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*June  
2019*

***SOLID WASTE MANAGEMENT  
INTERIM FINANCIAL REPORT***



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*Prepared by the City of Tacoma - Finance Department*



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*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.*

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# Management's Discussion and Analysis

## Management's Discussion and Analysis

### For the quarters ended June 30, 2019 and 2018

#### Overview of the Interim Financial Statements

- The change in net position is \$4.1 million in the first six months of 2019, compared to \$3.6 million for the same period in 2018.
- The first six months operating revenues are \$35.8 million in 2019 and \$34.0 million in 2018.
- Total net position is \$50.2 million as of June 30, 2019, compared to \$40.6 million a year ago.
- Cash and equity in pooled investments unrestricted is \$46.1 million and \$38.0 million as of June 30, 2019 and 2018, 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 June 30, 2019 and 2018.

	June 30,		Increase (Decrease)
	2019	2018	
Current, restricted, and other assets	\$ 64,647,020	\$ 55,191,099	\$ 9,455,921
Net capital assets	79,583,284	80,930,631	(1,347,347)
Total assets	144,230,304	136,121,730	8,108,574
Deferred outflows of resources	3,066,617	5,406,673	\$ (2,340,056)
Total assets and deferred outflows of resources	<u>\$ 147,296,921</u>	<u>\$ 141,528,403</u>	<u>\$ 5,768,518</u>
Long-term liabilities	\$ 78,730,331	\$ 87,041,366	\$ (8,311,035)
Other liabilities	7,136,701	5,349,018	1,787,683
Total liabilities	85,867,032	92,390,384	(6,523,352)
Deferred inflows of resources	11,190,694	8,534,337	2,656,357
Total liabilities and deferred inflows of resources	<u>97,057,726</u>	<u>100,924,721</u>	<u>(3,866,995)</u>
Net position:			
Net investment in capital assets	29,754,309	27,892,186	1,862,123
Restricted	7,880,562	4,723,150	3,157,412
Unrestricted	12,604,324	7,988,346	4,615,978
Total net position	<u>50,239,195</u>	<u>40,603,682</u>	<u>9,635,513</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 147,296,921</u>	<u>\$ 141,528,403</u>	<u>\$ 5,768,518</u>

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$50.2 million as of June 30, 2019, compared to \$40.6 million in 2018. The Division's net position increased by \$9.6 million in 2019 compared to an increase of \$9.1 million in 2018.

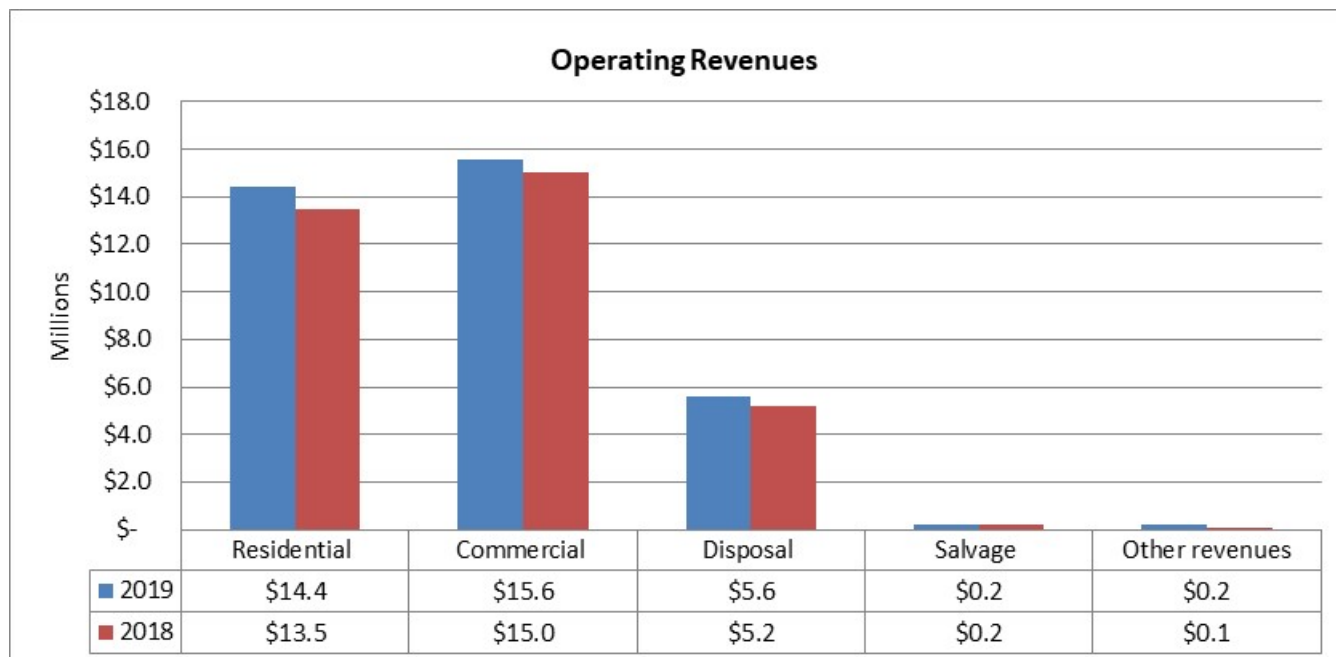
However, the largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, Infrastructure, machinery, and equipment). The net investment in capital assets component of net position was \$29.8 million in June 30, 2019 compared to \$27.9 million in 2018. 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 \$7.9 million for 2019, compared to \$4.7 million in 2018, which represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$12.6 million for 2019, \$8.0 million for 2018 is unrestricted.

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

	June Year-to-Date		Increase (Decrease)
	2019	2018	
Operating revenues	\$ 35,831,902	\$ 34,033,604	\$ 1,798,298
Operating expenses	28,570,815	27,620,475	950,340
Net operating income	7,261,087	6,413,129	847,958
Nonoperating revenues (expenses)	(272,692)	(99,705)	(172,987)
Net income before transfers	6,988,395	6,313,424	674,971
Transfers	(2,898,859)	(2,753,648)	(145,211)
Increase (decrease) in net position	4,089,536	3,559,776	529,760
Net position - beginning of year	46,149,659	37,043,906	9,105,753
Net position - ending	<u>\$ 50,239,195</u>	<u>\$ 40,603,682</u>	<u>\$ 9,635,513</u>

The following graph provides a comparison of operating revenues:



#### Operating revenues

Overall operating revenues increased \$1.8 million the first six months of 2019, compared to an increase of \$438,000 in the same period last year. The Division had a 3.9% rate increase beginning effective January 1, 2019 that partially resulted in the revenue increase. The most significant changes are:

- Residential collection revenue increased by \$904,000 mostly due to increased customer consumer accounts compared to the first six months in 2018.
- Commercial collection revenue increased \$571,000 related to economic growth.
- Disposal revenues increased \$322,000 due to increases in customer self-haul.

#### Operating expenses

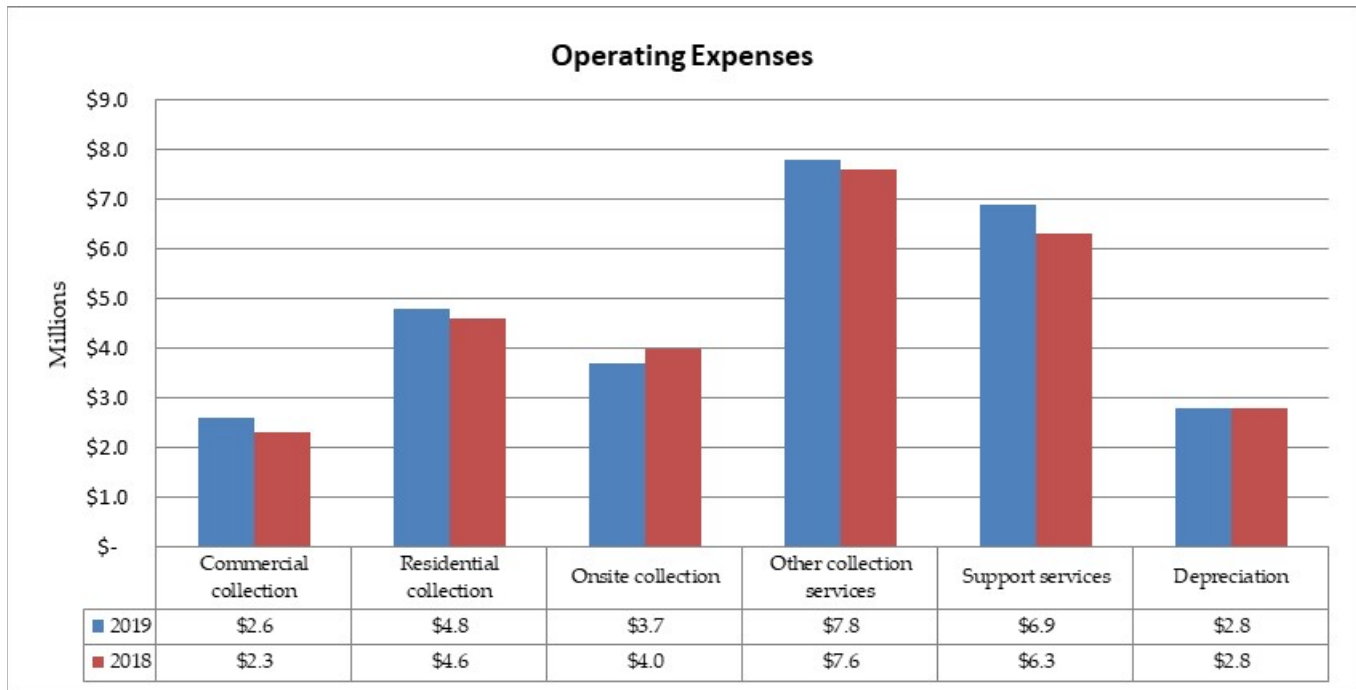
Operating expenses are \$28.6 million in the first six months of 2019, an increase of \$950,000 compared to the same period of 2018. The areas of significant changes are:

- Commercial collection expense increased \$250,000 due primarily to a \$211,000 increase in commercial recycle cost, fleet maintenance and services for commercial collection vehicles. In addition, a \$65,000 increase in employee salaries and benefits.
- Onsite operation expense decreased \$286,000 due to a \$104,000 decrease in fleet services, \$45,000 in repair and maintenance, and \$41,000 in external contract services. Also a \$84,000 decrease in salaries and benefits and the remaining in other expenses such as supplies.
- Residential collection expense increased \$233,000 due mainly to an increase of \$75,000 in salaries and benefits, \$174,000 in residential commingle recycling costs and fleet maintenance and services for residential collection vehicles.
- Other collection services expenses increased \$173,000, which includes; Tacoma Cares, NCE Abatement, and Off-site Transport. The increase is mainly due to external contract services and City Fleet service costs that are related to the maintenance of Solid Waste vehicles.



- Support services expenses increased \$645,000 due to an increase of \$197,000 in external contract and professional services related to landfill cap repair and nuisance code enforcement. Also a \$190,000 increase in the assessments, \$135,000 increase in bad debt allowance, 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)

Significant changes include:

- Investment income earned \$567,000 for the first six months of the year 2019 compared to \$341,000 for the same period in 2018. The increase is due to the increased balance in the cash and equity in pooled investment account.
- Interest paid on long-term debt was \$1.3 million in the first six months of 2019 and the same amount for 2018.
- Gross earning tax expense was \$2.9 million, an increase of \$144,000 compared to the same period last year due to increased revenues.

#### Capital assets, net

The total capital asset balance is \$79.6 million, a decrease of \$1.3 million compared to the balance at June 30, 2018. Significant changes from year to year include:

- Landfill infrastructure: improvements other than buildings increased \$533,000 primarily due to the completion of the Main Receiving Building Tip Floor Resurfacing project.
- Machinery and equipment, net increased \$497,000. This is primarily due to the disposal of \$1.5 million of assets from July 1, 2018 to June 30, 2019, and the purchase of \$2.0 million in collection vehicles and containers throughout the year
- Accumulated depreciation increased \$3.9 million since July 1, 2018.

**Debt Administration**

As of June 30, 2019, the Division had \$62.3 million in long-term debt of which \$2.2 million is due on December 1, 2019. This compares to long-term debt of \$65.1 million as of June 30, 2018. The bonds have underlying ratings of A2 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 4.5 at the end of June 30, 2019. This compares to 2.94 in 2018.

**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)**  
**June 30, 2019 and June 30, 2018**

	June		Increase
ASSETS	2019	2018	(Decrease)
Current assets:			
Cash and equity in pooled investments	\$ 46,143,526	\$ 37,973,016	\$ 8,170,510
Accounts receivable, net	3,323,396	3,561,864	(238,468)
Accrued unbilled revenue	3,592,069	3,329,619	262,450
Restricted cash and equity in pooled investments:			
Debt service funds	3,024,106	1,423,513	1,600,593
Customer deposits	47,262	71,064	(23,802)
Construction funds	4,166,945	4,108,874	58,071
Total restricted cash and equity in pooled investments	7,238,313	5,603,451	1,634,862
Total current assets	60,297,304	50,467,950	9,829,354
Noncurrent assets:			
Restricted cash and equity in pooled investments:			
Bond reserves	2,109,500	4,723,150	(2,613,650)
Capital assets:			
Land	2,855,763	2,855,763	-
Buildings	61,767,413	61,774,244	(6,831)
Landfill infrastructure	68,074,220	67,541,082	533,138
Machinery and equipment	53,011,891	52,515,215	496,676
Computer software	5,125,884	5,090,833	35,051
Less: accumulated depreciation	(113,372,132)	(109,456,688)	(3,915,444)
Construction in progress	2,120,245	610,181	1,510,064
Total capital assets, net	79,583,284	80,930,630	(1,347,346)
Other noncurrent assets:			
Net pension asset	2,240,216	-	2,240,216
Total other noncurrent assets	2,240,216	-	2,240,216
Total noncurrent assets	83,933,000	85,653,780	(1,720,780)
Total assets	144,230,304	136,121,730	8,108,574
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow - other post employment benefits	193,712	-	193,712
Deferred outflows - pensions	2,872,905	5,406,673	(2,533,768)
Total deferred outflows of resources	3,066,617	5,406,673	(2,340,056)
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 147,296,921</b>	<b>\$ 141,528,403</b>	<b>\$ 5,768,518</b>

*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)**  
**June 30, 2019 and June 30, 2018**

	June		Increase
<b>LIABILITIES</b>	<b>2019</b>	<b>2018</b>	<b>(Decrease)</b>
Current liabilities:			
Accounts payable	\$ 2,646,811	\$ 1,067,006	\$ 1,579,805
Accrued wages payable and compensated absences	445,392	425,299	20,093
Accrued taxes payable	319,926	306,644	13,282
GASB 31 market rate adjustment	268,582	285,776	(17,194)
Customer deposits	47,434	36,218	11,216
Accrued landfill postclosure care costs	946,999	875,997	71,002
Current portion of long-term debt	900,000	858,333	41,667
Total current liabilities	5,575,144	3,855,273	1,719,871
Current payable from restricted assets:			
Deposits payable	88,297	70,232	18,065
Accrued revenue bond interest payable	213,260	221,846	(8,586)
Current portion of long-term debt	1,260,000	1,201,667	58,333
Total liabilities payable from restricted assets	1,561,557	1,493,745	67,812
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	60,134,824	63,058,869	(2,924,045)
Long-term accrued landfill postclosure care costs	14,777,976	15,478,017	(700,041)
Long-term accrued compensated absences	1,206,341	1,105,686	100,655
Net pension liability	-	5,161,926	(5,161,926)
Net OPEB liability	2,611,190	2,236,868	374,322
Total noncurrent liabilities	78,730,331	87,041,366	(8,311,035)
Total liabilities	85,867,032	92,390,384	(6,523,352)
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Rate stabilization	7,000,000	7,000,000	-
Deferred inflows - OPEB	44,229	-	44,229
Deferred inflows - pensions	3,813,369	1,112,221	2,701,148
Deferred inflows - gain on refunding bonds	333,096	422,116	(89,020)
Total deferred inflows of resources	11,190,694	8,534,337	2,656,357
<b>NET POSITION</b>			
Net investment in capital assets	29,754,309	27,892,186	1,862,123
Restricted for:			
Debt service	5,640,346	4,723,150	917,196
Net pension asset	2,240,216	-	2,240,216
Unrestricted	12,604,324	7,988,346	4,615,978
Total net position	50,239,195	40,603,682	9,635,513
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 147,296,921</b>	<b>\$ 141,528,403</b>	<b>\$ 5,768,518</b>

*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 Revenues, Expenses, and change in Net Position (Unaudited)**  
**June 30, 2019 and June 30, 2018**

	Month of June		Year-to-Date June		% Chg
	2019	2018	2019	2018	
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,425,639	\$ 1,993,117	\$ 14,354,677	\$ 13,450,707	7%
Commercial collection	2,630,003	2,501,655	15,571,111	14,999,879	4%
Disposal revenues	1,058,057	820,300	5,560,623	5,238,572	6%
Salvage revenues	15,449	32,814	169,845	196,747	-14%
Other operating revenues	13,966	20,276	175,646	147,699	19%
Total operating revenues	6,143,114	5,368,162	35,831,902	34,033,604	5%
<b>OPERATING EXPENSES</b>					
Commercial collection	473,658	410,118	2,585,552	2,335,089	11%
Onsite operations	655,584	685,260	3,716,251	4,002,209	(7%)
Residential collection	984,664	964,196	4,814,911	4,582,328	5%
Other collection services	1,481,423	1,381,790	7,752,367	7,578,901	2%
Support services	1,268,814	1,191,778	6,932,003	6,287,232	10%
Depreciation	460,720	471,320	2,769,731	2,834,716	(2%)
Total operating expenses	5,324,863	5,104,462	28,570,815	27,620,475	3%
Net operating income	818,251	263,700	7,261,087	6,413,129	13%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	99,484	65,384	566,640	341,044	66%
Rental income	-	4,043	20,924	36,478	(43%)
Interest expenses and other related costs	(213,262)	(219,132)	(1,280,472)	(1,325,390)	(3%)
Amortization of premium and refunding gain	69,631	73,199	417,783	439,191	(5%)
Other revenues	382	1,095	2,433	142,362	(98%)
Gain on sale/disposal of capital assets	-	-	-	266,610	(100%)
Total nonoperating revenue (expenses)	(43,765)	(75,411)	(272,692)	(99,705)	173%
Net income before transfers	774,486	188,289	6,988,395	6,313,424	11%
Transfers - to other funds	-	-	(1,000)	-	N/A
Transfers - gross earnings taxes	(496,324)	(478,399)	(2,897,859)	(2,753,648)	5%
<b>CHANGE IN NET POSITION</b>	<u>278,162</u>	<u>(290,110)</u>	4,089,536	3,559,776	15%
<b>NET POSITION - JANUARY 1</b>			46,149,659	37,043,906	
<b>NET POSITION - JUNE 30</b>			<u>\$ 50,239,195</u>	<u>\$ 40,603,682</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)**  
**June 30, 2019 and June 30, 2018**

	June 2019	2018	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 35,136,751	\$ 34,507,717	\$ 629,034
Payments to suppliers	(13,783,828)	(13,869,623)	85,795
Payments to employees	(10,606,850)	(10,420,314)	(186,536)
Payment for taxes	(496,978)	(474,685)	(22,293)
Other operating or non-operating revenues	23,224	37,495	(14,271)
Net cash from operating activities	10,272,319	9,780,590	491,729
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(3,347,527)	(3,185,606)	(161,921)
Interest paid on noncapital debt	(165,959)	-	(165,959)
Contributions and donations	(860)	280	(1,140)
Net cash from noncapital financing activities	(3,514,346)	(3,185,326)	(329,020)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(2,587,121)	(1,827,858)	(759,263)
Interest expenses and other related costs	(1,114,524)	(1,325,390)	210,866
Proceeds from sale of capital assets	-	279,875	(279,875)
Insurance recoveries	-	141,067	(141,067)
Net cash from capital and related financing activities	(3,701,645)	(2,732,306)	(969,339)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	835,223	626,819	208,404
Net cash from investing activities	835,223	626,819	208,404
<b>NET INCREASE/DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	3,891,551	4,489,777	(598,226)
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	51,599,788	43,809,840	7,789,948
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<u>\$ 55,491,339</u>	<u>\$ 48,299,617</u>	<u>\$ 7,191,722</u>

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**City of Tacoma**  
**Environmental Services Department**  
**Solid Waste Management**  
**Statement of Cash Flows (Unaudited)**  
**June 30, 2019 and June 30, 2018**

	Year Ended June 2019	2018	Increase (Decrease)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
<b>TO BALANCE SHEETS:</b>			
Operating funds	\$ 46,143,526	\$ 37,973,016	\$ 8,170,510
Restricted funds	9,347,813	10,326,601	\$ (978,788)
	<u>\$ 55,491,339</u>	<u>\$ 48,299,617</u>	<u>\$ 7,191,722</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO</b>			
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Net operating income	\$ 7,261,087	\$ 6,413,129	\$ 847,958
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation expense	2,769,731	2,834,716	(64,985)
Other non-operating revenues	23,224	37,495	(14,271)
Cash provided from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	(195,294)	(102,557)	(92,737)
Due from other funds	70,619	66,741	3,878
Accounts payable	1,033,236	13,351	1,019,885
Accrued wages and compensated absences payable	(52,313)	(62,897)	10,584
Accrued taxes payable	32,462	32,118	344
Due to other funds	(465,929)	(252,462)	(213,467)
Unearned revenue	(246,052)	(208,386)	(37,666)
Customer deposits payable	41,548	9,342	32,206
Rate Stabilization	-	1,000,000	(1,000,000)
Total adjustments	<u>3,011,232</u>	<u>3,367,461</u>	<u>(356,229)</u>
<b>NET CASH PROVIDED BY OPERATING</b>			
<b>ACTIVITIES</b>	<u>\$ 10,272,319</u>	<u>\$ 9,780,590</u>	<u>\$ 491,729</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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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.