
June 2020

SOLID WASTE MANAGEMENT

INTERIM FINANCIAL REPORT



Prepared by the City of Tacoma - Finance Department

This page intentionally left blank

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

This page intentionally left blank

Management's Discussion and Analysis

Management's Discussion and Analysis

For the quarters ended June 30, 2020 and 2019

Overview of the Interim Financial Statements

- The change in net position was \$3.9 million in the first six months of 2020, compared to \$4.1 million for the same period in 2019.
- The first six months operating revenues were \$37.0 million in 2020 and \$35.8 million in 2019.
- Total net position was \$58.1 million as of June 30, 2020, compared to \$50.2 million a year ago.
- Cash and equity in pooled investments unrestricted was \$51.5 million and \$46.1 million as of June 30, 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 ended June 30, 2020 and 2019.

	June 30,		Increase
	2020	2019	(Decrease)
Current, restricted, and other assets	\$ 65,619,795	\$ 64,647,020	\$ 972,775
Net capital assets	81,595,663	79,583,284	2,012,379
Total assets	147,215,458	144,230,304	2,985,154
Deferred outflows of resources	7,965,875	3,066,617	\$ 4,899,258
Total assets and deferred outflows of resources	<u>\$ 155,181,333</u>	<u>\$ 147,296,921</u>	<u>\$ 7,884,412</u>
Long-term liabilities	\$ 81,765,467	\$ 78,730,331	\$ 3,035,136
Other liabilities	6,976,852	7,136,701	(159,849)
Total liabilities	88,742,319	85,867,032	2,875,287
Deferred inflows of resources	8,384,357	11,190,694	(2,806,337)
Total liabilities and deferred inflows of resources	<u>97,126,676</u>	<u>97,057,726</u>	<u>68,950</u>
Net position:			
Net investment in capital assets	33,086,229	29,754,309	3,331,920
Restricted	2,004,359	7,880,562	(5,876,203)
Unrestricted	22,964,069	12,604,324	10,359,745
Total net position	<u>58,054,657</u>	<u>50,239,195</u>	<u>7,815,462</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 155,181,333</u>	<u>\$ 147,296,921</u>	<u>\$ 7,884,412</u>

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$58.1 million as of June 30, 2020, compared to \$50.2 million in 2019. The Division's net position increased by \$3.9 million in the second quarter of 2020 compared to an increase of \$4.1 million in the same quarter of 2019.

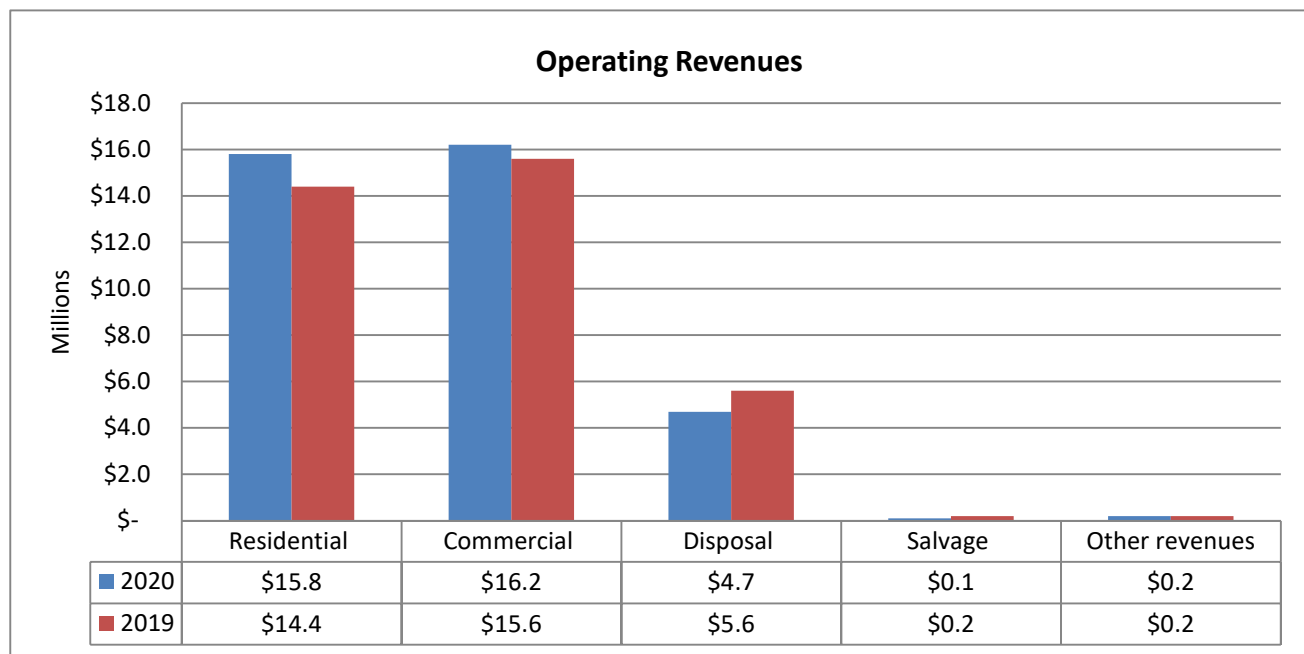
The largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, Infrastructure, machinery, and equipment). The net investment in capital assets component of net position was \$33.1 million at June 30, 2020 compared to \$29.8 million in 2019. The Division 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 was \$2.0 million for 2020, compared to \$7.9 million in 2019, which represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$23.0 million for 2020 and \$12.6 million for 2019 were unrestricted.

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

	June Year-to-Date		Increase
	2020	2019	(Decrease)
Operating revenues	\$ 36,981,259	\$ 35,831,902	\$ 1,149,357
Operating expenses	29,847,213	28,570,815	1,276,398
Net operating income	7,134,046	7,261,087	(127,041)
Nonoperating revenues (expenses)	(194,228)	(272,692)	78,464
Net income before transfers	6,939,818	6,988,395	(48,577)
Transfers	(3,007,842)	(2,898,859)	(108,983)
Increase in net position	3,931,976	4,089,536	(157,560)
Net position - beginning of year	54,122,681	46,149,659	7,973,022
Net position - ending	<u>\$ 58,054,657</u>	<u>\$ 50,239,195</u>	<u>\$ 7,815,462</u>

The following graph provides a comparison of operating revenues:



Operating revenues

Overall operating revenues increased \$1.1 million in the first six months of 2020, compared to an increase of \$1.8 million 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:

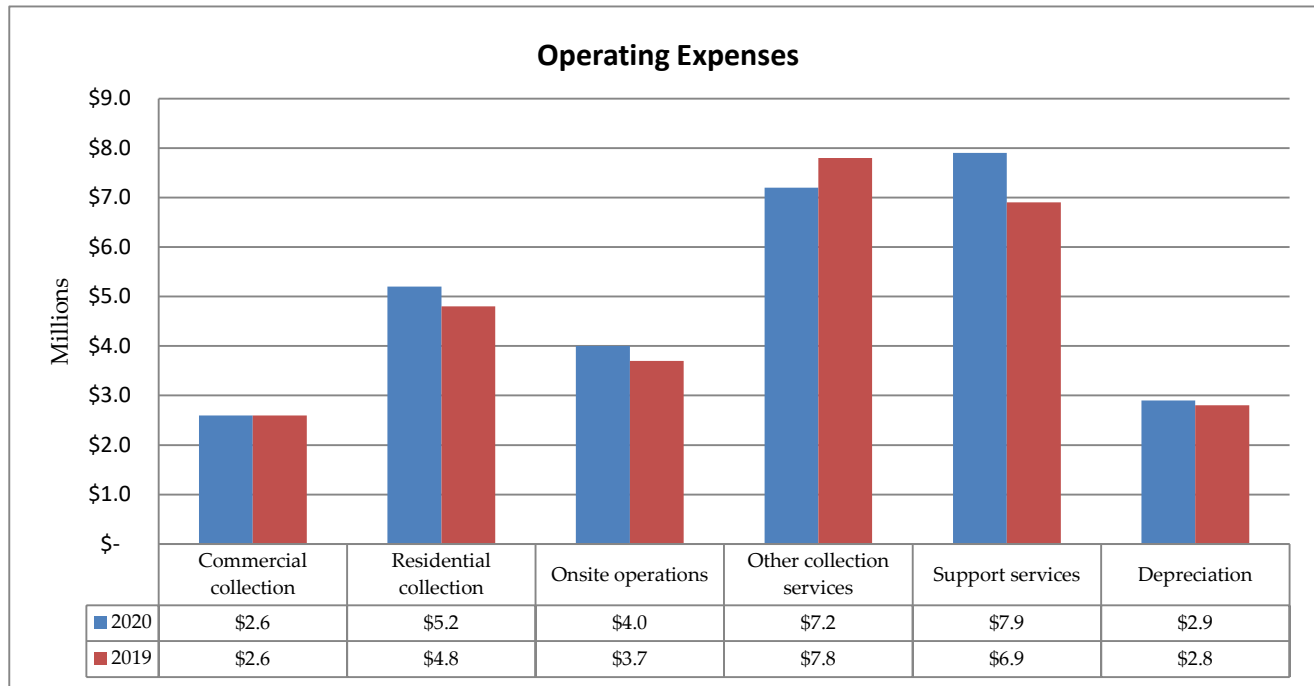
- Residential collection revenue increased by \$1.5 million mostly due to increases in rate and special surcharge compared to the first six months in 2019.
- Commercial collection revenue increased \$595,000 related to new rate increase in 2020.
- Disposal revenues decreased \$866,000 because only customers who live within city limit have access to the landfill during COVID-19 pandemic .
- Salvage revenues decreased \$37,000 due to the disruption of the international recycling market which resulted in a lower price of recyclable materials in 2020.

Operating expenses

Operating expenses are \$29.8 million in the six months of 2020, an increase of \$1.3 million compared to the same period of 2019. The areas of significant changes are:

- Onsite operations expense increased \$257,000 primarily due to increases of \$186,000 in external contract services for hauling waste to Pierce County Landfill, and \$93,000 in repair and maintenance for collection vehicles. The remaining decrease was in professional services expense.
- Residential collection expense increased \$365,000 due mainly to increases of \$215,000 in salaries and benefits, and \$113,000 in residential recycling cost, fleet maintenance, and services for residential collection vehicles.
- Other collection services expense decreased \$557,000, which includes Tacoma Cares, Nuisance Code Enforcement Abatement, and Off-site Transport. The decrease was mainly due to external contract services related to hauling garbage and yard waste to Pierce County landfill.
- Support services expense increased \$1.0 million due to increases of \$382,000 in salaries and benefits, \$253,000 in bad debt allowance, and \$109,000 in assessments. The remaining increases related to other services such as external contract, supplies, taxes, software license, advertising, and credit fees.

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



Non-operating revenues (expenses)

- Investment income earned \$516,000 for the first six months of the year 2020 compared to \$567,000 for the same period in 2019. The decrease was due to the decreased balance in the cash and equity in pooled investment account and a lower interest rate.
- Interest expenses and other related costs was \$1.2 million in the first six months of 2020 compared to \$1.3 million for the same period in 2019.
- Gross earning tax expense was \$3.0 million, an increase of \$110,000 compared to the same period last year.

Capital assets, net

As of June 30, 2020, the total capital asset balance, net of accumulated depreciation was \$81.6 million, an increase of \$2.0 million compared to the balance at June 30, 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 \$1.7 million. This was primarily due to the disposal of \$1.5 million of assets from July 1, 2019 to June 30, 2020, and the purchase of \$2.9 million in collection vehicles and containers throughout the year.
- Accumulated depreciation increased \$4.4 million since July 1, 2019.

Debt Administration

As of June 30, 2020, the Division had \$59.4 million, net of premium, in outstanding revenue bonds of which \$2.3 million is due on December 1, 2020. This compares to \$62.3 million as of June 30, 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 4.51 at the end of June 30, 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)
June 30, 2020 and June 30, 2019

ASSETS	June 30, 2020	2019	Increase (Decrease)
Current assets:			
Cash and equity in pooled investments	\$ 51,521,102	\$ 46,143,526	\$ 5,377,576
GASB 31 market rate adjustment	339,831	-	339,831
Accounts receivable, net	3,996,127	3,323,396	672,731
Accrued unbilled revenue	3,555,989	3,592,069	(36,080)
Restricted cash and equity in pooled investments:			
Debt service funds	1,423,285	3,024,106	(1,600,821)
Customer deposits	40,667	47,262	(6,595)
Construction funds	2,633,294	4,166,945	(1,533,651)
Total restricted cash and equity in pooled investments	4,097,246	7,238,313	(3,141,067)
Total current assets	63,510,295	60,297,304	3,212,991
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	54,715,429	53,011,891	1,703,538
Computer software	5,137,760	5,125,884	11,876
Less: accumulated depreciation	(117,748,267)	(113,372,132)	(4,376,135)
Construction in progress	4,199,162	2,120,245	2,078,917
Total capital assets, net	81,595,663	79,583,284	2,012,379
Other noncurrent assets:			
Net pension asset	-	2,240,216	(2,240,216)
Total noncurrent assets	83,705,163	83,933,000	(227,837)
Total assets	147,215,458	144,230,304	2,985,154
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	\$ 155,181,333	\$ 147,296,921	\$ 7,884,412

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, 2020 and June 30, 2019

	June 30,		Increase
	2020	2019	(Decrease)
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,686,044	\$ 2,646,811	\$ 39,233
Accrued wages payable and compensated absences	465,154	445,392	19,762
Accrued taxes payable	360,837	319,926	40,911
GASB 31 market rate adjustment	-	268,582	(268,582)
Customer deposits	89,043	47,434	41,609
Accrued landfill postclosure care costs	858,999	946,999	(88,000)
Current portion of long-term debt	945,833	900,000	45,833
Total current liabilities	5,405,910	5,575,144	(169,234)
Current payable from restricted assets:			
Deposits payable	42,516	88,297	(45,781)
Accrued revenue bond interest payable	204,259	213,260	(9,001)
Current portion of long-term debt	1,324,167	1,260,000	64,167
Total liabilities payable from restricted assets	1,570,942	1,561,557	9,385
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	57,144,818	60,134,824	(2,990,006)
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	81,765,467	78,730,331	3,035,136
Total liabilities	88,742,319	85,867,032	2,875,287
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	244,077	333,096	(89,019)
Total deferred inflows of resources	8,384,357	11,190,694	(2,806,337)
NET POSITION			
Net investment in capital assets	33,086,229	29,754,309	3,331,920
Restricted for:			-
Debt service	2,004,359	5,640,346	(3,635,987)
Net pension asset	-	2,240,216	(2,240,216)
Unrestricted	22,964,069	12,604,324	10,359,745
Total net position	58,054,657	50,239,195	7,815,462
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 155,181,333</u>	<u>\$147,296,921</u>	<u>\$ 7,884,412</u>

City of Tacoma
Environmental Services Department
Solid Waste Management
Statement of Revenues, Expenses, and change in Net Position (Unaudited)
June 30, 2020 and June 30, 2019

	Month of June		Year-to-Date June		% Chg
	2020	2019	2020	2019	
OPERATING REVENUES					
Residential collection	\$2,837,585	\$2,425,639	\$15,816,620	\$14,354,677	10%
Commercial collection	2,752,035	2,630,003	16,166,017	15,571,111	4%
Disposal revenues	886,619	1,058,057	4,694,736	5,560,623	-16%
Salvage revenues	20,621	15,449	132,450	169,845	-22%
Other operating revenues	3,910	13,966	171,436	175,646	-2%
Total operating revenues	6,500,770	6,143,114	36,981,259	35,831,902	3%
OPERATING EXPENSES					
Commercial collection	407,985	473,658	2,626,276	2,585,552	2%
Onsite operations	664,215	655,584	3,973,412	3,716,251	7%
Residential collection	979,486	984,664	5,180,255	4,814,911	8%
Other collection services	1,301,202	1,481,423	7,195,834	7,752,367	-7%
Support services	1,459,738	1,268,814	7,944,092	6,932,003	15%
Depreciation	487,798	460,720	2,927,344	2,769,731	6%
Total operating expenses	5,300,424	5,324,863	29,847,213	28,570,815	4%
Net operating income	1,200,346	818,251	7,134,046	7,261,087	-2%
NONOPERATING REVENUES (EXPENSES)					
Investment income	72,802	99,484	515,639	566,640	-9%
Rental income	-	-	2,021	20,924	-90%
Operating grant	-	-	50,721	-	N/A
Interest expenses and other related costs	(204,262)	(213,262)	(1,226,472)	(1,280,472)	4%
Amortization of premium and refunding gain	65,890	69,631	395,342	417,783	-5%
Other revenues	246	382	6,070	2,433	149%
Gain on sale/disposal of capital assets	-	-	62,451	-	N/A
Total nonoperating revenue (expenses)	(65,324)	(43,765)	(194,228)	(272,692)	29%
Net income before transfers	1,135,022	774,486	6,939,818	6,988,395	-1%
Transfers - to other funds	-	-	-	(1,000)	100%
Transfers - gross earnings taxes	(525,429)	(496,324)	(3,007,842)	(2,897,859)	-4%
CHANGE IN NET POSITION	<u>\$ 609,593</u>	<u>\$ 278,162</u>	3,931,976	4,089,536	-4%
NET POSITION - JANUARY 1			54,122,681	46,149,659	
NET POSITION - JUNE 30			<u>\$58,054,657</u>	<u>\$50,239,195</u>	

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

This page intentionally left blank

City of Tacoma
Environmental Services Department
Solid Waste Management
Statement of Cash Flows (Unaudited)
June 30, 2020 and June 30, 2019

	Year Ended June 30, 2020	2019	Increase (Decrease)
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 35,303,418	\$ 35,136,751	\$ 166,667
Payments to suppliers	(13,498,733)	(13,783,828)	285,095
Payments to employees	(11,464,967)	(10,606,850)	(858,117)
Payment for taxes	(618,486)	(496,978)	(121,508)
Net cash from operating activities	9,721,232	10,249,095	(527,863)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Gross earnings taxes paid	(3,007,842)	(3,347,527)	339,685
Interest paid on noncapital debt	-	(165,959)	165,959
Operating grants received	50,721	-	50,721
Contributions and donations	-	(860)	860
Net cash from noncapital financing activities	(2,957,121)	(3,514,346)	557,225
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,452,377)	(2,587,121)	(865,256)
Interest expense	(1,226,784)	(1,114,524)	(112,260)
Proceeds from sale of capital assets	62,451	-	62,451
Insurance recoveries	4,080	-	4,080
Net cash from capital and related financing activities	(4,612,630)	(3,701,645)	(910,985)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	175,808	835,223	(659,415)
Other nonoperating revenue	4,322	23,224	(18,902)
Net cash from investing activities	180,130	858,447	(678,317)
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	2,331,611	3,891,551	(1,559,940)
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	55,396,237	51,599,788	3,796,449
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 57,727,848</u>	<u>\$ 55,491,339</u>	<u>\$ 2,236,509</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)
June 30, 2020 and June 30, 2019

	Year Ended June 30, 2020	2019	Increase (Decrease)
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
TO BALANCE SHEETS:			
Operating funds	\$ 51,521,102	\$ 46,143,526	\$ 5,377,576
Restricted funds	6,206,746	9,347,813	(3,141,067)
	<u>\$ 57,727,848</u>	<u>\$ 55,491,339</u>	<u>\$ 2,236,509</u>
RECONCILIATION OF NET OPERATING INCOME TO			
NET CASH FROM OPERATING ACTIVITIES:			
Net operating income	<u>\$ 7,134,046</u>	<u>\$ 7,261,087</u>	<u>\$ (127,041)</u>
Adjustments to reconcile net operating income to net cash from operating activities:			
Depreciation expense	2,927,344	2,769,731	157,613
Cash from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	(835,583)	(195,294)	(640,289)
Due from other funds	-	70,619	(70,619)
Accounts payable	870,731	1,033,236	(162,505)
Accrued wages and compensated absences payable	(104,884)	(52,313)	(52,571)
Accrued taxes payable	(21,050)	32,462	(53,512)
Due to other funds	-	(465,929)	465,929
Unearned revenue	(261,026)	(246,052)	(14,974)
Customer deposits payable	11,654	41,548	(29,894)
Total adjustments	<u>2,587,186</u>	<u>2,988,008</u>	<u>(400,822)</u>
NET CASH FROM OPERATING			
ACTIVITIES	<u>\$ 9,721,232</u>	<u>\$ 10,249,095</u>	<u>\$ (527,863)</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.