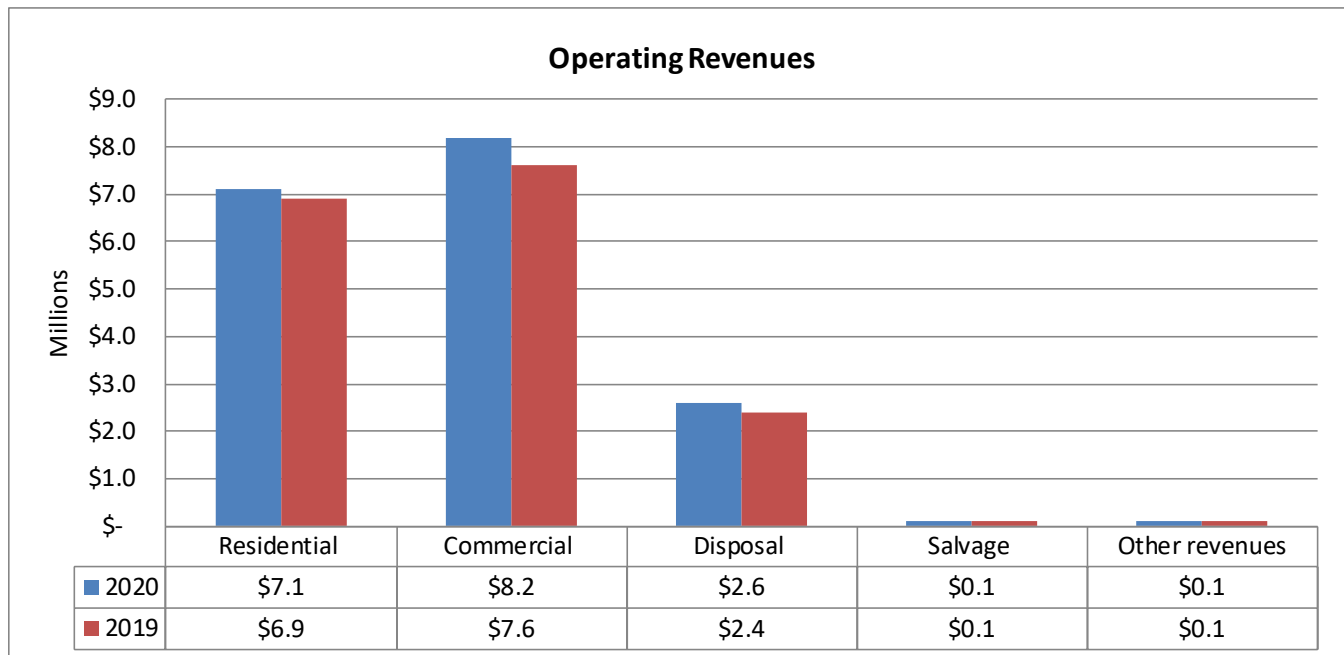
The largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, Infrastructure, machinery, and equipment). The net investment in capital assets component of net position was \$32.0 million at March 31, 2020 compared to \$28.0 million in 2019. The Division uses these capital assets to provide services to citizens of the City of Tacoma; consequently, these assets are not available for future spending.

The Division's net investment in capital assets is reported net of the outstanding related debt. The resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division's net position is \$2.5 million for 2020, compared to \$7.1 million in 2019, which represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$21.9 million for 2020, \$13.7 million for 2019 is unrestricted.

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

	2020	2019	Increase (Decrease)
Operating revenues	\$ 17,965,950	\$ 17,089,827	\$ 876,123
Operating expenses	14,126,569	12,976,997	1,149,572
Net operating income	3,839,381	4,112,830	(273,449)
Nonoperating revenues (expenses)	(134,976)	(151,152)	16,176
Net income before transfers	3,704,405	3,961,678	(257,273)
Transfers	(1,450,732)	(1,402,742)	(47,990)
Increase in net position	2,253,673	2,558,936	(305,263)
Net position - beginning of year	54,122,681	46,149,659	7,973,022
Net position - ending	<u>\$ 56,376,354</u>	<u>\$ 48,708,595</u>	<u>\$ 7,667,759</u>

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues increased \$876,000 in the first three months of 2020, compared to an increase of \$236,000 in the same period last year. The Division had a 3% rate increase and a special recycle surcharge to residential customers beginning effective January 1, 2020 that resulted in the revenue increase. The most significant changes are:

- Residential collection revenue increased by \$157,000 mostly due to increases in rate and special surcharge compared to the first three months in 2019.
- Commercial collection revenue increased \$562,000 related to trending economic growth.
- Disposal revenues increased \$159,000 due to increases in customer self-haul.

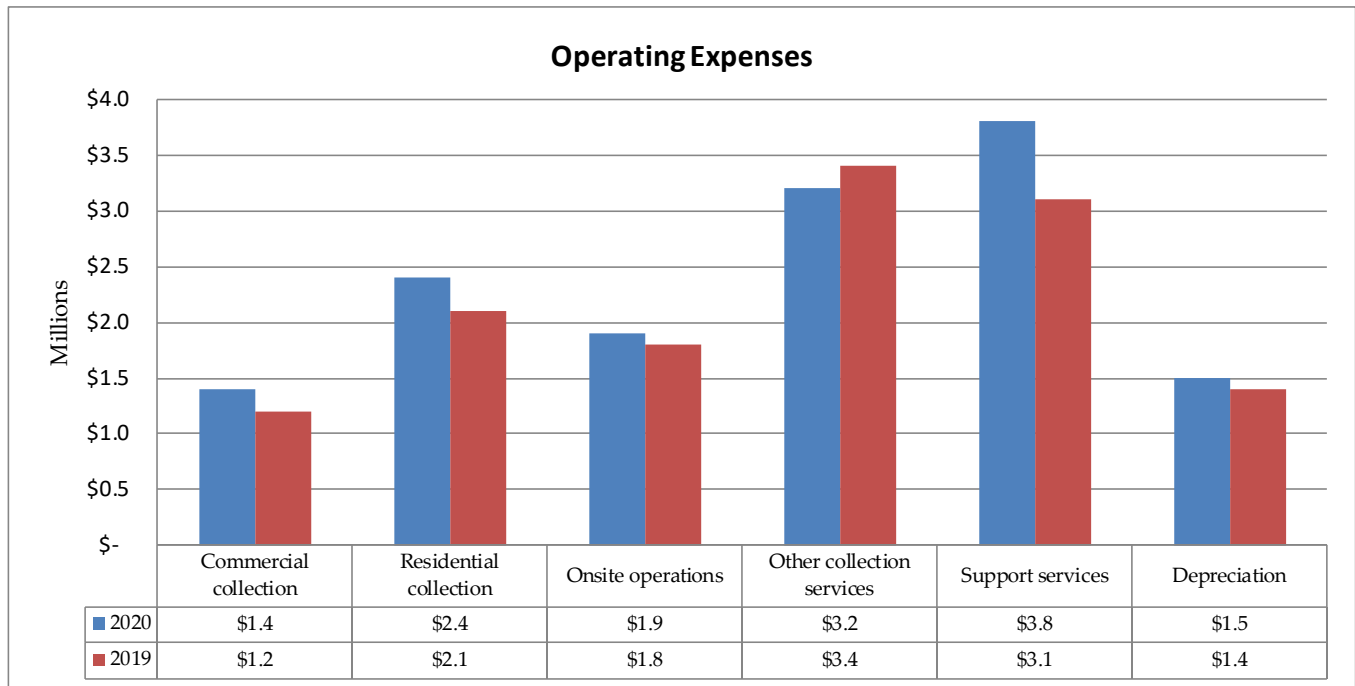
Operating expenses

Operating expenses are \$14.1 million in the three months of 2020, an increase of \$1.1 million compared to the same period of 2019. The areas of significant changes are:

- Commercial collection expense increased \$231,000 due primarily to increases of \$121,000 in employee salaries and benefits, and \$146,000 in commercial recycling cost, fleet maintenance, and services for commercial collection vehicles. These increases were offset with a \$47,000 decrease in printing and graphic service expense.
- Onsite operations expense increased \$129,000 due to \$85,000 increase in repair and maintenance, and external contract services. The remaining increase is in other expenses such as supplies and labor.
- Residential collection expense increased \$275,000 due mainly to increases of \$182,000 in salaries and benefits, and \$79,000 in residential recycling cost, fleet maintenance, and services for residential collection vehicles.
- Other collection services expense decreased \$258,000, which includes Tacoma Cares, Nuisance Code Enforcement Abatement, and Off-site Transport. The decrease is mainly due to external contract services related to hauling garbage and yard waste to Pierce County landfill.

- Support services expense increased \$697,000 due to increases of \$90,000 in assessments, and \$384,000 in external contract and professional services related to curbside recycling costs. The remaining increases related to other services such as labor, software license, training, advertising, credit fees, taxes, and public liability insurance.

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



Non-operating revenues (expenses)

- Investment income earned \$276,000 for the first three months of the year 2020 compared to \$272,000 for the same period in 2019. The increase is due to the increased balance in the cash and equity in pooled investment account.
- Interest expenses and other related costs was \$614,000 in the first three months of 2020 compared to \$641,000 the same period for 2019.
- Gross earning tax expense was \$1.5 million, an increase of \$48,000 compared to the same period last year.

Capital assets, net

As of March 31, 2020, the total capital asset balance, net of accumulated depreciation was \$81.3 million, an increase of \$1.9 million compared to the balance at March 31, 2019. Significant changes from year to year include:

- Landfill infrastructure: improvements other than buildings increased \$2.6 million primarily due to completion of Drainage and Traffic Safety Improvement and Asphalt Pad and Tent Container projects.
- Machinery and equipment, net increased \$2.1 million. This is primarily due to the disposal of \$1.4 million of assets from April 1, 2019 to March 31, 2020, and the purchase of \$3.4 million in collection vehicles and containers throughout the year.
- Accumulated depreciation increased \$4.3 million since April 1, 2019.

Debt Administration

As of March 31, 2020, the Division had \$59.6 million, net of premium, in outstanding revenue bonds of which \$2.3 million is due on December 1, 2020. This compares to \$62.5 million as of March 31, 2019. The bonds have underlying ratings of A1 by Moody's Investors Service, AA by Standard & Poor's, and AA- by Fitch, Inc.

Debt Service Coverage

Solid Waste Management is required by its bond covenants to maintain a debt service coverage ratio of 1.25. The debt service coverage ratio is 4.7 at the end of March 31, 2020. This compares to 4.9 in the same period of 2019.

Request for Information

Solid Waste Management financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

Interim Financial Statements

City of Tacoma
Environmental Services Department
Solid Waste Management
Statement of Net Position (Unaudited)
March 31, 2020 and March 31, 2019

	March 31,		Increase
ASSETS	2020	2019	(Decrease)
Current assets:			
Cash and equity in pooled investments	\$ 51,858,395	\$ 44,559,887	\$ 7,298,508
GASB 31 market rate adjustment	339,831	-	339,831
Accounts receivable, net	2,867,558	2,917,704	(50,146)
Accrued unbilled revenue	3,555,989	3,592,069	(36,080)
Restricted cash and equity in pooled investments:			
Debt service funds	1,924,060	3,579,382	(1,655,322)
Customer deposits	47,771	48,616	(845)
Construction funds	2,622,344	4,144,641	(1,522,297)
Total restricted cash and equity in pooled investments	4,594,175	7,772,639	(3,178,464)
Total current assets	63,215,948	58,842,299	4,373,649
Noncurrent assets:			
Restricted cash and equity in pooled investments:			
Bond reserves	2,109,500	2,109,500	-
Capital assets:			
Land	2,855,763	2,855,763	-
Buildings	61,767,413	61,767,413	-
Landfill infrastructure	70,668,403	68,074,220	2,594,183
Machinery and equipment	54,194,670	52,065,209	2,129,461
Computer software	5,137,760	5,121,397	16,363
Less: accumulated depreciation	(116,284,873)	(111,989,851)	(4,295,022)
Construction in progress	2,981,055	1,573,329	1,407,726
Total capital assets, net	81,320,191	79,467,480	1,852,711
Other noncurrent assets:			
Net pension asset	-	2,240,216	(2,240,216)
Total noncurrent assets	83,429,691	83,817,196	(387,505)
Total assets	146,645,639	142,659,495	3,986,144
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - other post employment benefits	206,337	193,712	12,625
Deferred outflows - pensions	7,759,538	2,872,905	4,886,633
Total deferred outflows of resources	7,965,875	3,066,617	4,899,258
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 154,611,514</u>	<u>\$ 145,726,112</u>	<u>\$ 8,885,402</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
Statement of Net Position (Unaudited)
March 31, 2020 and March 31, 2019

LIABILITIES	March 31,	March 31,	Increase
	2020	2019	(Decrease)
Current liabilities:			
Accounts payable	\$ 2,616,574	\$ 1,434,123	\$ 1,182,451
Accrued wages payable and compensated absences	876,793	748,430	128,363
Accrued taxes payable	337,617	371,724	(34,107)
GASB 31 market rate adjustment	-	268,582	(268,582)
Customer deposits	62,380	57,485	4,895
Accrued landfill postclosure care costs	858,999	946,999	(88,000)
Current portion of long-term debt	1,513,333	1,440,000	73,333
Total current liabilities	6,265,696	5,267,343	998,353
Current payable from restricted assets:			
Deposits payable	48,255	47,208	1,047
Accrued revenue bond interest payable	817,048	853,049	(36,001)
Current portion of long-term debt	756,667	720,000	36,667
Total liabilities payable from restricted assets	1,621,970	1,620,257	1,713
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	57,320,233	60,321,461	(3,001,228)
Long-term accrued landfill postclosure care costs	14,006,977	14,777,976	(770,999)
Long-term accrued compensated absences	1,215,225	1,206,341	8,884
Net pension liability	6,556,061	-	6,556,061
Pension withdrawal liability	437,420	-	437,420
Net OPEB liability	2,404,966	2,611,190	(206,224)
Total noncurrent liabilities	81,940,882	78,916,968	3,023,914
Total liabilities	89,828,548	85,804,568	4,023,980
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	7,000,000	7,000,000	-
Deferred inflows - OPEB	278,819	44,229	234,590
Deferred inflows - pensions	861,461	3,813,369	(2,951,908)
Deferred inflows - gain on refunding bonds	266,332	355,351	(89,019)
Total deferred inflows of resources	8,406,612	11,212,949	(2,806,337)
NET POSITION			
Net investment in capital assets	32,034,637	27,967,309	4,067,328
Restricted for:			-
Debt service	2,459,845	4,835,833	(2,375,988)
Net pension asset	-	2,240,216	(2,240,216)
Unrestricted	21,881,872	13,665,237	8,216,635
Total net position	56,376,354	48,708,595	7,667,759
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 154,611,514</u>	<u>\$145,726,112</u>	<u>\$ 8,885,402</u>

City of Tacoma
Environmental Services Department
Solid Waste Management
Statement of Revenues, Expenses, and change in Net Position (Unaudited)
March 31, 2020 and March 31, 2019

	Month of March		Year-to-Date March		% Chg
	2020	2019	2020	2019	
OPERATING REVENUES					
Residential collection	\$2,092,493	\$2,258,555	\$ 7,088,432	\$ 6,931,628	2%
Commercial collection	2,352,866	2,243,638	8,159,532	7,597,295	7%
Disposal revenues	843,494	838,284	2,565,836	2,407,278	7%
Salvage revenues	23,309	18,526	70,713	90,390	-22%
Other operating revenues	42,482	17,466	81,437	63,236	29%
Total operating revenues	5,354,644	5,376,469	17,965,950	17,089,827	5%
OPERATING EXPENSES					
Commercial collection	470,646	455,588	1,425,650	1,194,736	19%
Onsite operations	632,213	613,101	1,905,649	1,776,895	7%
Residential collection	790,257	661,641	2,379,174	2,104,654	13%
Other collection services	1,065,238	1,357,866	3,159,362	3,417,292	-8%
Support services	1,249,679	1,003,280	3,792,784	3,095,970	23%
Depreciation	488,704	462,538	1,463,950	1,387,450	6%
Total operating expenses	4,696,737	4,554,014	14,126,569	12,976,997	9%
Net operating income	657,907	822,455	3,839,381	4,112,830	-7%
NONOPERATING REVENUES (EXPENSES)					
Investment income	87,217	100,452	275,770	272,413	1%
Rental income	383	8,086	2,021	8,086	-75%
Interest expenses and other related costs	(204,262)	(213,262)	(613,686)	(640,686)	4%
Amortization of premium and refunding gain	65,890	69,631	197,671	208,892	-5%
Other revenues/expenses	(50)	(623)	3,248	143	2171%
Total nonoperating revenue (expenses)	(50,822)	(35,716)	(134,976)	(151,152)	11%
Net income before transfers	607,085	786,739	3,704,405	3,961,678	-6%
Transfers - gross earnings taxes	(428,337)	(443,072)	(1,450,732)	(1,402,742)	-3%
CHANGE IN NET POSITION	178,748	343,667	2,253,673	2,558,936	-12%
NET POSITION - JANUARY 1			54,122,681	46,149,659	
NET POSITION - MARCH 31			<u>\$56,376,354</u>	<u>\$48,708,595</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
Environmental Services Department
Solid Waste Management
Statement of Cash Flows (Unaudited)
March 31, 2020 and March 31, 2019

	Year Ended March 31, 2020	2019	Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 17,802,730	\$ 16,908,822	\$ 893,908
Payments to suppliers	(5,657,367)	(6,477,185)	819,818
Payments to employees	(5,445,423)	(5,024,687)	(420,736)
Payment for taxes	(310,173)	(171,592)	(138,581)
Net cash from operating activities	6,389,767	5,235,358	1,154,409
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(1,450,732)	(1,852,411)	401,679
Transfer to other funds	-	(1,000)	1,000
Net cash from noncapital financing activities	(1,450,732)	(1,853,411)	402,679
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,713,510)	(1,089,036)	(624,474)
Interest expense	(1,002)	(904)	(98)
Insurance recoveries	2,201	-	2,201
Net cash from capital and related financing activities	(1,712,311)	(1,089,940)	(622,371)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	(64,061)	540,995	(605,056)
Other nonoperating revenue	3,170	9,236	(6,066)
Net cash from investing activities	(60,891)	550,231	(611,122)
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	3,165,833	2,842,238	323,595
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	55,396,237	51,599,788	3,796,449
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 58,562,070</u>	<u>\$ 54,442,026</u>	<u>\$ 4,120,044</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
Statement of Cash Flows (Unaudited)
March 31, 2020 and March 31, 2019

	Year Ended March 31, 2020	2019	Increase (Decrease)
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
TO BALANCE SHEETS:			
Operating funds	\$ 51,858,395	\$ 44,559,887	\$ 7,298,508
Restricted funds	6,703,675	9,882,139	(3,178,464)
	<u>\$ 58,562,070</u>	<u>\$ 54,442,026</u>	<u>\$ 4,120,044</u>
RECONCILIATION OF NET OPERATING INCOME TO			
NET CASH FROM OPERATING ACTIVITIES:			
Net operating income	<u>\$ 3,839,381</u>	<u>\$ 4,112,830</u>	<u>\$ (273,449)</u>
Adjustments to reconcile net operating income to net cash from operating activities:			
Depreciation expense	1,463,950	1,387,450	76,500
Cash from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	292,986	210,397	82,589
Due from other funds	-	70,619	(70,619)
Accounts payable	801,261	(179,452)	980,713
Accrued wages and compensated absences payable	306,755	250,725	56,030
Accrued taxes payable	(44,270)	84,259	(128,529)
Due to other funds	-	(465,929)	465,929
Unearned revenue	(261,026)	(246,052)	(14,974)
Customer deposits payable	(9,270)	10,511	(19,781)
Total adjustments	<u>2,550,386</u>	<u>1,122,528</u>	<u>1,427,858</u>
NET CASH FROM OPERATING			
ACTIVITIES	<u>\$ 6,389,767</u>	<u>\$ 5,235,358</u>	<u>\$ 1,154,409</u>



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.