Office of the Washington State Auditor
Pat McCarthy

August 5, 2019

Mayor and City Council
City of Tacoma
Tacoma, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Solid Waste Management, a division of the City of Tacoma's Environmental Services Department, for the fiscal year ended December 31, 2018. The City contracted with the CPA firm for this audit and requested we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

SURFACEWATER SOLIDWASTE WASTEWATER

TACOMA ENVIRONMENTAL SERVICES DEPARTMENT

Solid Waste Management Annual Financial Report

For the fiscal year ended December 31, 2018

Prepared by the Finance Department

MOSSADAMS

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and City Council
City of Tacoma, Environmental Services Department, Solid Waste Management
Tacoma, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City of Tacoma, Environmental Services Department, Solid Waste Management (the Division), which comprise the statement of net position as of December 31, 2018, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tacoma, Environmental Services Department, Solid Waste Management's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Tacoma, Washington
May 22, 2019

City of Tacoma, Washington
Environmental Services Department
Solid Waste Management

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Independent Auditor's Report

Report of Independent Auditors

Honorable Mayor and City Council
City of Tacoma, Environmental Services Department, Solid Waste Management
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Environmental Services Department, Solid Waste Management (the Division), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Tacoma, Environmental Services Department, Solid Waste Management as of December 31, 2018 and 2017, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of net pension liability, schedule of employer contributions, and schedule of proportionate share of net OPEB liability, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 51 through 54 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019, on our consideration of the City of Tacoma, Environmental Services Department, Solid Waste Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Moss Adams LLP

Tacoma, Washington
May 22, 2019

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Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Solid Waste Management
Management's Discussion and Analysis
December 31, 2018 and 2017

Introduction

The following discussion and analysis of City of Tacoma Solid Waste Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2018, 2017 and 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2018 and 2017, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of City of Tacoma's Solid Waste's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

The Notes to Financial Statements provide additional disclosures that are essential to a full understanding of the data provided in the financial statements. They are an integral part of the Division's presentation of financial position, results of operations and changes in cash flows.

Financial Highlights

- Total net position increased by $9.2 million to $46.1 million in 2018 compared to an increase of $9.2 million to $36.9 million in 2017 and a decrease of $162,000 to $27.7 million in 2016.
- Operating revenues were $69.1 million in 2018, $67.9 million in 2017 and $63.6 million in 2016.
- Cash and equity in pooled investments was $51.6 million at December 31, 2018 compared to $43.8 million in 2017 and $46.2 million in 2016.

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 statements of net position provides a comparison of net position for the last three years.

	December 31,		
	2018	2017 (As Restated)	2016
Current, restricted, and other assets	$ 60,630,793	$ 50,665,506	$ 52,710,689
Net capital assets	79,765,895	81,950,754	80,384,813
Total assets	140,396,688	132,616,260	133,095,502
Deferred outflows of resources	3,066,617	5,452,540	5,587,736
Total assets and deferred outflows of resources	$ 143,463,305	$ 138,068,800	$ 138,683,238
Long-term liabilities	$ 79,103,604	$ 87,600,942	$ 93,507,462
Other liabilities	6,974,838	5,964,134	10,584,384
Total liabilities	86,078,442	93,565,076	104,091,846
Deferred inflows of resources	11,235,204	7,578,847	6,875,584
Total liabilities and deferred inflows of resources	97,313,646	101,143,923	110,967,430
Net position:			
Net investment in capital assets	28,216,076	27,775,111	26,773,007
Restricted	6,963,366	4,720,977	6,134,655
Unrestricted	10,970,217	4,428,789	(5,191,854)
Total net position	46,149,659	36,924,877	27,715,808
Total liabilities, deferred inflows of resources, and net position	$ 143,463,305	$ 138,068,800	$ 138,683,238

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by $46.1 million in 2018, compared to $36.9 million in 2017, and $27.7 million in 2016. The Division's net position increased by $9.2 million in 2018 compared to an increase of $9.2 million in 2017 and a decrease of $162,000 in 2016. However, the largest component of net position reflects the Division's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The net investment in capital assets component of net position was $28.2 million in 2018, $27.8 million in 2017, and $26.8 million in 2016. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although 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 $7.0 million for 2018, compared to $4.7 million in 2017, and $ 6.1 million in 2016 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of $11.0 million for 2018, $4.4 million for 2017, and $(5.2) million for 2016 is unrestricted.

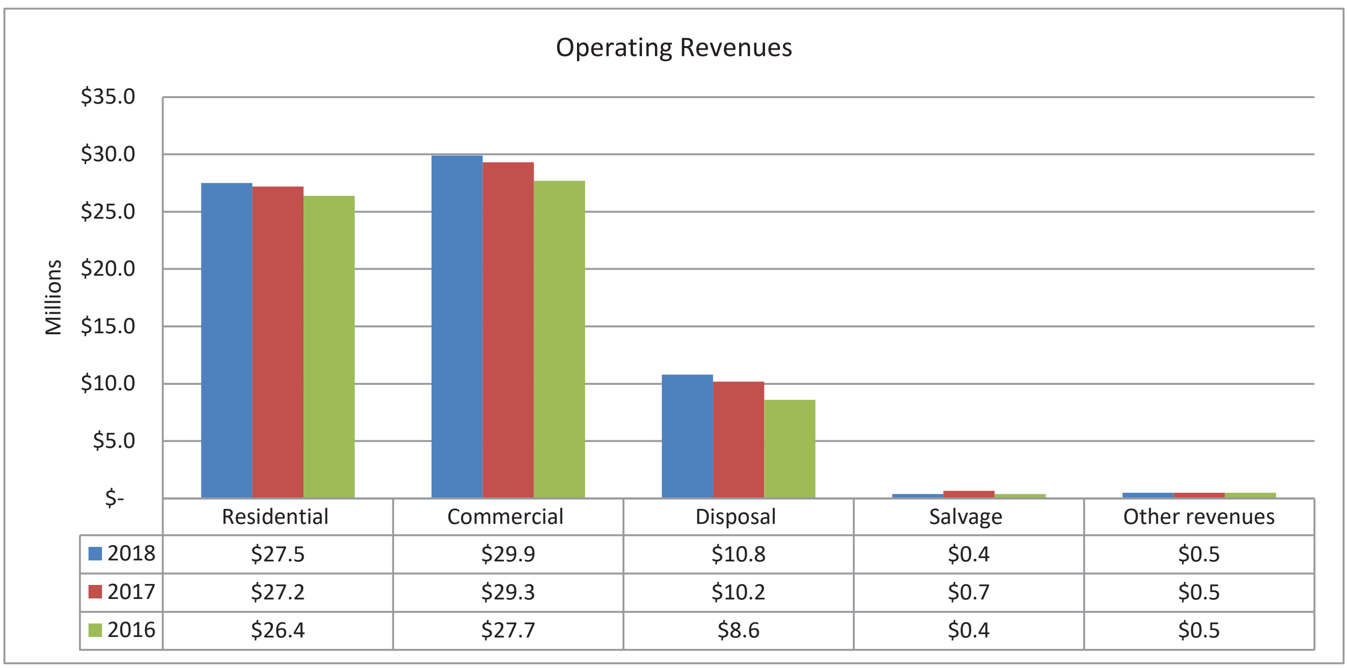
Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,		
	2018	2017 (As Restated)	2016
Operating revenues	$ 69,110,911	$ 67,894,170	$ 63,568,797
Operating expenses	53,783,466	51,062,569	55,552,350
Net operating income	15,327,445	16,831,601	8,016,447
Nonoperating revenues (expenses)	(261,465)	(2,250,988)	(2,758,191)
Net income before transfers	15,065,980	14,580,613	5,258,256
Transfers	(5,841,198)	(5,371,544)	(5,420,364)
Increase (decrease) in net position	9,224,782	9,209,069	(162,108)
Net position - beginning of year	36,924,877	27,715,808	27,877,916
Net position - ending	$ 46,149,659	$ 36,924,877	$ 27,715,808

<u>Operating revenues</u>

Overall operating revenues increased $1.2 million (2%) in 2018 compared to an increase of $4.3 million (7%) in 2017 and an increase of $4.8 million (8%) in 2016. Reported revenues are $1.0 million lower than recorded results due to deferring this amount to increase the rate stabilization fund; the $1.0 million is allocated between commercial, disposal, and residential revenues.

The following graph provides a comparison of operating revenue sources for each of the three years:



There was a 3.7% rate increase in residential customers for 2018 and 2017. Revenues from residential customers increased $324,000 in 2018 and $856,000 in 2017. Residential collection revenues increased in 2018 due to increases both the number of customer accounts during the year and rate increase at beginning of the year.

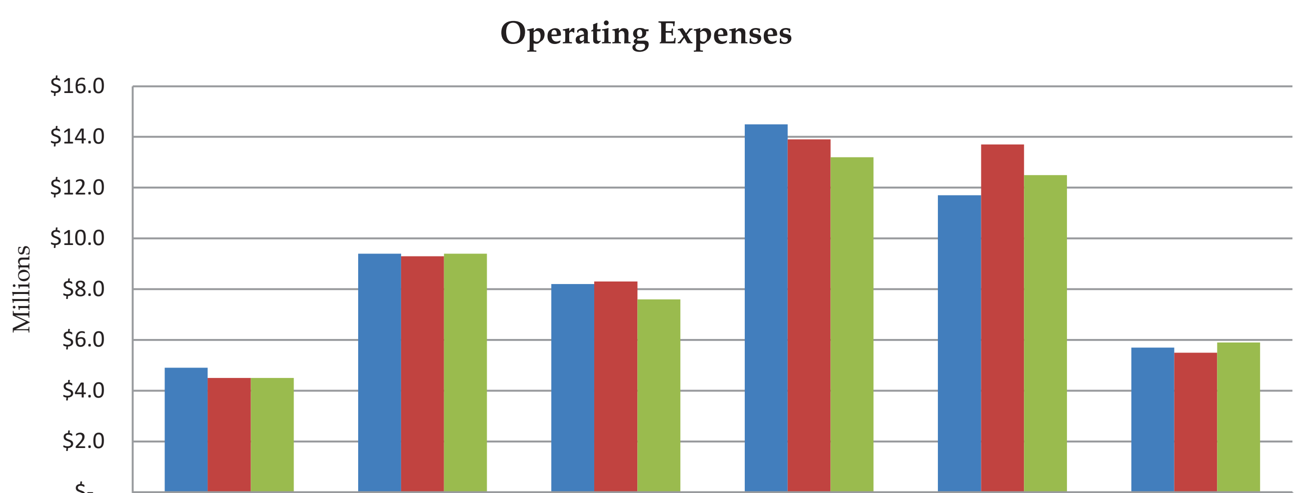
Revenue from commercial customers increased $573,000 in 2018 and $1.7 million in 2017 due to improved economic conditions. It also increased in commercial Drop-of-Box containers that resulted in an increase for commercial collection services revenue.

Disposal revenues increased $567,000 due to continued increases in customer self-hauls during 2018. Scale house rates increased from $15 to $20 per first 100 pounds from 2016 to 2017 resulting in revenues increasing by $1.6 million in 2017.

Salvage revenues decreased $265,000 due to the disruption of the international recycling market resulted in lower price of recyclable materials. In 2017 revenue increased $217,000.

Operating expenses

The following graph provides a three year comparison of operating expenses for the major cost groups.
Total operating costs increased $2.7 million in 2018, compared to decreases of $4.5 million in 2017 and increases of $11.3 million in 2016.



	Commercial collection	Residential collection	Onsite collection	Other collection services	Support services	Depreciation
2018	$4.9	$9.4	$8.2	$14.5	$11.7	$5.7
2017	$4.5	$9.3	$8.3	$13.9	$13.7	$5.5
2016	$4.5	$9.4	$7.6	$13.2	$12.5	$5.9

2018 Activity

Operating expenses were $53.8 million in 2018, an increase of $2.7 million from prior year. Significant changes in operating costs include the following:

- Commercial collection expense increased $366,000 due to labor cost, external contract services in the commercial recycle and Drop-of-Box (box size and frequent pick-up request by customer) that resulted in revenue increases.
- Other collection services expenses increased $553,000 which includes the Tacoma Cares, NCE Abatement, Off-site Transport. The increase is due to external contract services primarily from Waste Connections, Inc. (DBA PCRCD and LRI) and Waste Management. City Fleet service and labor costs also increased due to maintaining and supporting Solid Waste vehicles.

- Support services expenses decreased $2.0 million, primarily a net of a decrease of $3.4 million due to the implementation of GABS Statements No. 75 and No. 85 pension plan and other post-employment benefits (OPEB), and an increase of $1.3 million for the cost for processing residential curbside commingled recycling program.
- Depreciation expense increased $196,000 primarily due to new capital assets capitalized in 2017.
- Landfill post closure costs decreased $629,000 in the total landfill post closure liability compare to a decrease of $4.1 million in 2017 due to the annual evaluation forecast for the next 25 years of the remaining liability.

Nonoperating revenues (expenses)

Interest paid net of capitalized interest on revenue bonds was $2.6 million, a decrease of $247,000 in 2018 compared to a decrease of $1.7 million in 2017. Investment income was $816,000 in 2018 and $397,000 in 2017, an increase of $419,000. This was due to an increase in the cash and investment pool balances. Solid Waste received $118,000 operating grant from Department of Ecology for recycling operation in 2018.

Contributions and Transfers

Solid Waste transferred $5.6 million to general fund for gross earning tax in 2018 compared to $5.4 million in 2017. Solid Waste contributed $230,000 to the City's Asphalts Plant capital project. The project will assist in the effective production of reclaimed asphalt pavement and reclaimed asphalt shingles.

2017 Activity

Operating expenses were $51.1 million in 2017, a decrease of $4.5 million from prior year. Significant changes in operating costs include the following:

- Onsite operation expenses increased $625,000 due to increases in labor, external contract, professional services, licenses and permits, and repair and maintenance costs in both facility maintenance and environmental system cost centers.
- Other collection services expenses increased $739,000 which includes; the Tacoma Cares, NCE Abatement, Off-site Transport. The increase is due to external contract services primarily from Waste Connections, Inc. (DBA PCRCD and LRI) and Waste Management. City Fleet service and labor costs also increased due to maintaining and supporting Solid Waste vehicles.
- Support services expenses increased $1.2 million due to an increases in personnel cost, Center Urban Water rental, and external contract service cost in general administration cost center. Engineering services, environmental policy, and business operation cost centers also increased in labor, communication materials, and professional services.
- Depreciation expense decreased $434,000 primarily due to the termination of Center Urban Water capital lease in 2016.
- Landfill post closure costs decreased $6.6 million in the total landfill post closure liability due to the annual evaluation forecast for the next 26 years of the remaining liability.

Capital assets, net

At the end of 2018, the Division's total capital assets, net of accumulated depreciation were $79.8 million compared to $82.0 million in 2017 and $80.4 million in 2016. See Note 4 in the financial statements for detailed activity in capital assets.

2018 Activity
Balances in 2018 decreased $2.2 million and the significant changes are:

- Landfill infrastructure includes improvement other than buildings increased $533,000 primarily due to completion of Main Receiving Building Tip Floor Resurfacing project.
- Machinery and equipment decreased a net of $1.1 million. Significant changes include:
    - A decrease of $1.5 million for vehicles (purchases of $747,000 less disposals of $2.3 million)
    - An increase of $887,000 for variety of garbage and recycle containers (purchases of $1.6 million less disposals of $716,000)
    - A disposal of $485,000 in machinery and heavy equipment during the year 2018.
- Accumulated depreciation decreased $2.1 million during the year 2018 ($5.7 million current year depreciation and $3.6 million due to disposal of assets).

2017 Activity
Balances in 2017 decreased $1.6 million and the significant changes are:

- Buildings decreased $3.3 million due to the Fraction and Receiving & Conveyor buildings were removed due to the new Transfer Station building completed in 2011.
- Landfill infrastructure includes improvement other than buildings decreased $854,000 primarily due to the removal of the main receiving building roof replacement.
- Machinery and equipment decreased a net of $1.2 million. Significant changes include:
    - An increase of $3.7 million for vehicles (purchases of $5.9 million less disposals of $2.2 million)
    - An decrease of $1.6 million for variety of garbage and recycle containers (purchases of $1.2 million less disposals of $2.8 million)
    - A disposal of $3.7 million in machinery and heavy equipment during the year 2017.
- Computer and software increased $279,000 due to the completion of Tacoma Public Utilities My Account 2.0 capital project which implemented new software for customer payments.
- Accumulated depreciation decreased $6.8 million during the year 2017 ($5.5 million current year depreciation and $13 million due to disposal of assets).
- The construction in progress balance decreased by $106,000 from the prior year.

Debt Administration
At December 31, 2018, the Division had $62.7 million in outstanding revenue bonds of which $2.2 million is due within one year. This compares to $65.5 million in 2017 and $71.0 million in 2016. During 2016, the Division issued Solid Waste Refunding Bonds, Series 2016A and Series 2016B, in the aggregate amount of $55,000,000, to refund and defease a portion of the outstanding Solid Waste Revenue Bonds, Series 2006A and Series 2006B, to pay the costs of issuing the bonds.

The bonds have underlying ratings of A1 by Moody's Investors Service, AA by Standard & Poor's, and AA- by Fitch, Inc. Additional information on the Division's long-term debt can be found in Note 5 of the financial statements.

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 4.53 at the end of 2018. This compares to 2.46 in 2017 and 2.16 in 2016.

Economic Factors Affecting Next Year
On January 1, 2019, rate increases for Solid Waste Management of approximately 3.0% for residential and commercial service went into effect. The rate increases are expected to bring an additional $1.7 million in operating revenues for 2019. The rate increases remain competitive with surrounding jurisdictions.

Due to the disruption of the recyclable materials sold overseas the Solid Waste Management division is in the process of conducting focus group, survey, and feedback for four proposed actions that make changes to the curbside residential recycling program. The City Council will determine what actions will be taken in order to make up for the loss of revenue from the sales of recyclable materials.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray the City of Tacoma Solid Waste Management's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information. The financial statements have been independently audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

Management considers and takes appropriate action on audit recommendations. Management has established and maintains a system of controls which includes organizational, administrative and accounting processes. These controls provide reasonable assurance that records and reports are complete and reliable, that assets are used appropriately and that business transactions are carried out as authorized.

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 98402-277

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Financial Statements

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Net Position

		December 31,		
ASSETS		**2018**		**2017 (As Restated)**
Current assets:				
Cash and equity in pooled investments	$	42,299,873	$	34,179,103
Accounts receivable, net		3,128,101		3,459,305
Accrued unbilled revenue		3,592,069		3,329,619
Due from other funds		70,619		66,742
Restricted cash and equity in pooled investments:				
Debt service funds		393,262		391,339
Customer deposits		59,619		75,380
Construction funds		4,123,884		4,440,868
Total restricted cash and equity in pooled investments		4,576,765		4,907,587
Total current assets		53,667,427		45,942,356
Noncurrent assets:				
Restricted cash and equity in pooled investments:				
Bond reserves		4,723,150		4,723,150
Capital assets:				
Land		2,855,763		2,855,763
Buildings		61,767,413		61,774,244
Landfill infrastructure		68,074,220		67,541,082
Machinery and equipment		52,031,763		53,104,534
Computer software		5,118,297		5,090,833
Less: accumulated depreciation		(110,602,401)		(108,552,721)
Construction in progress		520,840		137,019
Total capital assets, net		79,765,895		81,950,754
Other noncurrent assets:				
Net pension asset		2,240,216		-
Total other noncurrent assets		2,240,216		-
Total assets		140,396,688		132,616,260
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - other post employment benefits		193,712		45,866
Deferred outflows - pensions		2,872,905		5,406,674
Total deferred outflows of resources		3,066,617		5,452,540
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	143,463,305	$	138,068,800

The accompanying notes are an integral part of the financial statements.

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Net Position

		December 31,
LIABILITIES	**2018**	**2017 (As Restated)**
Current liabilities:		
Accounts payable	$ 1,613,575	$ 1,053,655
Accrued wages payable and compensated absences	497,705	488,196
Accrued taxes payable	737,133	706,484
Due to other funds	465,929	252,462
Unearned revenue	246,052	208,386
Customer deposits	37,240	22,969
Accrued landfill postclosure care costs	946,999	875,997
Current portion of long-term debt	1,980,000	1,888,333
Total current liabilities	6,524,633	5,496,482
Current payable from restricted assets:		
Deposits payable	56,942	74,139
Accrued revenue bond interest payable	213,263	221,846
Current portion of long-term debt	180,000	171,667
Total liabilities payable from restricted assets	450,205	467,652
Noncurrent liabilities:		
Long-term debt - revenue bonds, net	60,508,097	63,453,551
Long-term accrued landfill postclosure care costs	14,777,976	15,478,017
Long-term accrued compensated absences	1,206,341	1,105,686
Net pension liability	-	5,161,926
Net OPEB liability	2,611,190	2,401,762
Total noncurrent liabilities	79,103,604	87,600,942
Total liabilities	86,078,442	93,565,076
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	7,000,000	6,000,000
Deferred inflows - OPEB	44,229	-
Deferred inflows - pensions	3,813,369	1,112,221
Deferred inflows - gain on refunding bonds	377,606	466,626
Total deferred inflows of resources	11,235,204	7,578,847
NET POSITION		
Net investment in capital assets	28,216,076	27,775,111
Restricted for:		
Debt service	4,723,150	4,720,977
Net pension asset	2,240,216	-
Unrestricted	10,970,217	4,428,789
Total net position	46,149,659	36,924,877
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 143,463,305	$ 138,068,800

The accompanying notes are an integral part of the financial statements.

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Revenues, Expenses, and Changes in Net Position

	Year-to-Date December 31, 2018	Year-to-Date December 31, 2017 (As Restated)
OPERATING REVENUES		
Residential collection	$ 27,531,425	$ 27,207,208
Commercial collection	29,908,188	29,334,897
Disposal revenues	10,768,887	10,202,062
Salvage revenues	390,266	655,736
Other operating revenue	512,145	494,267
Total operating revenues	69,110,911	67,894,170
OPERATING EXPENSES		
Commercial collection	4,895,496	4,529,282
Onsite operations	8,224,421	8,262,256
Residential collection	9,418,972	9,309,131
Other collection services	14,462,924	13,910,261
Support services	11,740,766	13,724,202
Depreciation	5,669,926	5,473,823
Landfill post closure (credit) costs	(629,039)	(4,146,386)
Total operating expenses	53,783,466	51,062,569
Net operating income	15,327,445	16,831,601
NONOPERATING REVENUES (EXPENSES)		
Investment income	815,802	396,703
Operating grants	118,310	-
Interest paid and other related costs	(2,634,953)	(2,882,163)
Other rental revenues	68,822	66,681
Amortization of premium and refunding gain	874,473	888,129
Other revenues	149,646	3,032
Gain (loss) on sale/disposal of capital assets	346,435	(723,370)
Total nonoperating revenue (expenses)	(261,465)	(2,250,988)
Net income before transfers	15,065,980	14,580,613
Transfers - from (to) other funds	(230,068)	-
Transfers - gross earnings taxes	(5,611,130)	(5,371,544)
CHANGE IN NET POSITION	9,224,782	9,209,069
NET POSITION - JANUARY 1	36,924,877	27,715,808
NET POSITION - DECEMBER 31	$ 46,149,659	$ 36,924,877

The accompanying notes are an integral part of the financial statements.

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Cash Flows

	Year Ended December 31, 2018	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 69,716,928	$ 67,089,599
Payments to suppliers	(27,243,592)	(27,652,146)
Payments to employees	(21,155,120)	(20,595,391)
Payment for taxes	(1,015,193)	(988,186)
Other operating or non-operating revenues	73,813	66,681
Net cash from operating activities	20,376,836	17,920,557
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gross earnings taxes paid	(5,593,419)	(5,385,126)
Interest paid on noncapital debt	(331,918)	(331,917)
Operating grants received	118,310	-
Transfer to other funds	(230,068)	-
Contributions and donations	480	-
Net cash from noncapital financing activities	(6,036,615)	(5,717,043)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,498,332)	(7,778,909)
Principal payments on revenue bonds	(2,060,000)	(4,645,000)
Interest expense, net of capitalized interest	(2,311,626)	(2,571,365)
Proceeds from sale of capital assets	359,700	15,775
Insurance recoveries	144,183	3,119
Net cash from capital and related financing activities	(7,366,075)	(14,976,380)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	815,802	396,703
Net cash from investing activities	815,802	396,703
NET INCREASE/(DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	7,789,948	(2,376,163)
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	43,809,840	46,186,003
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	$ 51,599,788	$ 43,809,840

The accompanying notes are an integral part of the financial statements.

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Cash Flows

	Year Ended December 31, 2018	2017 (As Restated)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEETS:		
Operating funds	$ 42,299,873	$ 34,179,103
Restricted funds	9,299,915	9,630,737
	$ 51,599,788	$ 43,809,840
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income	$ 15,327,445	$ 16,831,601
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	5,669,926	5,473,823
Other non-operating revenues	73,812	66,681
Pension expenses (credits)	(2,167,226)	1,287,563
Net OPEB expense	105,811	235,814
Cash provided from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	331,204	76,113
Accrued unbilled revenue	(262,450)	(398,000)
Due from other funds	(3,877)	(9,093)
Accounts payable	559,920	(985,691)
Accrued wages and compensated absences payable	9,509	100,978
Accrued taxes payable	12,939	(2,440)
Due to other funds	213,467	(565,788)
Unearned revenue	37,666	10,086
Rate stabilization	1,000,000	-
Customer deposits payable	(2,926)	(8,596)
Accrued landfill postclosure care costs	71,002	(549,185)
Long-term accrued compensated absences	100,655	(28,788)
Long-term accrued landfill postclosure care costs	(700,041)	(3,614,521)
Total adjustments	5,049,391	1,088,956
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 20,376,836	$ 17,920,557

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

NOTE 1 SUMMARY OF OPERATIONS

OPERATIONS OF THE SOLID WASTE MANAGEMENT DIVISION - The Solid Waste Management Division (the Division) is presented as an enterprise fund within the Environmental Services Department under the provisions of the City of Tacoma Charter and is included in the City of Tacoma's (the City) Comprehensive Annual Financial Report (CAFR).

The Division provides mandatory solid waste collection and disposal services for residents and commercial and industrial entities since 1929. In 1990, the City expanded the Solid Waste Management system to include curbside pickup of residential yard and garden waste. The Division serves the entire area within the City limits, with a 2018 estimated population of 209,100 persons and an area of approximately 62 square miles, including approximately 12 miles of saltwater areas.

The Division receives certain services from other departments and agencies of the City including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies and, additionally, must pay gross earnings tax to the City. These transactions are required to be arms-length transactions by law.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

ACCOUNTING CHANGES - Effective for the fiscal year 2018, the Division implemented the following new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. Specifically, this statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. It identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefits payments to their actuarial present value, and attribute that present value to periods of employee service. Requirements were also established for note disclosures and required supplemental information. The Division has made the required adjustments as prescribed by GASB Statement No. 75. As a result of this implementation the Net OPEB Obligation was replaced by the total OPEB Liability resulting in a restatement of the December 31, 2017 balances. For further information please see Note 9 Restatements of 2017 Balances.

GASB Statement No. 85 – *Omnibus 2017.* The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (both pensions and other postemployment benefits other than pensions). Where applicable, the Division has made the required adjustments as prescribed by GASB Statement No. 85.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues.* The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which existing resources are placed into an irrevocable trust for the sole purpose of extinguishing debt. It improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and improves the required note disclosures for debt that is defeased in substance. The Division has made the required adjustments as prescribed by GASB Statement No. 86.

The Division adopted GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, during fiscal year 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

CASH AND EQUITY IN POOLED INVESTMENTS - The Division's fund cash balances are a "deposit" with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issue by any State or Local Government with an A or better rating , Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP). Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the City's Investment Pool in the LGIP and in certificates of deposit with East West Bank and Opus Bank.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2018 and 2017 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma Investment Policy allows for authorized investments up to 60 months to maturity. One method the City uses to manage its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Repurchase agreements and commercial paper are protected by the FDIC insurance up to $250,000.

All deposits not covered by the FDIC are covered by the WSPDPC. The WSPDPC is a statutory authority established under RCW 39.58. It constitutes a fully insured or fully collateralized pool. The WA State Treasures LGIP is authorized by RCW 43.250. The LGIP is operated like a 2A7 fund and is collateralized by short-term legal investments.

ACCOUNTS RECEIVABLE AND UNBILLED REVENUE - Accounts receivable consist of amounts owed by individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally, accounts receivable are considered past due after 30 days.

INTERFUND AND INTERGOVERMENTAL TRANSACTIONS - Unsettled transactions between entities at year end are recorded as due to or due from either other funds or other governmental units as appropriate.

RESTRICTED ASSETS - In accordance with bond covenants, agreements, and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds, and customer deposits.

BOND PREMIUM AND GAIN/LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Gains or losses on bond refunding represent the difference between reacquisition price and the carrying value of the old debt and are amortized on a straight-line basis over the applicable bond period, and are presented as deferred inflows/outflows on the statement of net position.

RATE STABILIZATION FUND - The Division has established a rate stabilization account to better match revenues and expenses which may reduce volatility in rates. Amounts deposited into the account are excluded from the Statement of Revenues, Expenses and Changes in Net Position in accordance with regulated operation. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions.

CAPITAL ASSETS AND DEPRECIATION - Capital assets consist of utility plant and are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of capital assets contributed is recorded at donated fair value. The cost of maintenance and repairs is charged to expense as incurred while the costs of improvements, additions and major renewals that extend the life of an asset are capitalized.

Assets are capitalized when costs exceed $5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method based upon estimated useful lives of the assets. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The estimated useful lives range as follows:

	Years
Buildings and Improvements	20 - 50
Resource Recovery Facility	5 - 50
Vehicles	5 - 10
Containers and Equipment	5 - 10
Other Assets	3 - 10

CONSTRUCTION IN PROGRESS - Capitalizable costs incurred on projects which are not in service or ready for use are held in construction in progress. When the asset is ready for service, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

ASSET VALUATION - The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

CAPITAL CONTRIBUTIONS - In accordance with Generally Accepted Accounting Principles, capital grants and capital contributions are recorded as capital contributions.

COMPENSATED ABSENCES - The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned.

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. Sick leave pay is recorded as a liability and an expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

OPERATING REVENUES - Revenues are derived from providing solid waste services to both residential and commercial customers. Residential rates are based on the size of the garbage container and include services for recycling, yard waste and costs for other special programs. Commercial rates are based on the garbage container type and frequency of collection with additional charges for recycling services. Customers are billed on bi-monthly or monthly billing cycles.

The rate structure is designed to meet the Division's needs and obligations on a cost-of-service basis while adhering to legal requirements. These legal requirements include computing rates on a reasonable basis, charging rates uniformly within classes, and using the revenues for utility and regulatory purposes. In addition, there may be laws imposed by the State, City Charter or to meet grant or bond requirements.

The City has a parity bond ordinance that it will establish, maintain and collect rates or charges in connection with the ownership and operation of the utility to 1) pay the cost of maintenance and operation of the utility, 2) to make all payments required to be made for the parity bonds, 3) to make all payments required to be made on any other junior debt, and 4) to prepay debt, invest in improvement projects to utility assets, make payments to the Solid Waste Rate Stabilization Fund, or other lawful City purposes including payment of legal claims and judgments against the utility.

NON-OPERATING REVENUES AND EXPENSES – The Division reports transactions not directly related to primary services as non-operating revenues and expenses. Significant items include investment and rental income and interest expense.

TAXES - The City charges the Division a gross earnings tax at the rate of 8.00%. The Division also pays business and occupation taxes to the State, 1.50% on service revenues and 0.47% on retail revenues. The Division is exempt from payment of federal income tax.

NET POSITION - The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Net position components are reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

ARBITRAGE REBATE REQUIREMENT - The Division is subject to the Internal Revenue Code (IRC) related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Division would record such a rebate as a liability. The Division had no liability in the current or prior year.

LANDFILL POST-CLOSURE CARE COSTS - The Division is required to expense a portion of the estimated closure and post-closure costs in each period that the landfill accepts solid waste. The Division has been reporting a portion of these costs as a liability and as an operating expense since 1994. As of December 31, 2018, the landfill is at 100% of capacity, closed, and capped and 25 years remaining for post closure monitoring.

SHARED SERVICES - The Division is charged for services received from other departments and agencies of the City, including those normally considered to be general and administrative.

USE OF ESTIMATES - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefits (OPEB Liability), self-insurance liabilities, accrued landfill post closure care costs, net pension liability and other contingencies. Actual results may differ from these estimates.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

RECLASSIFICATIONS - Changes have been made to prior year account classifications as needed to conform to the current year presentation format.

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

- Level 2 - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.

- Level 3 - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations of City’s investments in TIP are provided by Interactive Data.

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

Data regarding the City's investments in the TIP valued and categorized according to the above outlined levels is below:

Debt Securities:	As of 12/31/2018	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 282,822,308	$ -	$ 282,822,308	$ -
Supranational Securities	19,814,100	-	19,814,100	-
Municipal Bonds	35,748,647	-	35,748,647	-
Agency Securities	447,015,280	-	447,015,280	-
Corporate Securities	24,607,491	-	24,607,491	-
Total	$ 810,007,826	$ -	$ 810,007,826	$ -

Debt Securities:	As of 12/31/2017	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 218,142,864	$ -	$ 218,142,864	$ -
U.S. Agency Securities	517,345,818	-	517,345,818	-
Supranational Securities	19,966,040		19,966,040	
Municipal Bonds	40,760,727	-	40,760,727	-
Total	$ 796,215,449	$ -	$ 796,215,449	$ -

The Division's share of the City's investments shown in the table above is 4.86% and 4.73% as of December 31, 2018 and 2017.

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2018 and 2017 follows:

	2017	Additions	Retirements	Transfers & Adjustments	2018
Capital assets, not being depreciated:					
Land	$ 2,855,763	$ -	$ -	$ -	$ 2,855,763
Construction in progress	137,019	3,498,332	-	(3,114,511)	$ 520,840
Total capital assets, not being depreciated	2,992,782	3,498,332	-	(3,114,511)	3,376,603
Capital assets, being depreciated:					
Buildings	61,774,244	-	(6,831)	-	61,767,413
Landfill infrastructure	67,541,082	-	(118,249)	651,387	68,074,220
Machinery and equipment	53,104,534	-	(3,469,479)	2,396,708	52,031,763
Computer software	5,090,833	-	(38,952)	66,416	5,118,297
Total capital assets, being depreciated	187,510,693	-	(3,633,511)	3,114,511	186,991,693
Less: accumulated depreciation	(108,552,721)	(5,669,926)	3,620,246	-	(110,602,401)
Total capital assets, being depreciated, net	78,957,972	(5,669,926)	(13,265)	3,114,511	76,389,292
Total capital assets, net	$ 81,950,754	$(2,171,594)	$ (13,265)	$ -	$ 79,765,895

	2016	Additions	Retirements	Transfers & Adjustments	2017
Capital assets, not being depreciated:					
Land	$ 2,855,763	$ -	$ -	$ -	$ 2,855,763
Construction in progress	242,686	7,607,382	-	(7,713,049)	137,019
Total capital assets, not being depreciated	3,098,449	7,607,382	-	(7,713,049)	2,992,782
Capital assets, being depreciated:					
Buildings	65,076,625	-	(3,302,381)	-	61,774,244
Landfill infrastructure	68,395,145	-	(898,697)	44,634	67,541,082
Machinery and equipment	54,315,362	-	(8,772,184)	7,561,356	53,104,534
Computer software	4,812,248	-	-	278,585	5,090,833
Total capital assets, being depreciated	192,599,380	-	(12,973,262)	7,884,575	187,510,693
Less: accumulated depreciation	(115,313,016)	(5,473,823)	12,234,118	-	(108,552,721)
Total capital assets, being depreciated, net	77,286,364	(5,473,823)	(739,144)	7,884,575	78,957,972
Total capital assets, net	$ 80,384,813	$ 2,133,559	$ (739,144)	$ 171,526	$ 81,950,754

NOTE 5 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2018 and 2017 follows:

	2017	Additions	Reductions	2018	Due within One Year
Revenue bonds	$ 57,360,000	$ -	$ (2,060,000)	$ 55,300,000	$ 2,160,000
Plus: Unamortized premium	8,153,551	-	(785,454)	7,368,097	-
Total long-term debt	$ 65,513,551	$ -	$ (2,845,454)	$ 62,668,097	$ 2,160,000

	2016	Additions	Reductions	2017	Due within One Year
Revenue bonds	$ 62,005,000	$ -	$ (4,645,000)	$ 57,360,000	$ 2,060,000
Plus: Unamortized premium	9,021,204	-	(867,653)	8,153,551	-
Total long-term debt	$ 71,026,204	$ -	$ (5,512,653)	$ 65,513,551	$ 2,060,000

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt
2019	$ 2,160,000	$ 2,559,150	$ 4,719,150
2020	2,270,000	2,451,150	4,721,150
2021	2,315,000	2,405,750	4,720,750
2022	2,410,000	2,313,150	4,723,150
2023	2,530,000	2,192,650	4,722,650
2024-2028	13,700,000	9,115,250	22,815,250
2029-2033	17,150,000	5,421,250	22,571,250
2034-2036	12,765,000	1,029,350	13,794,350
	$ 55,300,000	$ 27,487,700	$ 82,787,700

The Division's long-term debt at December 31, 2018 and 2017 consists of the following payable from revenues of the Division.

	2018	2017
2015 Revenue Bonds, with an interest rate from 2% to 5% due in yearly installments of $1,960,000 to $2,760,000 from 2017 through 2025. Original par value $21,095,000. Bonds issued as "green bonds" to fund certain capital improvements in support of environmental sustainability, fund a bond reserve, and pay the costs of issuance. Callable on June 1, 2025.	17,075,000	19,135,000
2016 Series A Refunding Bonds, with interest rates ranging from 3.0% to 5.0% Principal payments range between $2,905,000 to $4,465,000 between 2031 and 2036. Original par value value $23,200,000. Purpose was to refund a portion of the 2006 Series A Bonds and to pay cost of issuance.	23,200,000	23,200,000
2016 Series B Refunding Bonds, with interest rates at 5.0%. Principal payments range between $460,000 to $3,205,000 between 2026 and 2031. Original par value value $15,025,000. Purpose was to refund a portion of the 2006 Series B Bonds and to pay cost of issuance.	15,025,000	15,025,000
Total revenue bonds outstanding	55,300,000	57,360,000
Less:		
Current portion	(1,980,000)	(1,888,333)
Current portion payable from restricted assets	(180,000)	(171,667)
Plus: Unamortized premium	7,368,097	8,153,551
Total long-term debt - Revenue Bonds	$ 60,508,097	$ 63,453,551

Moody’s Investors Service, Standard & Poor’s and Fitch Ratings have assigned ratings of “A1,” “AA” and “AA-”, respectively.

Defeased and outstanding bonds constitute a contingent liability of the Division only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements and therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of fiscal year-end December 31, 2018, the Division did not have any outstanding defeased debt.

The Division’s revenue bonds are secured by net operating income and cash and equity in pooled investments balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2018 or 2017.

NOTE 6 INSURANCE

The major risks to the Division are flooding, recontamination, wind damage, chemical spills, and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled $147,553 for 2018 and the same amount for 2017. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City maintains an excess general liability policy with limits of $20 million any one occurrence, subject to a self-insured retention of $3 million and a $20 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with retention of $1 million each occurrence plus an additional $250,000 of total loss each 12 month policy period. The City carries property coverage with a maximum single occurrence limit of $500 million with a sublimit of $150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies is $8,197 in 2018 and $7,702 in 2017.

NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

The Tacoma Employees' Retirement System (TERS), a pension trust fund of the City of Tacoma, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information may be obtained by writing to:

Tacoma Employee's Retirement System
3628 South 35th Street
Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

ADMINISTRATION OF THE SYSTEM - The "Tacoma Employees' Retirement System" is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the Retirement System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

The breakdown of membership as of December 31, 2017 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits		2,396
Terminated vested and other terminated participants		715
Active members:		
City of Tacoma	2,677	
Pierce Transit	8	
South Sound 911	2	
Tacoma-Pierce County Health Department	261	
Total active members		2,948
Total membership		6,059

MEMBERSHIP - Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments.

BENEFITS - There are two formulas to calculate the retirement benefits. The benefit paid will be issued on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest, consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 41.54 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

CONTRIBUTIONS - The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council.

At its November 28, 2017 meeting, the Tacoma City Council approved an increase in the total contribution rate from 20% of pay to 21% of pay effective February 1, 2018. The contribution rate continues to be divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code

SIGNIFICANT ASSUMPTIONS - The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2017
Valuation Date	January 1, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows*: • Level percent • Open periods • 25 year amortization period* • 3.75% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.75%
Salary Increases	Varies by service
Investment Rate of Return	7.00%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender
Mortality	RP-2014 Mortality for Employees, Healthy and Disabled Annuitants. Generational improvements with projection scale based on Social Security Administration Data.

**The actual contribution is used if that rate is greater than the rate necessary to amortize the UAAL. Note that the UAAL amortization period is 30 years for years 2017 and earlier and 25 for years beginning January 1, 2018 and later.*

BENEFIT AND ASSUMPTION CHANGES - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2018 valuation date and December 31, 2017. Therefore, no adjustments were needed from the January 1, 2018 actuarial valuation date to the calculated liabilities as of December 31, 2017 (measurement date). There were changes between the January 1, 2017 and January 1, 2018 valuation dates. Those changes were reflected in the January 1, 2018 actuarial valuation and are discussed below.

The UAAL amortization period changed from 30 years to 25 years for years beginning January 1, 2018 and later.

At its June 8, 2017 meeting, the TERS Board approved updates to the service purchase factors and optional form factors effective January 1, 2018. The Board also approved updated factors for use in converting member contributions with interest into the unmodified benefit form for comparison to the service retirement benefit. This change will be effective January 1, 2020.

TARGET ALLOCATIONS - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2017. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2016.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment Grade Fixed Income	15.0%	2.06%
US Inflation-Indexed Bonds	5.0%	1.36%
High Yield Bonds	9.0%	4.69%
Emerging Market Debt	5.0%	3.39%
Global Equity	41.5%	4.95%
Public Real Estate	2.0%	5.55%
Private Real Estate	2.5%	3.83%
Private Equity	10.0%	8.88%
Master Limited Partnerships	4.0%	4.20%
Timber	2.0%	4.04%
Infrastructure	2.0%	4.89%
Agriculture	2.0%	4.54%
Assumed Inflation - Mean		2.75%
Assumed Inflation - Standard Deviation		1.85%
Portfolio Arithmetic Real Mean Return		4.56%
Portfolio Median Nominal Geometric Return		6.68%
Portfolio Standard Deviation		11.77%
Long-Term Expected Rate of Return, net of investment expenses		7.00%

SENSITIVITY ANALYSIS - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 7%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability (asset)	$ 9,108,317	$ (2,240,216)	$ (11,723,480)

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	$ (1,241,348)	$ -
Changes of assumptions	-	1,366,510
Net Difference Between Projected and Actual Earnings	(2,570,641)	-
Changes in Employer Proportion	(1,380)	1,588
Contributions Made Subsequent to the Measurement Date	-	1,504,807
Total	$ (3,813,369)	$ 2,872,905

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next four years.

Amounts will be recognized in pension expense as follows:

2019	$ (175,442)
2020	(30,964)
2021	(1,158,950)
2022	(1,022,291)
2023	(57,624)
Thereafter	-
	$ (2,445,271)

The proportionate share of the Solid Waste is 5.70% of total System's pension liability as of December 31, 2018 and 5.56% as of December 31, 2017. The proportionate share was based on the actual contributions for the year as of December 31, 2018.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION - The City provides the opportunity to receive medical benefits to most of its retirees until age 65. Eligibility and the amount of benefits paid by the City vary by group (TERS, LEOFF 1, LEOFF 2, or Rail employees). The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of both actives and retirees. Since health claims costs generally increase with age, retiree health premiums would be significantly higher if they were determined without regard to active claims experience. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2017 for non-LEOFF 1 members includes 3,490 active participants, 476 deferred retirees, 150 retirees, and 105 spouses of current retirees. The membership as of January 1, 2018 for LEOFF 1 members includes 1 active participant and 406 retirees.

This plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

Actuarial Assumptions and Other Inputs - The Valuation Date is January 1, 2017 for non-LEOFF 1 members and January 1, 2018 for LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement Date is December 31, 2017. This is the date as of which the total OPEB liability is determined. Note that GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date. The Reporting Date is December 31, 2018. This is the Division's fiscal year ending date.

There have been no significant changes between January 1, 2017 (valuation date) and December 31, 2017 (measurement date). If there were significant changes, an additional analysis or valuation might be required.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2017 and January 1, 2018 furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2017
Census Date:	January 1, 2017
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate:	3.44% for pay-as-you-go funding
Medical Cost Trend:	2017 9.10%
	2018 6.40%
	2019 5.80%
	2020 5.30%
	2030 5.40%
	2040 5.50%
	2050 5.20%

Note that the trend for year 2017 reflects the amount by which 2018 medical cost are expected to exceed 2017 medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.40% in 2073 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions -
Discount Rate (Liabilities): 3.44%

Demographic Assumptions: Eligibility:

Disability - Five years of service are required for non-service connected disability.

Retirement - TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits).

- 30 years of service
- 60 years of age
- Age + Service = 80 years
- Age 55 with 10 years of service
- Age 40 with 20 years of service

Former members who are entitled to a deferred vested pension benefit are also eligible to receive medical benefits after pension benefit commencement.

Survivors of members who die prior to retirement are eligible for medical benefits.

The discount rate was based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Changes of Assumptions: The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources
At December 31, 2018 the Division reporting a liability of $2,611,190 for its proportionate share of the collective total OPEB liability of $220.8 million. The OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of January 1, 2017. At December 31, 2016 the participating Division's proportion was 1.14792% as compared to 1.18254% at December 31, 2017. For the year ended December 31, 2018 the participating Division recognized an OPEB expense of $105,811.

At December 31, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	$ -	$ -
Changes of assumptions	-	89,579
Changes in Employer Proportion	-	60,560
Differences in Contributions	(44,229)	-
Contributions Made Subsequent to the Measurement Date	-	43,573
Total	$ (44,229)	$ 193,712

The Division reported $43,573 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2019	$ 20,547
2020	$ 20,547
2021	$ 20,547
2022	$ 20,547
2023	$ 20,547
Thereafter	$ 2,054
	$ 104,789

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Discount Rate
The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 3.44%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.44%) or one percentage point higher (4.44%) than the current rate.

	1% Decrease 2.44%	Current Discount Rate 3.44%	1% Increase 4.44%
Net OPEB liability	$ 2,969,463	$ 2,611,190	$ 2,314,182

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates
The following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB liability	$ 2,297,622	$ 2,611,190	$ 2,986,542

Excise Tax for High Cost or "Cadillac" Health Plans in 2020 and Beyond – An excise tax for high cost health coverage or "Cadillac" health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The Consolidated Appropriations Act (CAA), which was signed into law in December 2015, delays the tax for two years, until 2020.

GASB Statement No. 75, indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current "substantive" plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

There is significant uncertainty with respect to the excise tax at this time. President Trump recently signed an executive order which gives instruction to the leaders of the new administration to unwind certain aspects of the ACA, especially those components deemed "burdensome." It remains unclear how this would be implemented, especially due to the interconnected nature of the ACA. The City has continued to value the excise tax as it currently appears in the tax code, but will monitor this situation carefully going forward.

NOTE 9 RESTATEMENTS OF 2017 BALANCES

Due to the Divisions adoption of GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, the 2017 financial statements and its net position as of December 31, 2017 were restated to conform to the reporting requirements.

Revised balances are shown in the following schedule:

	As Previously Reported	Restatement Adjustment	As Restated
STATEMENT OF NET POSITION			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - other post employment benefits	$ -	$ 45,866	$ 45,866
NONCURRENT LIABILITIES			
Net OPEB liability	2,236,867	164,895	2,401,762
NET POSITION - End of year	37,043,906	(119,029)	36,924,877
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING EXPENSES			
Support services	$ 13,605,173	$ 119,029	$ 13,724,202

NOTE 10 LANDFILL POST-CLOSURE CARE LIABILITIES

The Division operates a 235-acre landfill site, which became part of the South Tacoma Channel Superfund Site in 1983. In 1991, the City entered a Consent Decree settlement with the United States Environmental Protection Agency (EPA) and the Washington State Department of Ecology (DOE), titled United States et al v. City of Tacoma US District Court Case No. C-89C583T, to “clean-up” the release of hazardous substances at the Landfill. The City completed the majority of the remediation work required by the Consent Decree several years ago. The remaining work mostly involves monitoring the remediation work completed by the City in the 1990s to assure that it continues to protect human health and the environment. The Consent Decree settlement was entered pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. §9601 et seq., and the state Model Toxics Control Act (MTCA), Chapter 70.105D RCW.

The City’s remediation work has included: (1) covering the landfill with a double flexible membrane cap that is impermeable to water; (2) capturing methane gas within and at the landfill perimeter to prevent off-site migration; (3) pumping and treating ground water to remove contamination at the point of compliance and beyond property boundaries; and (4) closing the landfill in accordance with the above-referenced Consent Decree. The City has an obligation under the Consent Decree to monitor the remediation work over the next 20 years, or more years to make sure it continues to be effective at protecting human health and the environment.

The costs for ongoing maintenance of the Tacoma Landfill are not expected to require rate increases above those already projected. The City will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. The City's on-going monitoring efforts indicate the remedial actions undertaken by the City at the Tacoma Landfill are performing as designed.

In 2014, following closure of the portions of the Tacoma Landfill as required by the Consent Decree, the remaining recovery and transfer facilities continued to be permitted by the Tacoma Pierce County Health Department (TPCHD) through the same permitting process. All closed portions of the Landfill will also be covered by a TPCHD closure permit, which may be incorporated into the overall facility permit. The closure permit will mirror the requirements implemented as a result of the Landfill remedial action. The Tacoma-Pierce County Health Department has determined that the Tacoma Landfill is exempt under RCW 70.105D and WAC 173-351-700(4)(c) from TPCHD closure permit requirements. However, the City and the TPCHD are working cooperatively on an agreement pursuant to which the City will voluntarily comply with the TPCHD closure permit requirements.

Long-term plans for the closed capped areas of the Tacoma Landfill include recreational facilities, such as trails and playfields, as well as other governmental facilities, such as greenhouses for grounds maintenance operations. All development on the Tacoma Landfill site must be designed to accommodate differential settlement and allow for continued functioning of the environmental remediation systems.

The Division reported $15,724,975 as landfill post-closure care liability as of December 31, 2018 based on 100% use of the total capacity of the Tacoma Landfill. This compares to $16,354,014 at December 31, 2017 based on 100% of capacity. Actual care costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Division will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. To meet the previous requirements of State and Federal laws and regulations, contributions were made to a reserve for financing closure costs.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Long-term Contract - Land Recovery, Inc. - In February 2000, the Division entered into a 20-year contract with Land Recovery, Inc. (LRI) to dispose of all "acceptable waste" collected or handled by the Division (as that term is defined in the agreement), at the 304th Street landfill operated by LRI. The Division entered into this agreement to extend the life of the Tacoma Landfill and to secure a long-term disposal arrangement at a favorable disposal cost. The agreement excludes solid waste that LRI is not authorized by law or permit to receive, or which could create or expose LRI or the Division to potential liability, among other things. Recycling and/or composting waste is not covered by the agreement. The agreement further provides that LRI shall charge a base rate per ton for disposal services, and that said rate shall decrease as the tonnage increases during each contract year. The agreement also provides that the base rate charged by LRI shall increase annually based on the Seattle-Tacoma CPI. The rate per ton is periodically increased by LRI to cover certain increased costs, including the increased cost of landfill closure liabilities. These rate adjustments are part of the existing agreement.

Long-term Contract - Pierce County Recycling, Composting and Disposal - In October 2004 the Division entered into a ten (10) year agreement with Pierce County Recycling Composting and Disposal (PCRCD) LLC to accept organic material collected by the City curbside or delivered to the City's landfill for processing into compost. Under the agreement, which has two 5-year renewal options, PCRCD will charge a base rate per ton for the organic waste it receives from the City. This price may be adjusted beginning on the second anniversary of the agreement, and thereafter annually based on the Seattle-Tacoma-Bremerton CPI. The agreement also includes a revenue sharing component. The Division entered into this agreement to extend the life of the Tacoma landfill and secure a long-term composting arrangement at a favorable cost through 2030.

NOTE 12 LITIGATION AND CLAIMS

Landfill Clean Air Act Enforcement Action

Puget Soundkeeper Alliance v City of Tacoma, Clean Water Act Litigation; Federal District Court, Western District Wash., Case No. 3:16-cv-05195-RBL. On January 14, 2016, the City of Tacoma received a notice of Intent to Sue from Puget Soundkeeper Alliance ("Soundkeeper"). The Notice was filed pursuant to 33 U.S.C. Section 1365 of the Clean Water Act. This act allows third parties to bring claims against municipalities for violation of National Pollution Discharge Elimination System ("NPDES") Permits and order issued pursuant to the Clean Water Act. Plaintiffs filed suit against the City on March 15, 2016. A consent decree was filed February 9, 2017 settling all claims. The Consent Decree includes on-going obligations of the City to update its pretreatment program which the City has undertaken. The Consent Decree will terminate on May 11, 2019.

Because of the nature of its activities, the Division is subject to various pending and threatened legal actions, which arise in the ordinary course of business. The Division believes, based on the information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the Division, but could be material to results of operations or cash flows for a particular annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim.

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Required Supplementary Information

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Solid Waste Management
Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset) as a percentage	5.70%	5.56%	5.52%	5.50%
Employer's proportion share of net pension liability (asset)	($2,240,216)	$5,161,926	$4,779,164	($529,445)
Employer's covered payroll **	$13,465,213	$12,772,077	$12,948,158	$12,591,124
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	-16.64%	40.42%	36.91%	-4.20%
Plan fiduciary net position as a percentage the total pension liability	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31st,			
	2018	2017	2016	2015
Contractually required employer contribution	$1,504,807	$1,340,723	$1,303,538	$1,253,635
Contributions in relation to the contractually required employer contribution	(1,504,807)	(1,340,723)	(1,303,538)	(1,253,635)
Employer contribution deficiency (excess)	-	-	-	-
Employer's covered employee payroll	$13,968,588	$13,465,213	$12,772,077	$12,948,158
Employer contribution as a percentage of covered-employee payroll	10.77%	9.96%	10.21%	9.68%

** The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.*

*** Due to implementation of GASB 82, the Division's covered employee payroll has been adjusted for fiscal years 2016 and 2015 to conform with GASB 82.*

Solid Waste Management
Required Supplementary Information

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	Fiscal Year Ended December 31st,	
	2018	2017
Employer's proportion of the collective OPEB liability as a percentage	1.18%	1.15%
Employer's proportion share of collective OPEB liability	$2,611,190	$2,401,762
Employer's covered-employee payroll	$13,968,588	$12,773,370
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	18.69%	18.80%

** The above schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Division will present information for available years.*

Notes to Required Supplementary Information
For the Fiscal Year Ended December 31, 2018

There are no assets accumulated in a trust to pay related benefits.

Changes of benefits terms: There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions: The discount rate was updated to 3.44% from 3.78%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

Unaudited Supplemental Information

Solid Waste Management
Unaudited Supplemental Information

City of Tacoma, Washington Solid Waste Revenue Bonds, Series 2015
City of Tacoma, Washington Solid Waste Revenue Refunding Bonds, Series 2016A
City of Tacoma, Washington Solid Waste Revenue Refunding Bonds, Series 2016B

The following continuing disclosure information for 2018 is provided in accordance with SEC Rule 15c2-12(b)(5)

Outstanding Solid Waste Bonds
Reference Note 5 in Notes to Financial Statements

Debt Service Coverage

	2017 (As Restated)	2018
Parity Bond Debt Service Coverage Ratio	2.46	4.53
Parity Bond Debt Service Coverage Ratio Before Rate Stabilization		4.74

Number of Customers by Type of Service
The System's number of customers for 2018 by type of service is shown below:

Customer Class	2017	2018
Residential	55,608	55,896
Commercial	5,363	5,346
Total Customers	60,971	61,242

Top Ten Customers
The System's ten largest customers for 2018 are shown in the following table.

Customer Name	Amount	Percent of 2018 Operating Revenues [1]
Multicare Health Systems	$ 828,959	1.20%
Puyallup Tribe	749,719	1.08%
St Joseph Medical	585,387	0.85%
Goodwill	454,389	0.66%
City of Tacoma	434,695	0.63%
Tacoma School District	416,069	0.60%
Salishan	335,311	0.49%
Tacoma Mall Partnership	321,334	0.46%
Westrock CP LLC	280,459	0.41%
Oscar T Hokold	251,027	0.36%
Total Revenue	$ 4,657,349	6.74%

[1] Total system revenue $ 69,110,911

Revenues by Service

	2017	2018 [1]
Residential Collection	$ 27,207,208	$ 27,531,425
Commercial Collection	29,334,897	29,908,188
Disposal Revenue	10,202,062	10,768,887
Salvage Revenue	655,736	390,266
Other Operating Revenue	494,267	512,145
Total Operating Revenues	$ 67,894,170	$ 69,110,911

(1) After $1,000,000 decrease for increase to rate stabilization.

Municipal Solid Waste was disposed of as follows:

	2017	2018
Solid Waste	192,773	202,089
Recycling	32,034	31,097
Yard Waste	32,224	31,540
Total	257,031	264,726

Solid Waste Rates

Rates become effective January 1 of each year and are net of refuse collection taxes.

	2017		2018	
	Rate Per 100 Pounds	Minimum Charge	Rate Per 100 Pounds	Minimum Charge
Garbage Disposal				
City of Tacoma Resident [1]	$ 7.25	$ 20.00	$ 7.25	$ 20.00
Non-City of Tacoma Resident	7.25	20.00	7.25	20.00
Commercial	7.25	20.00	7.25	20.00
Yard Waste				
City of Tacoma Resident	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Non-City of Tacoma Resident	7.25	20.00	7.25	20.00
Commercial	7.25	20.00	7.25	20.00

(1) For City residents, the minimum charge includes the first 400 pounds.

Solid Waste Capital Expenditures of 2015 "Green" Bonds
The "green" bonds were spent on the following projects:

Description	2016 and Prior	2017	2018
Green Facilities [(1)]	$ 3,933,937		
Diesel Hybrid Collection Vehicles (8)	3,450,734		
CNG Fork Box Truck	307,323		
Tier 4 Emissions Onsite Equipment	373,549		
CNG Drop Off Box Trucks (2 / 5/ 2)	1,997,134	$ 563,754	
CNG Front Loaders (2)	672,767		
CNG Rear Loaders (4)	1,293,030		
Diesel Tractors (6)		1,040,022	
CNG Scorpion Automated Side-Loaders (4)		1,487,618	
CNG Rotopack Automated Side-Loaders (8)		2,757,563	$ 391,505
	$ 12,028,474	$ 5,848,957	$ 391,505

(1) CNG Fuel Station, Recycling Roof and Food Optimization.