



Report of Independent Auditors and Financial
Statements with Required Supplementary
Information and Other Information for

**Seattle Public Utilities -
Solid Waste Fund**
(An Enterprise Fund of the City of Seattle)

December 31, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities
Solid Waste Fund
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Solid Waste Fund (the “Fund”), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities – Solid Waste Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 of the financial statements, the Fund adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information on pages 42 – 45 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Moss Adams LLP

Seattle, Washington
April 28, 2016

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

(An Enterprise Fund of the City of Seattle)

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Seattle Public Utilities ("SPU"), a department of the City of Seattle (the "City"), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Solid Waste Fund (the "Fund") for the fiscal years ended December 31, 2015 and 2014. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City of Seattle's solid waste system are recorded in the Solid Waste Fund, the functions of which are primarily supported by user fees and charges billed to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The financial statements include management's discussion and analysis and basic financial statements with accompanying notes.

Basic Financial Statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 13 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The Statement of Net Position presents information, as of December 31, 2015 and 2014, on all of the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Position present changes in the Fund's net position for the years ended December 31, 2015 and 2014. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The Statements of Cash Flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2015 and 2014. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Notes to the Financial Statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 18 of this report.

FINANCIAL ANALYSIS

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2015, the Fund had a surplus in total net position of \$11.3 million compared to a surplus of \$34.2 million in 2014. During the year ended December 31, 2015, the Fund's overall position changed, with a decrease in net position of \$22.9 million (-66.8%), compared to a \$1.9 million (5.9%) increase in 2014. The significant decrease in net position is primarily due to the implementation of GASB Statement No. 68. The following summary statement of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities and deferred inflows of resources and net position used to acquire these assets.

Summary Statement of Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Current assets	\$ 57,239,916	\$ 47,111,384	\$ 35,707,827
Capital assets, net	205,737,898	156,746,013	133,408,920
Other	<u>59,349,626</u>	<u>66,139,112</u>	<u>32,250,621</u>
Total assets	322,327,440	269,996,509	201,367,368
DEFERRED OUTFLOWS OF RESOURCES	<u>6,327,726</u>	<u>3,146,435</u>	<u>139,393</u>
Total assets and deferred outflows of resources	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>	<u>\$ 201,506,761</u>
LIABILITIES			
Current liabilities	\$ 35,677,196	\$ 27,268,527	\$ 24,729,801
Revenue bonds	210,309,632	177,521,599	117,805,270
Other	<u>52,844,020</u>	<u>18,347,523</u>	<u>21,432,459</u>
Total liabilities	<u>298,830,848</u>	<u>223,137,649</u>	<u>163,967,530</u>
DEFERRED INFLOWS OF RESOURCES	<u>18,481,201</u>	<u>15,795,424</u>	<u>5,246,536</u>
NET POSITION			
Net investment in capital assets	16,276,742	10,747,626	18,079,526
Restricted	-	-	147,149
Unrestricted	<u>(4,933,625)</u>	<u>23,462,245</u>	<u>14,066,020</u>
Total net position	<u>11,343,117</u>	<u>34,209,871</u>	<u>32,292,695</u>
Total net position, liabilities and deferred inflows of resources	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>	<u>\$ 201,506,761</u>

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

2015 Compared to 2014

Assets – Current assets increased by \$10.1 million (21.5%) from the prior year due to a \$9.8 million increase in operating cash. The increase in operating cash was primarily the result of increased revenues and transfers from the construction cash account for reimbursements of 2015 construction costs paid out of the operating cash. Balances in accounts receivable, unbilled receivables, and amounts due from other City funds and other governments remained essentially unchanged from 2014.

Restricted cash and equity in pooled investments decreased \$6 million (-12.3%) from the prior year. This decrease is mostly attributable to the \$11.1 million transfer of construction cash to the operating cash account for payment on the North Transfer Station rebuild. This decrease was offset by the issuance of revenue bonds in 2015 resulting in a \$2.4 million increase in the bond reserve account and a transfer of operating cash to the rate stabilization account of \$2.5 million.

Capital assets increased \$49 million (31.3%) over the prior year. The increase in capital assets is due to a \$55.5 million increase in construction in progress and other plant assets, driven by costs for the North Transfer Station rebuild project. Offsetting these changes were \$6.5 million in accumulated depreciation.

Other noncurrent assets increased \$2.6 million (15.4%) from the prior year. This includes increases of \$1.4 million in environmental recoveries, \$1.7 million in other charges and \$0.2 million in unamortized bond issue costs, net. These increases were offset by a decrease of \$0.7 million in landfill postclosure costs.

Deferred Outflows of Resources – Deferred outflow of resources increased by \$3.2 million (101.1%) from 2014. The largest portion of this increase relates to the implementation of GASB Statement No. 68 and 71 and the addition of deferred outflows for pension contributions and changes in assumptions.

Liabilities – Current liabilities increased \$8.4 million (30.8%) from the prior year. This is mostly attributed to increases of \$4.1 million related to the accrual of 2015 expenses, \$0.9 million for revenue bonds due within one year, \$1.5 million for environmental liabilities, \$0.8 million in accrued interest, \$0.5 million for landfill closure/postclosure liability and \$0.7 million increase in miscellaneous liabilities that includes the hazardous waste program and credit due to customers .

Noncurrent and other liabilities increased \$67.3 million (34.4%) from 2014. The two most significant factors affecting this increase related to a new bond and the net pension liability. Revenue bonds and related liabilities increased \$32.8 million, mostly attributed to a new bond issue in 2015, and net pension liability increased \$28.2 million (Note 9). Additionally there was a \$7.3 million increase in the noncurrent portion of environmental liabilities. These increases were offset by a decrease of \$0.8 million in accrued landfill closure/postclosure costs and a decrease of \$0.2 million in claims payable.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

Deferred Inflows of Resources – Rate stabilization account increased by \$2.7 million (17.0%) from 2014 due to a cash transfer from the operating fund and interest earned in 2015.

Net Position – A portion of the Fund's net position (\$16.3 million) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers. Consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. During 2015, net position invested in capital assets increased \$5.5 million due to an increase in capital assets and debt related to investment in capital.

The remaining portion of the Fund's net position (a negative \$4.9 million) represents resources that are unrestricted. The unrestricted portion of net position decreased \$28.4 million from the prior year primarily due to the recording of the pension liability as required by GASB Statement No. 68 for reporting pensions (Note 9).

2014 Compared to 2013

Assets – Current assets increased by \$11.4 million (31.9%) from the prior year due to an \$11.5 million increase in operating cash. The increase in operating cash was primarily the result of underspending in operations, the sale of a parcel of land and transfers from the construction cash account for reimbursements of 2013 construction costs paid out of operating cash. Balances in accounts receivable, unbilled receivables, and amounts due from other City funds and other governments remained essentially unchanged from 2013.

Restricted cash and equity in pooled investments increased \$36.7 million (294.8%) from the prior year. This increase is mostly attributable to the \$10.5 million transfer of operating cash to a rate stabilization account and the issuance of revenue bonds in 2014 resulting in a \$26.6 million increase in the construction cash account and a \$1.9 million increase in bond reserve accounts. These increases were offset by a \$2.3 million retainage payment to a contractor.

Capital assets increased \$23.3 million (17.5%) over the prior year. Utility plant decreased \$16.6 million due to the closure and retirement of the old North Transfer Station. Construction in progress and other property, net increased \$29.1 million due to costs for the North Transfer Station rebuild project. Offsetting these changes were \$10.8 million in accumulated depreciation.

Other noncurrent assets decreased \$2.8 million (14.3%) mainly as a result of amortization of Landfill Closure/Post Closure Costs and Environmental Costs. Assets, in total, increased \$68.6 million (34.1%) over the prior year.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

Liabilities – Current liabilities increased \$2.5 million (10.3%) from the prior year. This is mostly attributed to increases of \$2.1 million related to the accrual of 2014 expenses and \$1.4 million for revenue bonds due within one year. These increases were offset by a \$1.0 million decrease related to environmental liabilities, accrued interest and tax expenses.

Noncurrent and other liabilities increased \$56.6 million (40.7%) from 2013. The most significant factor affecting this change was a \$49.6 million increase in revenue bond related liabilities and a \$10.1 million addition to bond premiums, both due to a revenue bond issued in 2014. Offsetting these increases was a \$3.2 million reduction in the noncurrent portion of the accrued landfill closure/postclosure costs, environmental liabilities, net of current portion and retainage payable.

Net Position – A portion of the Fund's net position (\$10.7 million) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers. Consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. During 2014, net position invested in capital assets decreased \$7.3 million due to an increase in debt related to investment in capital.

The Fund's restricted net position represent resources that are subject to restrictions on how they may be used. This portion of net position decreased \$0.1 million due to reductions in other charges.

The remaining portion of the Fund's net position (\$23.5 million) represents resources that are unrestricted. The unrestricted portion of net position increased \$9.4 million from the prior year primarily due to increased residential and commercial collection revenues.

The following summary statements of revenues, expenses, and changes in net position present the annual surplus (or deficit) of revenues over expenses (the change in net position):

Summary Statements of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 174,787,770	\$ 157,497,819	\$ 159,741,503
Operating expenses	<u>(169,740,350)</u>	<u>(155,691,325)</u>	<u>(152,272,278)</u>
Net operating income	5,047,420	1,806,494	7,469,225
Other expenses, net of other revenues	(4,247,539)	(919,739)	(4,799,990)
Fees, contributions, and grants	<u>584,409</u>	<u>1,030,421</u>	<u>592,409</u>
Change in net position	<u>\$ 1,384,290</u>	<u>\$ 1,917,176</u>	<u>\$ 3,261,644</u>

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

2015 Compared to 2014

Current year operating revenues increased \$17.3 million (11%) compared to the prior year. There were several key factors affecting this change. There was an approximate 5.9% rate increase for residential and commercial garbage, and composting services effective April 1, 2015. This resulted in residential and commercial solid waste collection service revenue gains of \$9.1 million, including \$5.9 million in residential garbage collection and \$3.2 million in commercial collection revenue. The gains in residential and commercial revenues were offset by a transfer to the rate stabilization fund of \$2.5 million as compared to a \$10.5 million transfer in 2014, a reduction of \$8 million.

Seattle City Council enacted legislation in 2012 (ordinance 124056) instructing the Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets. The legislation dictates that Seattle Public Utilities shall deposit cash into the Solid Waste Fund's Rate Stabilization Account and defer revenues equal to the amount that the Fund's operating cash balance at the end of each fiscal year exceeds the following balances: \$17.8 million in 2015 and \$15.9 million in 2016. The deposits will be limited to cash and revenues that are not required to meet financial policy targets for the Fund with respect to debt service coverage, net income, or cash-financed capital expense. The fund may withdraw revenues from the Fund's Rate Stabilization Account provided that: such a withdrawal will allow the Fund to meet one or more financial policy targets that it would not have otherwise met in the absence of such a withdrawal; or to reduce the size of any adjustment to 2016 or 2017 solid waste rates, if such a reduction to the rates would not jeopardize the Fund's ability to meet operating cash balances specified in the legislation and the financial policy targets for debt service coverage, net income, and cash-financed capital projects. The \$17.8 million operating cash target was exceeded in 2015 and \$2.5 million of revenue was deferred and deposited into the Rate Stabilization Account.

Operating expenses in 2015 increased \$14.0 million (9%) compared to 2014. The largest operating expense increase was an \$8.5 million increase for the environmental cleanup of the South Park Landfill. Additional increases included \$3.2 million in collection expense directly related to increased revenues; \$1.6 million increase in the customer service branch; \$0.5 million increase in project delivery; \$0.5 million increase in utility services management and a \$0.3 million increase in City and State taxes. These increases were offset by decreased expenses of \$0.3 million in field operations; \$0.2 million in general and administrative and \$0.1 million in depreciation.

Nonoperating revenues (expenses) decreased \$3.8 million (-3409.6%). Most of this decrease was related to \$2.9 million reduction in the gain on sale of assets and a \$0.7 million net decrease in the Clean Cities Program.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

2014 Compared to 2013

Operating revenues in 2014 decreased \$2.2 million (1.4%) compared to 2013. There were several key factors affecting this change. There was an approximate 4.1% rate increase for residential and commercial garbage, and composting services effective April 1, 2014. This resulted in residential and commercial solid waste collection service revenue gains of \$5.9 million including \$2.9 million in residential garbage collection and \$3.1 million in increased commercial collection revenue. The gains in residential and commercial revenues were offset by a transfer to the rate stabilization fund of \$10.5 million, a \$5.3 million increase in the transfer amount versus 2013. In addition, solid waste disposal services revenue from City transfer stations decreased by \$2.9 million due to the closure of the North Transfer Station, which closed January 2014 to facilitate the rebuilding of a new transfer facility.

Operating expenses in 2014 increased \$3.4 million (2.2%) compared to 2013. The largest operating expense increase was related to contractual solid waste collection costs, which increased \$1.5 million due to inflation adjustments specified in the contracts. Taxes paid to the City and State increased \$0.4 million due to higher tax rates. While branch related operational expenses increased \$0.6 million overall in 2014, there were substantial increases and decreases in expenses within the branch categories. General and administrative expenses increased \$2.3 million while the other branch expenses decreased \$1.7 million. These shifts in expenses were mostly attributable to reorganizations of work groups within the branches and realignment of the project and delivery and customer service branch to the corporate asset management division. Depreciation expense increased \$0.9 million due to the addition of the new South Transfer Station in 2013.

Nonoperating expenses decreased \$4.3 million (102.6%). The interest expense adjustment for capitalized interest relating to construction costs increased by \$0.6 million as the South Transfer Station construction was completed and the North Transfer Station construction had begun. In 2014, the Clean Cities Program revenues collected through tonnage taxes exceeded the Clean Cities Program expenses by \$1.3 million. A portion of the historical landfill located at Kent-Highlands was sold for a gain of \$2.6 million.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2015, 2014, and 2013:

Summary of Capital Assets, Net of Accumulated Depreciation

	2015	2014	2013
Land and land rights	\$ 15,217,643	\$ 15,217,643	\$ 15,217,643
Buildings	49,134,328	50,315,541	51,751,428
Structures	3,707,295	3,597,853	3,496,534
Machinery and equipment	24,190,656	27,068,379	30,730,505
Computer systems	3,209,280	4,557,616	5,397,181
Construction in progress	108,235,121	53,945,406	24,554,012
Other property	2,043,575	2,043,575	2,261,617
Capital assets, net of accumulated depreciation	<u>\$ 205,737,898</u>	<u>\$ 156,746,013</u>	<u>\$ 133,408,920</u>

Additional information about the Fund's capital assets can be found in Note 3 of this report.

2015 Compared to 2014

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2015 is \$205.7 million. This represents an increase of approximately \$49.0 million (31.3%) compared to 2014. The Fund spent \$55.2 million for construction projects in 2015. The construction projects were multi-year projects and \$2.4 million related to these projects were capitalized as assets in 2015. This increase in assets was offset by \$1.1 million for asset retirements and \$6.9 million for depreciation.

Highlights of the Fund's capital assets placed in service during 2015 include the following:

- \$1.4 million for Heavy Equipment purchases
- \$0.7 million for IT infrastructure upgrades
- \$0.3 million for additions to the South Transfer Station

The Fund's construction in progress activity at year end included \$84.2 million for the North Transfer Station rebuild and \$8.7 million for the new Utility Customer Billing System.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (CONTINUED)

2014 Compared to 2013

The Fund's capital assets (net of accumulated depreciation) for the year ended December 31, 2014 is \$156.7 million. This represents an increase of approximately \$23.3 million (17.5%) compared to 2013. The Fund spent \$30.9 million for construction projects in 2014. The construction projects were multi-year projects and \$1.5 million related to these projects was capitalized as assets and other charges in 2014. Also, there was an adjustment to accumulated depreciation of \$17.8 million attributed to asset retirements in 2014. This increase in assets was offset by \$19.9 million for asset retirements and transfers out and \$7.0 million for depreciation.

Highlights of the Fund's capital assets placed in service during 2014 include the following:

- \$0.6 million for the new South Transfer Station placed in service in 2014.
- \$1.0 million for IT infrastructure upgrades.

The Fund's construction in progress activity at year end included \$37.0 million for the North Transfer Station rebuild.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt, which is secured solely by solid waste revenues and provides financing for capital improvements. The Fund's credit rating on its bonds are AA by Standard & Poor's Rating Service and Aa3 by Moody's Investors Service. These ratings remain unchanged from 2014. Additional information about the Fund's long-term debt can be found in Note 4 of this report.

2015 Compared to 2014

At the end of 2015, the Fund had \$197.8 million in bonded debt, as compared to \$166.9 million in 2014, all of which was secured solely by solid waste revenues. This increase of \$30.9 million is attributed to the issuance of \$35.8 million in new debt, and \$4.9 million scheduled principal payments for existing bond debt. The Fund has used bond proceeds mostly for the completion of the South Transfer Station and the North Transfer Station rebuild projects. The Fund retains bond reserves of \$9.2 million.

2014 Compared to 2013

At the end of 2014, the Fund had \$166.9 million in bonded debt, as compared to \$115.9 million in 2013, all of which was secured solely by solid waste revenues. This increase of \$51.0 million is attributed to the issuance of \$95.4 million in new debt, refunding \$44.3 million of debt related to a 2007 bond issue, and scheduled principal payments for existing bond debt. The Fund has used all spendable bond proceeds mostly for the completion of the South Transfer Station and the North Transfer Station rebuild projects. The Fund retains bond reserves of \$6.8 million.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AFFECTING NEXT YEAR

Effective April 1, 2016, the Fund will adopt a rate increase of approximately 3.4% for residential and commercial services. This rate increase is expected to bring an additional \$4.3 million in operating revenues to the Fund in 2016.

REQUESTS FOR INFORMATION

The Fund's financial statements are designed to provide a general overview of the Fund's finances, as well as to demonstrate the Fund'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 Seattle Public Utilities, Finance and Administration Branch, Finance Division, PO Box 34018, Seattle, WA 98124-4018, telephone: (206) 684-3000.

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION

	December 31,	
	2015	2014
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 42,220,228	\$ 32,395,205
Receivables		
Accounts, net of allowance	13,201,343	12,933,310
Unbilled revenues	359,758	416,943
Notes, and other contracts	30,034	-
Due from other funds	237,469	244,192
Due from other governments	983,386	966,687
Materials and supplies inventory	102,088	68,265
Prepayments and other current assets	105,610	86,782
Total current assets	<u>57,239,916</u>	<u>47,111,384</u>
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	43,135,032	49,172,618
Prepayments long-term	306,514	324,545
Environmental recoveries	1,358,472	-
Regulatory landfill closure and postclosure costs	12,326,267	13,003,795
Regulatory assets, net	1,715,155	3,026,000
Other charges	508,186	612,154
Capital assets		
Land and land rights	15,217,643	15,217,643
Plant in service, excluding land	133,781,930	132,527,951
Less accumulated depreciation	(53,540,371)	(46,988,562)
Construction in progress	108,235,121	53,945,406
Other property, net	2,043,575	2,043,575
Total noncurrent assets	<u>265,087,524</u>	<u>222,885,125</u>
Total assets	<u>322,327,440</u>	<u>269,996,509</u>
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	2,967,747	3,146,435
Pension contributions and changes in assumptions	3,359,979	-
Total deferred outflows of resources	<u>6,327,726</u>	<u>3,146,435</u>
Total assets and deferred outflow of resources	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION (CONTINUED)

	December 31,	
	2015	2014
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 13,842,738	\$ 10,975,517
Salaries, benefits and payroll taxes payable	1,513,531	804,903
Compensated absences payable	149,752	148,705
Due to other funds	1,893,272	1,246,004
Interest payable	2,902,212	2,149,241
Taxes payable	371,733	470,632
Revenue bonds due within one year	5,750,000	4,895,000
Claims payable	311,289	242,510
Environmental liabilities	2,063,300	568,800
Landfill closure and postclosure liability	1,522,110	1,063,506
Other	5,357,259	4,703,709
Total current liabilities	<u>35,677,196</u>	<u>27,268,527</u>
NONCURRENT LIABILITIES		
Compensated absences payable	1,584,486	1,541,748
Claims payable	457,659	643,692
Environmental liabilities	7,590,775	256,742
Landfill closure and postclosure liability	14,163,024	14,990,322
Unfunded other post retirement benefits	860,084	894,715
Net pension liability	28,187,992	-
Other noncurrent liabilities	-	20,304
Revenue bonds	197,810,000	166,875,000
Less bonds due within one year	(5,750,000)	(4,895,000)
Bond premium	18,249,632	15,541,599
Total noncurrent liabilities	<u>263,153,652</u>	<u>195,869,122</u>
Total liabilities	<u>298,830,848</u>	<u>223,137,649</u>
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	<u>18,481,201</u>	<u>15,795,424</u>
NET POSITION		
Net investment in capital assets	16,276,742	10,747,626
Unrestricted	<u>(4,933,625)</u>	<u>23,462,245</u>
Total net position	<u>11,343,117</u>	<u>34,209,871</u>
Total liabilities and net position	<u>\$ 328,655,166</u>	<u>\$ 273,142,944</u>

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2015	2014
OPERATING REVENUES		
Charges for services and other revenues	\$ 174,787,770	\$ 157,497,819
OPERATING EXPENSES		
Solid waste collection	100,041,951	96,866,898
Planning and development	203,023	163,228
Utility systems management	10,616,856	1,661,161
Field operations	6,950,060	7,215,969
Project delivery	1,102,436	546,351
Customer services	6,592,019	5,035,333
General and administrative	14,249,644	14,492,820
City taxes	17,987,387	17,715,992
Other taxes	2,587,795	2,505,432
Depreciation and amortization	8,108,799	8,187,392
Amortization of landfill closure and postclosure costs	1,300,380	1,300,749
Total operating expenses	169,740,350	155,691,325
OPERATING INCOME	5,047,420	1,806,494
NONOPERATING REVENUES (EXPENSES)		
Investment income	724,618	750,477
Interest expense	(5,651,348)	(5,797,849)
Amortization of bond premiums	735,746	478,042
Amortization of bond refunding loss	(178,688)	(108,570)
Gain (loss) on sale of capital assets	(442,826)	2,419,883
Contributions and grants	584,409	1,030,421
Other, net	564,959	1,338,278
Total nonoperating revenues (expenses)	(3,663,130)	110,682
CHANGE IN NET POSITION	1,384,290	1,917,176
NET POSITION		
Beginning of year	34,209,871	32,292,695
Cumulative effect of change in accounting principle	(24,251,044)	-
Net position	9,958,827	32,292,695
End of year	\$ 11,343,117	\$ 34,209,871

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 183,505,271	\$ 175,239,493
Cash paid to suppliers	(109,106,932)	(109,583,599)
Cash paid to employees	(22,675,367)	(22,086,803)
Cash paid for taxes	(20,941,704)	(20,642,447)
Net cash provided by operating activities	<u>30,781,268</u>	<u>22,926,644</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating grants received	818,163	838,473
Payments for environmental liabilities	(1,358,472)	-
Net cash provided by (used in) non-capital and related financing activities	<u>(540,309)</u>	<u>838,473</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds	39,273,779	107,496,201
Proceeds from sale of fixed assets	257,501	2,419,883
Principal payments on revenue bonds	(4,820,105)	(49,017,442)
Capital expenditures and other charges	(53,840,935)	(29,589,557)
Interest paid on long-term debt	(7,731,594)	(6,976,549)
Capital grants received	-	77,840
Debt issuance costs	(297,958)	(630,220)
Net cash provided by (used in) capital and related financing activities	<u>(27,159,312)</u>	<u>23,780,156</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net gain on investments	<u>705,790</u>	<u>702,904</u>
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	3,787,437	48,248,177
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	<u>81,567,823</u>	<u>33,319,646</u>
End of year	<u>\$ 85,355,260</u>	<u>\$ 81,567,823</u>
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 42,220,228	\$ 32,395,205
Noncurrent restricted cash and equity in pooled investments	<u>43,135,032</u>	<u>49,172,618</u>
Total cash at the end of the year	<u>\$ 85,355,260</u>	<u>\$ 81,567,823</u>

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
	2015	2014
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 5,047,420	\$ 1,806,494
Adjustments to reconcile net operating income to net cash provided by operating activities		
Amortization of pension assumptions	576,968	-
Depreciation and amortization	8,108,799	8,187,392
Other receipts and payments	1,075,977	2,115,042
Changes in operating assets and liabilities		
Unbilled revenues	57,184	(6,574)
Accounts receivable	(268,032)	360,147
Due from other City funds	6,723	42,708
Due from other governments	(250,453)	79,237
Materials and supplies inventory	(33,823)	39,322
Other assets	665,524	1,512,101
Accounts payable	2,867,221	2,069,521
Accrued payroll and payroll taxes payable	708,628	74,337
Taxes payable	(99,549)	(121,682)
Compensated absences payable	43,785	35,491
Due to other City funds	647,918	(414,854)
Claims payable	(117,254)	2,550
Accrued landfill closure and post-closure costs	(368,694)	(906,973)
Environmental liability	8,828,533	(579,737)
Rate stabilization	2,685,777	10,548,888
Other liabilities	598,616	(1,916,766)
Total adjustments	25,733,848	21,120,150
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 30,781,268	\$ 22,926,644

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND

(An Enterprise Fund of the City of Seattle)

NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies

Operations – The City of Seattle, Seattle Public Utilities – Solid Waste Fund (the “Fund”) is a public utility enterprise fund of the City of Seattle (the “City”). The Fund was established to account for the solid waste activities of Seattle Public Utilities (“SPU”). These activities include the collection and disposal of residential and commercial garbage, recycling, and organic material, operation of the City’s two transfer stations and two household hazardous waste facilities, and management of the post closure maintenance and environmental monitoring of the City’s two closed landfills. The collection, disposal and/or processing of garbage, recycling, and organic materials is performed by private contractors, under contract with the Fund.

On January 1, 1997, the City created SPU, which brought together under one administrative umbrella the water, solid waste, and drainage and wastewater functions of the City. The Fund (as well as SPU’s other funds) remains separate for accounting purposes.

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City’s General Fund. During 2015 and 2014, the Fund paid \$4,212,458 and \$3,868,903, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$14,114,457 and \$13,343,416 in 2015 and 2014, respectively, to the City for business and occupation taxes, as well as \$3,872,930 and \$4,372,576, respectively, in tonnage taxes on waste collected and transferred in the City for disposal.

Solid waste collection and disposal services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$818,148 in 2015 and \$792,203 in 2014 from the City for solid waste services provided.

The utility billing function is co-managed by both SPU and Seattle City Light (“SCL”). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System (“CCSS”). SPU and SCL billed and reimbursed each other for these services in 2015 and 2014. Within SPU, the cost and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$1,950,713 in 2015 and \$1,742,130 in 2014. The Fund paid \$151,918 and \$158,550 for CCSS services in 2015 and 2014, respectively, which does not include reimbursements to SCL for the Fund’s share of capital costs to upgrade the CCSS system.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the Seattle City Council. Financial reporting is reviewed by the Washington State Auditor’s Office, and conforms to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Basis of Accounting – The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the Fund’s operations are included on the Statement of Net Position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

Cash and Equity in Pooled Investments – Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City’s Finance and Administration Services Department. Under the City’s investment policy, the Finance and Administration Services Department invests all temporary cash surpluses either directly or through a “sweep account.” Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. The Fund’s share of the pool is included in the accompanying Statement of Net Position under the caption “cash and equity in pooled investments.” The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. Cash and equity in pooled investments are reported at fair market value. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds, vendor’s escrow deposits and a rate stabilization fund.

Receivables and Unbilled Revenues – Customer accounts receivable consist of amounts owed by private 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 Fund also accrues an amount for services that have been provided but not billed.

Allowance for Doubtful Accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2015 and 2014, the Fund’s allowance for doubtful accounts was \$1,348,890 and \$1,128,348, respectively.

Due From/To Other Funds and Governments – Activity between other funds and governments that is outstanding at the end of the year, not related to the provision of utility services, is reported as due from other funds and governments.

Materials and Supplies Inventory – The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Regulatory Assets – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are consistent with the rate methodology and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred unless the Fund executed GASB 62. In addition, the Fund also uses regulatory accounting for future reasonably estimable cleanup costs related to the remediation the South Park Bus Barn site located near the South Park Landfill.

Other Charges – Other charges primarily include costs related to leasehold improvements and plans such as the Comprehensive Solid Waste plan. The Fund amortizes these charges over a 5 to 30 year period.

Capital Assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct materials, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized. SPU’s policy is to capitalize assets with a cost of \$5,000 or more.

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

Other Property – Other property is stated at cost, or if contributed, the fair value at the date of contribution. In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. Other property also includes artwork acquired through the City’s “One Percent for Art” program, which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

Depreciation – Capital assets are depreciated on the straight-line method over estimated useful lives as follows:

Buildings	10-75 years
Transfer stations, scale houses, and related improvements	5-33 years
Machinery and equipment	3-20 years
Structures	10-15 years
Computer systems	3-11 years

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt, which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred outflows of resources for pension contributions made subsequent to the measurement date and for the difference between projected and actual earnings on investments (Note 9).

In addition to liabilities, the Statement of Net Position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. In 2015, the Seattle City Council authorized the Fund to deposit \$2.5 million into the rate stabilization account. These funds will be used in future periods to lessen the impact of rate increases.

Environmental Liabilities – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 outlines five specific obligating events that give rise to estimating expected pollution remediation outlays. These outlays may be accrued as a liability and expensed or if appropriate, capitalized.

The Fund will accrue a liability if any of the following obligating events occurs:

- The Fund is compelled to take pollution remediation action because of an imminent endangerment.
- The Fund violates a pollution prevention-related permit or license.
- The Fund is named, or evidence indicates it will be named, by a regulator as a potentially responsible party ("PRP") for remediation.
- The Fund is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The Fund commences or legally obligates itself to commence pollution remediation.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. More information about environmental liabilities can be found in Note 11 of this report.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Seattle City Employees’ Retirement System (“SCERS”) are reported on the same basis as reported by SCERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences – Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

Employees who submit the required documentation to be represented by the Coalition of City Unions are paid 35% of the value of unused sick leave upon retirement as part of the Health Reimbursement Arrangement – Voluntary Employees’ Beneficiary Association (“HRA-VEBA”) program. If the employee fails to submit the required documentation by their last working day of employment, their sick leave balance is forfeited.

Retiring employees who are ineligible to participate in the HRA-VEBA program may elect to receive 25% of the value of unused sick leave upon retirement or defer receipt of 35% of the value of their sick leave balance to the City’s 457 Plan and Trust, subject to the year-to-date or life-to-date limitations on deferrals and contributions. If the 35% value of the sick leave balance exceeds the maximum amount deferred to the City’s 457 Plan and Trust, the employee shall receive a taxable cash payment. The cash payment is equal to the amount by which the 25% value of the sick leave balance exceeds the 35% that was allowed to be deferred. The Fund records a liability for estimated sick leave payments.

Operating Revenues – Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year-end are recorded as unearned revenues on the Fund’s statement of net position. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

Other operating revenues include revenues generated from the Fund’s two transfer stations. Transfer station revenues are collected from self-haul customers who deliver their garbage, yard waste, wood waste, appliances, and tires for a fee to the two transfer stations.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Operating Expenses – Certain expenses of the Fund are reported on the Statement of Revenues, Expenses, and Changes in Net Position by functional category. The types of work performed within each category are as follows:

- **Planning and development** – Provides planning services and other related costs prior to the start of capital projects
- **Utility systems management** – Accounts for the overall management of the Fund’s infrastructure assets, assuring they are properly designed, constructed, operated, and protected.
- **Field operations** – Operates and maintains the Fund’s solid waste systems.
- **Project delivery** – Provides project management and engineering services to the Fund and executes the Fund’s capital projects from start to completion.
- **Customer services** – Invoices the Fund’s customers for services provided and is the primary point of contact for customers.

Taxes – The Fund paid an 11.5% City utility tax on residential and commercial revenues, net of yard waste, recycling, and other costs related to waste reduction. The Fund also is charged two taxes by the City based on solid waste tonnage for operating transfer stations and for collecting garbage within the City of Seattle. In 2014, the tonnage tax rate increased to \$13.27 per ton from the 2013 rate of \$11.69 per ton. In addition, the Fund paid a 1.5% business and occupation tax, a 0.484% wholesale tax, and a 0.471% retail tax to the State on the services provided to residential, commercial, and transfer station customers. The State refuse tax rates remained the same at 3.60% for 2015.

Nonoperating Revenues and Expenses – This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are the Clean Cities Program revenue and expenses, investment and interest income, interest expense, amortization of debt expenses, amortization of debt discounts, premiums and refunding losses, sale of capital assets, and rental income. Clean Cities revenue is earned through tonnage fees collected from businesses engaged in operating transfer stations and collecting garbage and that are then used for the City’s Clean Cities program.

Net Position – The Statement of Net Position reports all financial and capital resources. Assets and deferred outflows of resources minus liabilities and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is 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.

The Fund's restricted net position relates to certain restricted assets that are offset by related liabilities.

Unrestricted net position is the portion that is not "net investment in capital assets" or "restricted."

Arbitrage Rebate Requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), 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 be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no arbitrage liability as of December 31, 2015 and 2014.

Accounting Standard Changes – GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement was required to be adopted for reported periods beginning after June 15, 2014. For employers such as SPU and the Fund who provide certain employees' pension benefits under a group pension plan such as SCERS, this Statement requires the individual employers contributing to such group plans to report a pro-rata share of the net plan liability. The Fund has adopted and recorded these changes in its financial statements for the year ended December 31, 2015. The cumulative effect of prior year amounts has been reflected as a cumulative adjustment to net position in the Statement of Revenues, Expenses and Changes in Net Position in 2015.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The effective date for this Statement was simultaneous with the required adoption of Statement No. 68. This Statement specifically addressed the recording and reporting of pension plan contributions made subsequent to the measurement date of plan liabilities and changed thereto in any given fiscal year. The fund adopted the provision of this Statement, as it did for Statement No. 68, in the year ended December 31, 2015.

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The Fund will evaluate the impact of this standard and will include required disclosures beginning in its fiscal year ending December 31, 2016.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies (Continued)

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record landfill closure and post closure costs, unbilled collection services, allowance for doubtful accounts, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Significant Risks and Uncertainty – The Fund 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, and federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Note 2 – Cash and Investments

Custodial Credit Risk – Deposits – As of December 31, 2015 and 2014, the City’s pool contained cash on deposit with the City’s custodial banks in the amounts of \$20,023,332 and \$18,026,085, respectively. The deposits in excess of \$250,000 in both 2015 and 2014 were uninsured and uncollateralized. As such, these deposits were exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City’s use in reviewing the bank’s financial condition.

All deposits not covered by FDIC insurance are under the regulation of the Washington State Public Deposit Protection Commission (the Commission) established in RCW 39.58 for public depository financial institutions. The Commission requires a pledge agreement and a trustee for each public depository financial institution. The trustee ensures eligible collateral defined as securities and designated for the benefit of public depositors as described in RCW 39.58.050 (5) and (6), are segregated from all other assets. Eligible collateral is utilized by the trustee when the Commission has determined a loss, net of deposit insurance, has been incurred by a public depository financial institution.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 2 – Cash and Investments (Continued)

Investments – As of December 31, the City’s pooled investments were as follows:

	2015		2014	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	\$ 702,525,759	1427	\$ 721,680,286	1408
U.S. Government Obligations	455,757,612	487	252,188,265	800
State and Local Governments	277,612,818	1084	227,247,608	976
Commercial Paper	219,945,269	25	349,418,008	43
Repurchase Agreements	55,062,648	4	73,811,651	2
Bank Note	49,379,096	879	-	
Total	\$ 1,760,283,202		\$ 1,624,345,818	
Portfolio Weighted Average Maturity		895		896

As of December 31, the Fund’s share of the City Pool was as follows:

	2015	2014
Cash and equity in pooled investments	\$ 42,220,228	\$ 32,395,205
Restricted cash and equity in pooled investments	43,135,032	49,172,618
	\$ 85,355,260	\$ 81,567,823
Balance as a percentage of City Pool cash and investments	4.8%	5.0%

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund’s investments are selected for greater liquidity in order to support the Fund’s cash flow needs and therefore typically have much shorter average maturities.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City’s investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations (“NRSRO”s). As of December 31, 2015 and 2014, the City’s investments in commercial paper were rated P-1 or Aaa by Moody’s Investors Service and AA+, A-1 or A-1+ by Standard & Poor’s Rating Service.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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NOTES TO FINANCIAL STATEMENTS

Note 2 – Cash and Investments (Continued)

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2015, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service. As of December 31, 2014, these investments were rated Aaa by Moody's Investors Service and AAA or AA+ by Standard & Poor's Rating Service.

Concentration of Credit Risk – The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category. The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

Issuer	2015		2014	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	\$ 455,757,612	26%	\$ 252,188,265	16%
Federal National Mortgage Association	243,748,956	14%	249,771,922	15%
Federal Home Loan Bank	133,886,466	8%	81,656,795	5%
Freddie Mac Multifamily Securities	126,196,052	7%	108,129,281	7%
Federal Farm Credit Bank	104,276,118	6%	121,677,087	7%
Federal Home Loan Mortgage Corp	94,418,168	5%	160,445,200	10%
Wells Fargo	**	**	73,811,651	5%

** Investment did not represent 5% or more of investments as of December 31, 2015.

Note 3 – Capital Assets

Capital assets activity for the year ended December 31, 2015 consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 57,977,476	\$ 203,224	\$ -	\$ 58,180,700
Structures	3,974,672	273,587	-	4,248,259
Machinery and equipment	46,877,558	1,707,895	(1,036,096)	47,549,357
Computer systems	23,698,245	257,116	(151,747)	23,803,614
Total capital assets, excluding land	132,527,951	2,441,822	(1,187,843)	133,781,930
Less accumulated depreciation	(46,988,562)	(6,907,046)	355,237	(53,540,371)
	85,539,389	(4,465,224)	(832,606)	80,241,559
Construction in progress	53,945,406	55,283,403	(993,688)	108,235,121
Land and land rights	15,217,643	-	-	15,217,643
Other property	2,043,575	-	-	2,043,575
Capital assets, net	\$ 156,746,013	\$ 50,818,179	\$ (1,826,294)	\$ 205,737,898

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 3 – Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2014 consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 62,574,420	\$ 31,986	\$ (4,628,930)	\$ 57,977,476
Structures	3,727,734	246,938	-	3,974,672
Machinery and equipment	57,989,440	606,357	(11,718,239)	46,877,558
Computer systems	24,879,323	661,767	(1,842,845)	23,698,245
Total capital assets, excluding land	149,170,917	1,547,048	(18,190,014)	132,527,951
Less accumulated depreciation	(57,795,269)	(7,025,710)	17,832,417	(46,988,562)
	91,375,648	(5,478,662)	(357,597)	85,539,389
Construction in progress	24,554,012	30,894,717	(1,503,323)	53,945,406
Land and land rights	15,217,643	-	-	15,217,643
Other property	2,261,617	-	(218,042)	2,043,575
Capital assets, net	<u>\$ 133,408,920</u>	<u>\$ 25,416,055</u>	<u>\$ (2,078,962)</u>	<u>\$ 156,746,013</u>

During 2015 and 2014, the Fund capitalized interest costs relating to construction of \$2,833,217 and \$990,601, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside \$9,185,863 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2015 were \$197,810,000.

Revenue bonds outstanding as of December 31, 2015 and 2014 consisted of the following Solid Waste bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2015	2014
2007 Revenue and Refunding	12/05/2007	2008-2033	4.0 - 5.0%	\$ 82,175,000	\$ 26,130,000	\$ 28,665,000
2011 Revenue Bonds	6/22/2011	2012-2036	3.0 - 5.0%	45,750,000	41,730,000	42,860,000
2014 Revenue Bonds	6/12/2014	2015-2039	2.0 - 5.0%	95,350,000	94,120,000	95,350,000
2015 Revenue Bonds	6/25/2015	2016-2040	2.0 - 5.0%	35,830,000	35,830,000	-
				<u>\$ 259,105,000</u>	<u>\$ 197,810,000</u>	<u>\$ 166,875,000</u>

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 4 – Revenue Bonds (Continued)

Minimum debt service requirements to maturity on revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 5,750,000	\$ 9,281,908	\$ 15,031,908
2017	6,165,000	8,860,850	15,025,850
2018	6,380,000	8,563,500	14,943,500
2019	6,700,000	8,238,125	14,938,125
2020	6,605,000	7,907,250	14,512,250
2021 - 2025	38,415,000	34,128,750	72,543,750
2026 - 2030	49,215,000	23,496,982	72,711,982
2031 - 2035	51,155,000	11,377,986	62,532,986
2036 - 2040	27,425,000	2,414,669	29,839,669
	<u>\$ 197,810,000</u>	<u>\$ 114,270,020</u>	<u>\$ 312,080,020</u>

The following table shows the revenue bond activity during the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable, revenue bonds	\$ 166,875,000	\$ 35,830,000	\$ (4,895,000)	\$ 197,810,000	\$ 5,750,000
Add (deduct) deferred amounts: Issuance premiums	15,541,599	3,443,779	(735,746)	18,249,632	-
Total bonds payable	<u>\$ 182,416,599</u>	<u>\$ 39,273,779</u>	<u>\$ (5,630,746)</u>	<u>\$ 216,059,632</u>	<u>\$ 5,750,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable, revenue bonds	\$ 115,875,000	\$ 95,350,000	\$ (44,350,000)	\$ 166,875,000	\$ 4,895,000
Add (deduct) deferred amounts: Issuance premiums	5,425,270	12,146,201	(2,029,872)	15,541,599	-
Total bonds payable	<u>\$ 121,300,270</u>	<u>\$ 107,496,201</u>	<u>\$ (46,379,872)</u>	<u>\$ 182,416,599</u>	<u>\$ 4,895,000</u>

Defeasance of Debt – The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Statement of Net Position.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 4 – Revenue Bonds (Continued)

In 2015, no bonds were defeased and none were redeemed as shown below:

<u>Name of Issue</u>	<u>Amount Outstanding at December 31, 2014</u>	<u>Additions</u>	<u>Redemptions</u>	<u>Amount Outstanding at December 31, 2015</u>
2007 Parity	<u>\$ 40,855,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,855,000</u>

In June 2015, the Fund issued \$35,830,000 of Solid Waste Revenue Bonds with varying annual principal payments due beginning 2016 and ending in 2040, at interest rates ranging from 2.0 percent and 5.0 percent. There were no bond refundings in 2015.

Financial Covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 125% of annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 346% of annual debt service for 2015. Management believes the Fund was in compliance with all debt covenants as of December 31, 2015. For more information see Other Information (page 42).

Note 5 – Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of \$205,257 in 2015 and \$199,195 in 2014. Rents are paid as they become due and payable. Minimum payments under the leases for the years ending December 31, are as follows:

2016	\$ 176,306
2017	6,582
2018	5,027
2019	5,178
2020	3,073
	<u>\$ 196,166</u>

Note 6 – Postemployment Benefit Plans

Deferred Compensation – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 6 – Postemployment Benefit Plans (Continued)

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City’s legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

Other Postemployment Benefits – Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans. Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute \$1.1 million in 2015 and \$1.0 million in 2014.

The table below summarizes the City’s annual cost, expected contributions to the plan, and changes in the net other post employment benefit obligation (“OPEB”) for fiscal years ended December 31, 2015 and 2014. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2014.

	2015	2014
Annual required contribution	\$ 4,605,000	\$ 4,392,000
Interest on net OPEB obligation	1,630,000	1,542,000
Adjustment to annual required contribution	(2,540,000)	(2,403,000)
Annual OPEB cost (expense)	3,695,000	3,531,000
Contribution (employer-paid benefits)	(1,141,000)	(1,006,000)
Increase in net OPEB obligation	2,554,000	2,525,000
Net OPEB obligation, beginning of year	46,828,000	44,303,000
Net OPEB obligation, end of year	\$ 49,382,000	\$ 46,828,000
Fund’s allocated share of city liability	\$ 860,084	\$ 894,715

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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NOTES TO FINANCIAL STATEMENTS

Note 6 – Postemployment Benefit Plans (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.48%
Health care cost trend rates - medical	Traditional and Preventive Plans: 8%, decreasing by 0.5% for each year for two years; 16% in year 2017 and decreasing to 7.2% in 2018 Group Health Standard and Deductible Plans: 7.5%, decreasing by 0.5% for the next three years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 6 – Postemployment Benefit Plans (Continued)

Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative 50% are assumed to switch to the Group Health Standard Plan, the other 50% will continue coverage under the same plan.

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
January 1, 2013	\$ -	\$ 78.9	\$ 78.9	0.0%	\$ 942.0	8.4%
January 1, 2014	\$ -	\$ 41.8	\$ 41.8	0.0%	\$ 1,003.5	4.2%
January 1, 2015	\$ -	\$ 44.4	\$ 44.4	0.0%	\$ 1,037.9	4.3%

The Health Care Sub Fund of the General Fund is reported in the City’s Comprehensive Annual Financial Report, which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, Washington 98124-4747 or www.seattle.gov/cafrs/.

Note 7 – Claims Payable

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund’s property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2015 and 2014, liabilities for workers’ compensation claims as well as other claims are discounted over a 15-year period at the City’s rate of return on investments, 1.135% and 0.931%, respectively. Claims expected to be paid within one year are \$311,289 and \$242,510 as of December 31, 2015 and 2014, respectively.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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NOTES TO FINANCIAL STATEMENTS

Note 7 - Claims Payable (Continued)

The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	<u>2015</u>	<u>2014</u>
Beginning liability, discounted	\$ 886,202	\$ 883,652
Payments	(180,255)	(172,533)
Incurred claims and change in estimate	<u>63,001</u>	<u>175,083</u>
Ending liability, discounted	<u>\$ 768,948</u>	<u>\$ 886,202</u>

The Fund is involved in litigation from time to time as a result of operations.

Note 8 - Compensated Absences

The Fund has recorded a liability for earned but unused compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31:

	<u>2015</u>	<u>2014</u>
Beginning liability	\$ 1,690,453	\$ 1,654,962
Additions	1,644,452	1,698,858
Reductions	<u>(1,600,667)</u>	<u>(1,663,367)</u>
Ending liability	<u>\$ 1,734,238</u>	<u>\$ 1,690,453</u>

Note 9 - Pension Benefit Plan

Plan Description - The Seattle City Employees' Retirement System (the "System") is a cost-sharing multiple employer pension plan covering employees of the City of Seattle and is administered in accordance with Chapter 4.36 of the Seattle Municipal Code.

The System is governed by the Retirement System Board of Administration (the "Board"). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other System members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Benefit Plan (Continued)

System Benefits – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. All permanent Fund employees are eligible to participate in the System. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service.

Member and Employer Contributions – Employees are required to contribute 10.03% of their annual base salaries to the System. The employer’s contribution rate for the years ended December 31, 2015 and 2014 was 15.73% and 14.31%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund’s contributions to the System for the years ended December 31, 2015 and 2014 were \$2,481,944 and \$2,289,317, respectively.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees’ Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or www.seattle.gov/retirement/annual_report.htm.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows Related to Pensions – At December 31, 2015, the Fund reported a liability of \$28,187,992, its proportionate share of the Systems’ net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date. The Fund’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2015, the Fund’s proportion was 2.54%.

For the year ended December 31, 2015, the Fund recognized pension expense of approximately \$3,059,000. As of December 31, 2015, the Fund’s deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	\$ 878,035	\$ -
Contributions made subsequent to measurement date	2,481,944	-
Total	\$ 3,359,979	\$ -

The \$2,481,944 reported as deferred outflows of resources relate to the Fund’s contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ending December 31, 2016.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Benefit Plan (Continued)

Other amounts currently reported as deferred outflows of resources relate to the difference in actual earnings on pension investments from projected earnings and will be recognized in pension expense as follows for years ending December 31:

2015	\$	219,509
2016	\$	219,509
2017	\$	219,509
2018	\$	219,508

Actuarial Assumptions – The total pension liability as of December 31, 2015 was determined using the following actuarial assumptions:

Valuation date	January 1, 2014
Measurement date	December 31, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2013.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating employers contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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NOTES TO FINANCIAL STATEMENTS

Note 9 – Pension Benefit Plan (Continued)

The long-term expected rate of return assumption was based on the System’s investments using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the System’s target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.93%
Equity: Private	6.50%
Fixed Income: Broad	1.35%
Fixed Income: Inflation Linked	1.25%
Real Assets: Real Estate	3.25%
Diversifying Strategies	3.75%

Sensitivity Analysis – The following presents the Fund’s proportionate share of the net pension liability calculated using the discounted rate of 7.5%, as well as what the employer’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
\$ 38,899,121	\$ 28,187,992	\$ 19,180,522

Note 10 – Contractual Obligations

The City contracts with private companies for the collection of residential and commercial garbage, yard waste, food waste, and recycling. Effective March 30, 2009 the City entered into contracts with Waste Management and Recology CleanScapes for residential and commercial collection. The contracts are scheduled to end on March 31, 2019. Total payments under these contracts for residential and commercial collection in 2015 and 2014 were \$77,151,253 and \$75,554,323, respectively.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 10 – Contractual Obligations (Continued)

In 1990, the City entered into a contract with Waste Management of Washington, Inc., (f/k/a Washington Waste Systems) for the disposal of non-recyclable City waste. This contract is scheduled to end on March 31, 2028, however the City may terminate this contract at its option without cause on March 31, 2019. Total payments under the terms of this contract for waste disposal in 2015 and 2014 were \$12,825,828 and \$12,915,856, respectively.

The City also had negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. This contract expired on March 30, 2014. Total payments under the terms of this contract in 2014 were \$431,830.

Effective April 1, 2014 the City entered into contracts with PacifiClean Environmental of Washington, LLC and Lenz Enterprises, Inc. to process yard and food waste into marketable products. The contracts are scheduled to end on March 31, 2020, however the city may, at its option, extend the contract in two year increments up to March 31, 2024. Total payments under the terms of these contracts for 2015 and 2014 were \$4,437,698 and \$3,370,301, respectively.

Effective April 1, 2009, the City commenced a contract for recycling processing with Rabanco, LTD. The company is responsible for processing recyclables from both commercial and residential customers. The contract is scheduled to end on March 31, 2016 with an option to extend the contract for a three-year period at that time. The City elected to proceed with a solitication process, and as a result, negotiated a new long term contract with Rabanco, LTD. This contract became effective April 1, 2016 and will expire March 31, 2021. The City may, at its option, extend the contract in three year increments up to March 31, 2027. Total payment for recycling processing in 2015 and 2014 were \$2,626,299 and \$2,444,422, respectively.

Note 11 – Environmental Liabilities

The City of Seattle and a private developer are under an Agreed Order with the Washington State Department of Ecology (Ecology) to perform a Remedial Investigation and Feasibility Study and to draft a Cleanup Action Plan for the historic South Park Landfill site under the State Model Toxics Control Act. The City and developer submitted a draft Remedial Investigation and Feasibility Study Report in April 2012 and a Draft Cleanup Action Plan in June 2014 and are negotiating with Ecology to finalize the two reports. Negotiations are underway to finalize a Consent Decree for the site with other PLP's, Ecology and the Attorney General's office. Ecology recently approved an amendment of the Agreed Order to allow the City to construct an interim cleanup action on the City-owned portion of the landfill property. That interim cleanup is expected to be done in the 2018-19 timeframe. Ecology also approved an interim cleanup action by the developer on his portion of site property. That cleanup was completed in 2015. In 2012, the City executed an agreement regarding the developer's interim action that settles City liabilities for the interim cleanup costs but not City liabilities for the permanent cleanup.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 11 – Environmental Liabilities (Continued)

The Fund has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions.

Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The following changes in the provision for environmental liabilities at December 31 are:

	2015	2014
Beginning environmental liability, net of recoveries	\$ 825,542	\$ 1,405,279
Payments or amortization	(516,276)	(264,973)
Change in estimated liability	9,344,809	(314,764)
Ending environmental liability, net of recoveries	\$ 9,654,075	\$ 825,542

The following table represents the current and long term positions of the environmental liability:

	2015	2014
Environmental liability, current	\$ 2,063,300	\$ 568,800
Environmental liability, noncurrent	7,590,775	256,742
Ending liability	\$ 9,654,075	\$ 825,542

Note 12 – Landfill Closure and Post Closure Care

At December 31, 2015, accrued landfill closure and post closure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council’s policy to include the Fund’s share of all landfill closure and post closure costs in the revenue requirements used to set future solid waste rates. Therefore, the Fund uses regulatory accounting and total estimated landfill closure and post closure care costs are accrued and also reflected as a future costs in the accompanying financial statements, in accordance with generally accepted accounting principles.

SEATTLE PUBLIC UTILITIES - SOLID WASTE FUND
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NOTES TO FINANCIAL STATEMENTS

Note 12 - Landfill Closure and Post Closure Care (Continued)

These costs are being amortized as they are recovered from rate payers. These costs are regulatory assets even though the Fund chooses to present them separately on the Statement of Net Position. Actual costs for closure and post closure care may be higher due to inflation, changes in technology, or changes in regulations. Such amounts would be added to the liability and accrued when identified. Landfill closure costs were fully amortized in 2009 and landfill postclosure costs will continue to amortize until 2024.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

Note 13 - Cumulative Effect of Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for financial statement periods beginning after June 15, 2014 with the effects of accounting changes to be applied retroactively by restating the financial statements. The Statement requires the Fund to record its proportionate share of the defined benefit pension obligation for active, inactive, and retired employees receiving retirement benefits under SCERS.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore the provisions of GASB Statements No. 68 and 71 were not applied to prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as an adjustment to beginning net position for the year beginning January 1, 2015 in accordance with the Statements and totaled \$24,251,044.

REQUIRED SUPPLEMENTARY INFORMATION

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability

	2015
Employer's proportion of the net pension liability	16.96%
Employer's proportionate share of the net pension liability	\$ 187,919,945
Employer's covered-employee payroll	\$ 102,783,473
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	182.83%
Plan fiduciary net position as a percentage of the total pension liability	67.70%

Schedule of Seattle Public Utilities' Contributions

	2015
Contractually required employer contribution	\$ 15,170,276
Contributions in relation to the contractually required employer contribution	15,170,276
Employer contribution deficiency (excess)	\$ -
Employer's covered-employee payroll	\$ 102,783,473
Employer contributions as a percental of covered-employee payroll	14.76%

OTHER INFORMATION (UNAUDITED)

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
(An Enterprise Fund of the City of Seattle)
OTHER INFORMATION (UNAUDITED)

Debt Service Coverage Calculation

Operating Revenue	
Residential Collection Services	\$ 112,667,164
Commercial Collection Services	54,046,480
Disposal and Other	10,574,127
Rate Stabilization Account	<u>(2,500,000)</u>
Total Operating Revenue	<u>174,787,770</u>
Operating Expense	
Solid Waste Contract Expense	100,041,951
Other Operations and Maintenance	39,714,038
City Taxes	17,987,387
State B&O Tax	<u>2,587,795</u>
Total Operating Expense	<u>160,331,171</u>
Net Operating Income	<u>14,456,599</u>
Adjustments	
Less: DSRF Earnings	(90,540)
Add: City Taxes	17,987,387
Add: Environmental Liability Costs	9,344,809
Add: Investment Interest	819,774
Add: Net Proceeds from Sale on Assets	257,501
Add: Net Other Nonoperating Revenues (Expenses)	<u>564,959</u>
Total Adjustments	<u>28,883,890</u>
Net Revenue Available for Debt Service	<u>\$ 43,340,489</u>
Net Revenue Available for Debt Service (w/o City Taxes)	<u>\$ 25,353,102</u>
Annual Debt Service	
Annual Debt Service	\$ 12,626,594
Less: DSRF Earnings	<u>(90,540)</u>
Adjusted Annual Debt Service	<u>\$ 12,536,054</u>
Coverage	3.46
Coverage without taxes	2.02

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
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OTHER INFORMATION (UNAUDITED)

Solid Waste Customers by Class

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
VARIABLE CANS					
No can/vacancy	2,611	2,443	2,385	2,388	2,114
12-Gallon Can	16,761	17,974	18,613	19,215	19,893
20-Gallon Can	43,830	44,395	44,738	46,083	46,942
32-Gallon Can	94,393	91,783	90,499	86,956	86,675
64-Gallon Can	6,525	6,568	6,627	7,034	7,081
96-Gallon Can	<u>1,461</u>	<u>1,606</u>	<u>1,677</u>	<u>1,891</u>	<u>2,008</u>
TOTAL VARIABLE CANS	165,581	164,769	164,539	163,567	164,713
Residential Dumpster Accounts	5,245	5,206	5,185	5,203	5,261
Commercial Accounts	8,198	8,173	8,183	8,168	8,145

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
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OTHER INFORMATION (UNAUDITED)

Solid Waste Tonnage

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
GARBAGE						
Residential collection	114,135	112,772	111,402	110,838	112,245	101,972
Self-haul garbage	79,293	71,033	70,474	74,019	57,844	60,938
Commercial collection	142,180	135,536	134,089	132,401	139,475	139,557
Total tons disposed	<u>335,608</u>	<u>319,341</u>	<u>315,965</u>	<u>317,258</u>	<u>309,564</u>	<u>302,467</u>
RECYCLING						
Private recycling ⁽¹⁾	208,711	220,878	218,784	229,279	235,150	239,583
Residential curbside recycling	57,131	57,234	55,317	55,023	56,054	57,073
Apartment recycling	19,267	18,544	20,599	20,886	22,212	24,028
Residential curb yard and food waste	79,952	78,456	82,244	80,989	82,588	89,213
Self-haul yard waste	7,682	6,794	6,593	6,290	4,199	4,009
Self-haul wood waste	808	739	569	626	523	682
Self-haul recycling	4,643	3,949	3,501	3,413	2,086	2,209
Composting ⁽²⁾	10,800	10,800	10,800	10,800	10,800	10,800
Total tons recycled	<u>388,994</u>	<u>397,394</u>	<u>398,407</u>	<u>407,306</u>	<u>413,612</u>	<u>427,597</u>
Total tons generated	<u>724,602</u>	<u>716,735</u>	<u>714,372</u>	<u>724,564</u>	<u>723,176</u>	<u>730,064</u>
Garbage as a percentage of total tons generated	46%	45%	44%	44%	43%	41%
Recycling as a percentage of total tons generated	54%	55%	56%	56%	57%	59%

⁽¹⁾ Estimate for 2015.

⁽²⁾ Composting figures are estimates based on surveys and include grasscycling and backyard food waste and yard waste composting. Survey was conducted in 2010.

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND
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OTHER INFORMATION (UNAUDITED)

Solid Waste Rate Schedule and Transfer Station Fees

2016 Monthly Residential Rate Schedule

Service unit	<u>Rates (Effective April 1, 2016)</u>
No can (minimum charge)	\$ 6.85
12-Gallon	21.30
20-Gallon	26.10
32-Gallon	34.00
64-Gallon	68.00
96-Gallon	102.00
Recycling	No charge
Non-Compacted Dumpster (one cubic yard, once/week, one container) ⁽²⁾	252.17
Compacted Dumpster (three cubic yards, once/week, one container) ⁽²⁾	727.82
Yard Waste Mini-Can	5.65
Yard Waste 32-Gallon Can	8.50
Yard Waste 96-Gallon Can	10.85

⁽¹⁾ Rates listed are for curb/alley service.

⁽²⁾ Dumpster rates vary based on size and number of containers as well as the frequency of collection. Dumpster rates shown include a \$37.40 monthly account fee.

2016 Commercial Collection Rates

Like other solid waste rates, the City sets commercial rates through ordinance. Commercial rates vary with the type and level of service. A typical commercial customer has 3 cubic yards of garbage collected once per week. As of April 1, 2016 the cost of this service is \$456.68 per month, including a monthly account fee of \$25.20.

2016 Transfer Station Fees

	<u>Rates (Effective January 1, 2010)</u>
Garbage	
Sedans, SUVs, and station wagons	\$30.00 per trip
All other self-haul vehicles with garbage	\$145.00 per ton (\$30.00 minimum charge)
Yard and wood waste	
Sedans, SUVs, and station wagons	\$20.00 per trip
All other self-haul vehicles with yard waste	\$110.00 per ton (\$20.00 minimum charge)