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***June 2021***

***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, 2021 and 2020

#### Overview of the Interim Financial Statements

- The change in net position is \$4.7 million in the first six months of 2021, compared to \$3.9 million for the same period in 2020.
- The first six months operating revenues are \$40.4 million in 2021 and \$37.0 million in 2020.
- Total net position is \$66.8 million as of June 30, 2021, compared to \$58.1 million a year ago.
- Cash and equity in pooled investments unrestricted is \$51.9 million and \$51.5 million as of June 30, 2021 and 2020, 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, 2021 and 2020.

	June 30,		Increase (Decrease)
	2021	2020	
Current, restricted, and other assets	\$ 65,665,121	\$ 65,619,795	\$ 45,326
Net capital assets	88,528,193	81,595,663	6,932,530
Total assets	154,193,314	147,215,458	6,977,856
Deferred outflows of resources	3,453,168	7,965,875	\$ (4,512,707)
Total assets and deferred outflows of resources	<u>\$ 157,646,482</u>	<u>\$ 155,181,333</u>	<u>\$ 2,465,149</u>
Long-term liabilities	\$ 72,289,566	\$ 81,765,467	\$ (9,475,901)
Other liabilities	7,049,949	6,976,852	73,097
Total liabilities	79,339,515	88,742,319	(9,402,804)
Deferred inflows of resources	11,504,911	8,384,357	3,120,554
Total liabilities and deferred inflows of resources	<u>90,844,426</u>	<u>97,126,676</u>	<u>(6,282,250)</u>
Net position:			
Net investment in capital assets	39,544,439	33,086,229	6,458,210
Restricted	3,174,926	2,004,359	1,170,567
Unrestricted	24,082,691	22,964,069	1,118,622
Total net position	<u>66,802,056</u>	<u>58,054,657</u>	<u>8,747,399</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 157,646,482</u>	<u>\$ 155,181,333</u>	<u>\$ 2,465,149</u>

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$66.8 million as of June 30, 2021, compared to \$58.1 million in 2020. The Division's net position increased by \$4.7 million in the second quarter of 2021 compared to an increase of \$3.9 million in the same quarter of 2020.

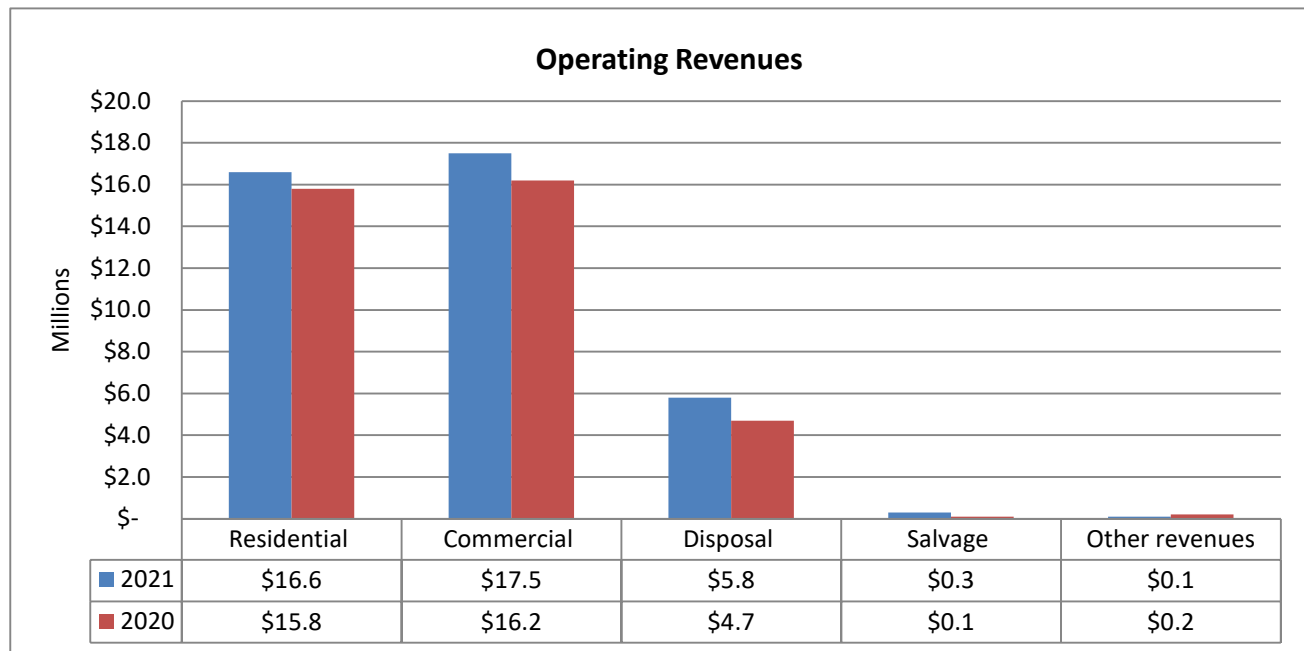
The largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, Infrastructure, machinery, and equipment). The net investment in capital assets component of net position was \$39.5 million at June 30, 2021 compared to \$33.1 million in 2020. The Division 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 \$3.2 million for 2021, compared to \$2.0 million in 2020, which represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.1 million for 2021, \$23.0 million for 2020 is unrestricted.

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

	June Year-to-Date		Increase (Decrease)
	2021	2020	
Operating revenues	\$ 40,372,949	\$ 36,981,259	\$ 3,391,690
Operating expenses	32,136,769	29,847,213	2,289,556
Net operating income	8,236,180	7,134,046	1,102,134
Nonoperating revenues (expenses)	(283,792)	(194,228)	(89,564)
Net income before transfers	7,952,388	6,939,818	1,012,570
Transfers	(3,218,478)	(3,007,842)	(210,636)
Increase in net position	4,733,910	3,931,976	801,934
Net position - beginning of year	62,068,146	54,122,681	7,945,465
Net position - ending	<u>\$ 66,802,056</u>	<u>\$ 58,054,657</u>	<u>\$ 8,747,399</u>

The following graph provides a comparison of operating revenues:



#### Operating revenues

Overall operating revenues increased \$3.4 million in the first six months of 2021, compared to an increase of \$1.1 million in the same period last year. The Division had a 1.5% rate increase beginning effective January 1, 2021 that resulted in the revenue increase. The most significant changes are:

- Residential collection revenue increased by \$818,000 mostly due to increases in rate, and customers upgraded larger garbage container size in the first six months in 2021.
- Commercial collection revenue increased \$1.4 million related to both rate and volume increases.
- Disposal revenues increased \$1.1 million due to increases in customer self-haul.
- Salvage revenue increased \$182,000 due to the price increases for recycle material sales in 2021.

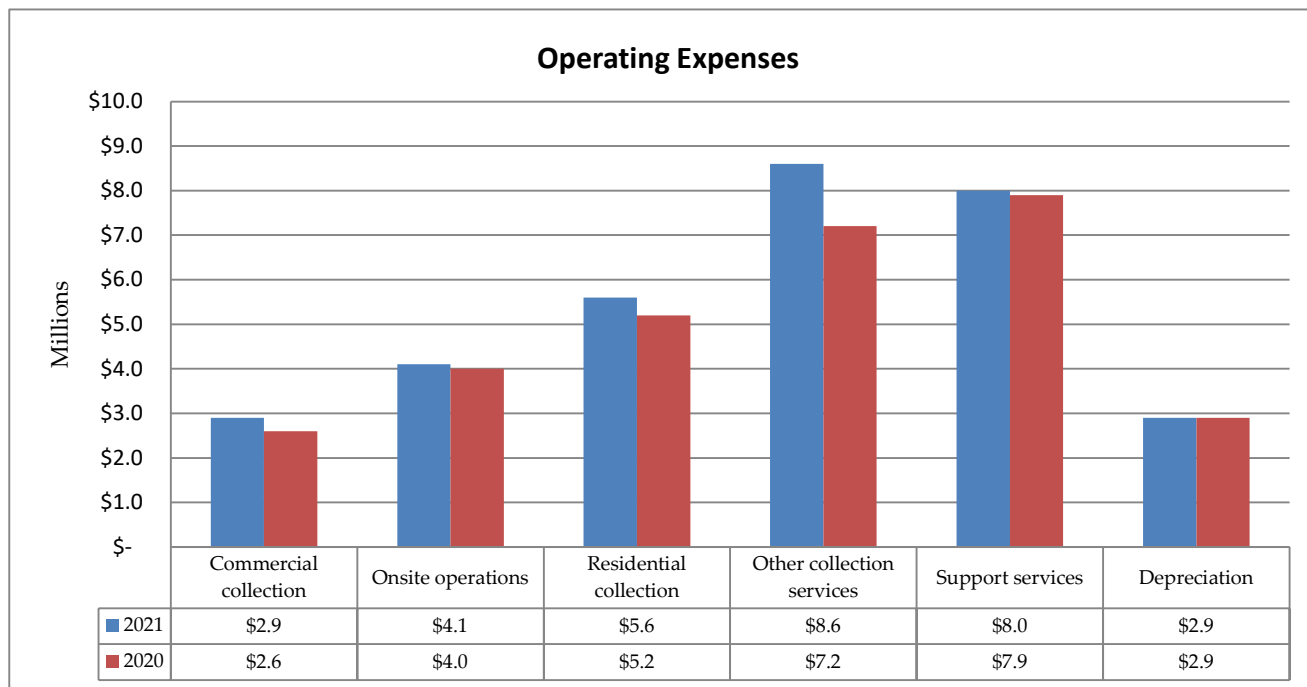
#### Operating expenses

Operating expenses are \$32.1 million in the first six months of 2021, an increase of \$2.3 million compared to the same period of 2020. The areas of significant changes are:

- Commercial collection expense increased \$271,000 primarily due to increases in salaries and benefits, external contract services, and fleet expenses to provide services in the commercial recycle and Drop-of-Box (box size and frequent pick-up requested by customer).
- Onsite operations expense increased \$127,000 primarily due to \$168,000 increase in salaries and benefits and \$28,000 in supplies. These increases were off-set by a decrease of \$104,000 in fleet expenses, external contract services, and others.
- Residential collection expense increased \$429,000 due mainly to increases of \$751,000 in external contract for residential recycling cost, \$30,000 for Satellite Recycle glass stations. These increases were off-set by decreases of \$232,000 in salaries and benefits, and \$145,000 in fleet expenses.
- Other collection services expense increased \$1.4 million, which includes Tacoma Cares, Nuisance Code Enforcement Abatement, and Off-site Transport. The increase is mainly due to \$957,000 increase in external contract services related to hauling garbage and yard waste to Pierce County landfill, \$102,000 for fleet expenses, and \$366,000 in salaries and benefits.



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



#### Non-operating revenues (expenses)

- Investment income earned \$273,000 for the first six months of 2021 compared to \$516,000 for the same period of 2020. The decrease is due to the lower interest rate in the City's cash and investment pool.
- Interest expenses and other related costs was \$1.2 million in the first six months of 2021 and the same amount for 2020.
- Gross earning tax expense was \$3.2 million, an increase of \$211,000 compared to the same period last year due to increases in revenue in first six months.

#### Capital assets, net

As of June 30, 2020, the total capital asset balance, net of accumulated depreciation was \$88.5 million, an increase of \$6.9 million compared to the balance at June 30, 2020. Significant changes from year to year include:

- Machinery and equipment, net increased \$1.4 million. This is primarily due to the disposal of \$3.5 million of assets from July 1, 2020 to June 30, 2021, and the purchase of \$5.6 million in collection vehicles and containers throughout the year.
- Accumulated depreciation decreased \$73,000 primarily due to the increase of \$2.9 million in current year depreciation off-set with the decrease of \$2.7 million in disposal of assets.
- The construction in progress balance increased by \$5.6 million from 2020 primarily due to the ongoing compressed natural gas (CNG) equipment upgrade project.

#### Debt Administration

As of June 30, 2021, the Division had \$56.5 million, net of premium, in outstanding revenue bonds of which \$2.3 million is due on December 1, 2021. This compares to \$59.4 million as of June 30, 2020. 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 4.94 at the end of June 30, 2021. This compares to 4.51 in the same period of 2020.

#### **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, 2021 and June 30, 2020**

	June		Increase
<b>ASSETS</b>	<b>2021</b>	<b>2020</b>	<b>(Decrease)</b>
Current assets:			
Cash and equity in pooled investments	\$ 51,947,224	\$ 51,521,102	\$ 426,122
GASB 31 market rate adjustment	878,555	339,831	538,724
Accounts receivable, net	4,475,204	3,996,127	479,077
Accrued unbilled revenue	3,607,376	3,555,989	51,387
Restricted cash and equity in pooled investments:			
Debt service funds	1,550,896	1,423,285	127,611
Customer deposits	30,941	40,667	(9,726)
Construction funds	-	2,633,294	(2,633,294)
Total restricted cash and equity in pooled investments	<u>1,581,837</u>	<u>4,097,246</u>	<u>(2,515,409)</u>
Total current assets	<u>62,490,196</u>	<u>63,510,295</u>	<u>(1,020,099)</u>
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	70,679,126	70,668,403	10,723
Machinery and equipment	56,146,473	54,715,429	1,431,044
Computer software	4,927,552	5,137,760	(210,208)
Less: accumulated depreciation	(117,674,784)	(117,748,267)	73,483
Construction in progress	<u>9,826,650</u>	<u>4,199,162</u>	<u>5,627,488</u>
Total capital assets, net	<u>88,528,193</u>	<u>81,595,663</u>	<u>6,932,530</u>
Other noncurrent assets:			
Net pension asset	<u>1,065,425</u>	<u>-</u>	<u>1,065,425</u>
Total noncurrent assets	<u>89,593,618</u>	<u>83,705,163</u>	<u>7,997,955</u>
Total assets	<u>154,193,314</u>	<u>147,215,458</u>	<u>6,977,856</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - other post employment benefits	292,262	206,337	85,925
Deferred outflows - pensions	<u>3,160,906</u>	<u>7,759,538</u>	<u>(4,598,632)</u>
Total deferred outflows of resources	<u>3,453,168</u>	<u>7,965,875</u>	<u>(4,512,707)</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 157,646,482</u></u>	<u><u>\$ 155,181,333</u></u>	<u><u>\$ 2,465,149</u></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)**  
**June 30, 2021 and June 30, 2020**

	June		Increase
<b>LIABILITIES</b>	<b>2021</b>	<b>2020</b>	<b>(Decrease)</b>
Current liabilities:			
Accounts payable	\$ 2,672,369	\$ 2,686,044	\$ (13,675)
Accrued wages payable and compensated absences	679,413	465,154	214,259
Accrued taxes payable	381,210	360,837	20,373
Customer deposits	73,360	89,043	(15,683)
Accrued landfill postclosure care costs	694,674	858,999	(164,325)
Current portion of long-term debt	964,579	945,833	18,746
Total current liabilities	5,465,605	5,405,910	59,695
Current payable from restricted assets:			
Deposits payable	33,449	42,516	(9,067)
Accrued revenue bond interest payable	200,478	204,259	(3,781)
Current portion of long-term debt	1,350,417	1,324,167	26,250
Total liabilities payable from restricted assets	1,584,344	1,570,942	13,402
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	54,156,114	57,144,818	(2,988,704)
Long-term accrued landfill postclosure care costs	13,740,678	14,006,977	(266,299)
Long-term accrued compensated absences	1,418,746	1,215,225	203,521
Net pension liability	-	6,556,061	(6,556,061)
Pension withdrawal liability	437,420	437,420	-
Net OPEB liability	2,536,608	2,404,966	131,642
Total noncurrent liabilities	72,289,566	81,765,467	(9,475,901)
Total liabilities	79,339,515	88,742,319	(9,402,804)
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Rate stabilization	7,000,000	7,000,000	-
Deferred inflows - OPEB	289,731	278,819	10,912
Deferred inflows - pensions	4,060,123	861,461	3,198,662
Deferred inflows - gain on refunding bonds	155,057	244,077	(89,020)
Total deferred inflows of resources	11,504,911	8,384,357	3,120,554
<b>NET POSITION</b>			
Net investment in capital assets	39,544,439	33,086,229	6,458,210
Restricted for:			
Debt service	2,109,501	2,004,359	105,142
Net pension asset	1,065,425	-	1,065,425
Unrestricted	24,082,691	22,964,069	1,118,622
Total net position	66,802,056	58,054,657	8,747,399
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 157,646,482</u>	<u>\$155,181,333</u>	<u>\$ 2,465,149</u>

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**City of Tacoma**  
**Environmental Services Department**  
**Solid Waste Management**  
**Statement of Revenues, Expenses, and change in Net Position (Unaudited)**  
**June 30, 2021 and June 30, 2020**

	Month of June		Year-to-Date June		% Chg
	2021	2020	2021	2020	
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,880,836	\$ 2,837,585	\$16,634,926	\$15,816,620	5%
Commercial collection	2,913,556	2,752,035	17,531,730	16,166,017	8%
Disposal revenues	971,163	886,619	5,780,119	4,694,736	23%
Salvage revenues	63,047	20,621	314,284	132,450	137%
Other operating revenues	9,108	3,910	111,890	171,436	-35%
Total operating revenues	6,837,710	6,500,770	40,372,949	36,981,259	9%
<b>OPERATING EXPENSES</b>					
Commercial collection	534,248	407,985	2,896,960	2,626,276	10%
Onsite operations	632,213	664,215	4,100,838	3,973,412	3%
Residential collection	1,160,388	979,486	5,609,056	5,180,255	8%
Other collection services	1,448,805	1,301,202	8,581,050	7,195,834	19%
Support services	1,393,352	1,459,738	8,001,932	7,944,092	1%
Depreciation	502,638	487,798	2,946,933	2,927,344	1%
Total operating expenses	5,671,644	5,300,424	32,136,769	29,847,213	8%
Net operating income	1,166,066	1,200,346	8,236,180	7,134,046	15%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	38,168	72,802	273,405	515,639	-47%
Rental income	10,166	-	12,081	2,021	498%
Operating grant	-	-	175,000	50,721	245%
Interest expenses and other related costs	(200,479)	(204,262)	(1,202,874)	(1,226,472)	2%
Amortization of premium and refunding gain	61,948	65,890	371,690	395,342	-6%
Other revenues/expenses	30	246	25,528	6,070	321%
Process from sale disposal of capital assets	-	-	61,378	62,451	-2%
Total nonoperating revenue (expenses)	(90,167)	(65,324)	(283,792)	(194,228)	-46%
Net income before transfers	1,075,899	1,135,022	7,952,388	6,939,818	15%
Transfers - gross earnings taxes	(542,190)	(525,429)	(3,218,478)	(3,007,842)	-7%
<b>CHANGE IN NET POSITION</b>	<u>\$ 533,709</u>	<u>\$ 609,593</u>	4,733,910	3,931,976	20%
<b>NET POSITION - JANUARY 1</b>			62,068,146	54,122,681	
<b>NET POSITION - JUNE 30</b>			<u>\$66,802,056</u>	<u>\$58,054,657</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, 2021 and June 30, 2020**

	Year-to-Date June 2021	2020	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 38,601,468	\$ 35,303,418	\$ 3,298,050
Payments to suppliers	(15,446,860)	(13,498,733)	(1,948,127)
Payments to employees	(11,951,089)	(11,464,967)	(486,122)
Payment for taxes	(616,292)	(618,486)	2,194
Net cash from operating activities	<u>10,587,227</u>	<u>9,721,232</u>	<u>865,995</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(3,218,478)	(3,007,842)	(210,636)
Operating grants received	175,000	50,721	124,279
Net cash from noncapital financing activities	<u>(3,043,478)</u>	<u>(2,957,121)</u>	<u>(86,357)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(7,178,047)	(3,452,377)	(3,725,670)
Interest expenses and other related costs	(1,202,875)	(1,226,784)	23,909
Proceeds from sale of capital assets	61,378	62,451	(1,073)
Insurance recoveries	25,758	4,080	21,678
Net cash from capital and related financing activities	<u>(8,293,786)</u>	<u>(4,612,630)</u>	<u>(3,681,156)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	(605,150)	175,808	(780,958)
Other nonoperating revenues	11,850	4,322	-
Net cash from investing activities	<u>(593,300)</u>	<u>180,130</u>	<u>(780,958)</u>
<b>NET INCREASE/DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	<u>(1,343,337)</u>	<u>2,331,611</u>	<u>(3,674,948)</u>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	<u>56,981,898</u>	<u>55,396,237</u>	<u>1,585,661</u>
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<u><u>\$ 55,638,561</u></u>	<u><u>\$ 57,727,848</u></u>	<u><u>\$ (2,089,287)</u></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, 2021 and June 30, 2020**

	Year-to-Date June 2021	2020	Increase (Decrease)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
<b>TO BALANCE SHEETS:</b>			
Operating funds	\$ 51,947,224	\$ 51,521,102	\$ 426,122
Restricted funds	3,691,337	6,206,746	\$ (2,515,409)
	<u>\$ 55,638,561</u>	<u>\$ 57,727,848</u>	<u>\$ (2,089,287)</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO</b>			
<b>NET CASH FROM OPERATING ACTIVITIES:</b>			
Net operating income	<u>\$ 8,236,180</u>	<u>\$ 7,134,046</u>	<u>\$ 1,102,134</u>
Adjustments to reconcile net operating income to net cash from operating activities:			
Depreciation expense	2,946,933	2,927,344	19,589
Cash from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	(366,327)	(835,583)	469,256
Accounts payable	28,952	870,731	(841,779)
Accrued wages and compensated absences payable	(66,743)	(104,884)	38,141
Accrued taxes payable	75,980	(21,050)	97,030
Unearned revenue	(266,879)	(261,026)	(5,853)
Customer deposits payable	(869)	11,654	(12,523)
Total adjustments	<u>2,351,047</u>	<u>2,587,186</u>	<u>(236,139)</u>
<b>NET CASH FROM OPERATING</b>			
<b>ACTIVITIES</b>	<u>\$ 10,587,227</u>	<u>\$ 9,721,232</u>	<u>\$ 865,995</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.