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***September 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 September 30, 2021 and 2020

#### Overview of the Interim Financial Statements

- The change in net position is \$8.2 million in the first nine months of 2021, compared to \$6.0 million for the same period in 2020.
- The first nine months operating revenues are \$61.4 million in 2021 and \$56.5 million in 2020.
- Total net position is \$70.3 million as of September 30, 2021, compared to \$60.1 million a year ago.
- Cash and equity in pooled investments unrestricted is \$51.6 million as of September 30, 2021 and 2020.

#### 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, 2021 and 2020.

	September 30,		Increase (Decrease)
	2021	2020	
Current, restricted, and other assets	\$ 66,637,364	\$ 67,242,188	\$ (604,824)
Net capital assets	90,470,096	81,750,505	8,719,591
Total assets	157,107,460	148,992,693	8,114,767
Deferred outflows of resources	3,453,168	7,965,875	\$ (4,512,707)
Total assets and deferred outflows of resources	<u>\$ 160,560,628</u>	<u>\$ 156,958,568</u>	<u>\$ 3,602,060</u>
Long-term liabilities	\$ 72,125,976	\$ 81,590,051	\$ (9,464,075)
Other liabilities	6,659,082	6,876,003	(216,921)
Total liabilities	78,785,058	88,466,054	(9,680,996)
Deferred inflows of resources	11,482,657	8,362,102	3,120,555
Total liabilities and deferred inflows of resources	<u>90,267,715</u>	<u>96,828,156</u>	<u>(6,560,441)</u>
Net position:			
Net investment in capital assets	43,150,936	34,015,936	9,135,000
Restricted	3,174,926	2,024,207	1,150,719
Unrestricted	23,967,051	24,090,269	(123,218)
Total net position	<u>70,292,913</u>	<u>60,130,412</u>	<u>10,162,501</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 160,560,628</u>	<u>\$ 156,958,568</u>	<u>\$ 3,602,060</u>

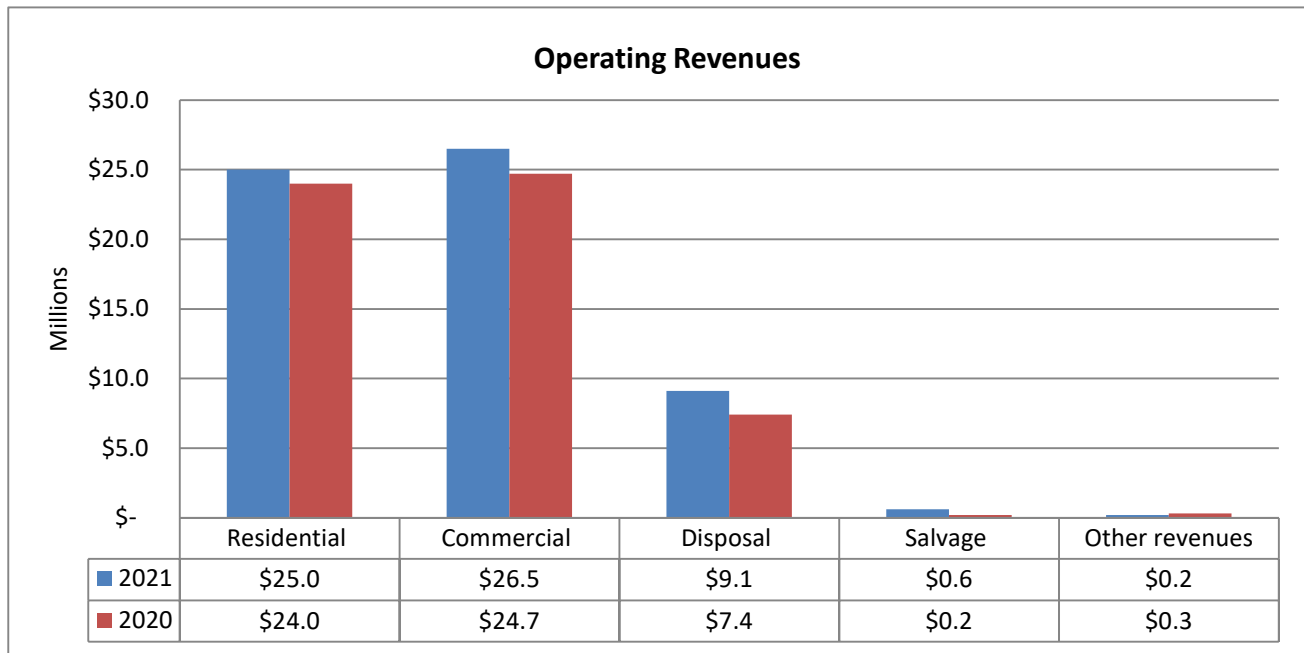
The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$70.3 million as of September 30, 2021, compared to \$60.1 million in 2020. The Division's net position increased by \$8.2 million in the first three quarters of 2021 compared to an increase of \$6.0 million in the same period 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 \$43.2 million at September 30, 2021 compared to \$34.0 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 in 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 \$24.0 million for 2021, and \$24.1 million for 2020 is unrestricted.

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

	September Year-to-Date		
	2021	2020	Increase (Decrease)
Operating revenues	\$ 61,400,667	\$ 56,546,233	\$ 4,854,434
Operating expenses	47,913,614	45,291,524	2,622,090
Net operating income	13,487,053	11,254,709	2,232,344
Nonoperating revenues (expenses)	(374,807)	(671,340)	296,533
Net income before transfers	13,112,246	10,583,369	2,528,877
Transfers	(4,887,479)	(4,575,638)	(311,841)
Increase in net position	8,224,767	6,007,731	2,217,036
Net position - beginning of year	62,068,146	54,122,681	7,945,465
Net position - ending	<u>\$ 70,292,913</u>	<u>\$ 60,130,412</u>	<u>\$ 10,162,501</u>

The following graph provides a comparison of operating revenues:



#### Operating revenues

Overall operating revenues increased \$4.9 million in the nine months of 2021, compared to an increase of \$2.2 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 \$1.1 million mostly due to increases in rate, and customers upgraded larger garbage container size in the first nine months in 2021.
- Commercial collection revenue increased \$1.8 million related to both rate and volume increases.
- Disposal revenues increased \$1.7 million due to increases in customer self-haul.
- Salvage revenue increased \$363,000 due to the price increases for recycle material sales in 2021.

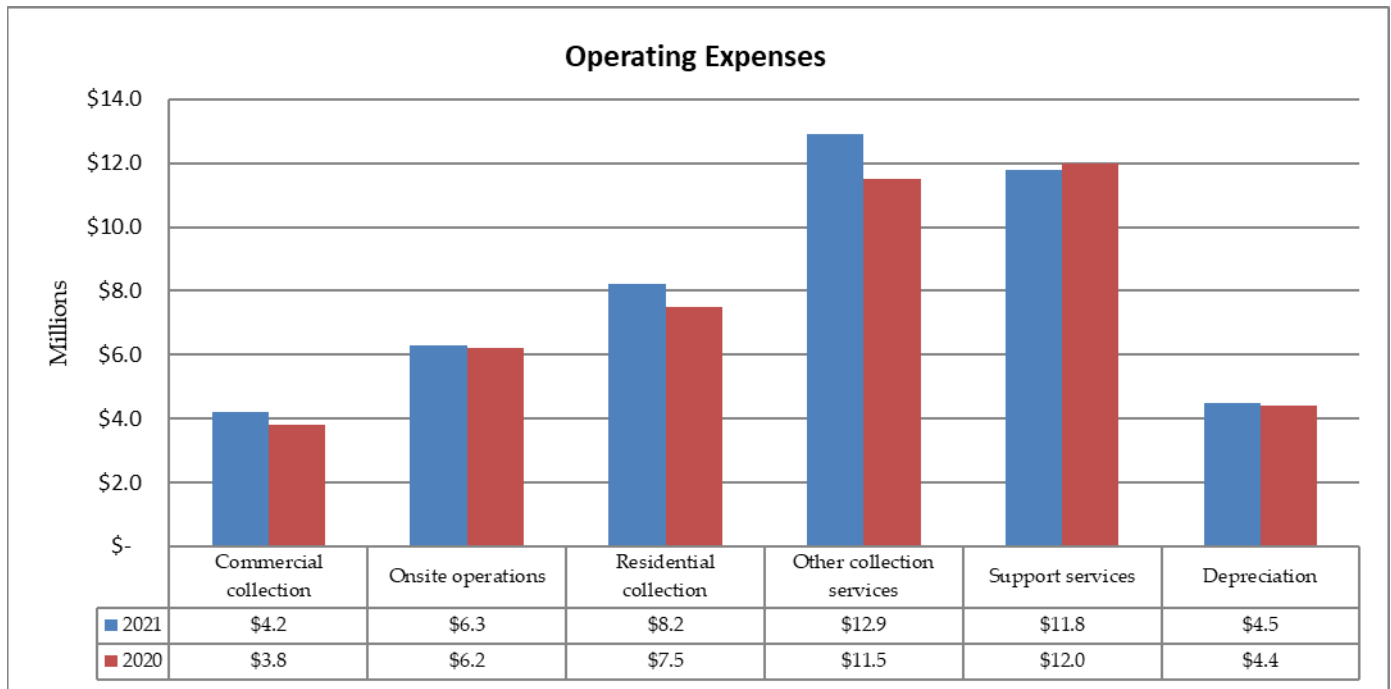
#### Operating expenses

Operating expenses are \$47.9 million in the nine months of 2021, an increase of \$2.6 million compared to the same period of 2020. The significant changes are:

- Commercial collection expense increased \$394,000 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).
- Residential collection expense increased \$774,000 due mainly to increases of \$1.2 million in external contractors for residential recycling cost, and \$142,000 in supplies for Satellite Recycle glass stations. These increases were off-set by decreases of \$346,000 in salaries and benefits, and \$225,000 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 \$1.1 million increase in external contract services related to hauling garbage and yard waste to Pierce County landfill, and \$350,000 in salaries and benefits. These increases were off-set by decreases in supplies of \$112,000.



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



#### Non-operating revenues (expenses)

- Investment income earned \$387,000 for the first nine months of 2021 compared to \$734,000 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 \$1.8 million in the first nine months of 2021 and the same amount for 2020.
- Solid Waste received \$223,000 operating grant from Department of Ecology for recycling operation, and \$217,000 from proceeds from sale and disposal of capital assets.
- Gross earning tax expense was \$4.9 million, an increase of \$312,000 compared to the same period last year due to increases in revenue in the first nine months.

#### Capital assets, net

As of September 30, 2021, the total capital asset balance, net of accumulated depreciation was \$90.5 million, an increase of \$8.7 million compared to the balance at September 30, 2020. Significant changes from year to year include:

- Machinery and equipment increased \$2.2 million. This is primarily due to the disposal of \$5.2 million and the purchase of \$7.4 million in collection vehicles and containers since October 2020.
- Accumulated depreciation increased \$701,000 primarily due to the increase of \$5.9 million in depreciation off-set with the decrease of \$5.2 million in disposal of assets.
- The construction in progress balance increased by \$7.4 million from 2020 primarily due to the ongoing compressed natural gas (CNG) equipment upgrade project.

**Debt Administration**

As of September 30, 2021, the Division had \$56.3 million, net of premium, in outstanding revenue bonds of which \$2.3 million is due on December 1, 2021. This compares to \$59.2 million as of September 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 5.26 at the end of September 30, 2021. This compares to 4.7 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**

	September 2021	2020	Increase (Decrease)
<b>ASSETS</b>			
Current assets:			
Cash and equity in pooled investments	\$ 51,648,054	\$ 51,603,377	\$ 44,677
GASB 31 market rate adjustment	878,555	339,831	538,724
Accounts receivable, net	4,558,141	4,327,282	230,859
Accrued unbilled revenue	3,607,376	3,555,989	51,387
Restricted cash and equity in pooled investments:			
Debt service funds	2,731,084	2,623,419	107,665
Customer deposits	39,229	39,802	(573)
Construction funds	-	2,642,988	(2,642,988)
Total restricted cash and equity in pooled investments	<u>2,770,313</u>	<u>5,306,209</u>	<u>(2,535,896)</u>
Total current assets	<u>63,462,439</u>	<u>65,132,688</u>	<u>(1,670,249)</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	70,691,736	70,668,403	23,333
Machinery and equipment	56,933,295	54,752,763	2,180,532
Computer software	4,927,552	5,137,760	(210,208)
Less: accumulated depreciation	(118,931,173)	(118,229,771)	(701,402)
Construction in progress	12,225,510	4,798,174	7,427,336
Total capital assets, net	<u>90,470,096</u>	<u>81,750,505</u>	<u>8,719,591</u>
Other noncurrent assets:			
Net pension asset	1,065,425	-	1,065,425
Total noncurrent assets	<u>91,535,521</u>	<u>83,860,005</u>	<u>9,785,016</u>
Total assets	<u>157,107,460</u>	<u>148,992,693</u>	<u>8,114,767</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - other post employment benefits	292,262	206,337	85,925
Deferred outflows - pensions	3,160,906	7,759,538	(4,598,632)
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>\$ 160,560,628</u></u>	<u><u>\$ 156,958,568</u></u>	<u><u>\$ 3,602,060</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)**  
**September 30, 2021 and September 30, 2020**

	<b>September</b>		<b>Increase</b>
<b>LIABILITIES</b>	<b>2021</b>	<b>2020</b>	<b>(Decrease)</b>
Current liabilities:			
Accounts payable	\$ 1,384,508	\$ 1,542,105	\$ (157,597)
Accrued wages payable and compensated absences	987,528	913,129	74,399
Accrued taxes payable	366,850	358,899	7,951
Customer deposits	68,046	74,094	(6,048)
Accrued landfill postclosure care costs	694,674	858,999	(164,325)
Current portion of long-term debt	385,829	378,333	7,496
Total current liabilities	3,887,435	4,125,559	(238,124)
Current payable from restricted assets:			
Deposits payable	40,565	41,732	(1,167)
Accrued revenue bond interest payable	801,915	817,045	(15,130)
Current portion of long-term debt	1,929,167	1,891,667	37,500
Total liabilities payable from restricted assets	2,771,647	2,750,444	21,203
Noncurrent liabilities:			
Long-term debt - revenue bonds, net	53,992,524	56,969,402	(2,976,878)
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	72,125,976	81,590,051	(9,464,075)
Total liabilities	78,785,058	88,466,054	(9,680,996)
<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	132,803	221,822	(89,019)
Total deferred inflows of resources	11,482,657	8,362,102	3,120,555
<b>NET POSITION</b>			
Net investment in capital assets	43,150,936	34,015,936	9,135,000
Restricted for:			
Debt service	2,109,501	2,024,207	85,294
Net pension asset	1,065,425	-	1,065,425
Unrestricted	23,967,051	24,090,269	(123,218)
Total net position	70,292,913	60,130,412	10,162,501
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 160,560,628</u>	<u>\$156,958,568</u>	<u>\$ 3,602,060</u>

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

	Month of September 2021	2020	Year-to-Date September 2021	2020	% Chg
<b>OPERATING REVENUES</b>					
Residential collection	\$ 2,745,770	\$ 2,712,420	\$ 25,047,164	\$ 23,987,045	4%
Commercial collection	2,614,313	2,860,892	26,526,911	24,723,924	7%
Disposal revenues	1,073,485	845,409	9,052,359	7,381,672	23%
Salvage revenues	88,951	20,217	562,972	199,652	182%
Other operating revenues	61,419	13,396	211,261	253,940	-17%
Total operating revenues	6,583,938	6,452,334	61,400,667	56,546,233	9%
<b>OPERATING EXPENSES</b>					
Commercial collection	337,541	414,063	4,176,900	3,782,741	10%
Onsite operations	739,550	786,126	6,281,281	6,192,931	1%
Residential collection	764,799	602,917	8,243,806	7,469,383	10%
Other collection services	1,495,047	1,341,933	12,905,258	11,512,718	12%
Support services	1,229,203	1,380,268	11,811,550	11,966,697	-1%
Depreciation	516,550	479,123	4,494,819	4,367,054	3%
Total operating expenses	5,082,690	5,004,430	47,913,614	45,291,524	6%
Net operating income	1,501,248	1,447,904	13,487,053	11,254,709	20%
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	37,193	67,416	387,456	734,083	-47%
Rental income	383	383	13,230	2,021	555%
Operating grant	-	-	223,048	91,373	144%
Interest expenses and other related costs	(200,479)	(204,262)	(1,804,311)	(1,839,258)	2%
Amortization of premium and refunding gain	61,947	65,890	557,535	593,012	-6%
Other revenues/expenses	-	-	31,600	10,677	196%
Proceeds from sale/disposal of capital assets	127,657	94,157	216,635	157,608	37%
Loss on sale/disposal of capital assets	-	(420,856)	-	(420,856)	100%
Total nonoperating revenue (expenses)	26,701	(397,272)	(374,807)	(671,340)	44%
Net income before transfers	1,527,949	1,050,632	13,112,246	10,583,369	24%
Transfers - gross earnings taxes	(525,410)	(510,889)	(4,887,479)	(4,575,638)	-7%
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,002,539</u>	<u>\$ 539,743</u>	8,224,767	6,007,731	37%
<b>NET POSITION - JANUARY 1</b>			62,068,146	54,122,681	
<b>NET POSITION - SEPTEMBER 30</b>			<u>\$ 70,292,913</u>	<u>\$ 60,130,412</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, 2021 and September 30, 2020**

	Year-to-Date September 2021	2020	Increase (Decrease)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 58,977,396	\$ 54,030,830	\$ 4,946,566
Payments to suppliers	(24,323,851)	(22,082,986)	(2,240,865)
Payments to employees	(17,355,901)	(16,753,048)	(602,853)
Payment for taxes	(986,902)	(957,981)	(28,921)
Net cash from operating activities	16,310,742	14,236,815	2,073,927
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Gross earnings taxes paid	(4,887,479)	(4,575,638)	(311,841)
Interest paid on noncapital debt	-	(165,959)	165,959
Operating grants received	223,048	91,373	131,675
Net cash from noncapital financing activities	(4,664,431)	(4,650,224)	(14,207)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(10,667,835)	(5,467,784)	(5,200,051)
Interest expenses and other related costs	(1,202,875)	(1,060,516)	(142,359)
Proceeds from sale of capital assets	216,635	157,608	59,027
Insurance recoveries	31,852	7,714	24,138
Net cash from capital and related financing activities	(11,622,223)	(6,362,978)	(5,259,245)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	(491,099)	394,252	(885,351)
Other nonoperating revenues	12,980	4,984	-
Net cash from investing activities	(478,119)	399,236	(885,351)
<b>NET INCREASE/DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS</b>	(454,031)	3,622,849	(4,076,880)
<b>CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING</b>	56,981,898	55,396,237	1,585,661
<b>CASH AND EQUITY IN POOLED INVESTMENTS, ENDING</b>	<u>\$ 56,527,867</u>	<u>\$ 59,019,086</u>	<u>\$ (2,491,219)</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, 2021 and September 30, 2020**

	<u>Year-to-Date September 2021</u>	<u>2020</u>	<u>Increase (Decrease)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>			
<b>TO BALANCE SHEETS:</b>			
Operating funds	\$ 51,648,054	\$ 51,603,377	\$ 44,677
Restricted funds	4,879,813	7,415,709	\$ (2,535,896)
	<u>\$ 56,527,867</u>	<u>\$ 59,019,086</u>	<u>\$ (2,491,219)</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO</b>			
<b>NET CASH FROM OPERATING ACTIVITIES:</b>			
Net operating income	<u>\$ 13,487,053</u>	<u>\$ 11,254,709</u>	<u>\$ 2,232,344</u>
Adjustments to reconcile net operating income to net cash from operating activities:			
Depreciation expense	4,494,819	4,367,054	127,765
Cash from changes in operating assets and liabilities:			
Accounts receivable, net of allowance	(449,263)	(1,166,738)	717,475
Accounts payable	(1,258,909)	(273,208)	(985,701)
Accrued wages and compensated absences payable	241,371	343,091	(101,720)
Accrued taxes payable	61,620	(22,988)	84,608
Unearned revenue	(266,879)	(261,026)	(5,853)
Customer deposits payable	930	(4,079)	5,009
Total adjustments	<u>2,823,689</u>	<u>2,982,106</u>	<u>(158,417)</u>
<b>NET CASH FROM OPERATING</b>			
<b>ACTIVITIES</b>	<u>\$ 16,310,742</u>	<u>\$ 14,236,815</u>	<u>\$ 2,073,927</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.