SURFACEWATER SOLIDWASTE WASTEWATER

TACOMA ENVIRONMENTAL SERVICES DEPARTMENT

Solid Waste Management
Annual Financial Report

For the fiscal year ended December 31, 2016

Prepared by the Finance Department

City of Tacoma, Washington
Environmental Services Department
Solid Waste Management

Table of Contents

This page intentionally left blank.

Independent Auditor's Report

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Environmental Services, Solid Waste Management (the Division), which comprise the statements of net position as of December 31, 2016 and 2015, 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.

Auditors' 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. Those standards require that we plan and perform the audits 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 Division as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of Division's proportionate share of net pension liability (asset), and schedule of Division's contributions 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 presented on pages 51 through 52 is not a required part of the financial statements, but is supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Moss Adams LLP

Tacoma, Washington
May 19, 2017

This page intentionally left blank.

Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Solid Waste Management
Management's Discussion and Analysis
December 31, 2016 and 2015

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, 2016 and 2015. 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, 2016 and 2015, 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.

The Division adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See note 3).

Financial Highlights

- Total net position decreased by $162,000 to $27.7million in 2016 compared to an increase of $8.1 million to $27.9 million in 2015 and a decrease of $333,000 to $19.7 million in 2014.
- Operating revenues were $63.6 million in 2016, $58.7 million in 2015 and $56.8 million in 2014.
- Cash and equity in pooled investments was $46.2 million at December 31, 2016 compared to $49.9 million in 2015 and $33.6 million in 2014.

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, 2016	December 31, 2015	December 31, 2014
Current, restricted, and other assets	$ 52,710,689	$ 57,171,518	$ 40,740,273
Net capital assets	80,384,813	85,146,303	82,080,043
Total assets	133,095,502	142,317,821	122,820,316
Deferred outflows of resources	5,587,736	1,400,309	218,093
Total assets and deferred outflows of resources	$ 138,683,238	$ 143,718,130	$ 123,038,409
Long-term liabilities	$ 93,507,462	$ 99,531,855	$ 87,315,785
Other liabilities	10,584,384	9,749,432	9,985,441
Total liabilities	104,091,846	109,281,287	97,301,226
Deferred inflows of resources	6,875,584	6,558,927	6,000,000
Total liabilities and deferred inflows of resources	110,967,430	115,840,214	103,301,226
Net position:			
Net investment in capital assets	26,773,007	29,325,085	27,570,909
Restricted	6,134,655	7,309,857	6,780,399
Unrestricted	(5,191,854)	(8,757,026)	(14,614,125)
Total net position	27,715,808	27,877,916	19,737,183
Total liabilities, deferred inflows of resources, and net position	$ 138,683,238	$ 143,718,130	$ 123,038,409

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by $27.7 million in 2016, compared to $27.9 million in 2015, and $19.7 million in 2014. The Division's net position decreased by $162,000 in 2016 compared to an increase of $8.1 million to $27.9 million in 2015 and a decrease of $333,000 to $19.7 million in 2014. 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 $26.7 million in 2016, $29.3 million in 2015, and $27.6 million in 2014. 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 $6.1 million for 2016, compared to $7.3 million in 2015, and $ 6.8 million in 2014 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of $(5.2) million for 2016, $(8.8) million for 2015, and $(14.6) million for 2014 is unrestricted.

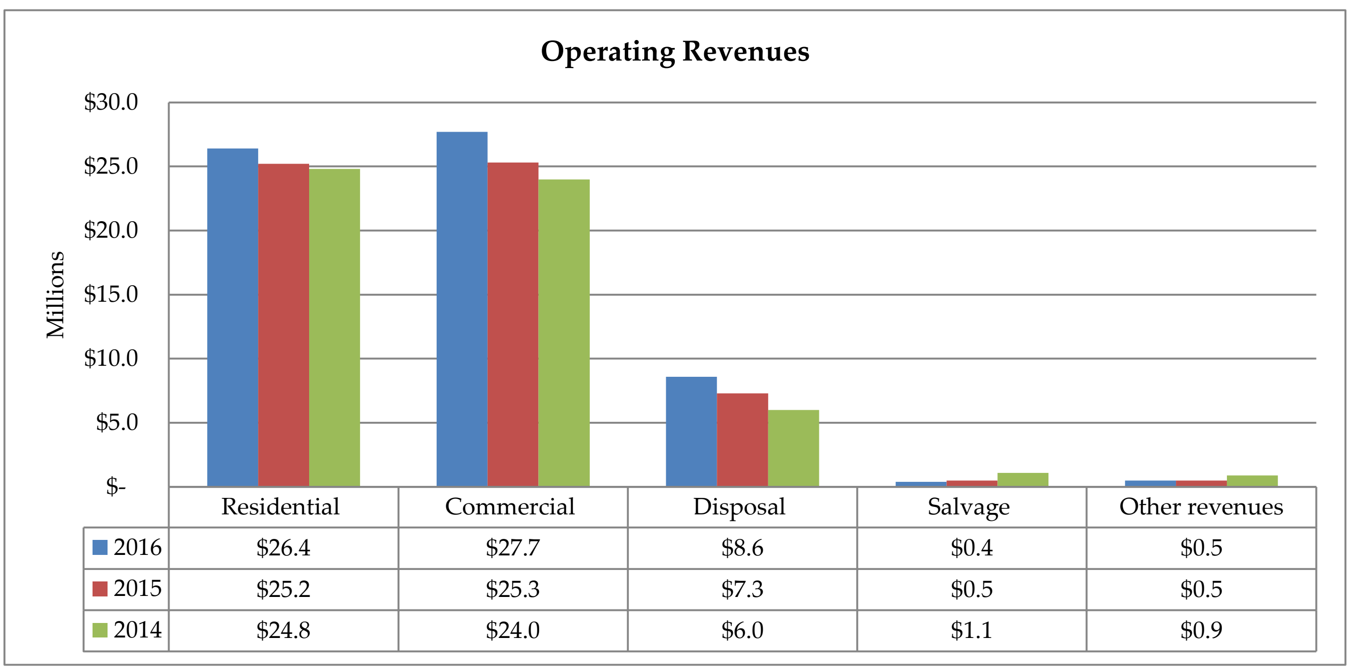
Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,		
	2016	**2015**	**2014**
Operating revenues	$ 63,568,797	$ 58,737,840	$ 56,751,038
Operating expenses	55,552,350	44,284,236	50,353,774
Net operating income	8,016,447	14,453,604	6,397,264
Nonoperating revenues (expenses)	(2,758,191)	(2,519,605)	(2,185,507)
Increase (decrease) in net position before transfers	5,258,256	11,933,999	4,211,757
Transfers	(5,420,364)	(4,444,312)	(4,544,927)
Increase (decrease) in net position	(162,108)	7,489,687	(333,170)
Net position - beginning of year	27,877,916	19,737,183	20,070,353
Accumulated adjustment for change in accounting principle	-	651,046	-
Net position - beginning of year, adjusted	27,877,916	20,388,229	20,070,353
Net position - ending	$ 27,715,808	$ 27,877,916	$ 19,737,183

<u>Operating revenues</u>

Overall operating revenues increased $4.8 million (8%) in 2016 compared to an increase of $2.0 million (4%) in 2015 and an increase of $729,000 (1%) in 2014.

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



There was an average 5% rate increase in residential customers for 2016 and 2015. Revenues from residential customers increased $1.1 million in 2016 and increased $431,000 in 2015. Residential collection revenues increased in 2016 due to both in number of customer accounts and rate increase in 2016.

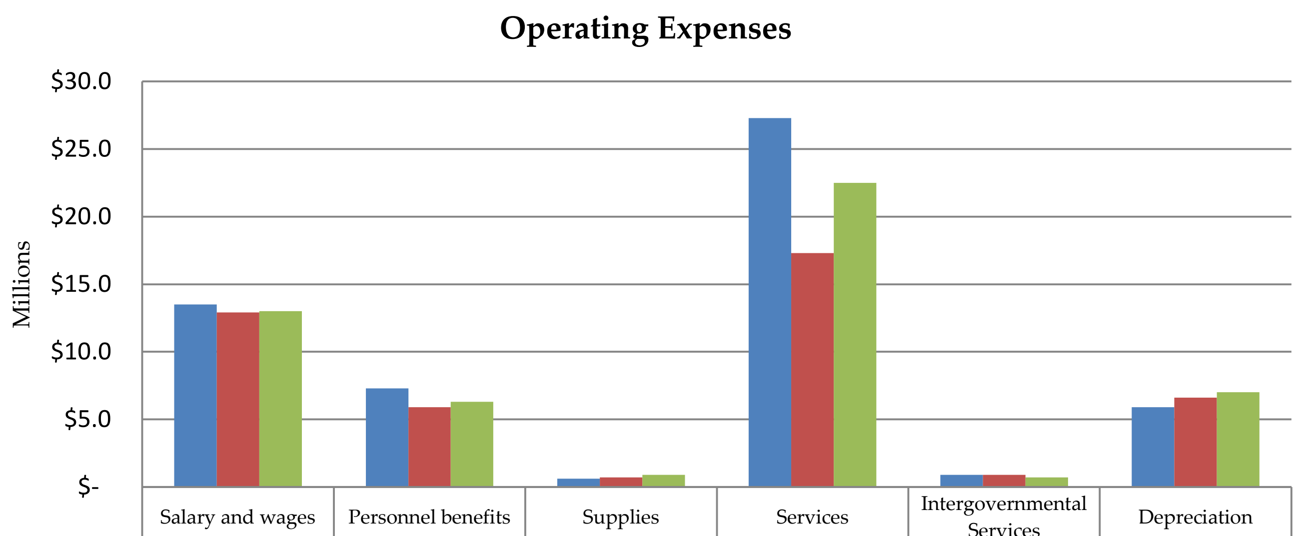
Revenue from commercial customers increased $2.4 million in 2016 and $1.3 million in 2015 due to an increase in Drop-of-Box containers and the 2016 rate increase for commercial collection services.

Disposal revenues increased $1.3 million due to scale house rates increasing from $15 to $20 per first 100 pounds and an increase in number of customer self-hauls in 2016, which is consistent with a $1.3 million increase in the prior year.

Salvage revenues fluctuated downward due to changes in both the volumes and the prices of salvaged materials. This 2016 revenue shows no significant change from 2015, compared to a decrease of $591,000 in 2014.

Operating expenses

The following graph provides a three year comparison of operating expenses for the major cost groups.
Total operating costs increased $11.3 million (25%) in 2016, compared to decreases of $6.1 million in 2015 and $1.3 million in 2014.



	Salary and wages	Personnel benefits	Supplies	Services	Intergovernmental Services	Depreciation
2016	$13.5	$7.3	$0.6	$27.3	$0.9	$5.9
2015	$12.9	$5.9	$0.7	$17.3	$0.9	$6.6
2014	$13.0	$6.3	$0.9	$22.5	$0.7	$7.0

2016 Activity

Operating expenses were $55.6 million in 2016, an increase of $11.3 million from prior year. Significant changes in operating costs include the following:

- Salaries and wages increased $610,000 mainly due to wage increases in 2016 for all union classes.
- Personnel benefits increased $1.4 million due to an increase in expense related to medical benefits and related to recording entries for GASB 68, Accounting and Financial Reporting for Pensions.
- Services expenses increased by $10.0 million. Significant changes included an increase of $1.7 million compared to a decrease of $5.9 million in the landfill post-closure care costs liability due to the annual evaluation forecast for the next 27 years of the remaining liability. Other services increases of $727,000 are external services primarily attributed to the Pierce County Recycling, Composting and Disposal (PCRCD) contract.
- Depreciation expense primarily decreased $696,000 due to the Division's pro-rata share of the Center for Urban Waters building and improvements being transferred to the Wastewater Utility following the termination of the project lease.

2015 Activity

Operating expenses were $44.3 million in 2015, a decrease of $6.1 million from the prior year. Significant changes in operating costs include the following:

- Services expenses decreased $5.1 million. Significant changes included a decrease of $5.9 million in the Landfill Post Closure liability due to the annual evaluation forecast for the next 28 years of the remaining liability. Other services increased $600,000 in external services primary from Land Recovery, Inc. (LRI) contract.
- Depreciation expense decreased $384,000 due to an adjustment in value for the capital lease building which occurred at year-end 2014.

Capital assets, net

At the end of 2016, the Division's total capital assets, net of accumulated depreciation were $80.4 million compared to $85.1 million in 2015 and $82.1 million in 2014. See Note 4 in the financial statements for detailed activity in capital assets.

2016 Activity

Balances in 2016 decreased $4.8 million and the significant changes are:

- The capital lease building was removed due to the termination of the project lease effective June 15, 2016 as a result of the issuance of the 2016A Sewer Refunding Bonds and recorded as a liability for the Wastewater Utility. The Center for Urban Waters building, land, and associated improvements were transferred to the Wastewater Utility in 2016 due to change in ownership.
- Landfill infrastructure increased $1.9 million primarily due to completing the Recycle Center roof replacement, and ScaleHouse renovation capital projects.
- Machinery and equipment increased a net of $2.8 million. Significant changes include:
  - An increase of $1.4 million for vehicles (purchases of $3.4 million less disposals of $2.0 million)
  - An increase of $1.4 million for purchases of a variety of garbage and recycle containers
- Accumulated depreciation balance increased $2.7 million during the year 2016.
- The construction in progress balance decreased by $176,000 from the prior year.

2015 Activity

Balances in 2015 increased $3.2 million and the significant changes are:

- Landfill infrastructure increased $1.3 million primarily due to completion of the Compressed Natural Gas (CNG) Fuel Station project.
- Machinery and equipment increased a net $5.2 million. Significant changes include:
- An increase of $4.8 million for vehicles (purchases of $6.6 million less disposals of $1.9 million)
- An increase of $1.0 million for purchased containers, and $800,000 for machinery and heavy equipment
- Accumulated depreciation balance increased $3.3 million during the year 2015.
- The construction in progress balance decreased by $131,000 from the prior year.

Debt Administration

At December 31, 2016, the Division had $71 million in outstanding revenue bonds of which $4.6 million is due within one year. This compares to $78.1 million in 2015 and $59.1 million in 2014. 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 2.16 at the end of 2016. This compares to 1.94 in 2015 and 2.31 in 2014.

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 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.

This page intentionally left blank.

Financial Statements

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

ASSETS	December 31, 2016	2015
Current assets:		
Cash and equity in pooled investments	**$ 29,014,017**	$ 24,715,893
Accounts receivable, net	**3,535,418**	2,970,293
Unbilled revenue	**2,931,619**	2,790,000
Due from other funds	**57,649**	138,857
Grant receivable	**-**	131,101
Total current assets	**35,538,703**	30,746,144
Current restricted assets:		
Bond reserves and debt service funds	**6,764,617**	9,596,204
Customer deposits	**84,953**	94,593
Construction funds	**10,322,416**	15,518,076
Total restricted cash and equity in pooled investments	**17,171,986**	25,208,873
Noncurrent assets:		
Capital assets:		
Land	**2,855,763**	3,119,782
Buildings	**65,076,625**	65,420,534
Building - capital lease	**-**	6,024,273
Landfill infrastructure	**68,395,145**	66,449,018
Machinery and equipment	**54,315,362**	51,538,021
Computer software	**4,812,248**	4,771,064
Less: accumulated depreciation	**(115,313,016)**	(112,595,020)
Construction in progress	**242,686**	418,631
Total capital assets, net	**80,384,813**	85,146,303
Other noncurrent assets:		
Building lease deferred	**-**	687,056
Net pension asset	**-**	529,445
Other noncurrent assets	**-**	1,216,501
Total assets	**133,095,502**	142,317,821
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - loss on refunding bonds	**68,544**	143,318
Deferred outflows - pensions	**5,519,192**	1,256,991
Total deferred outflows of resources	**5,587,736**	1,400,309
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 138,683,238**	$ 143,718,130

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	**2016**	**2015**
Current liabilities:		
Accounts payable	**$ 2,039,346**	$ 2,211,007
Accrued wages payable and compensated absences	**387,218**	319,948
Accrued taxes payable	**722,506**	586,573
Due to other funds	**818,250**	647,441
Unearned revenue	**198,300**	-
Customer deposits	**22,248**	26,537
Accrued landfill postclosure care costs	**1,425,182**	605,313
Current portion of long-term debt	**4,257,917**	4,427,500
Current portion of capital lease obligation	**-**	126,002
Total current liabilities	**9,870,967**	8,950,321
Current payable from restricted assets:		
Deposits payable	**83,456**	92,819
Accrued revenue bond interest payable	**242,878**	303,792
Current portion of long-term debt	**387,083**	402,500
Total liabilities payable from restricted assets	**713,417**	799,111
Noncurrent liabilities:		
Long-term debt - revenue bonds, net	**66,381,204**	73,299,556
Capital lease obligation	**-**	5,069,986
Long-term accrued landfill postclosure care costs	**19,092,538**	18,245,893
Long-term accrued compensated absences	**1,134,474**	994,360
Net pension liability	**4,779,164**	-
Net OPEB obligation	**2,120,082**	1,922,060
Total noncurrent liabilities	**93,507,462**	99,531,855
Total liabilities	**104,091,846**	109,281,287
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	**6,000,000**	6,000,000
Deferred inflows - pensions	**319,939**	558,927
Deferred inflows - gain on refunding bonds	**555,645**	-
Total deferred inflows of resources	**6,875,584**	6,558,927
NET POSITION		
Net investment in capital assets	**26,773,007**	29,325,085
Restricted for:		
Debt service	**6,134,655**	6,780,412
Net pension asset	**-**	529,445
Unrestricted	**(5,191,854)**	(8,757,026)
Total net position	**27,715,808**	27,877,916
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$ 138,683,238**	$ 143,718,130

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 Ended December 31, 2016	2015
OPERATING REVENUES		
Residential collection	**$ 26,351,184**	$ 25,222,634
Commercial collection	**27,657,795**	25,307,392
Disposal revenues	**8,581,329**	7,253,808
Salvage revenue	**438,508**	466,273
Other operating revenue	**539,981**	487,733
Total operating revenues	**63,568,797**	58,737,840
OPERATING EXPENSES		
Salary and wages	**13,507,233**	12,897,270
Personnel benefits	**7,308,644**	5,925,279
Supplies	**551,583**	685,087
Services	**27,343,021**	17,312,098
Intergovernmental services	**934,040**	860,650
Depreciation	**5,907,829**	6,603,852
Total operating expenses	**55,552,350**	44,284,236
Net operating income	**8,016,447**	14,453,604
NONOPERATING REVENUES (EXPENSES)		
Investment income	**502,353**	295,231
Operating grants	**254,422**	334,506
Interest paid and other related costs	**(4,623,803)**	(4,082,693)
Other revenues	**150,117**	130,035
Gain on termination of capital lease	**18,902**	-
Amortization of premium and refunding gain/loss	**762,919**	632,199
Gain on sale/disposal of capital assets	**176,899**	171,117
Total nonoperating (expenses)	**(2,758,191)**	(2,519,605)
Net income before transfers	**5,258,256**	11,933,999
Transfers - gross earnings taxes	**(5,093,081)**	(4,703,899)
Transfers - from(to) other funds	**(327,283)**	259,587
CHANGE IN NET POSITION	**(162,108)**	7,489,687
NET POSITION, BEGINNING OF YEAR	**27,877,916**	19,737,183
Accumulated adjustment for change in accounting principle	**-**	651,046
NET POSITION - BEGINNING OF YEAR, ADJUSTED	**27,877,916**	20,388,229
NET POSITION - ENDING	**$ 27,715,808**	$ 27,877,916

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, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**$ 62,862,052**	$ 58,949,175
Receipts from interfund services provided	**81,208**	359,304
Payments to suppliers	**(19,410,238)**	(20,015,709)
Payments to employees	**(20,410,470)**	(19,150,855)
Payments for interfund services used	**(5,139,580)**	(5,114,821)
Payment for taxes	**(911,231)**	(876,456)
Other operating or non-opearting revenues	**147,650**	-
Net cash from operating activities	**17,219,391**	14,150,638
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gross earnings taxes paid	**(4,979,957)**	(4,507,124)
Operating grants received	**385,523**	203,405
Contribution and donation	**2,467**	680
Net cash from noncapital financing activities	**(4,591,967)**	(4,303,039)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	**(1,560,022)**	(9,684,995)
Proceeds from the issuance of revenue bonds	**44,498,966**	24,298,562
Principal paid on revenue bonds	**(50,795,000)**	(4,585,000)
Capital lease obligation	**(5,195,988)**	(121,287)
Interest expense, net of capitalized interest	**(4,098,697)**	(4,024,808)
Proceeds from sale of capital assets	**263,300**	186,000
Net cash from capital and related financing activities	**(16,887,441)**	6,068,472
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	**534,236**	295,227
Rental income	**-**	126,526
Other investment proceeds	**(12,982)**	3,512
Net cash from investing activities	**521,254**	425,265
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	**(3,738,763)**	16,341,336
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	**49,924,766**	33,583,430
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	**$ 46,186,003**	$ 49,924,766

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

Environmental Services Department
Solid Waste Management
Statements of Cash Flows

	Year Ended December 31,	
	2016	**2015**
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEETS:		
Operating funds	**$ 29,014,017**	$ 24,715,893
Restricted funds	**17,171,986**	25,208,873
	$ 46,186,003	$ 49,924,766
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating income	**$ 8,016,447**	$ 14,453,604
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	**5,907,829**	6,603,852
Change in assets, liabilities, and deferred inflows:		
Accounts receivable, net of allowance	**(706,744)**	211,334
Due from other funds	**81,208**	359,304
Other assets	**(3,045,700)**	(1,786,436)
Deposits payable	**(13,654)**	8,600
Accounts payable	**(148,852)**	954,583
Accrued wages and compensated absences	**405,407**	(328,306)
Due to other funds	**170,809**	(520,910)
Unearned revenue	**198,299**	(146,066)
Other current liabilities	**819,870**	(301,687)
Post-closure liability	**5,386,823**	(5,357,234)
Misc non-operating revenues (expenses)	**147,649**	-
Total adjustments	**9,202,944**	(302,966)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 17,219,391**	$ 14,150,638

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

Notes to Financial Statements

City of Tacoma, Washington
Environmental Services
Solid Waste Management
Notes to Financial Statements
For the years ended December 31, 2016 and 2015

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 residential and commercial entities located within the City. The population of the City is approximately 198,397 and covers an area of 49 square miles. Disposal methods include recycling, composting, and long-haul to an outside landfill.

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.

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. Accordingly, balances are considered to be cash equivalents.

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 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 issued 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 TIP in the Washington State LGIP and/or a certificate of deposit maintained with East West Bank.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2016 and 2015 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. The minimum legal requirement is AAA for bankers acceptance notes, and fixed rate callable and non-callable agency securities, and A for fixed rate non-callable municipal securities. The Bank Certificates of Deposit (CD) and Demand Deposit Accounts (DDA) are protected by the FDIC insurance up to $250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State PDPC. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. The State Treasurers LGIP is authorized by RCW 43.250 and operates like a 2A7 fund and is collateralized by short term legal investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Concentration risk disclosure is required for all investments in a single issuer that is 5% or more of the total of the City's investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Custodial credit risk is the risk of unauthorized transactions by the custodian of investments. The City policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

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.

Solid Waste Management
Notes to Financial Statements

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 GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", 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, 4) to pay municipal taxes and payments to the City in lieu of taxes, and 5) 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, 2016, the landfill is at 100% of capacity, closed, and capped and 27 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), self-insurance liabilities, accrued landfill post closure care costs, net pension asset 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. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016.

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, valued and categorized according to the above outlined levels, is below:

Debt Securities:	As of 12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 146,824,628	$ -	$ 146,824,628	$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	$ 752,854,510	$ -	$ 752,854,510	$ -

Debt Securities:	As of 12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 108,647,159	$ -	$ 108,647,159	$ -
U.S. Agency Securities	541,730,185	-	541,730,185	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	$ 769,578,286	$ -	$ 769,578,286	$ -

The Division's share of the City's investments shown in the table above is 6.32% and 6.20% for 2016 and 2015.

Solid Waste Management
Notes to Financial Statements

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2016 and 2015 follows:

	2015	Additions	Retirements	Transfers & Adjustments	2016
Capital assets, not being depreciated:					
Land	$ 3,119,782	$ 687,056	$ -	$ (951,075)	$ 2,855,763
Construction in progress	418,631	7,106,316	-	(7,282,261)	$ 242,686
Total capital assets, not being depreciated	3,538,413	7,793,372	-	(8,233,336)	3,098,449
Capital assets, being depreciated:					
Buildings	65,420,534	-	-	(343,909)	65,076,625
Building - capital lease	6,024,273	-	-	(6,024,273)	-
Landfill infrastructure	66,449,018	-	-	1,946,127	68,395,145
Machinery and equipment	51,538,021	-	(2,175,901)	4,953,242	54,315,362
Computer software	4,771,064	-	-	41,184	4,812,248
Total capital assets, being depreciated	194,202,910	-	(2,175,901)	572,371	192,599,380
Less: accumulated depreciation	(112,595,020)	(5,907,829)	2,089,501	1,100,332	(115,313,016)
Total capital assets, being depreciated, net	81,607,890	(5,907,829)	(86,400)	1,672,703	77,286,364
Total capital assets, net	$ 85,146,303	$ 1,885,543	$ (86,400)	$ (6,560,633)	$ 80,384,813

	2014	Additions	Retirements	Transfers & Adjustments	2015
Capital assets, not being depreciated:					
Land	$ 3,119,782	$ -	$ -	$ -	$ 3,119,782
Construction in progress	549,724	9,976,493	-	(10,107,586)	418,631
Total capital assets, not being depreciated	3,669,506	9,976,493	-	(10,107,586)	3,538,413
Capital assets, being depreciated:					
Buildings	65,424,377	-	(51,156)	47,313	65,420,534
Building - capital lease	6,024,273	-	-	-	6,024,273
Landfill infrastructure	65,174,135	-	-	1,274,883	66,449,018
Machinery and equipment	46,342,257	-	(3,238,655)	8,434,419	51,538,021
Computer software	4,717,718	-	-	53,346	4,771,064
Total capital assets, being depreciated	187,682,760	-	(3,289,811)	9,809,961	194,202,910
Less: accumulated depreciation	(109,272,223)	(6,603,852)	3,274,928	6,127	(112,595,020)
Total capital assets, being depreciated, net	78,410,537	(6,603,852)	(14,883)	9,816,088	81,607,890
Total capital assets, net	$ 82,080,043	$ 3,372,641	$ (14,883)	$ (291,498)	$ 85,146,303

NOTE 5 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2016 and 2015 follows:

	2015	Additions	Reductions	2016	Due within One Year
Revenue bonds	$ 74,575,000	$38,225,000	$ (50,795,000)	$ 62,005,000	$ 4,645,000
Plus: Unamortized premium	3,554,556	6,273,966	(807,318)	9,021,204	-
Total long-term debt	$ 78,129,556	$44,498,966	$ (51,602,318)	$ 71,026,204	$ 4,645,000

	2014	Additions	Reductions	2015	Due within One Year
Revenue bonds	$ 58,065,000	$21,095,000	$ (4,585,000)	$ 74,575,000	$ 4,830,000
Plus: Unamortized premium	1,057,968	3,203,562	(706,974)	3,554,556	-
Total long-term debt	$ 59,122,968	$24,298,562	$ (5,291,974)	$ 78,129,556	$ 4,830,000

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2017	$ 4,645,000	$ 2,914,538	$ 7,559,538
2018	2,060,000	2,662,150	4,722,150
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
2022-2026	12,965,000	9,308,450	22,273,450
2027-2031	15,295,000	6,996,000	22,291,000
2032-2036	20,295,000	2,696,500	22,991,500
	$ 62,005,000	$ 31,993,688	$ 93,998,688

Solid Waste Management
Notes to Financial Statements

The Division's long-term debt at December 31, 2016 and 2015 consists of the following payable from revenues of the Division.

	2016	2015
2006 Series A Revenue Bonds, with interest rates ranging from 4.25% to 5.0% Principal payments range between $495,000 to $4,290,000 between 2015 and 2026. Original par value value $29,385,000 with a call date of December 1, 2016. Purpose was to fund a portion of the capital improvement plan and pay the costs of issuance. Bonds defeased during 2016.	$ -	$ 27,960,000
2006 Series B Revenue Refunding Bonds, with an interest rate of 5.0% due in yearly installments of $1,685,000 to $6,480,000 from 2015 through 2021. Original par value $22,315,000 with a call date of December 1, 2016. Purpose was to refund certain mateurities of the outstanding 2001 Bonds and pay the costs of issuance. Bonds defeased during 2016.	-	20,290,000
2008 Revenue Refunding Bonds, with an interest rate of 5.75% due in yearly installments of $2,405,000 to $2,685,000 from 2015 through 2017. Original par value $12,055,000. Purpose was to refund a portion of the 1997 Series B Bonds and to pay the costs of issuance.	2,685,000	5,230,000
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.	21,095,000	21,095,000
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 costs of issuance.	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 costs of issuance.	15,025,000	-
Total revenue bonds outstanding	62,005,000	74,575,000
Less:		
Current portion	(4,257,917)	(4,427,500)
Current portion payable from restricted assets	(387,083)	(402,500)
Plus: Unamortized premium	9,021,204	3,554,556
Total long-term debt - Revenue Bonds	$ 66,381,204	$ 73,299,556

Solid Waste Management
Notes to Financial Statements

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

ADVANCED REFUNDING - During 2016, the Division issued two revenue and refunding bonds. The details are as follows:

2016A Solid Waste Revenue and Refunding Bonds
The Division issued $23,200,000 in refunding bonds with interest rates ranging from 3.0% to 5.0%. A portion of the proceeds were used to advance refund $27,445,000 of outstanding 2006A Solid Waste Revenue bonds which had interest rates ranging from 4.5% to 5%. A portion of net proceeds in the amount of $28,085,561 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of 2006A Solid Waste Revenue bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $245,762. This amount is presented as a deferred inflow of resources and amortized over the remaining life of the refunding debt. The Division advance refunded a portion of the 2006A Solid Waste Revenue bonds to reduce its total debt service payments over 20 years by $5,472,387 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $790,762.

2016B Solid Waste Revenue and Refunding Bonds
The Division issued $15,025,000 in refunding bonds with interest rates ranging at 5.0%. A portion of the proceeds were used to advance refund $18,520,000 of outstanding 2006B Solid Waste Revenue and Refunding bonds which had interest rates ranging from at 5%. A portion of net proceeds in the amount of $18,983,000 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of 2006B Solid Waste Revenue and Refunding bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $343,488. This amount is presented as a deferred inflow of resources and amortized over the remaining life of the refunding debt. The Division advance refunded a portion of the 2006B Solid Waste Revenue and Refunding bonds to reduce its total debt service payments over 20 years by $1,921,792 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $609,288.

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.

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 2016 or 2015.

NOTE 6 CAPITAL LEASE - BUILDING

By Ordinance No. 27783 passed on January 20, 2009, the City approved a property agreement and project lease with TES Properties and issuance by TES Properties of $37,840,000 aggregate principal amount of its Lease Revenue Bonds, 2009 (Bonds). TES Properties is a single purpose Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation. The Environmental Services Department determined the appropriate pro-rata share for the Environmental Services divisions to share in all revenue, costs and cash requirements based on usage of the Center Urban Waters (CUW) building to be: Wastewater (40.4%), Surface Water (44.1%) and Solid Waste (15.5%).

The three divisions included their pro-rata share of the capital lease building asset and lease obligation for the building in their respective financial statements. The land on which the building was constructed was transferred to TES Properties and reclassified on the utilities' balance sheets to a deferred debit. During June 2016, the TES Lease Revenue Bonds, Series 2009 were advance refunded and defeased with proceeds from the sale of City of Tacoma Sewer Revenue Refunding Bonds, Series 2016A. The bonds were issued mainly to terminate the capital lease obligation and to exercise the right to purchase the capital lease assets using bond proceeds. As a result, the project lease with TES was terminated and the ownership of the CUW building and land was conveyed back to the City of Tacoma Wastewater Fund.

The termination of the capital lease was accounted for by removing the capital lease building asset and lease obligation, with a gain of $18,092 for the difference.

The CUW land and building, representing amounts previously recorded as capital-lease building and deferred debits, were transferred to Wastewater Fund. The Wastewater Fund is fully responsible for the new bond obligation and is now the owner of the building, the land, and additional improvements. As the property owner, Wastewater will charge rent to Surface Water and Solid Waste on a monthly basis for continued use of space.

NOTE 7 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 $201,815 and the same amount for 2015. 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 $15 million, subject to a self-insured retention of $3 million and a $30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with a $1 million self-insured retention plus a $250,000 of total loss each 12 month policy period. The City has a property insurance policy with a limit of $500 million replacement cost ($50,000 deductible per occurrence). The City carries property coverage with a maximum single occurrence limit of $500,000,000 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 $11,821 in 2016 and $14,285 in 2015.

NOTE 8 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 Revised Code of Washington 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.

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 South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments. The breakdown of membership as of January 1, 2016 is as follows:

Retirees and beneficiaries currently receiving benefits		2,234
Terminated vested and other terminated participants		644
Active members:		
City of Tacoma	2,654	
South Sound 911	4	
Pierce Transit	7	
Tacoma-Pierce County Health Department	262	
Total active members		2,927
Total membership		5,805

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 4154 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. Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the UAAL of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

Solid Waste Management
Notes to Financial Statements

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

Measurement Date	December 31, 2015
Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows*: · Level percent · Open periods · 30 year amortization period at 01/01/2015 · 4% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	Varies by service; details in funding valuation report
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, eligibility
Turnover	Varies by age, gender, eligibility
Mortality	RP-2000 mortality for healthy and disabled annuitants, with age adjustments. Generation improvements per projection Scale AA.
Male members and male beneficiaries:	Combined table for healthy or disabled for males set back one year.
Female members and female beneficiaries:	Combined table for healthy or disabled for females set back one year.

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. Between January 1, 2015 and January 1, 2016 no assumptions were changed.

TARGET ALLOCATION - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of June 30, 2014. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

Asset Class	Target Allocation	Long-term Expected Arithmetic Real Rate of Return
Investment grade fixed income	15.0%	2.00%
US inflation-indexed bonds	5.0%	1.41%
High yield bonds	9.0%	4.22%
Emerging market debt	5.0%	5.06%
Global equity	41.5%	5.72%
Public real estate	2.0%	6.07%
Private real estate	2.5%	3.60%
Private equity	10.0%	9.29%
Master limited partnerships	4.0%	3.98%
Timber	2.0%	3.73%
Infrastructure	2.0%	5.14%
Agriculture	2.0%	4.30%
Assumed inflation - mean		3.00%
Assumed inflation - standard deviation		1.89%
Portfolio arithmetic real mean return		4.94%
Portfolio median nominal geometric return		7.06%
Portfolio standard deviation		11.84%
Long-term expected rate of return, net of investment expenses		7.25%

SENSITIVITY ANALYSIS - The following presents the Division's proportionate share of the net pension asset of the System, calculated using the discount rate of 7.25%, as well as what the Division's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) that the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability (asset)	$ 14,820,997	$ 4,779,164	$ (3,677,186)

Detailed information about the pension plan's fiduciary net position is available in the separately issued TERS CAFR.

As of December 31, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between actual and expected experience	$ (319,879)	$ -
Changes in proportionate share	-	-
Net differences between projected and actual earnings	-	4,212,192
Contributions made subsequent to the measurement date	NA	1,303,538
Changes in employer proportion	(60)	3,462
Total	$ (319,939)	$ 5,519,192

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:

Year ended December 31	
2017	$ 942,019
2018	942,019
2019	1,082,253
2020	(12,595)
Total	$ 3,895,715

The Division's proportionate share of the collective net pension liability is 5.52%. Each employer in TERS contributes at the same rate of payroll. The proportionate share is based on actual contributions for the year, which provides a reasonable basis for each employer's projected long-term contribution effort.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION - The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. GAAP requires that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

FUNDING POLICY - The City uses pay as you go funding; contributions to a separate trust are not required.

ANNUAL OPEB COST AND NET OPEB OBLIGATION - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded. For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the 2014 year under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The amortization period for 2016 is 21 years.

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2016 as the City has not set aside funds for OPEB.

EXCISE TAX FOR HIGH COST OR "CADILLAC" HEALTH PLANS IN 2018 AND BEYOND –An excise tax for high cost health coverage, or "Cadillac" health plans was included in the Patient Protection and 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 2018 annual thresholds are $10,200 for single coverage and $27,500 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

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.

GASB Statement No. 45 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. For this reason, the City believes that the current provisions of Patient Protection and Affordable Care Act (PPACA) should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this 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.

GASB released two new statements for Post Employment Benefits Other than Pension Plans, or OPEB. The new GASB Statements 74 and 75 were released in June 2015 and will replace GASB 43 and 45. The statements are available via the GASB website. GASB 74 is effective for fiscal years beginning after June 15, 2016, and GASB 75 is effective for fiscal years beginning June 15, 2017. These statements will mean fundamental changes in financial reporting for OPEB.

SUMMARY OF CHANGES – As of the January 1, 2015 valuation, the total AAL of $208,814,312 was 20% lower than expected. The City experienced a liability gain since the last valuation caused by numerous factors, including a clarification in spouse benefits, which cease once a member attains age 65. It was also caused by smaller than expected changes in medical costs, demographic experience, and a change to the assumption for future medical trends

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	January 1, 2013	January 1, 2015
Total Membership:		
Active employees	3,335	3,404
Terminated vested employees	394	442
Retired employees and Dependents	846	744
Total	4,575	4,590
Annual City Benefit Payments	$ 9,887,335	$ 8,963,089
Discount rate	3.75%	3.75%
Present Value of Benefits	$ 326,742,538	$ 262,184,195
Actuarial Accrued Liability	$ 251,839,846	$ 208,814,312
Assets	-	-
Unfunded Actuarial Accrued Liability	$ 251,839,846	$ 208,814,312
Normal Cost (End of year)	$ 5,484,587	$ 3,832,131
Annual Required Contribution	$ 20,058,760	$ 16,966,964

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits	$ 420,832,932	$ 158,648,737	$ 262,184,195
Actuarial Accrued Liability	$ 291,228,295	$ 82,413,983	$ 208,814,312
Normal Cost	$ 9,501,758	$ 5,669,627	$ 3,832,131
Annual Benefit Payments	$ 12,325,369	$ 3,362,280	$ 8,963,089

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2016.

Determination of Annual Required Contribution	City	Division
Normal Cost at Year-end	$ 3,803,090	$ 178,359
Amortization of UAAL	15,665,117	64,200
Annual Required Contribution (ARC)	$ 19,468,207	$ 242,559
Determination of Net OPEB Obligation		
Annual Required Contribution (ARC)	$ 19,468,207	$ 242,559
Interest on prior year Net OPEB Obligation	2,666,468	72,077
Adjustments to ARC	(3,983,647)	(89,341)
Annual OPEB Cost	18,151,028	225,295
Actual benefits paid	8,539,402	27,273
Increase in Net OPEB Obligation	9,611,626	198,022
Net OEPB Obligation - beginning of year	$ 73,129,502	$ 1,922,060
Net OPEB Obligation - end of year	$ 82,741,128	$ 2,120,082

FUNDED STATUS AND FUNDING PROGRESS - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 3.75% interest rate.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Division	City	Division	City	Division
12/31/2014	$ 19,319,944	$ 358,807	$ 9,292,539	$ 69,961	$ 66,138,206	$ 1,707,245
12/31/2015	$ 15,954,387	$ 230,924	$ 8,963,091	$ 16,109	$ 73,129,502	$ 1,922,060
12/31/2016	$ 18,151,028	$ 225,295	$ 8,539,402	$ 27,273	$ 82,741,128	$ 2,120,082

As of January 1, 2015, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 3.75% interest rate, the actuarial accrued liability for benefits was $208,814,312, and the actuarial value of assets was zero, resulting in an unfunded accrued liability of $208,814,312. There was no update for January 1, 2016.

The Division has included the liability in the other long term liabilities on the Statement of Net Position.

ACTUARIAL METHODS AND ASSUMPTIONS - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the UAAL. In determining the ARC, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 21 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2015
Census Date	January 1, 2015
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	21 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate	3.75% for pay-as-you-go funding
Medical Cost Trend	2015 6.9% 2016 6.6% 2017 5.9% 2020 5.5% 2030 5.9% 2040 5.7% The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. 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)	3.75%
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): • Age 55 with 10 years of service • Age 40 with 20 years of service

Solid Waste Management
Notes to Financial Statements

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.

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 City reported approximately $20,518,000 as landfill post-closure care liability as of December 31, 2016 based on 100% use of the total capacity of the Tacoma Landfill. This compares to $18,851,000 at December 31, 2015 based on 100% of capacity. Actual care costs may be higher or lower due to inflation, changes in technology, or changes in regulations. 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. 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.

NOTE 12 LITIGATION AND CLAIMS

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.

This page intentionally left blank.

Required Supplementary Information

This page intentionally left blank.

Solid Waste Management
Required Supplementary Information

Schedule of the Division's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	Fiscal Year Ended December 31, 2016	2015
Division's proportion of the net pension liability (asset)	5.52%	5.50%
Division's proportionate share of the net pension liability (asset)	$ 4,779,164	(529,445)
Division's covered-employee payroll	$ 12,772,077	12,948,158
Division's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	37.42%	-4.09%
Plan fiduciary net postion as a percentage of the total pension liability	93.94%	100.71%

Schedule of Division Contributions
Last 10 Fiscal Years

	Fiscal Year Ended December 31, 2016	2015
Contractually required contribution	$ 1,303,538	1,253,635
Contributions in relation to the contracturally required contribution	(1,303,538)	(1,253,635)
Contribution deficiency (excess)	$ -	-
Division's covered-employee payroll	$ 12,772,077	12,948,158
Contribution as a percentage of covered-employee payroll	10.21%	9.68%

** Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.*

This page intentionally left blank.

Unaudited Supplemental Information

This page intentionally left blank.

Solid Waste Management
Unaudited Supplemental Information

City of Tacoma, Washington Solid Waste Revenue Refunding Bonds, Series 2008
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 2016 is provided in accordance with SEC Rule 15c2-12(b)(5)

Solid Waste Management Audited Financial Statements
Reference Financial Statements Section

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

Debt Service Coverage

	2015	2016
Parity Bond Debt Service Coverage Ratio	1.94	2.16

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

Customer Class	2015	2016
Residential	54,767	55,162
Commercial	5,495	5,484
Total Customers	60,262	60,646

Top Ten Customers
The System's ten largest customers for 2016 are shown in the following table.

Customer Name	Amount	Percent of 2016 Operating Revenues (1)
St Joseph Medical	$ 603,521	0.95%
Multicare Health Systems	597,182	0.94%
Puyallup Tribe	547,666	0.86%
City of Tacoma	504,713	0.79%
Tacoma School District	417,839	0.66%
Goodwill	394,375	0.62%
Salishan	325,356	0.51%
Westrock CP LLC	299,520	0.47%
Westridges Apts	276,206	0.43%
Tacoma Mall Partnership	268,020	0.42%
Total Revenue	$ 4,234,398	6.65%

(1) Total system revenue $63,568,797

Revenues by Service

	2015	2016
Residential Collection	$ 25,222,634	$ 26,351,184
Commercial Collection	25,307,392	27,657,795
Disposal Revenue	7,253,808	8,581,329
Salvage Revenue	466,273	438,508
Other Operating Revenue	487,733	539,981
Total Operating Revenues	$ 58,737,840	$ 63,568,797

Municipal Solid Waste for the year 2016 was disposed of as follows:

	2015	2016
Solid Waste	172,000	184,583
Recycling	28,300	32,603
Yard Waste	33,000	33,587
Total	233,300	250,773

Solid Waste Rates

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

	2015		2016	
	Rate Per 100 Pounds	**Minimum Charge**	**Rate Per 100 Pounds**	**Minimum Charge**
Garbage Disposal				
City of Tacoma Resident [(1)]	$ 6.50	$ 15.00	$ 6.50	$ 20.00
Non-City of Tacoma Resident	7.50	15.00	7.50	20.00
Commercial	6.50	15.00	6.50	20.00
Yard Waste				
City of Tacoma Resident	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Non-City of Tacoma Resident	7.50	15.00	7.50	20.00
Commercial	6.50	15.00	6.50	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	2015 Amount	2016 Amount
CNG Fuel Station and Recycle Center Roof	$ 840,485	$ 2,010,242
Diesel Hydrid Collection Vehicles (8)	3,450,734	-
CNC Fork Box Truck	307,323	-
CNC Drop Off Box Trucks (2/5)	566,721	1,430,413
CNC Front Loaders (2)	-	672,767
CNC Rear Loaders (4)	-	1,293,030
Tier 4 Emissions Onsite Equipment	373,549	-
CNG Fuel Station and Food Waste Optimization	1,083,210	-
	$ 6,622,022	$ 5,406,452

Supplemental (Unaudited)

This page intentionally left blank.