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***September  
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 September 30, 2019 and 2018

#### Overview of the Interim Financial Statements

- The change in net position is \$6.4 million in the first nine months of 2019, compared to \$5.3 million for the same period in 2018.
- The first nine months operating revenues are \$54.3 million in 2019 and \$51.6 million in 2018.
- Total net position is \$52.6 million as of September 30, 2019, compared to \$42.4 million a year ago.
- Cash and equity in pooled investments unrestricted is \$47.8 million and \$40.5 million as of September 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 September 30, 2019 and 2018.

	September 30,		Increase
	2019	2018	(Decrease)
Current, restricted, and other assets	\$ 65,953,089	\$ 58,548,122	\$ 7,404,967
Net capital assets	80,380,915	79,961,795	419,120
Total assets	146,334,004	138,509,917	7,824,087
Deferred outflows of resources	3,066,617	5,406,673	\$ (2,340,056)
Total assets and deferred outflows of resources	\$ 149,400,621	\$ 143,916,590	\$ 5,484,031
Long-term liabilities	\$ 78,543,694	\$ 86,844,026	\$ (8,300,332)
Other liabilities	7,095,901	6,191,078	904,823
Total liabilities	85,639,595	93,035,104	(7,395,509)
Deferred inflows of resources	11,168,439	8,512,081	2,656,358
Total liabilities and deferred inflows of resources	96,808,034	101,547,185	(4,739,151)
Net position:			
Net investment in capital assets	30,499,342	27,676,100	2,823,242
Restricted	7,151,167	4,723,150	2,428,017
Unrestricted	14,942,078	9,970,155	4,971,923
Total net position	52,592,587	42,369,405	10,223,182
Total liabilities, deferred inflows of resources, and net position	\$ 149,400,621	\$ 143,916,590	\$ 5,484,031

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$52.6 million as of September 30, 2019, compared to \$42.4 million in 2018. The Division's net position increased by \$10.2 million in 2019 compared to an increase of \$9.2 million in 2018.

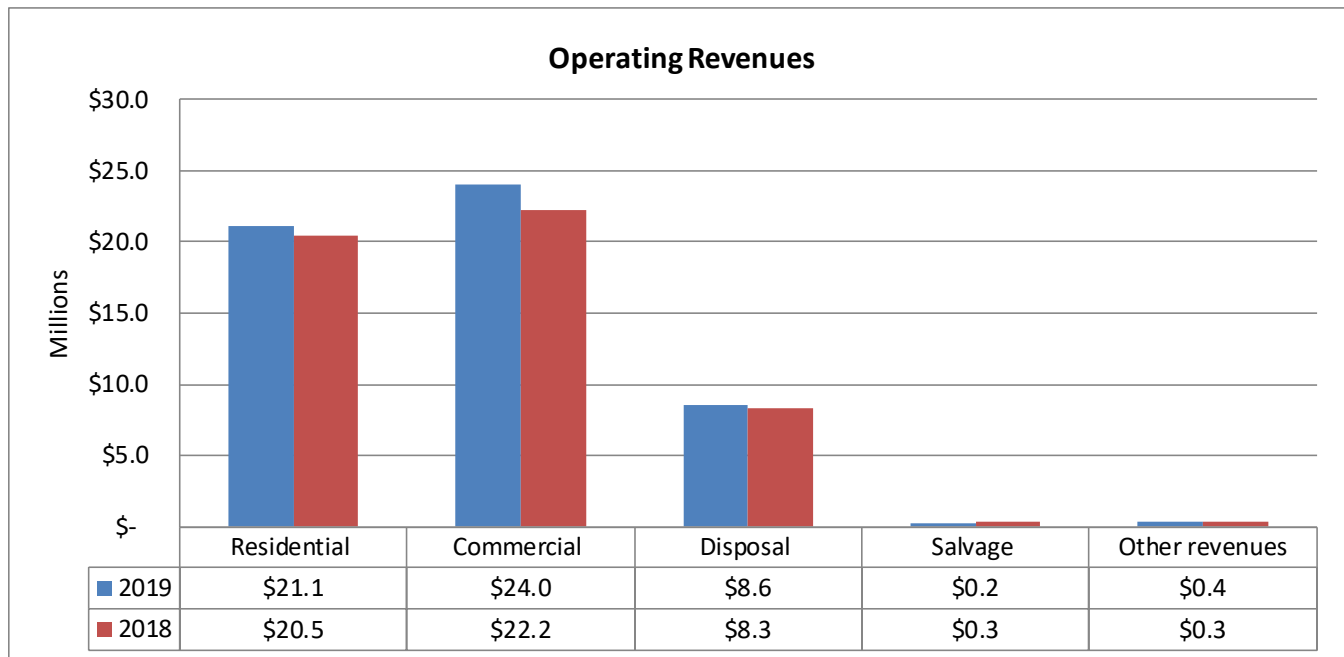
The largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, Infrastructure, machinery, and equipment). The net investment in capital assets component of net position was \$30.5 million at September 30, 2019 compared to \$27.7 million in 2018. 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 \$7.2 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 \$14.9 million for 2019, \$10.0 million for 2018 is unrestricted.

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

	September Year-to-Date		
	2019	2018	Increase (Decrease)
Operating revenues	\$ 54,326,455	\$ 51,617,504	\$ 2,708,951
Operating expenses	43,119,673	41,762,339	1,357,334
Net operating income	11,206,782	9,855,165	1,351,617
Nonoperating revenues (expenses)	(350,556)	(307,893)	(42,663)
Net income before transfers	10,856,226	9,547,272	1,308,954
Transfers	(4,413,298)	(4,221,773)	(191,525)
Increase (decrease) in net position	6,442,928	5,325,499	1,117,429
Net position - beginning of year	46,149,659	37,043,906	9,105,753
Net position - ending	<u>\$ 52,592,587</u>	<u>\$ 42,369,405</u>	<u>\$ 10,223,182</u>

The following graph provides a comparison of operating revenues:



#### Operating revenues

Overall operating revenues increased \$2.7 million the first nine months of 2019, compared to an increase of \$867,000 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 \$671,000 mostly due to increased customer consumer accounts compared to the first nine months in 2018.
- Commercial collection revenue increased \$1.8 million related to economic growth.
- Disposal revenues increased \$269,000 due to increases in customer self-haul.

#### Operating expenses

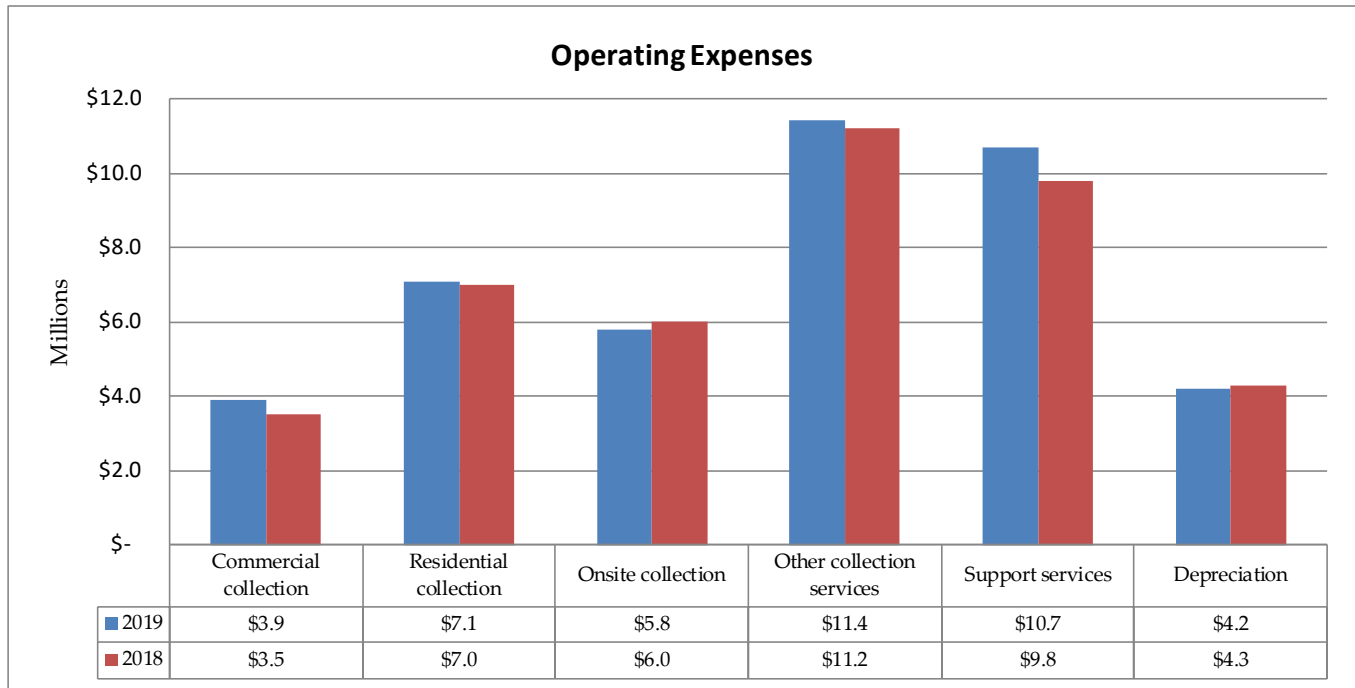
Operating expenses are \$43.1 million in the nine months of 2019, an increase of \$1.4 million compared to the same period of 2018. The areas of significant changes are:

- Commercial collection expense increased \$392,000 due primarily to a \$300,000 increase in commercial recycle cost, fleet maintenance and services for commercial collection vehicles. In addition, a \$116,000 increase in employee salaries and benefits. As a result of the increased expense, commercial collection revenue increased \$1.8 million.
- Onsite operation expense decreased \$226,000 due to a \$104,000 decrease in fleet services, \$39,000 in repair and maintenance, and \$79,000 in external contract services. The remaining decrease is in other expenses such as supplies, and labor.
- Residential collection expense increased \$132,000 due mainly to an increase of \$178,000 in residential commingle recycling costs, fleet maintenance, and services for residential collection vehicles; as well as a decrease of \$40,000 in salaries and benefits.
- Other collection services expenses increased \$221,000, which includes Tacoma Cares, NCE Abatement, and Off-site Transport. The increase is mainly due to external contract services related to hauling garbage and yard waste to Pierce County landfill.



- Support services expenses increased \$924,000 due to an increase of \$370,000 in external contract and professional services related to landfill cap repair and nuisance code enforcement. In addition, assessments increased \$308,000 and the remaining \$246,000 was related to an increase in other services such as labor, utilities, rent, 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 \$872,000 for the first nine months of the year 2019 compared to \$564,000 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 \$1.9 million in the first nine months of 2019 compare to 2.0 million the same period for 2018.
- Gross earning tax expense was \$4.4 million, an increase of \$191,000 compared to the same period last year due to increased revenues.

#### Capital assets, net

The total capital asset balance is \$80.4 million, an increase of \$419,000 compared to the balance at September 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 \$1.3 million. This is primarily due to the disposal of \$1.6 million of assets from October 1, 2018 to September 30, 2019, and the purchase of \$2.7 million in collection vehicles and containers throughout the year
- Accumulated depreciation increased \$3.8 million since October 1, 2018.

**Debt Administration**

As of September 30, 2019, the Division had \$62.1 million in long-term debt of which \$2.2 million is due on December 1, 2019. This compares to long-term debt of \$64.9 million as of September 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 4.6 at the end of September 30, 2019. This compares to 3.0 in the same period of 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)**  
**September 30, 2019 and September 30, 2018**

<b>ASSETS</b>	<b>September</b>		<b>Increase</b>
	<b>2019</b>	<b>2018</b>	<b>(Decrease)</b>
Current assets:			
Cash and equity in pooled investments	\$ 47,761,281	\$ 40,478,716	\$ 7,282,565
Accounts receivable, net	2,910,925	3,219,527	(308,602)
Accrued unbilled revenue	3,592,069	3,329,619	262,450
Restricted cash and equity in pooled investments:			
Debt service funds	3,748,405	2,604,050	1,144,355
Customer deposits	45,238	66,031	(20,793)
Construction funds	3,545,455	4,127,029	(581,574)
Total restricted cash and equity in pooled investments	7,339,098	6,797,110	541,988
Total current assets	61,603,373	53,824,972	7,778,401
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	61,767,413	-
Landfill infrastructure	68,074,220	67,541,082	533,138
Machinery and equipment	54,095,355	52,783,361	1,311,994
Computer software	5,125,884	5,051,881	74,003
Less: accumulated depreciation	(114,662,578)	(110,813,214)	(3,849,364)
Construction in progress	3,124,858	775,509	2,349,349
Total capital assets, net	80,380,915	79,961,795	419,120
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	84,730,631	84,684,945	45,686
Total assets	146,334,004	138,509,917	7,824,087
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - 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</b>			
<b>OUTFLOWS OF RESOURCES</b>	<u>\$ 149,400,621</u>	<u>\$ 143,916,590</u>	<u>\$ 5,484,031</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)**  
**September 30, 2019 and September 30, 2018**

	September		Increase
	2019	2018	(Decrease)
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 1,672,354	\$ 964,997	\$ 707,357
Accrued wages payable and compensated absences	758,664	698,889	59,775
Accrued taxes payable	317,522	294,032	23,490
GASB 31 market rate adjustment	268,582	285,776	(17,194)
Customer deposits	72,185	62,798	9,387
Accrued landfill postclosure care costs	946,999	875,997	71,002
Current portion of long-term debt	360,000	343,333	16,667
Total current liabilities	4,396,306	3,525,822	870,484
Current payable from restricted assets:			
Deposits payable	46,549	61,205	(14,656)
Accrued revenue bond interest payable	853,046	887,384	(34,338)
Current portion of long-term debt	1,800,000	1,716,667	83,333
Total liabilities payable from restricted assets	2,699,595	2,665,256	34,339
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	59,948,187	62,861,529	(2,913,342)
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	78,543,694	86,844,026	(8,300,332)
Total liabilities	85,639,595	93,035,104	(7,395,509)
<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	310,841	399,860	(89,019)
Total deferred inflows of resources	11,168,439	8,512,081	2,656,358
<b>NET POSITION</b>			
Net investment in capital assets	30,499,342	27,676,100	2,823,242
Restricted for:			
Debt service	4,910,951	4,723,150	187,801
Net pension asset	2,240,216	-	2,240,216
Unrestricted	14,942,078	9,970,155	4,971,923
Total net position	52,592,587	42,369,405	10,223,182
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 149,400,621</u>	<u>\$ 143,916,590</u>	<u>\$ 5,484,031</u>

**City of Tacoma**  
**Environmental Services Department**  
**Solid Waste Management**  
**Statement of Revenues, Expenses, and change in Net Position (Unaudited)**  
**September 30, 2019 and September 30, 2018**

	Month of September		Year-to-Date September		% Chg
	2019	2018	2019	2018	
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,001,429	\$ 2,183,704	\$ 21,121,446	\$ 20,450,143	3%
Commercial collection	2,745,823	1,738,913	23,978,967	22,221,072	8%
Disposal revenues	960,057	984,927	8,588,865	8,319,786	3%
Salvage revenues	15,006	23,978	226,682	293,910	-23%
Other operating revenues	167,748	49,325	410,495	332,593	23%
Total operating revenues	5,890,063	4,980,847	54,326,455	51,617,504	5%
<b>OPERATING EXPENSES</b>					
Commercial collection	420,199	377,787	3,925,300	3,533,447	11%
Onsite operations	641,029	679,498	5,793,714	6,019,493	-4%
Residential collection	827,400	762,215	7,113,854	6,981,779	2%
Other collection services	1,186,540	1,256,762	11,438,001	11,216,806	2%
Support services	1,141,164	1,105,948	10,682,089	9,758,493	9%
Depreciation	469,041	472,535	4,166,715	4,252,321	-2%
Total operating expenses	4,685,373	4,654,745	43,119,673	41,762,339	3%
Net operating income	1,204,690	326,102	11,206,782	9,855,165	14%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	100,798	77,730	872,021	563,609	55%
Rental income	383	383	24,374	40,521	-40%
Interest expenses and other related costs	(213,262)	(216,444)	(1,920,258)	(1,985,526)	3%
Amortization of premium and refunding gain	69,630	73,199	626,675	658,787	-5%
Other revenues/expenses	-	1,236	132	146,126	-100%
Gain on sale/disposal of capital assets	46,500	-	46,500	268,590	-83%
Total nonoperating revenue (expenses)	4,049	(63,896)	(350,556)	(307,893)	-14%
Net income before transfers	1,208,739	262,206	10,856,226	9,547,272	14%
Transfers - to other funds	-	-	(1,000)	-	N/A
Transfers - gross earnings taxes	(477,691)	(453,021)	(4,412,298)	(4,221,773)	-5%
<b>CHANGE IN NET POSITION</b>	<u>731,048</u>	<u>(190,815)</u>	6,442,928	5,325,499	21%
<b>NET POSITION - JANUARY 1</b>			46,149,659	37,043,906	
<b>NET POSITION - SEPTEMBER 30</b>			<u>\$ 52,592,587</u>	<u>\$ 42,369,405</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)**  
**September 30, 2019 and September 30, 2018**

	Year-to-Date September 2019	2018	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 53,934,751	\$ 52,319,660	\$ 1,615,091
Payments to suppliers	(22,230,636)	(21,028,456)	(1,202,180)
Payments to employees	(15,602,918)	(15,413,430)	(189,488)
Payment for taxes	(777,540)	(756,179)	(21,361)
Other operating or non-operating revenues	24,374	42,688	(18,314)
Net cash from operating activities	15,348,031	15,164,283	183,748
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(4,861,966)	(4,653,730)	(208,236)
Interest paid on noncapital debt	(165,959)	(165,959)	-
Contributions and donations	(860)	480	(1,340)
Net cash from noncapital financing activities	(5,028,785)	(4,819,209)	(209,576)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(4,781,735)	(2,276,626)	(2,505,109)
Interest expenses and other related costs	(1,114,524)	(1,154,038)	39,514
Proceeds from sale of capital assets	46,500	281,375	(234,875)
Insurance recoveries	-	143,968	(143,968)
Net cash from capital and related financing activities	(5,849,759)	(3,005,321)	(2,844,438)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	1,140,604	849,383	291,221
Net cash from investing activities	1,140,604	849,383	291,221
<b>NET INCREASE/DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	5,610,091	8,189,136	(2,579,045)
<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>\$ 57,209,879</u>	<u>\$ 51,998,976</u>	<u>\$ 5,210,903</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)**  
**September 30, 2019 and September 30, 2018**

	<u>Year-to-Date September</u> <u>2019</u>	<u>2018</u>	<u>Increase</u> <u>(Decrease)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
<b>TO BALANCE SHEETS:</b>			
Operating funds	\$ 47,761,281	\$ 40,478,716	\$ 7,282,565
Restricted funds	9,448,598	11,520,260	\$ (2,071,662)
	<u>\$ 57,209,879</u>	<u>\$ 51,998,976</u>	<u>\$ 5,210,903</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO</b>			
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Net operating income	<u>\$ 11,206,782</u>	<u>\$ 9,855,165</u>	<u>\$ 1,351,617</u>
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation expense	4,166,715	4,252,321	(85,606)
Other non-operating revenues	24,374	42,688	(18,314)
Cash provided from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	217,176	239,780	(22,604)
Due from other funds	70,619	66,741	3,878
Accounts payable	58,779	(88,658)	147,437
Accrued wages and compensated absences payable	260,959	210,693	50,266
Accrued taxes payable	30,057	19,506	10,551
Due to other funds	(465,929)	(252,462)	(213,467)
Unearned revenue	(246,052)	(208,386)	(37,666)
Customer deposits payable	24,551	26,895	(2,344)
Rate Stabilization	-	1,000,000	(1,000,000)
Total adjustments	<u>4,141,249</u>	<u>5,309,118</u>	<u>(1,167,869)</u>
<b>NET CASH PROVIDED BY OPERATING</b>			
<b>ACTIVITIES</b>	<u>\$ 15,348,031</u>	<u>\$ 15,164,283</u>	<u>\$ 183,748</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.