



SOLID WASTE MANAGEMENT

2021

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended **December 31, 2021**
Prepared by the Finance Department

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City of Tacoma, Washington
Environmental Services Department
Solid Waste Management

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Financial Data

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Tacoma, Environmental Services Department, Solid Waste Management (the Division) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2021 and 2020, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of City of Tacoma, Washington, as of December 31, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, Proportionate Share of Net Pension Liability Last 10 Years, Schedule of Contributions Last 10 Fiscal Years, and Proportionate Share of the Collective OPEB Liability Last 10 Years ("the supplementary information"), as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, 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 basic 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

Management is responsible for the other information included in the table of contents. The other information comprises the supplemental information (unaudited) but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2022, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Tacoma, Washington

May 19, 2022

Management Discussion and Analysis

City of Tacoma, Washington
Department of Public Utilities
Solid Waste Management
Management's Discussion and Analysis

Introduction

The following management 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, 2021, 2020, and 2019. 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 the accompanying 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, 2021 and 2020, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of City of Tacoma's Solid Waste's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

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

Financial Highlights

- Total net position increased by \$12.2 million to \$74.3 million in 2021 compared to an increase of \$7.9 million to \$62.1 million in 2020 and an increase of \$8.0 million to \$54.1 million in 2019.
- Operating revenues were \$83.4 million in 2021, \$75.6 million in 2020 and \$73.6 million in 2019.
- Cash and equity in pooled investments was \$57.2 million at December 31, 2021 compared to \$57.0 million in 2020 and \$55.4 million in 2019.

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,		
	2021	2020	2019
Current, restricted, and other assets	\$ 66,749,999	\$ 65,763,577	\$ 62,112,770
Net capital assets	90,162,057	84,297,080	81,070,631
Total assets	156,912,056	150,060,657	143,183,401
Deferred outflows of resources	6,261,867	3,453,168	7,965,875
Total assets and deferred outflows of resources	\$ 163,173,923	\$ 153,513,825	\$ 151,149,276
Long-term liabilities	\$ 73,304,960	\$ 72,616,746	\$ 82,116,298
Other liabilities	7,304,701	7,279,512	6,481,430
Total liabilities	80,609,661	79,896,258	88,597,728
Deferred inflows of resources	8,266,505	11,549,421	8,428,867
Total liabilities and deferred inflows of resources	88,876,166	91,445,679	97,026,595
Net position:			
Net investment in capital assets	43,605,562	37,358,462	31,007,438
Restricted	2,109,500	3,174,925	2,915,331
Unrestricted	28,582,695	21,534,759	20,199,912
Total net position	74,297,757	62,068,146	54,122,681
Total liabilities, deferred inflows of resources, and net position	\$ 163,173,923	\$ 153,513,825	\$ 151,149,276

The assets and deferred outflows of the Solid Waste Management Division exceeded liabilities and deferred inflows by \$74.3 million in 2021, compared to \$62.1 million in 2020, and \$54.1 million in 2019. The Division's net position increased by \$12.2 million in 2021 compared to an increase of \$7.9 million in 2020 and an increase of \$8.0 million in 2019. 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 \$43.6 million in 2021, \$37.4 million in 2020, and \$31.0 million in 2019. 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 \$2.1 million for 2021, compared to \$3.2 million in 2020, and \$2.9 million in 2019, and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$28.6 million for 2021, \$21.5 million for 2020, and \$20.2 million for 2019 is unrestricted.

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

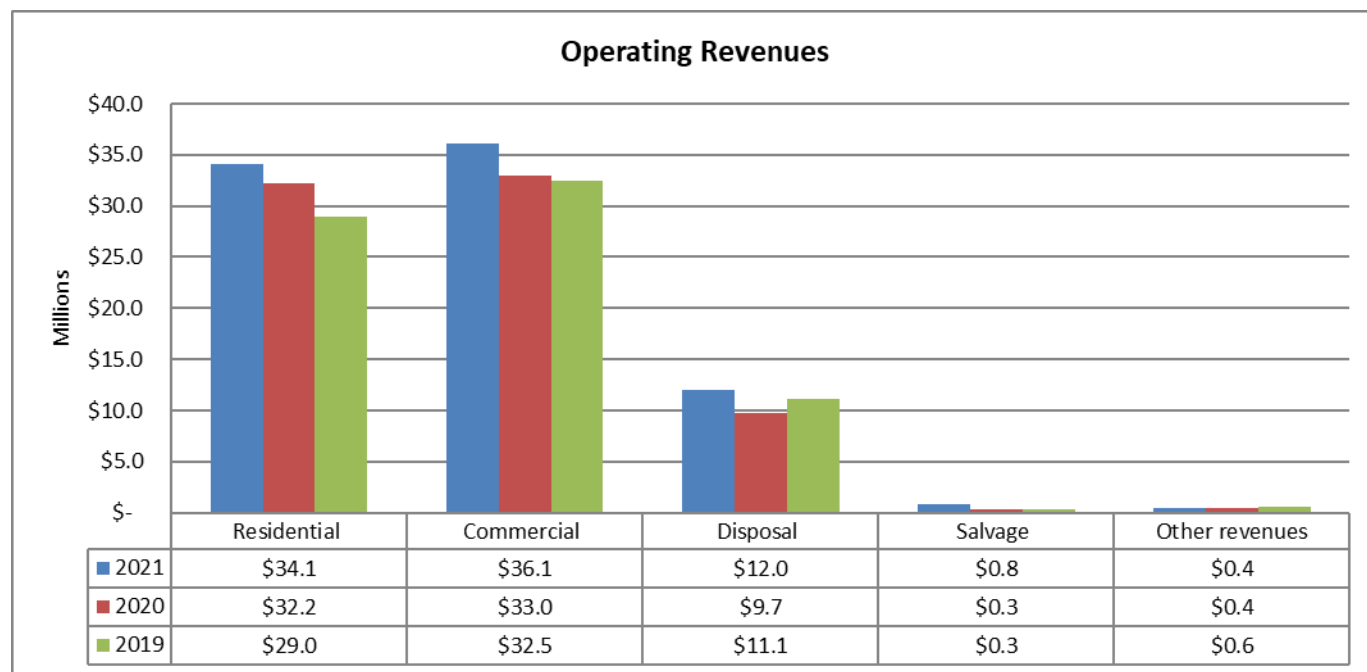
Year Ended December 31,

	2021	2020	2019
Operating revenues	\$ 83,368,170	\$ 75,591,565	\$ 73,550,144
Operating expenses	63,296,141	61,026,957	59,637,827
Net operating income	20,072,029	14,564,608	13,912,317
Nonoperating revenues (expenses)	(1,492,198)	(504,999)	136,653
Net income before transfers	18,579,831	14,059,609	14,048,970
Transfers	(6,350,220)	(6,114,144)	(6,075,948)
Increase in net position	12,229,611	7,945,465	7,973,022
Net position - beginning of year	62,068,146	54,122,681	46,149,659
Net position - ending	\$ 74,297,757	\$ 62,068,146	\$ 54,122,681

Operating revenues

Overall operating revenues increased \$7.8 million or 10% in 2021 compared to an increase of \$2.0 million or 3% in 2020 and an increase of \$4.4 million or 6% in 2019.

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



The Division had a 1.5% rate increase and a special recycle surcharge to residential customers effective January 1, 2021 and 3.9% in 2020.

Revenues from residential customers increased \$1.9 million in 2021 and \$3.2 million in 2020. Residential collection revenues increased in 2021 due to rate increase, customer changed to bigger container sizes, and recycling surcharge continued in 2021.

Revenue from commercial customers increased \$3.1 million due to an economic recovery and commercial recycling rates increased in 2021. The volume increased due to construction activity and additional commercial housing within the service areas resulted in an increase for commercial collection revenue. In 2020, Commercial business customers were shut down due to COVID-19 pandemic which caused a small increase of \$459,000.

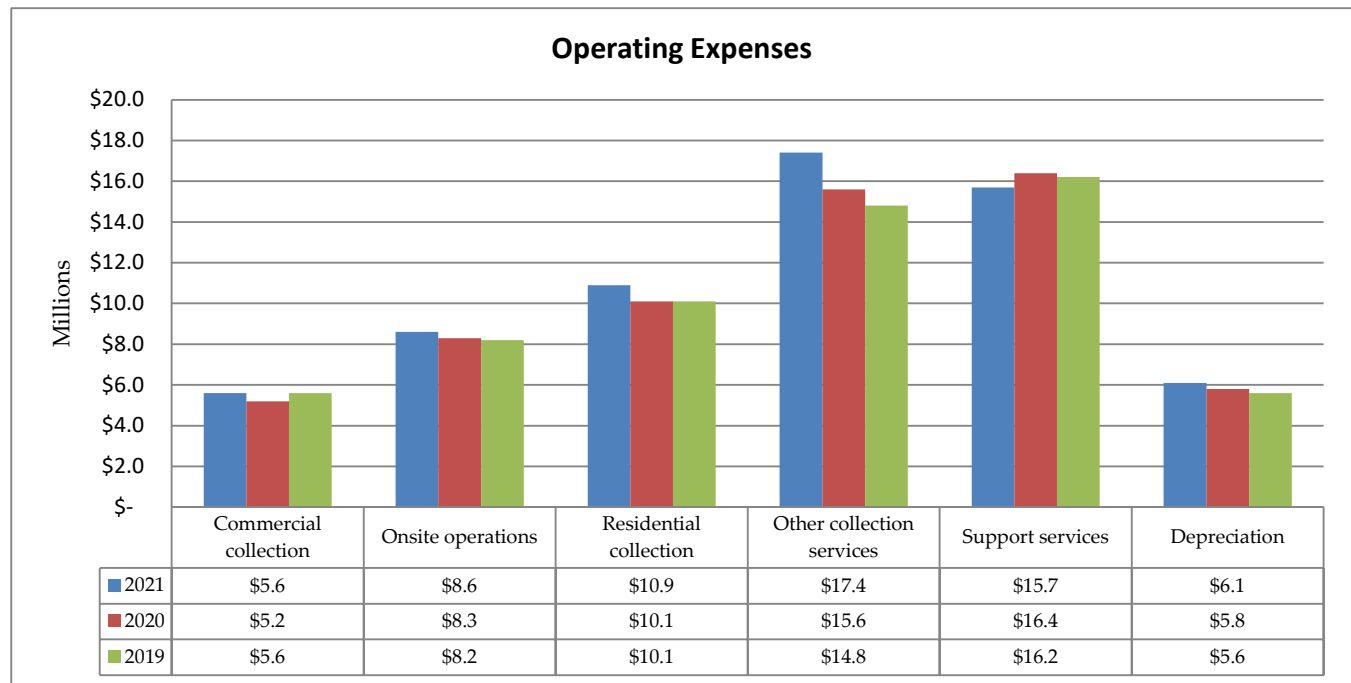
Disposal revenues increased \$2.2 million in 2021, compared to a decrease of \$1.3 million in 2020 due to increased self-haul disposal fees from \$145 to \$170 per ton and minimum fee from \$20 to \$40 beginning January 2021. Customer self-haul trips to the landfill and tonnage also increased in 2021. In July 2021, Solid Waste opened the access to the Recovery and Transfer Center to all customers which was limited to City of Tacoma residents during COVID-19 pandemic. The decrease in 2020 was due to limited access to the landfill to only customers that reside within the city limits during COVID-19 pandemic.

Salvage revenues increased \$472,000 due to the price increases for recycle material sales in 2021.

Operating expenses

The following graph provides a three year comparison of operating expenses for the major cost groups.

Total operating costs increased \$2.3 million in 2021, compared to increases of \$1.4 million in 2020 and increases of \$5.9 million in 2019.



2021 Activity

Operating expenses were \$63.3 million in 2021, an increase of \$2.3 million from prior year. Significant changes in operating costs include the following:

- Commercial collection expense increased \$402,000 due primarily to increases of \$427,000 in employee salaries and benefits, \$131,000 for supplies mostly in fuel from external contract services. These increases were offset with a decrease of \$162,000 mostly in external contract services for commercial curbside commingle recycling.
- Residential collection expense increased \$798,000 due mainly to increases of \$1.5 million in external contractors for residential recycling cost, and \$208,000 in auto supplies and external fuel for collection vehicles. These increases were off-set by decreases of \$433,000 in salaries and benefits, and \$488,000 in fleet expenses included fuel and maintenance for collection vehicles.
- Other collection services expenses increased \$1.8 million, which includes the Tacoma Cares, Nuisance Code Enforcement Abatement, Off-site Transport. The increase is primarily due to increases of \$1.0 million for external contract services from Waste Connections, and Pierce County Recycling Composting and Disposal (PCRCO), \$449,000 in salaries and benefits, and \$377,000 in fleet support services. These increases were off-set with a decrease of \$168,000 in services majority in external fuel.
- Support services expenses decreased \$716,000 primarily due to decreases of \$575,000 in employee salaries and benefits mostly in employee compensated absences and OPEB expenses, \$1.6 million in external contract cost, and \$124,000 in public liability insurance. These decreases were offset with \$877,000 increase in bad debt and business tax expenses due to an increase in customer aging account receivable, and \$709,000 increase for assessments.
- Landfill post closure credit of \$922,000 reflects a decrease in the total landfill post closure liability in 2021 compared to a decrease of \$431,000 in 2020 due to the annual evaluation forecast for the next 22 years of the remaining liability.

Nonoperating revenues (expenses)

Interest paid was \$2.4 million, a decrease of \$50,000 in 2021 compared to a decrease of \$75,000 in 2020. Investment income was negative \$338,000 in 2021 compared to an increase of \$1.5 million in 2020. The decrease of \$1.8 million was due to less interest income and an unrealized loss of \$1.4 million in GABS 31. Solid Waste received \$415,000 operating grant for recycling operation and \$336,000 cash proceeds from sale of the vehicles.

Contributions and Transfers

Solid Waste transferred \$6.6 million to general fund for gross earning tax in 2021 compared to \$6.1 million in 2020. Solid Waste received \$286,000 in federal funds from Neighborhood & Community Services to assist with overdue utility accounts receivable.

2020 Activity

Operating expenses were \$61.0 million in 2020, an increase of \$1.4 million from prior year. Significant changes in operating costs include the following:

- Commercial collection expense decreased \$421,000 due primarily to decreases of \$109,000 in employee salaries and benefits, \$214,000 for external contract services for the commercial recycling, and \$111,000 for printing and graphic for container logo decals.
- Other collection services expenses increased \$815,000, which includes the Tacoma Cares, Nuisance Code Enforcement Abatement, Off-site Transport. The increase is primarily due to an increase of \$1.0 million for external contract services from Waste Connections, and Pierce County Recycling Composting and Disposal (PCRCO). This increase was off-set with a decrease of \$225,000 in fleet support services.

- Support services expenses increased \$211,000 primarily due to an increase of \$1.1 million in bad debt expenses due to the increase in aging accounts receivable. This increase was off-set with \$306,000 decrease in salaries and benefits, \$206,000 decrease in external contract costs for processing residential curbside commingled recycling program, and \$566,000 decrease for assessments.
- Landfill post closure credit of \$431,000 reflects a decrease in the total landfill post closure liability in 2020 compared to a decrease of \$859,000 in 2019 due to the annual evaluation forecast for the next 23 years of the remaining liability.

Capital assets, net

At the end of 2021, the Division's total capital assets, net of accumulated depreciation were \$90.2 million compared to \$84.3 million in 2020 and \$81.1 million in 2019. See Note 4 in the financial statements for detailed activity in capital assets.

2021 Activity

Balances in 2021 increased \$5.9 million and the significant changes are:

- Solid Waste purchased an additional piece of land near the landfill for \$385,000 in 2021.
- Landfill infrastructure which includes improvements other than buildings increased \$10.3 million primarily due to completion of the compressed natural gas (CNG) equipment station upgrade project in 2021.
- Machinery and equipment increased a net of \$2.9 million. Significant changes include:
 - An increase of \$1.2 million for vehicles (purchases of \$5.7 million less disposals of \$4.5 million)
 - An increase of \$556,000 for variety of garbage and recycle containers (purchases of \$1.3 million less disposals of \$713,000)
 - An increase of \$823,000 in electronic equipment due to the completion of Solid Waste Collection System for most of the collection vehicles and the charging stations for electric vehicle at Solid Waste site.
- Accumulated depreciation increased \$799,000 for the year 2021 (\$6.1 million current year depreciation and \$5.3 million due to disposal of assets).
- The construction in progress balance decreased by \$7.1 million from 2020 primarily due to the completion of the CNG equipment station upgrade and Solid Waste Collection System projects.

2020 Activity

Balances in 2020 increased \$3.2 million and the significant changes are:

- Landfill infrastructure which includes improvements other than buildings increased \$425,000 primarily due to additional cost to the Drainage and Traffic Safety Improvement and Asphalt Pad and Tent Container projects in 2020.
- Machinery and equipment increased a net of \$332,000. Significant changes include:
 - A decrease of \$1.0 million for vehicles (purchases of \$1.2 million less disposals of \$2.2 million)
 - An increase of \$712,000 for variety of garbage and recycle containers (purchases of \$1.8 million less disposals of \$1.1 million)
 - An increase of \$582,000 in electronic equipment due to the completion of Thermal Transfer Station Camera System.
- Accumulated depreciation increased \$3.1 million for the year 2020 (\$5.8 million current year depreciation and \$2.7 million due to disposal of assets).
- The construction in progress balance increased by \$5.6 million from 2019 primarily due to the ongoing compressed natural gas (CNG) equipment upgrade project.

Debt Administration

At December 31, 2021, the Division had \$53.8 million, net of premium, in outstanding revenue bonds of which \$2.4 million is due within one year. This compares to \$56.8 million in 2020 and \$59.8 million in 2019.

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 5.37 at the end of 2021. This compares to 4.56 in 2020 and 4.33 in 2019.

Economic Factors Affecting Next Year

On January 1, 2022, rate increases for Solid Waste Management of approximately 2% for residential and commercial services went into effect. The rate increases are expected to bring an additional \$1.4 million in operating revenues for 2022. The rate increases remain competitive with surrounding jurisdictions.

Summary

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

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

Request for Information

Solid Waste Management financial statements are designed to provide a general overview of the Division's finances, as well as to demonstrate the Division's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tacoma, Finance Department, 747 Market Street, Room 132, Tacoma, WA 98402-2773.

Financial Statements

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

	December 31,	
ASSETS	2021	2020
Current assets:		
Cash and equity in pooled investments	\$ 54,677,545	\$ 51,772,077
Accounts receivable, net	5,021,968	4,108,878
Accrued unbilled revenue	4,502,783	3,607,376
Restricted cash and equity in pooled investments:		
Debt service funds	393,595	393,396
Customer deposits	44,608	32,599
Construction funds	-	2,674,326
Total restricted cash and equity in pooled investments	438,203	3,100,321
Total current assets	64,640,499	62,588,652
Noncurrent assets:		
Restricted cash and equity in pooled investments:		
Bond reserves	2,109,500	2,109,500
Capital assets:		
Land	3,241,083	2,855,763
Buildings	61,767,413	61,767,413
Landfill infrastructure	80,996,630	70,679,126
Machinery and equipment	57,637,565	54,742,699
Computer software	5,268,857	5,137,760
Less: accumulated depreciation	(118,938,842)	(118,140,300)
Construction in progress	189,351	7,254,619
Total capital assets, net	90,162,057	84,297,080
Other noncurrent assets:		
Net pension asset	-	1,065,425
Total noncurrent assets	92,271,557	87,472,005
Total assets	156,912,056	150,060,657
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - other post employment benefits	855,300	292,262
Deferred outflows - pensions	5,406,567	3,160,906
Total deferred outflows of resources	6,261,867	3,453,168
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 163,173,923	\$ 153,513,825

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

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

	December 31,	
LIABILITIES	2021	2020
Current liabilities:		
Accounts payable	\$ 2,401,324	\$ 2,643,417
Accrued wages payable and compensated absences	819,151	746,156
Accrued taxes payable	431,880	305,231
Unearned revenue	292,038	266,879
Customer deposits	42,775	73,436
Current pension withdrawal liability	35,112	-
Accrued landfill postclosure care costs	632,066	694,674
Current portion of long-term debt	2,209,167	2,122,080
Total current liabilities	<u>6,863,513</u>	<u>6,851,873</u>
Current payable from restricted assets:		
Deposits payable	47,593	34,243
Accrued revenue bond interest payable	192,762	200,479
Current portion of long-term debt	200,833	192,917
Total liabilities payable from restricted assets	<u>441,188</u>	<u>427,639</u>
Noncurrent liabilities:		
Long-term debt - revenue bonds, net	51,423,328	54,483,294
Long-term accrued landfill postclosure care costs	12,881,247	13,740,678
Long-term accrued compensated absences	1,381,012	1,418,746
Net pension liability	3,997,969	-
Pension withdrawal liability	420,549	437,420
Net OPEB liability	3,200,855	2,536,608
Total noncurrent liabilities	<u>73,304,960</u>	<u>72,616,746</u>
Total liabilities	<u>80,609,661</u>	<u>79,896,258</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	7,000,000	7,000,000
Deferred inflows - OPEB	294,954	289,731
Deferred inflows - pensions	855,551	4,060,123
Deferred inflows - gain on refunding bonds	116,000	199,567
Total deferred inflows of resources	<u>8,266,505</u>	<u>11,549,421</u>
NET POSITION		
Net investment in capital assets	43,605,562	37,358,462
Restricted for:		
Debt service	2,109,500	2,109,500
Net pension asset	-	1,065,425
Unrestricted	28,582,695	21,534,759
Total net position	<u>74,297,757</u>	<u>62,068,146</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$ 163,173,923</u></u>	<u><u>\$ 153,513,825</u></u>

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

	Year-to-Date December 31,	
	2021	2020
OPERATING REVENUES		
Residential collection	\$ 34,106,454	\$ 32,193,018
Commercial collection	36,074,211	32,954,928
Disposal revenues	11,978,283	9,758,808
Salvage revenues	763,095	290,620
Other operating revenues	446,127	394,191
Total operating revenues	83,368,170	75,591,565
OPERATING EXPENSES		
Commercial collection	5,582,573	5,180,091
Onsite operations	8,559,056	8,335,523
Residential collection	10,908,215	10,110,239
Other collection services	17,398,754	15,635,047
Support services	15,712,492	16,428,358
Depreciation	6,057,090	5,768,323
Landfill post closure credit	(922,039)	(430,624)
Total operating expenses	63,296,141	61,026,957
Net operating income	20,072,029	14,564,608
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	(337,830)	1,456,587
Operating grant	414,972	118,120
CARES grant	-	151,509
Interest expenses and other related costs	(2,398,937)	(2,449,163)
Other rental revenues	14,379	2,021
Amortization of premium and refunding gain	733,534	786,375
Other revenues/expenses	(254,101)	(90,142)
Gain (loss) on sale/disposal of capital assets	335,785	(480,306)
Total nonoperating revenue (expenses)	(1,492,198)	(504,999)
Net income before transfers	18,579,831	14,059,609
Transfers - from other funds	285,726	-
Transfers - gross earnings taxes	(6,635,946)	(6,114,144)
CHANGE IN NET POSITION	12,229,611	7,945,465
NET POSITION - JANUARY 1	62,068,146	54,122,681
NET POSITION - DECEMBER 31	<u>\$ 74,297,757</u>	<u>\$ 62,068,146</u>

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

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

	Year Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 79,304,165	\$ 72,989,732
Payments to suppliers	(31,130,377)	(28,483,991)
Payments to employees	(23,707,983)	(22,910,556)
Payment for taxes	(1,293,570)	(1,335,449)
Net cash from operating activities	23,172,235	20,259,736
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gross earnings taxes paid	(6,635,946)	(6,114,144)
Interest paid on noncapital debt	(331,917)	(331,918)
Operating grants received	306,819	269,629
Transfer from other funds	285,726	-
Net cash from noncapital financing activities	(6,375,318)	(6,176,433)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(11,922,067)	(9,664,660)
Principal payments on revenue bonds	(2,315,000)	(2,270,000)
Interest expense	(2,074,737)	(2,121,032)
Proceeds from sale of capital assets	335,785	189,583
Insurance recoveries	31,856	7,745
Net cash from capital and related financing activities	(15,944,163)	(13,858,364)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income (loss)	(337,830)	1,456,587
Other operating or non-operating revenues	(271,574)	(95,865)
Net cash from investing activities	(609,404)	1,360,722
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	243,350	1,585,661
CASH AND EQUITY IN POOLED INVESTMENTS, BEGINNING	56,981,898	55,396,237
CASH AND EQUITY IN POOLED INVESTMENTS, ENDING	<u>\$ 57,225,248</u>	<u>\$ 56,981,898</u>

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

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

	Year Ended December 31,	
	2021	2020
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO BALANCE SHEETS:		
Operating funds	\$ 54,677,545	\$ 51,772,077
Restricted funds	2,547,703	5,209,821
	<u>\$ 57,225,248</u>	<u>\$ 56,981,898</u>
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income	<u>\$ 20,072,029</u>	<u>\$ 14,564,608</u>
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	6,057,090	5,768,323
Pension expenses (credits)	(386,839)	175,808
Pension withdrawal liability	18,241	-
Net OPEB expense	106,432	56,629
Cash provided from changes in operating assets and liabilities:		
Accounts receivable, net of allowance	(804,937)	(948,333)
Accrued unbilled revenue	(895,407)	(51,387)
Accounts payable	(242,094)	828,104
Accrued wages and compensated absences payable	72,994	176,118
Accrued taxes payable	126,650	(76,657)
Unearned revenue	25,160	5,851
Customer deposits payable	(17,311)	(12,225)
Accrued landfill postclosure care costs	(62,608)	(164,325)
Long-term accrued compensated absences	(37,734)	203,521
Long-term accrued landfill postclosure care costs	<u>(859,431)</u>	<u>(266,299)</u>
Total adjustments	<u>3,100,206</u>	<u>5,695,128</u>
NET CASH PROVIDED BY OPERATING		
ACTIVITIES	<u>\$ 23,172,235</u>	<u>\$ 20,259,736</u>

City of Tacoma, Washington
Department of Public Utilities
Solid Waste Management
Notes to Financial Statements
Years Ended December 31, 2021 and 2020

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) Annual Financial Report.

The Division provides mandatory solid waste collection and disposal services for residents and commercial and industrial entities since 1929. In 1990, the City expanded the Solid Waste Management system to include curbside pickup of residential yard and garden waste. The Division serves the entire area within the City limits, with a 2021 estimated population of 220,702 persons and an area of approximately 62 square miles, including approximately 12 miles of saltwater areas.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accounting changes - Effective for the fiscal year 2021, the Division implemented the following new accounting and reporting standard issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 98 – *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The Division has applied the effective accounting and financial reporting provisions as prescribed by GASB Statement No. 98.

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

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

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 of the Revised Code of Washington (RCW)), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds 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 City's Investment Pool in the LGIP.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2021 and 2020 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (WSPDPC).

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

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

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

Accounts receivable and unbilled revenue - Accounts receivable consist of amounts owed by individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed as of December 31, 2021 and 2020.

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. Allowance for Uncollectible Accounts was \$5,831,210 and \$4,132,325 as of December 31, 2021 and 2020, respectively.

Interfund and intergovernmental transactions - Unsettled transactions between entities at year end are recorded as due to or due from 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 premiums and gain/loss on refunding - Bond premiums are amortized over the life of the bonds using the straight line or the weighted average of the bonds outstanding, are recorded as offset to long-term debt, and are presented in the statement of net position. 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 in the statement of net position.

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

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

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

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

The estimated useful lives range as follows:

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

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

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

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

Compensated absences - The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy. The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. Vacation pay and PTO are recorded as a liability and expense in the year earned. Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. Sick leave pay is recorded as a liability and an expense in the year earned.

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

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

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

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

Non-operating revenues and expenses - The Division reports transactions not directly related to primary services as non-operating revenues and expenses. Significant items include investment and rental income and interest expense.

Taxes - The City charges the Division a gross earnings tax at the rate of 8.0%, which was reported as a transfer. The Division also pays business and occupation taxes to the State, 1.5% 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 financial and capital resources. The difference between assets and deferred outflows and liabilities and deferred inflows is 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 outstanding balances of any bonds, loans or other borrowings, less outstanding construction funds, which 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 components are those that are not "net investment in capital assets" or "restricted".

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, 2021, the landfill is at 100% of capacity, closed, and capped and 22 years remaining for post closure monitoring.

Environmental Remediation Costs - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation, or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

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

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

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

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

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

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

- **Level 1** - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.
- **Level 2** - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.
- **Level 3** - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

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

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

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

	As of			
Debt Securities:	12/31/2021	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 549,528,777	\$ -	\$ 549,528,777	\$ -
Supranational Securities	25,416,670	-	25,416,670	-
Municipal Bonds	5,094,110	-	5,094,110	-
Agency Securities	375,740,028	-	375,740,028	-
Corporate Securities	56,527,275	-	56,527,275	-
Total	<u>\$ 1,012,306,860</u>	<u>\$ -</u>	<u>\$ 1,012,306,860</u>	<u>\$ -</u>

	As of			
Debt Securities:	12/31/2020	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 371,578,276	\$ -	\$ 371,578,276	\$ -
Supranational Securities	10,065,910	-	10,065,910	-
Municipal Bonds	11,664,518	-	11,664,518	-
Agency Securities	491,827,203	-	491,827,203	-
Corporate Securities	62,803,670	-	62,803,670	-
Total	<u>\$ 947,939,577</u>	<u>\$ -</u>	<u>\$ 947,939,577</u>	<u>\$ -</u>

The Division's share of the City's investments shown in the table above is 4.76% and 5.09% as of December 31, 2021 and 2020, respectively.

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2021 and 2020 follows:

	2020	Additions	Retirements	Transfers & Adjustments	2021
Capital assets, not being depreciated:					
Land	\$ 2,855,763	\$ -	\$ -	\$ 385,320	\$ 3,241,083
Construction in progress	7,254,619	11,922,067	-	(18,987,335)	189,351
Total capital assets, not being depreciated	10,110,382	11,922,067	-	(18,602,015)	3,430,434
Capital assets, being depreciated:					
Buildings	61,767,413	-	-	-	61,767,413
Landfill infrastructure	70,679,126	-	-	10,317,504	80,996,630
Machinery and equipment	54,742,699	-	(5,048,341)	7,943,207	57,637,565
Computer software	5,137,760	-	(210,207)	341,304	5,268,857
Total capital assets, being depreciated	192,326,998	-	(5,258,548)	18,602,015	205,670,465
Less: accumulated depreciation	(118,140,300)	(6,057,090)	5,258,548	-	(118,938,842)
Total capital assets, being depreciated, net	74,186,698	(6,057,090)	-	18,602,015	86,731,623
Total capital assets, net	\$ 84,297,080	\$ 5,864,977	\$ -	\$ -	\$ 90,162,057

	2019	Additions	Retirements	Transfers & Adjustments	2020
Capital assets, not being depreciated:					
Land	\$ 2,855,763	\$ -	\$ -	\$ -	\$ 2,855,763
Construction in progress	1,681,787	9,664,660	-	(4,091,828)	7,254,619
Total capital assets, not being depreciated	4,537,550	9,664,660	-	(4,091,828)	10,110,382
Capital assets, being depreciated:					
Buildings	61,767,413	-	-	-	61,767,413
Landfill infrastructure	70,254,160	-	-	424,966	70,679,126
Machinery and equipment	54,410,426	-	(3,334,589)	3,666,862	54,742,699
Computer software	5,137,760	-	-	-	5,137,760
Total capital assets, being depreciated	191,569,759	-	(3,334,589)	4,091,828	192,326,998
Less: accumulated depreciation	(115,036,678)	(5,768,322)	2,664,700	-	(118,140,300)
Total capital assets, being depreciated, net	76,533,081	(5,768,322)	(669,889)	4,091,828	74,186,698
Total capital assets, net	\$ 81,070,631	\$ 3,896,338	\$ (669,889)	\$ -	\$ 84,297,080

NOTE 5 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2021 and 2020, follows:

	2020	Additions	Reductions	2021	Due within One Year
Revenue bonds	\$ 50,870,000	\$ -	\$ (2,315,000)	\$ 48,555,000	\$ 2,410,000
Plus: Unamortized premium	5,928,291	-	(649,963)	5,278,328	-
Total long-term debt	<u>\$ 56,798,291</u>	<u>\$ -</u>	<u>\$ (2,964,963)</u>	<u>\$ 53,833,328</u>	<u>\$ 2,410,000</u>

	2019	Additions	Reductions	2020	Due within One Year
Revenue bonds	\$ 53,140,000	\$ -	\$ (2,270,000)	\$ 50,870,000	\$ 2,314,997
Plus: Unamortized premium	6,625,649	-	(697,358)	5,928,291	-
Total long-term debt	<u>\$ 59,765,649</u>	<u>\$ -</u>	<u>\$ (2,967,358)</u>	<u>\$ 56,798,291</u>	<u>\$ 2,314,997</u>

As of December 31, 2021, annual debt service requirements to maturity are as follows:

	Principal	Interest	Service
2022	\$ 2,410,000	\$ 2,313,150	\$ 4,723,150
2023	2,530,000	2,192,650	4,722,650
2024	2,630,000	2,091,450	4,721,450
2025	2,760,000	1,959,950	4,719,950
2026	2,635,000	1,821,950	4,456,950
2027-2031	15,295,000	6,996,000	22,291,000
2032-2036	20,295,000	2,696,500	22,991,500
	<u>\$ 48,555,000</u>	<u>\$ 20,071,650</u>	<u>\$ 68,626,650</u>

The Division's long-term debt at December 31, 2021, and 2020 consists of the following payable from revenues of the Division.

	2021	2020
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.	\$ 10,330,000	\$ 12,645,000
2016 Series A Refunding Bonds, with interest rates ranging from 3.0% to 5.0%. Principal payments range between \$2,905,000 to \$4,465,000 between 2031 and 2036. Original par value value \$23,200,000. Purpose was to refund a portion of the 2006 Series A Bonds and to pay cost of issuance.	23,200,000	23,200,000
2016 Series B Refunding Bonds, with interest rates at 5.0%. Principal payments range between \$460,000 to \$3,205,000 between 2026 and 2031. Original par value value \$15,025,000. Purpose was to refund a portion of the 2006 Series B Bonds and to pay cost of issuance.	15,025,000	15,025,000
Total revenue bonds outstanding	48,555,000	50,870,000
Less:		
Current portion	(2,209,167)	(2,122,080)
Current portion payable from restricted assets	(200,833)	(192,917)
Plus: Unamortized premium	5,278,328	5,928,291
Total long-term debt - Revenue Bonds	<u>\$ 51,423,328</u>	<u>\$ 54,483,294</u>

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

Defeased and outstanding bonds constitute a contingent liability of the Division only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements and therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of fiscal year-end December 31, 2021 and 2020, the Division did not have any outstanding defeased debt.

The Division's revenue bonds are secured by net operating income and cash and equity in pooled investments balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2021 or 2020.

NOTE 6 INSURANCE

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

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled \$63,111 for 2021 and \$187,429 for 2020. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City purchased a Fiduciary Liability policy with a limit of \$5.0 million and a \$100,000 deductible. This coverage provides for wrongful acts related to the fiduciary duty of the City, trustees, or committee members arising out of the administration of the City's employee retirement plans. The coverage also provides a Government Crime policy with a \$5.0 million limit and \$200,000 deductible for employee dishonesty and for fraudulent or dishonest act by employees against the City for loss of money, securities, and property. Coverage also includes an Excess Worker's Compensation policy with a statutory limit and a self-insured retention of \$1.0 million per occurrence and an additional \$250,000 of total loss in excess of the self-insured retention. Such additional \$250,000 deductible may be satisfied by loss from one or more occurrences. Coverage also has a Cybersecurity policy with a limit of \$2.0 million.

General Government maintains Property insurance policy that covers its buildings and contents within the buildings and motor vehicles while on insured premises with a limit of \$500.0 million per occurrence. A deductible of \$150,000 per occurrence applies to the building and contents except a deductible of \$250,000 for water damage claims while a deductible of \$10,000 applies to motor vehicles. Excess liability policies provide coverage for Wrongful Acts, General liability, and Automobile liability with a \$5.0 million retention for claims other than those related to law enforcement. Law enforcement liability claims is self-insured by the City in 2021. The coverage also provides Aviation Liability - Unmanned Aircraft liability for drones with a limit of \$1.0 million.

The Division's cost for these policies is \$209 in 2021 and \$11,379 in 2020.

NOTE 7 WESTERN METAL INDUSTRY PENSION FUND

The City of Tacoma had approximately 113 employees who participated in the Western Metal Industry Pension Fund (Plan). The Plan is a cost-sharing, defined benefit, multiple-employer pension plan and is administered by the Board of Trustees. The Trustees and other Plan fiduciaries have discretionary authority to interpret the Plan and determine entitlement to Plan benefits.

The Plan fell into critical status following the 2009 Plan Year and was certified as "critical" in 2010. In an effort to improve the Plan's funding situation, the Trustees adopted a Rehabilitation Plan on May 28, 2010, and subsequently updated it on July 24, 2012, and December 9, 2016.

The Rehabilitation Plan consists of reductions in adjustable benefits including early retirement benefits and retirement payment options, and contribution increases of 16% per year for up to 11 years over the current contribution level. These contribution increases do not translate into additional benefit accruals but instead are directed solely toward improving the Plan's funded status. The Trustees have adopted the "free look" rule set forth in subsection 4210(a) of ERISA related to withdrawal liabilities.

Annual reports also are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or, a copy of the Plan's annual report may be obtained by making a written request to the Plan administrator.

The employer is required to make contributions to the Plan absent terms of a Collective Bargaining Agreement.

On December 3, 2019, the Tacoma City Council approved the collective bargaining agreement for the International Association of Machinists and Aerospace Workers District Lodge 160, Local Lodge 297 covering City of Tacoma General Unit. Contained in this agreement was a call for cessation of the participation in the Plan. The contributions submitted for the December 31, 2019, payroll were the final contributions made on behalf of the employees in this unit. As of December 31, 2021, there were no employees participating in the plan. Those employees who vested would be eligible for benefits based on their date of withdrawal.

There were no contribution rates applicable for 2021 and 2020. There were no contributions in 2021 and 2020.

There is currently no schedule to amortize the unfunded liability for the employees who are remaining within the Plan and the system is currently functioning on a pay-as-you-go basis.

On November 5, 2021, the City received a Withdrawal Liability Demand Letter from the Plan. The actuaries for the Plan determined that the withdrawal liability attributed to City of Tacoma is \$44,325,881 in total, but the liability was recorded for 20-year limitation liability of \$17,863,052 as of December 31, 2021, in accordance with Section 4219 (c) of the Employee Retirement Income Security Act (ERISA), 20 U.S.C. 1399(c). Each operating division recorded the respective liability based on its proportionate share of the 20-year limitation liability as at December 31, 2021. The initial \$337,619 payment was due on or before January 1, 2022 which was comprised of \$169,829 attributable to the partial withdrawal and \$167,790 attributable to the complete withdrawal. Subsequent payments will be due quarterly. The partial withdrawal quarterly payment will continue until 80 quarterly payments are made for a total of \$13,586,320 while the last quarterly installment for the complete withdrawal will be due on April 1, 2028 for a total of \$4,276,732, the last payment amount will be \$81,982.

As of December 31, 2021, the Division reported a liability of \$455,661 for its proportionate share of the collective total withdrawal liability of \$17,525,433 compared to \$437,420 at December 31, 2020. The current portion of the withdrawal liability is \$35,112 as of December 31, 2021 and there was no current liability as of December 31, 2020. At December 31, 2021 and 2020, the Division's proportion was 2.6% and 3.1%, respectively. For the year ended December 31, 2021, the Division recognized a withdrawal expense of \$27,019.

On January 26, 2022, the City submitted an appeal over the liability calculation subject to the Employee Retirement Income Security Act of 1974 (ERISA). The outcome of the appeal is uncertain at the time of the report issuance and may affect the liability amount.

NOTE 8 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

The Tacoma Employees' Retirement System (TERS or System), a pension trust fund of the City of Tacoma, issues a publicly available ACFR 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 ACFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

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

The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 RCW and Chapter 1.30 of the Tacoma City Code.

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

The breakdown of membership as of December 31, 2020 (measurement date) is as follows:

Retirees and beneficiaries currently receiving benefits		2,653
Terminated vested and other terminated participants		790
Active members:		
City of Tacoma	2,740	
Pierce Transit	10	
South Sound 911	2	
Tacoma-Pierce County Health Department	285	
Total active members		3,037
Total membership		6,480

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

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

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

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

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

The total contribution rate continues to be 21%, divided as 54% for the employer and 46% for the employee, for a new total of 11.34% from the employer and 9.66% from the employee. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

Significant Assumptions - The following actuarial methods were used in the funding valuation.

Measurement Date	December 31, 2020
Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Funding is based on statutory contributions rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows*:
	<ul style="list-style-type: none"> • Level percent • Open periods • 25 year amortization period* • 3.25% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	2.50%
Salary Increases	Varies by service
Investment Rate of Return	6.75%
Cost of Living Adjustment	2.125%
Retirement Age	Varies by age, gender, and eligibility
Turnover	Varies by service, and gender

Mortality 105% of the Male and 100% of the Femal PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration Data 1957-2017.

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

Benefit and Assumption Changes - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. There have been no significant changes between the January 1, 2021, valuation date and December 31, 2020, the measurement date. Therefore, no adjustments were needed from the January 1, 2021, actuarial valuation date to the calculated liabilities as of December 31, 2020, measurement date for reporting date of December 31, 2021. There were no changes between the January 1, 2020, and January 1, 2021, valuation dates.

Target Allocations - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of December 31, 2020. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated March 2019.

Asset Class	Target Allocation	Long-term Expected
		Arithmetic Real Rate of Return
Investment Grade Fixed Income	19.5%	1.30%
US Bank/ Leveraged Loans	3.0%	2.39%
US Long Government Bonds	3.0%	1.75%
High Yield Bonds	6.0%	3.10%
Emerging Market Debt	5.0%	2.65%
Global Equity	34.5%	5.55%
Public Real Estate	10.0%	6.20%
Private Equity	10.0%	6.95%
Master Limited Partnerships	4.0%	7.30%
Timber	1.5%	6.15%
Infrastructure	2.0%	6.25%
Agriculture	1.5%	3.72%
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		1.65%
Portfolio Arithmetic Real Mean Return		7.13%
Portfolio Median Nominal Geometric Return		6.58%
Portfolio Standard Deviation		10.89%
Long-Term Expected Rate of Return, net of investment expenses		6.75%

Sensitivity Analysis - The following presents the net pension liability (asset) of the System, calculated using the discount rate of 6.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower, 5.75%, or 1 percentage point higher, 7.75%, than the current rate.

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability (asset)	\$17,698,426	\$3,997,969	\$ (7,419,973)

As of December 31, 2021, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred of Outflows Resources
Difference Between Expected and Actual Experience	\$ (559,782)	\$ 723,575
Changes of assumptions	-	2,973,201
Net Difference Between Projected and Actual Earnings	(293,125)	-
Changes in Employer Proportion	(2,644)	54
Contributions made subsequent to Measurement Date	-	1,709,737
Total	\$ (855,551)	\$ 5,406,567

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 five years.

Amounts will be recognized in pension expense as follows:

2022	\$ 417,325
2023	1,390,927
2024	(458,310)
2025	1,171,060
2026	320,277
	<u>\$ 2,841,279</u>

At December 31, 2021, the Division reported a pension liability of \$3,997,969 for its proportionate share of the total System, compared to a pension asset of \$1,065,425 at December 31, 2020. The proportionate share of the Solid Waste is 5.76% of the total System's pension liability as of December 31, 2021, and 5.73% as of December 31, 2020. The proportionate share was based on the actual contributions for the year as of December 31, 2021 and 2020.

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Benefit payments are recognized when due and payable in accordance with benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the City of Tacoma Human Resources Department. The membership as of January 1, 2021 for non-LEOFF 1 members includes 3,531 active participants, 562 vested terminated participants, 192 retirees and surviving spouses, and 130 spouses of current retirees. The membership as of January 1, 2020 for LEOFF 1 members includes 1 active participant and 370 retirees.

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

Actuarial Assumptions and Other Inputs - The valuation date is January 1, 2021 for non-LEOFF 1 members and January 1, 2020 for LEOFF 1 members. This is the date as of which the census data is gathered and the actuarial valuation is performed. The measurement date is December 31, 2020. This is the date as of which the total OPEB liability is determined. No adjustment is required between the measurement date and the reporting date. The reporting date is December 31, 2021.

The H.R. 1865 Further Consolidated Appropriations Act, 2020 became Law on December 20, 2019. This act repeals the excise tax for high cost or "Cadillac" health plans completely and removes the Health Insurer Fee permanently beginning in 2021. The total OPEB liability as of the December 31, 2020, measurement date reflects this change.

In preparing the valuation, the actuary relied, without audit, on information as of January 1, 2021, and January 1, 2020, furnished by the City. This information includes, but is not limited to, statutory provisions, member census data, and financial information.

Valuation Date:	January 1, 2021
Census Date:	January 1, 2021
Actuarial Cost Method:	Individual Entry Age Normal Cost Method
Demographic Assumptions:	Demographic assumptions regarding retirements, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate:	2.12% for pay-as-you-go funding
Medical Cost Trend:	2021 6.00%
	2022 5.50%
	2023 5.00%
	2030 4.70%
	2040 4.90%
	2050 4.90%
	2060 4.70%

Note that the trend for year 2021 reflects the percent by which 2022 medical costs are expected to exceed 2021 Medical costs. The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.00% in 2074 and beyond. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase.

Economic Assumptions -	
Discount Rate (Liabilities):	2.12%
Demographic Assumptions:	Eligibility:
	Disability - Five years of service are required for non-service connected disability.

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

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

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

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

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

Changes of Assumptions: The discount rate was updated to 2.12% from 2.74%. The actuarial cost method is the individual entry age actuarial cost method to be in compliance with GASB 75.

OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At December 31, 2021 the Division reported a liability of \$3,200,855 for its proportionate share of the collective total OPEB liability of \$229.3 million, compared to \$2,536,608 at December 31, 2020. At December 31, 2021, the participating Division's proportion was 1.39615% as compared to 1.21705% at December 31, 2020. For the year ended December 31, 2021, the participating Division recognized an OPEB expense of \$106,432.

At December 31, 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ (34,252)	\$ 4,833
Changes of assumptions	(134,421)	357,417
Changes in Employer Proportion	(4,649)	406,537
Differences in Contributions	(121,632)	-
Contributions Made Subsequent to the Measurement Date	-	86,523
Total	\$ (294,954)	\$ 855,300

The Division reported \$86,523 as deferred outflows of resources related to the amounts associated with contributions subsequent to the measurement date and will be recognized as a reduction of the total OPEB Liability in the fiscal year ending December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2022	\$ 77,938
2023	77,938
2024	56,393
2025	102,908
2026	93,978
Thereafter	64,668
	<u>\$ 473,823</u>

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the Division's proportionate share of the OPEB liability, calculated using the discount rate of 2.12%, as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, 1.12%, or one percentage point higher, 3.12%, than the current rate.

	1% Decrease 1.12%	Current Discount Rate 2.12%	1% Increase 3.12%
Net OPEB liability	\$ 3,622,051	\$ 3,200,855	\$ 2,848,898

Sensitivity of the Division's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Division's proportionate share of the OPEB liability using the healthcare cost trend rate as well as what the Division's proportionate share of the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 5.00%	Current Trend Rates 6.00%	1% Increase 7.00%
Net OPEB liability	\$ 2,815,248	\$ 3,200,855	\$ 3,659,720

NOTE 10 LANDFILL POST-CLOSURE CARE LIABILITIES

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

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

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

In 2014, following closure of the portions of the Tacoma Landfill as required by the Consent Decree, the remaining recovery and transfer facilities continued to be permitted by the Tacoma Pierce County Health Department (TPCHD) through the same permitting process. All closed portions of the Landfill will also be covered by a TPCHD closure permit, which may be incorporated into the overall facility permit. The closure permit will mirror the requirements implemented as a result of the Landfill remedial action. The Tacoma-Pierce County Health Department has determined that the Tacoma Landfill is exempt under RCW 70.105D and WAC 173-351-700(4)(c) from TPCHD closure permit requirements. In February of 2019, the City and the TPCHD executed an agreement where in the City agreed to comply with TPCHD closure permit requirements and a new Solid Waste permit was issued by TPCHD expiring in March of 2020. The new Solid Waste Permit was renewed in 2022 and now expires March 24, 2023.

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

The Division reported \$13,513,313 as landfill post-closure care liability as of December 31, 2021 based on 100% use of the total capacity of the Tacoma Landfill. This compares to \$14,435,352 at December 31, 2020 based on 100% of capacity. Actual care costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The Division will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. To meet the previous requirements of State and Federal laws and regulations, contributions were made to a reserve for financing closure costs.

NOTE 11 COMMITMENTS AND CONTINGENCIES

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

Long-term Contract - Pierce County Recycling, Composting and Disposal - In October 2004 the Division entered into a ten (10) year agreement with Pierce County Recycling Composting and Disposal (PCRCDD) 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, PCRCDD will charge a base rate per ton for the organic waste it receives from the City. This price may be adjusted beginning on the second anniversary of the agreement, and thereafter annually based on the Seattle-Tacoma-Bremerton CPI. The agreement also includes a revenue sharing component. The Division entered into this agreement to extend the life of the Tacoma landfill and secure a long-term composting arrangement at a favorable cost through 2030.

NOTE 12 LITIGATION AND CLAIMS

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.

NOTE 13 – COVID-19 PANDEMIC

The COVID-19 pandemic is ongoing, and the duration and severity of the crisis are uncertain. The City and the Division took aggressive budget actions in early 2020 to manage the impacts of COVID-19. The actions included, but are not limited to, the following: reduction of 2020 revenue projections, eliminated discretionary spending, cancelled planned projects, established purchasing and contract freezes, established a hiring freeze, put certain staff on temporary furloughs and did targeted lay-offs. During the 2021-2022 budget development process the City took quick action to reduce the expenses through program eliminations, reduced hiring, and temporary furloughs to address the projected revenue losses. In 2021, the City's tax revenues performed better than projections and the City was able to return funding for a limited number of one-time programs and investments. The City and the Division will continue to monitor the community impacts of COVID-19 and remain flexible on responding to community needs.

The Division and the City has been operating under a utility shut-off moratorium since March 2020 due to the COVID-19 pandemic. In March 2020, the City Mayor issued an emergency rule that prohibits utility shutoff due to nonpayment of fees and charges for residential and commercial customers during the City Mayor's emergency proclamation. The State issued a similar moratorium on disconnecting electric, water and other utility services due to nonpayment and charging fees for late payment or reconnection for certain utilities. The State-wide moratorium on disconnections for nonpayment terminated on September 30, 2021. The City moratorium ended on March 31, 2022. Effective April 1, 2022, late fees and other collection processes resumed.

Subsequent to the moratorium end date on March 31, 2022, City utility customer with an outstanding balance incurred during the months of the COVID-19 pandemic was placed on an automatic, interest-free, 24-month installment plan. The City has been encouraging customers to take advantage of current relief assistance dollars and is developing long-term payment programs. The City anticipates that it will be able to address delinquencies using those tools and does not expect that accounts receivable will be a primary driver for future rate increases.

While the aggregate amount of outstanding receivables is greater than prior years, the amount is not expected to have a material impact on the Division and the City.

NOTE 14 SUBSEQUENT EVENTS

In Mid-May of 2022, the City expects to receive approximately \$30.4 million, the second tranche of funds from the American Rescue Plan Act ("ARPA"). Based on allocation projections, the City was allocated with approximately \$60.9 million in ARPA assistance, of which approximately \$30.5 million was received in May of 2021. ARPA provides \$350 billion to help states, counties, cities and tribal governments cover increased expenditures, replenish lost revenue and mitigate economic harm from the COVID-19 pandemic. Funds received under the ARPA may be used for authorized purposes relating to mitigating the fiscal effects of the COVID-19 pandemic, including responding to the public health emergency, providing governmental services, and making certain infrastructure investments, among other purposes. The City will monitor and apply for additional Federal and State support for expenses related to responding to the COVID-19 pandemic if and as such relief becomes available.

On March 23, 2022, Solid Waste issued \$13,190,000 in Revenue bonds to provide funds necessary to finance and/or reimburse the City for costs associated with the construction, improvement and equipping of the utility. The proceeds are expected to be used to finance certain capital improvements including the acquisition of compressed natural gas collection vehicles, the acquisition of diesel semi-tractor transfer vehicles with improved engine and emission standards, containers and downtown compactors, other fleet repair and replacements, fueling station repairs or replacement, and other upgrades, repairs, replacements and/or improvements at Solid Waste facilities. The reserve fund requirement for the bonds is zero. The bonds will be redeemed over the next 10 years.

Required Supplementary Information

Proportionate Share of the Net Pension Liability Last 10 Years*

	As of Measurement Date December 31,						
	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset) as a percentage	5.76%	5.73%	5.60%	5.70%	5.56%	5.52%	5.50%
Employer's proportion share of net pension liability (asset)	\$3,997,969	(\$1,065,425)	\$6,556,061	(\$2,240,216)	\$5,161,926	\$4,779,164	(\$529,445)
Employer's covered payroll	\$14,860,715	\$14,756,596	\$13,968,588	\$13,465,213	\$12,772,077	\$12,948,158	\$12,591,124
Employer's proportionate share of net pension liability (asset) as a percentage of its covered employee payroll	26.90%	-7.22%	46.93%	-16.64%	40.42%	36.91%	-4.20%
Plan fiduciary net position as a percentage the total pension liability	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%

Schedule of Contributions Last 10 Fiscal Years*

	Fiscal Year Ended December 31,						
	2021	2020	2019	2018	2017	2016	2015
Contractually required employer contribution	\$1,709,737	\$1,639,697	\$1,565,610	\$1,504,807	\$1,340,723	\$1,303,538	\$1,253,635
Contributions in relation to the contractually required employer contribution	(1,709,737)	(1,639,697)	(1,565,610)	(1,504,807)	(1,340,723)	(1,303,538)	(1,253,635)
Employer contribution deficiency (excess)	-	-	-	-	-	-	-
Employer's covered employee payroll	\$15,436,350	\$14,860,715	\$14,756,596	\$13,968,588	\$13,465,213	\$12,772,077	\$12,948,158
Employer contribution as a percentage of covered-employee payroll	11.08%	11.03%	10.61%	10.77%	9.96%	10.21%	9.68%

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

Proportionate Share of the Collective OPEB Liability Last 10 Years*

	As of Measurement Date December 31,				
	2020	2019	2018	2017	2016
Employer's proportion of the collective OPEB liability as a percentage	1.40%	1.22%	1.18%	1.18%	1.15%
Employer's proportion share of collective OPEB liability	\$3,200,855	\$2,536,608	\$2,404,966	\$2,611,190	\$2,401,762
Employer's covered-employee payroll**	\$14,860,715	\$14,756,596	\$13,968,588	\$13,465,213	\$12,773,370
Employer's proportionate share of collective OPEB liability as a percentage of its covered-employee payroll	21.54%	17.19%	17.22%	19.39%	18.80%

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

** The Division's covered employee payroll has been restated for the measurement date ended December 31, 2017.

Notes to Required Supplementary Information For the Fiscal Year Ended December 31, 2021

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

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

Changes of Assumptions: The discount rate was updated to 2.12% from 2.74%. The actuarial cost method is the individual entry age normal actuarial cost method to be in compliance with GASB 75.

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Supplemental Information (Unaudited)

**City of Tacoma, Washington
Environmental Services Department
Solid Waste Management
Unaudited Supplemental Information**

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

The following continuing disclosure information for 2021 is provided in accordance with SEC Rule 15c2-12(b)(5)

Outstanding Solid Waste Bonds

Reference Note 5 in Notes to Financial Statements

Debt Service Coverage

	2020	2021
Parity Bond Debt Service Coverage Ratio	4.56	5.37
Parity Bond Debt Service Coverage Ratio Before Rate Stabilization	4.56	5.37

Number of Customers by Type of Service

The System's number of customers for 2020 and 2021 by type of service is shown below:

Customer Class	2020	2021
Residential	56,718	57,089
Commercial	5,190	5,243
Total Customers	61,908	62,332

Top Ten Customers

The System's ten largest customers for 2021 are shown in the following table.

Customer Name	Amount	Percent of 2021 Operating Revenues⁽¹⁾
Multicare	\$ 1,297,610	1.56%
Puyallup Tribe	807,499	0.97%
St Joseph	752,681	0.90%
City of Tacoma	500,280	0.60%
Westrock	473,894	0.57%
Salishan	441,587	0.53%
United Parcel Service	435,052	0.52%
Tacoma School District	427,063	0.51%
Goodwill Industries	407,740	0.49%
Arclin Surfaces	356,284	0.43%
Total Revenue	\$ 5,899,690	7.08%

⁽¹⁾ Total system revenue \$ 83,368,170

Revenues by Service

	2020	2021
Residential Collection	\$ 32,193,018	\$ 34,106,454
Commercial Collection	32,954,928	36,074,211
Disposal Revenues	9,758,808	11,978,283
Salvage Revenue	290,620	763,095
Other Operating Revenue	394,191	446,127
Total Operating Revenues	<u>\$ 75,591,565</u>	<u>\$ 83,368,170</u>

Municipal Solid Waste Disposal Volumes:

	Thousands of Tons			
	2020 ^(*)	2020 ^(*)	2021	2021
	Tonnage	Percent of Total	Tonnage	Percent of Total
Solid waste	193,567	75%	202,724	78%
Recycling	26,312	10%	26,012	10%
Yard waste	37,978	15%	32,164	12%
Total	<u>257,857</u>	<u>100%</u>	<u>260,900</u>	<u>100%</u>

^(*) 2020 quantities were restated to truly represent the data.

Municipal Solid Waste Disposal Methods:

	Thousands of Tons			
	2020 ^(*)	2020 ^(*)	2021	2021
	Tonnage	Percent of Total	Tonnage	Percent of Total
Hauled to Landfills	193,567	75%	202,724	78%
Recycling and Composting	64,290	25%	58,176	22%
Total	<u>257,857</u>	<u>100%</u>	<u>260,900</u>	<u>100%</u>

^(*) 2020 quantities were restated to truly represent the data.

Solid Waste Rates

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

	2020		2021	
	Rate Per 100 Pounds	Minimum Charge	Rate Per 100 Pounds	Minimum Charge
Garbage Disposal				
City of Tacoma Resident ⁽¹⁾	\$ 7.25	\$ 20.00	\$ 7.25	\$ 20.00
Non-City of Tacoma Resident	7.25	20.00	8.50	40.00
Commercial	7.25	20.00	8.50	40.00
Yard Waste				
City of Tacoma Resident	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Non-City of Tacoma Resident	7.25	20.00	8.50	40.00
Commercial	7.25	20.00	8.50	40.00

⁽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	2019 and Prior	2020	2021
Green Facilities ⁽¹⁾	\$ 3,933,937		
Diesel Hybrid Collection Vehicles (8 vehicles)	3,450,734		
CNG Fork Box Truck	307,323		
Tier 4 Emissions Onsite Equipment	373,549		
CNG Drop Off Box Truck (9 vehicles)	2,560,888		
CNG Front Loaders (2 vehicles)	672,767		
CNG Rear Loaders (4 vehicles)	1,293,030		
Diesel Tractors (6 vehicles)	1,040,022		
CNG Scorpio Automated Side-Loaders (4 vehicles)	1,487,618		
CNG Rotopack Automated Side-Loaders (8 vehicles)	3,149,068		
Crane Carrier Rear Loader (3 vehicles)	998,552		
Horizontal Grinder	636,554		
CNG 2020 Peterbilt 520 (7 vehicles)		\$ -	\$ 2,618,969
	<u>\$ 19,904,042</u>	<u>\$ -</u>	<u>\$ 2,618,969</u>

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

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The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.