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*September 2020*

***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, 2020 and 2019

#### Overview of the Interim Financial Statements

- The change in net position was \$6.0 million in the first nine months of 2020, compared to \$6.4 million for the same period in 2019.
- The first nine months operating revenues were \$56.5 million in 2020 and \$54.3 million in 2019.
- Total net position was \$60.1 million as of September 30, 2020, compared to \$52.6 million a year ago.
- Cash and equity in pooled investments unrestricted was \$51.6 million and \$47.8 million as of September 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 ending September 30, 2020 and 2019.

	September 30,		Increase
	2020	2019	(Decrease)
Current, restricted, and other assets	\$ 67,242,188	\$ 65,953,089	\$ 1,289,099
Net capital assets	81,750,505	80,380,915	1,369,590
Total assets	148,992,693	146,334,004	2,658,689
Deferred outflows of resources	7,965,875	3,066,617	\$ 4,899,258
Total assets and deferred outflows of resources	\$ 156,958,568	\$ 149,400,621	\$ 7,557,947
Long-term liabilities	\$ 81,590,051	\$ 78,543,694	\$ 3,046,357
Other liabilities	6,876,003	7,095,901	(219,898)
Total liabilities	88,466,054	85,639,595	2,826,459
Deferred inflows of resources	8,362,102	11,168,439	(2,806,337)
Total liabilities and deferred inflows of resources	96,828,156	96,808,034	20,122
Net position:			
Net investment in capital assets	34,015,936	30,499,342	3,516,594
Restricted	2,024,207	7,151,167	(5,126,960)
Unrestricted	24,090,269	14,942,078	9,148,191
Total net position	60,130,412	52,592,587	7,537,825
Total liabilities, deferred inflows of resources, and net position	\$ 156,958,568	\$ 149,400,621	\$ 7,557,947

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$60.1 million as of September 30, 2020, compared to \$52.6 million in 2019. The Division's net position increased by \$7.5 million in the third quarter of 2020 compared to an increase of \$10.2 million in the same quarter of 2019.

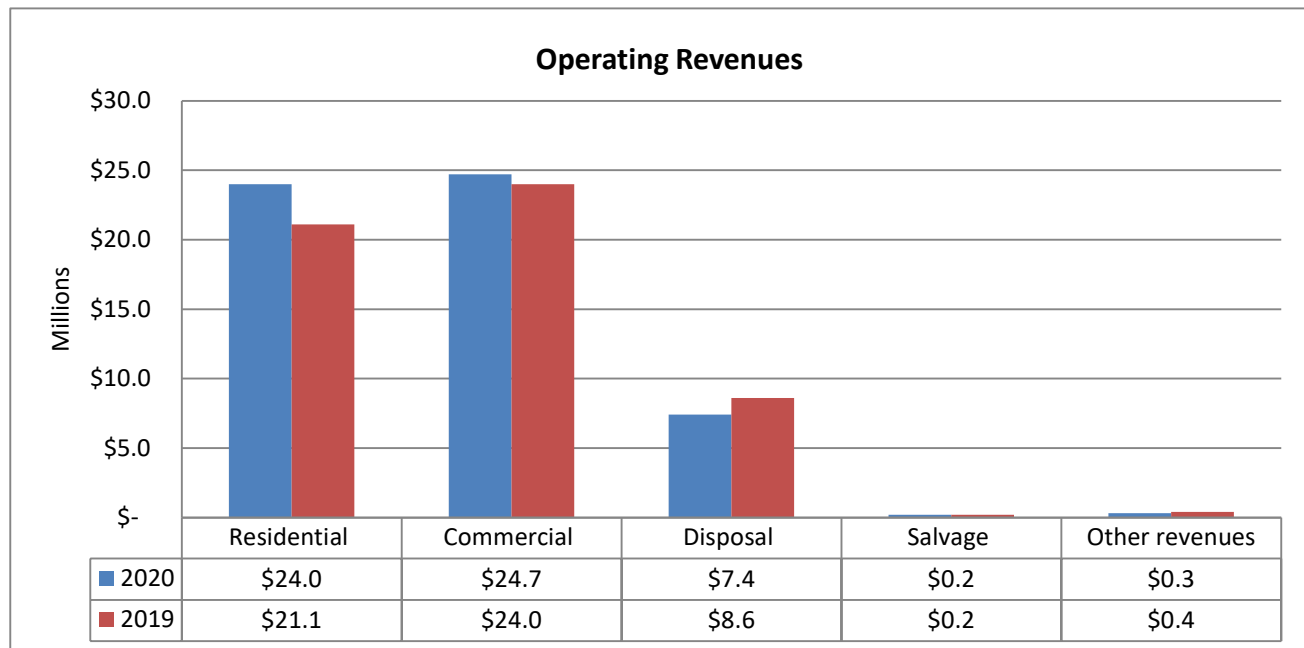
The largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, Infrastructure, machinery, and equipment). The net investment in capital assets component of net position was \$34.0 million at September 30, 2020 compared to \$30.5 million in 2019. 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 \$7.2 million in 2019, which represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.1 million for 2020 and \$14.9 million for 2019 were unrestricted.

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

	September Year-to-Date		
	2020	2019	Increase (Decrease)
Operating revenues	\$ 56,546,233	\$ 54,326,455	\$ 2,219,778
Operating expenses	45,291,524	43,119,673	2,171,851
Net operating income	11,254,709	11,206,782	47,927
Nonoperating revenues (expenses)	(671,340)	(350,556)	(320,784)
Net income before transfers	10,583,369	10,856,226	(272,857)
Transfers	(4,575,638)	(4,413,298)	(162,340)
Increase in net position	6,007,731	6,442,928	(435,197)
Net position - beginning of year	54,122,681	46,149,659	7,973,022
Net position - ending	\$ 60,130,412	\$ 52,592,587	\$ 7,537,825

The following graph provides a comparison of operating revenues:



#### Operating revenues

Overall operating revenues increased \$2.2 million in the first nine months of 2020, compared to an increase of \$2.7 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 \$2.9 million mostly due to increases in rate and special surcharge compared to the first nine months in 2019.
- Commercial collection revenue increased \$745,000 related to new rates increase begin January 1 2020.
- Disposal revenues decreased \$1.2 million due to limiting access to the landfill to only customers that reside within the city limits during COVID-19 pandemic.

#### Operating expenses

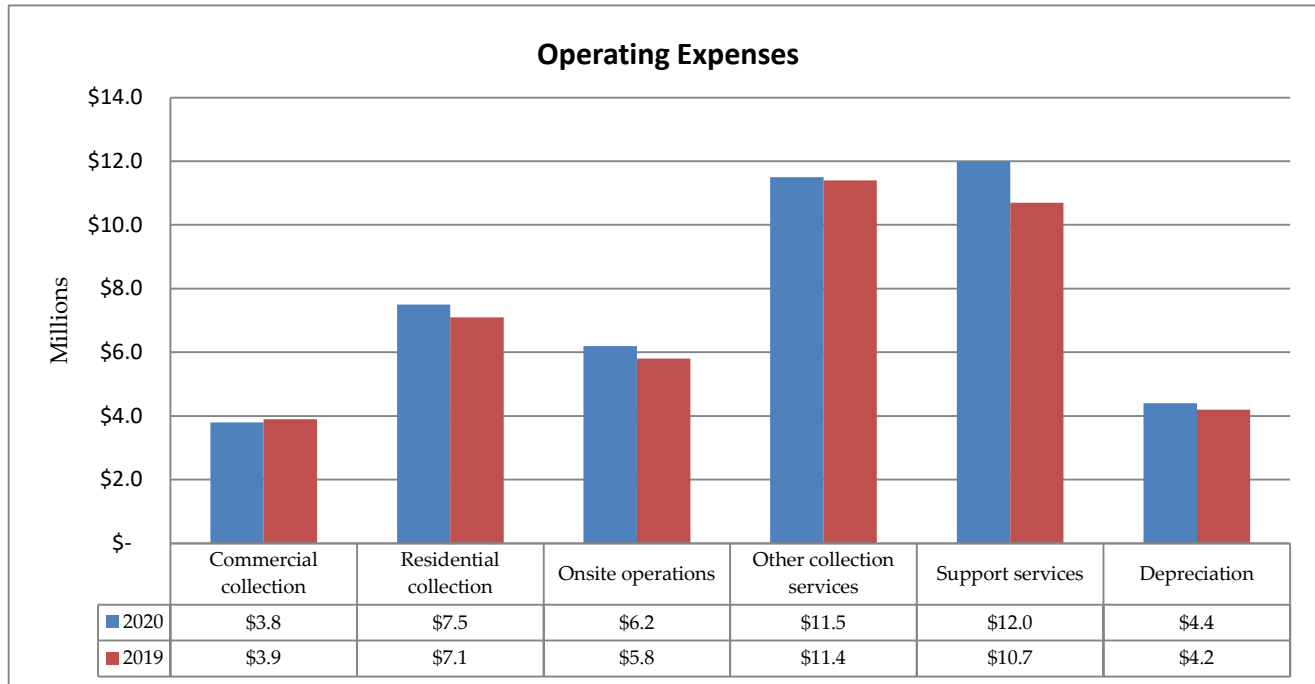
Operating expenses are \$45.3 million in the first nine months of 2020, an increase of \$2.2 million compared to the same period of 2019. The areas of significant changes are:

- Commercial collection expense decreased \$143,000 due primarily to decrease of \$179,000 in commercial recycling cost and \$57,000 in printing and graphic service expense. These decreases were offset with a \$93,000 increase in employee salaries and benefits.
- Onsite operations expense increased \$399,000 primarily due to increases of \$247,000 in external contract services for hauling waste to Pierce County Landfill, \$138,000 in repair and maintenance for collection vehicles, and \$95,000 in employee salaries and benefits. But it also decreased by \$128,000 in professional services expense.
- Residential collection expense increased \$356,000 due mainly to increases of \$353,000 in salaries and benefits. There was an increase in full-time employees in the first three quarters of 2020.



- Support services expense increased \$1.3 million due to increases of \$515,000 in salaries and benefits, \$653,000 in bad debt expense due to an increase in aging accounts receivable. The remaining increases related to other services such as 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 \$734,000 for the first nine months of the year 2020 compared to \$872,000 for the same period in 2019. The decrease was due to a lower interest rate in current year.
- Interest expenses and other related costs was \$1.8 million in the first nine months of 2020 compared to \$1.9 million the same period for 2019.
- Gross earning tax expense was \$4.6 million, an increase of \$163,000 compared to the same period last year.

#### Capital assets, net

As of September 30, 2020, the total capital asset balance, net of accumulated depreciation was \$81.8 million, an increase of \$1.4 million compared to the balance at September 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 \$657,000. This is primarily due to the disposal of \$2.4 million of assets from Oct 1, 2019 to September 30, 2020, and the purchase of \$3.3 million in collection vehicles and containers throughout the year.
- Accumulated depreciation increased \$3.6 million since October 1, 2019.

**Debt Administration**

As of September 30, 2020, the Division had \$59.2 million, net of premium, in outstanding revenue bonds of which \$2.3 million is due on December 1, 2020. This compares to \$62.1 million as of September 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 4.7 at the end of September 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)**  
**September 30, 2020 and September 30, 2019**

	<b>September</b>		<b>Increase</b>
<b>ASSETS</b>	<b>2020</b>	<b>2019</b>	<b>(Decrease)</b>
Current assets:			
Cash and equity in pooled investments	\$ 51,603,377	\$ 47,761,281	\$ 3,842,096
GASB 31 market rate adjustment	339,831	-	339,831
Accounts receivable, net	4,327,282	2,910,925	1,416,357
Accrued unbilled revenue	3,555,989	3,592,069	(36,080)
Restricted cash and equity in pooled investments:			
Debt service funds	2,623,419	3,748,405	(1,124,986)
Customer deposits	39,802	45,238	(5,436)
Construction funds	2,642,988	3,545,455	(902,467)
Total restricted cash and equity in pooled investments	5,306,209	7,339,098	(2,032,889)
Total current assets	65,132,688	61,603,373	3,529,315
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	54,752,763	54,095,355	657,408
Computer software	5,137,760	5,125,884	11,876
Less: accumulated depreciation	(118,229,771)	(114,662,578)	(3,567,193)
Construction in progress	4,798,174	3,124,858	1,673,316
Total capital assets, net	81,750,505	80,380,915	1,369,590
Other noncurrent assets:			
Net pension asset	-	2,240,216	(2,240,216)
Total noncurrent assets	83,860,005	84,730,631	(870,626)
Total assets	148,992,693	146,334,004	2,658,689
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
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
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 156,958,568</b>	<b>\$ 149,400,621</b>	<b>\$ 7,557,947</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)**  
**September 30, 2020 and September 30, 2019**

	September		Increase
<b>LIABILITIES</b>	<b>2020</b>	<b>2019</b>	<b>(Decrease)</b>
Current liabilities:			
Accounts payable	\$ 1,542,105	\$ 1,672,354	\$ (130,249)
Accrued wages payable and compensated absences	913,129	758,664	154,465
Accrued taxes payable	358,899	317,522	41,377
GASB 31 market rate adjustment	-	268,582	(268,582)
Customer deposits	74,094	72,185	1,909
Accrued landfill postclosure care costs	858,999	946,999	(88,000)
Current portion of long-term debt	378,333	360,000	18,333
Total current liabilities	4,125,559	4,396,306	(270,747)
Current payable from restricted assets:			
Deposits payable	41,732	46,549	(4,817)
Accrued revenue bond interest payable	817,045	853,046	(36,001)
Current portion of long-term debt	1,891,667	1,800,000	91,667
Total liabilities payable from restricted assets	2,750,444	2,699,595	50,849
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	56,969,402	59,948,187	(2,978,785)
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	81,590,051	78,543,694	3,046,357
Total liabilities	88,466,054	85,639,595	2,826,459
<b>DEFERRED INFLOWS OF RESOURCES</b>			
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	221,822	310,841	(89,019)
Total deferred inflows of resources	8,362,102	11,168,439	(2,806,337)
<b>NET POSITION</b>			
Net investment in capital assets	34,015,936	30,499,342	3,516,594
Restricted for:			
Debt service	2,024,207	4,910,951	(2,886,744)
Net pension asset	-	2,240,216	(2,240,216)
Unrestricted	24,090,269	14,942,078	9,148,191
Total net position	60,130,412	52,592,587	7,537,825
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 156,958,568</b>	<b>\$149,400,621</b>	<b>\$ 7,557,947</b>

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

	<b>Month of September</b>		<b>Year-to-Date September</b>		<b>% Chg</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,712,420	\$ 2,001,429	\$23,987,045	\$21,121,446	14%
Commercial collection	2,860,892	2,745,823	24,723,924	23,978,967	3%
Disposal revenues	845,409	960,057	7,381,672	8,588,865	-14%
Salvage revenues	20,217	15,006	199,652	226,682	-12%
Other operating revenues	13,396	167,748	253,940	410,495	-38%
Total operating revenues	6,452,334	5,890,063	56,546,233	54,326,455	4%
<b>OPERATING EXPENSES</b>					
Commercial collection	414,063	420,199	3,782,741	3,925,300	-4%
Onsite operations	786,126	641,029	6,192,931	5,793,714	7%
Residential collection	602,917	827,400	7,469,383	7,113,854	5%
Other collection services	1,341,933	1,186,540	11,512,718	11,438,001	1%
Support services	1,380,268	1,141,164	11,966,697	10,682,089	12%
Depreciation	479,123	469,041	4,367,054	4,166,715	5%
Total operating expenses	5,004,430	4,685,373	45,291,524	43,119,673	5%
Net operating income	1,447,904	1,204,690	11,254,709	11,206,782	0%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	67,416	100,798	734,083	872,021	-16%
Rental income	-	-	2,021	24,374	-92%
Operating grant	-	-	91,373	-	N/A
Interest expenses and other related costs	(204,262)	(213,262)	(1,839,258)	(1,920,258)	4%
Amortization of premium and refunding gain	65,890	69,630	593,012	626,675	-5%
Other revenues/expenses	383	383	10,677	132	7989%
Process from sale disposal of capital assets	94,157	46,500	157,608	46,500	239%
Loss on sale/disposal of capital assets	(420,856)	-	(420,856)	-	N/A
Total nonoperating revenue (expenses)	(397,272)	4,049	(671,340)	(350,556)	-92%
Net income before transfers	1,050,632	1,208,739	10,583,369	10,856,226	-3%
Transfers - to other funds	-	-	-	(1,000)	100%
Transfers - gross earnings taxes	(510,889)	(477,691)	(4,575,638)	(4,412,298)	-4%
<b>CHANGE IN NET POSITION</b>	<u>\$ 539,743</u>	<u>\$ 731,048</u>	<u>6,007,731</u>	<u>6,442,928</u>	<u>-7%</u>
<b>NET POSITION - JANUARY 1</b>			54,122,681	46,149,659	
<b>NET POSITION - SEPTEMBER 30</b>			<u>\$60,130,412</u>	<u>\$52,592,587</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, 2020 and September 30, 2019**

	Year-to-Date September 2020	2019	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 54,030,830	\$ 53,934,751	\$ 96,079
Payments to suppliers	(22,082,986)	(22,230,636)	147,650
Payments to employees	(16,753,048)	(15,602,918)	(1,150,130)
Payment for taxes	(957,981)	(777,540)	(180,441)
Net cash from operating activities	14,236,815	15,323,657	(1,086,842)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(4,575,638)	(4,861,966)	286,328
Interest paid on noncapital debt	(165,959)	(165,959)	-
Operating grants received	91,373	-	91,373
Contributions and donations	-	(860)	860
Net cash from noncapital financing activities	(4,650,224)	(5,028,785)	378,561
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(5,467,784)	(4,781,735)	(686,049)
Interest expenses and other related costs	(1,060,516)	(1,114,524)	54,008
Proceeds from sale of capital assets	157,608	46,500	111,108
Insurance recoveries	7,714	-	7,714
Net cash from capital and related financing activities	(6,362,978)	(5,849,759)	(513,219)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	394,252	1,140,604	(746,352)
Other nonoperating revenues	4,984	24,374	-
Net cash from investing activities	399,236	1,164,978	(746,352)
<b>NET INCREASE/DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	3,622,849	5,610,091	(1,987,242)
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	55,396,237	51,599,788	3,796,449
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<u>\$ 59,019,086</u>	<u>\$ 57,209,879</u>	<u>\$ 1,809,207</u>

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

	Year-to-Date September 2020	September 2019	Increase (Decrease)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
<b>TO BALANCE SHEETS:</b>			
Operating funds	\$ 51,603,377	\$ 47,761,281	\$ 3,842,096
Restricted funds	7,415,709	9,448,598	\$ (2,032,889)
	<u>\$ 59,019,086</u>	<u>\$ 57,209,879</u>	<u>\$ 1,809,207</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO</b>			
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Net operating income	\$ 11,254,709	\$ 11,206,782	\$ 47,927
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation expense	4,367,054	4,166,715	200,339
Cash provided from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	(1,166,738)	217,176	(1,383,914)
Due from other funds	-	70,619	(70,619)
Accounts payable	(273,208)	58,779	(331,987)
Accrued wages and compensated absences payable	343,091	260,959	82,132
Accrued taxes payable	(22,988)	30,057	(53,045)
Due to other funds	-	(465,929)	465,929
Unearned revenue	(261,026)	(246,052)	(14,974)
Customer deposits payable	(4,079)	24,551	(28,630)
Total adjustments	<u>2,982,106</u>	<u>4,116,875</u>	<u>(1,134,769)</u>
<b>NET CASH PROVIDED BY OPERATING</b>			
<b>ACTIVITIES</b>	<u>\$ 14,236,815</u>	<u>\$ 15,323,657</u>	<u>\$ (1,086,842)</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.