



REPORT OF INDEPENDENT AUDITORS AND FINANCIAL
STATEMENTS WITH REQUIRED SUPPLEMENTARY
INFORMATION AND OTHER INFORMATION

**SEATTLE PUBLIC UTILITIES –
SOLID WASTE FUND
(AN ENTERPRISE FUND OF THE CITY OF SEATTLE)**

December 31, 2020 and 2019



MOSSADAMS

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Report of Independent Auditors

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

Report on the 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, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Seattle Public Utilities – Solid Waste Fund as of December 31, 2020 and 2019, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of Seattle Public Utilities' proportionate share of the net pension liability, schedule of Seattle Public Utilities' contributions, and schedule of Seattle Public Utilities' proportionate share of the OPEB liability and related ratios, as listed in the table of contents, be presented to supplement the financial statements. This information, although not a part of the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2021, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Moss Adams LLP
Seattle, Washington
April 28, 2021

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, 2020 and 2019. The revenues, expenses, assets, deferred outflows and inflows of resources, liabilities, and deferred inflows of resources of the City of Seattle’s solid waste system are recorded in the 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 12 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, 2020 and 2019, 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, 2020 and 2019. 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, 2020 and 2019. 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.

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 17 of this report.

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

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, 2020, the Fund had a surplus in total net position of \$90.7 million compared to a surplus of \$65.9 million in 2019. In 2020, the Fund’s net position increased \$24.8 million (37.7%), as compared to 2019 which increased \$28.1 million (74.4%). 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

| | 2020 | 2019 | 2018 |
|---|----------------|----------------|----------------|
| ASSETS | | | |
| Current assets | \$ 134,607,416 | \$ 108,655,197 | \$ 80,767,613 |
| Capital assets, net | 204,667,218 | 218,939,397 | 220,886,290 |
| Other | 76,769,680 | 70,687,117 | 79,321,936 |
| Total assets | 416,044,314 | 398,281,711 | 380,975,839 |
| DEFERRED OUTFLOWS OF RESOURCES | 6,270,320 | 10,060,161 | 2,769,545 |
| Total assets and deferred outflows of resources | \$ 422,314,634 | \$ 408,341,872 | \$ 383,745,384 |
| LIABILITIES | | | |
| Current liabilities | \$ 37,681,606 | \$ 36,493,752 | \$ 30,056,736 |
| Revenue bonds | 190,703,807 | 199,069,723 | 207,085,464 |
| Other | 60,177,224 | 66,494,598 | 68,956,549 |
| Total liabilities | 288,562,637 | 302,058,073 | 306,098,749 |
| DEFERRED INFLOWS OF RESOURCES | 43,006,393 | 40,387,545 | 39,853,592 |
| NET POSITION | | | |
| Net investment in capital assets | 29,625,548 | 32,280,073 | 31,968,120 |
| Restricted | 312,301 | 323,745 | 193,240 |
| Unrestricted | 60,807,755 | 33,292,436 | 5,631,683 |
| Total net position | 90,745,604 | 65,896,254 | 37,793,043 |
| Total net position, liabilities and deferred inflows of resources | \$ 422,314,634 | \$ 408,341,872 | \$ 383,745,384 |

Seattle Public Utilities – Solid Waste Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

Financial Analysis (continued)

2020 Compared to 2019

Assets – Current assets increased by \$26.0 million (23.9%) from the prior year mostly due to a \$25.8 million increase in operating cash, a \$1.8 million increase in accounts receivable, a \$0.6 million increase in unbilled receivables, and a \$0.2 million increase in materials and supplies inventory. These increases were offset by a \$2.5 million decrease in amounts due from other funds. The increase in operating cash was primarily the result of operating activities. The increase in unbilled receivables was mostly due to a rate increase of approximately 3% during the year.

Capital assets decreased \$14.3 million (-6.5%) over the prior year. This change is due to an increase in accumulated depreciation (\$10.2 million) and a decrease in construction in progress (\$7.8 million). The decrease in construction in progress is mostly due to \$8.3 million of construction in progress being expensed after the cancellation of the South Transfer Station Phase 2 project. The overall decrease is mostly offset by the increase in plant in service (\$3.8 million).

Other assets increased \$6.1 million (8.6%) from the prior year. This change consisted of an increase of \$4.5 million in restricted cash and equity in pooled investments and an increase of \$1.7 million in accrued landfill closure/postclosure costs, offset by a decrease of \$0.1 million in regulatory assets. The \$4.5 million change in restricted cash and equity in pooled investments is mostly attributable to the transfer of operating cash back to construction cash related to the cancellation of the South Transfer Station Phase 2 project offset by transfers of construction cash to the operating cash account for payment of current year projects.

Deferred outflows of resources – Deferred outflows of resources decreased by \$3.8 million (-37.7%) from 2019. This decrease is mostly attributed to changes in deferred outflows related to pension accounting in 2020, including differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings, and contributions made subsequent to the measurement date.

Liabilities – Current liabilities increased \$1.2 million (3.3%) from the prior year. This is mostly attributed to an increase in accounts payable of \$9.8 million and an increase in the current portion of Revenue Bonds of \$0.4 million. These increases were mostly offset by a decrease in the current portion of accrued landfill closure/postclosure costs of \$4.9 million, environmental liabilities of \$2.0 million, salaries, benefits, and payroll taxes payable of \$1.2 million, taxes payable of \$0.7 million, and interest payable of \$0.1 million.

Noncurrent and other liabilities decreased \$14.7 million (-5.5%) from 2019. This decrease is mostly attributed to a decrease of \$8.4 million in Revenue Bonds and related liabilities, a \$5.3 million decrease in net pension liability, and a \$1.5 million decrease in the noncurrent portion of accrued landfill closure/postclosure costs. These decreases were offset by a \$0.4 million increase in compensated absences payable and a \$0.2 million increase in the noncurrent portion of environmental liabilities.

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

Financial Analysis (continued)

Deferred inflows of resources – Deferred inflows of resources increased by \$2.6 million (6.5%) from 2019 mostly due to a \$1.9 million increase attributed to changes in deferred outflows related to pension accounting, including differences between expected and actual experience, differences between projected and actual earnings, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions. There was also an increase of \$0.7 million in the Rate Stabilization Account as a result of interest earned in 2020.

Net position – Net position increased \$24.8 million (37.7%) from 2019. A portion of the Fund’s net position (\$29.6 million) reflects the Fund’s investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and 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 2020, net position invested in capital assets decreased \$2.7 million mainly due to a decrease in capital assets offset by a decrease in debt related to investment in capital and an increase in construction cash.

The primary remaining portion of the Fund’s net position (\$60.8 million) represents resources that are unrestricted. The unrestricted portion of net position increased \$27.5 million from the prior year primarily as a result of operating income.

2019 Compared to 2018

Assets – Current assets increased by \$27.9 million (34.5%) from the prior year mostly due to a \$15.5 million increase in unbilled receivables, a \$12.9 million increase in operating cash, and a \$1.0 million increase in accounts receivable, net of allowance for doubtful accounts. These increases were offset by a \$0.8 million decrease in amounts due from other funds and a \$0.6 million decrease in amounts due from other governments. The increase in unbilled receivables was due to the transition from billing in advance to billing in arrears for residential customers during 2019. The increase in operating cash was primarily the result of operating activities. The accounts receivable increase mostly consisted of an increase from commercial customers.

Capital assets decreased \$1.9 million (-0.9%) over the prior year. This change is due to an increase in accumulated depreciation (\$4.9 million) and decreases in plant in service (\$0.9 million), and other property (\$0.9 million). The overall decrease is mostly offset by the increase in construction in progress (\$4.8 million), driven mostly by costs for the South Transfer Station Phase 2.

Other assets decreased \$8.6 million (-10.9%) from the prior year. This change consisted of a decrease of \$5.0 million in restricted cash and equity in pooled investments, a decrease of \$3.9 million in accrued landfill closure/postclosure costs, and a decrease of \$0.1 million in regulatory assets, offset by an increase of \$0.3 million in other noncurrent and regulatory assets. The \$5.0 million change in restricted cash and equity in pooled investments is mostly attributable to the transfers of construction cash to the operating cash for payment of current year projects.

Seattle Public Utilities – Solid Waste Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

Financial Analysis (continued)

Deferred outflows of resources – Deferred outflows of resources increased by \$7.3 million (263.2%) from 2018. This increase is attributed to changes in assumptions related to pension accounting in 2019.

Liabilities – Current liabilities increased \$6.4 million (21.4%) from the prior year. This is mostly attributed to an increase in the current portion of accrued landfill closure/postclosure costs of \$7.0 million, accounts payable of \$3.0 million, environmental liabilities due within one year of \$2.1 million, salaries, benefits and payroll taxes payable of \$1.5 million, and taxes payable of \$0.9 million. These increases were mostly offset by a decrease of \$5.1 million in other current liabilities due to the fund transitioning out of billing in advance for residential customers and a \$2.8 million decrease in amounts due to other funds.

Noncurrent and other liabilities decreased \$10.5 million (-3.8%) from 2018. This decrease is mostly attributed to a \$9.0 million decrease in the noncurrent portion of accrued landfill closure/postclosure costs, a decrease of \$8.0 million in Revenue Bonds and related liabilities, and a \$2.4 million decrease in the noncurrent portion of environmental liabilities. These decreases were offset by a \$8.7 million increase in net pension liability and a \$0.2 million increase in compensated absences payable.

Deferred inflows of resources – Deferred inflows of resources increased by \$0.5 million (1.3%) from 2018 due to an increase of \$0.8 million in the Rate Stabilization Account as a result of interest earned in 2019 and partially offset by a \$0.3 million decrease attributed to changes in assumptions for pension accounting.

Net position – Net position increased \$28.1 million (74.4%) from 2018. A portion of the Fund’s net position (\$32.3 million) reflects the Fund’s investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and 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 2019, net position invested in capital assets increased \$0.3 million mainly due to a decrease in debt related to investment in capital.

The primary remaining portion of the Fund’s net position (\$33.3 million) represents resources that are unrestricted. The unrestricted portion of net position increased \$27.7 million from the prior year primarily as a result of operating income.

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

Financial Analysis (continued)

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>2020</u> | <u>2019</u> | <u>2018</u> |
|---------------------------------------|----------------------|----------------------|----------------------|
| Operating revenues | \$ 224,052,357 | \$ 224,965,227 | \$ 205,633,975 |
| Operating expenses | <u>(196,980,358)</u> | <u>(194,797,451)</u> | <u>(194,735,679)</u> |
| Net operating income | 27,071,999 | 30,167,776 | 10,898,296 |
| Other expenses, net of other revenues | (2,596,977) | (2,188,471) | (6,219,586) |
| Fees, contributions, and grants | <u>374,328</u> | <u>123,906</u> | <u>294,412</u> |
| Change in net position | <u>\$ 24,849,350</u> | <u>\$ 28,103,211</u> | <u>\$ 4,973,122</u> |

2020 Compared to 2019

Current year operating revenues decreased \$0.9 million (-0.4%) compared to the prior year. There were several key factors affecting this change. There was an approximate 3.0% rate increase for residential and commercial garbage, and composting services effective April 1, 2020. However, residential and commercial solid waste collection service revenue decreased by \$1.3 million, mostly due to an increase in credits of \$1.2 million for the Utility Discount Program. There were also decreases of \$0.3 million for commercial disposal charges and \$0.2 million for other utility operating revenue. These decreases were offset by a \$0.9 million increase in revenues from fluctuations in pricing of recycling commodities.

Seattle City Council enacted legislation in 2012 (ordinance 124056) allowing the Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets. With sufficient funds in the Rate Stabilization Account, no transfers were made in 2020.

Operating expenses in 2020 increased \$2.2 million (1.1%) compared to 2019. This increase included a \$6.4 million increase in other operating expenses mostly due to \$8.3 million of construction in progress being expensed due to the cancellation of the South Transfer Station Phase 2 project. There was also a \$0.4 million increase in services. These increases were offset by decreases of \$1.4 million in salaries and wages, \$0.9 million in personnel benefits, \$0.9 million in depreciation and amortization, \$0.8 million in supplies and \$0.5 million in City and State taxes.

Nonoperating expenses experienced a net increase of \$0.2 million (-7.7%).

Seattle Public Utilities – Solid Waste Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

Financial Analysis (continued)

2019 Compared to 2018

Current year operating revenues increased \$19.3 million (9.4%) compared to the prior year. There were several key factors affecting this change. There was an approximate 4.0% rate increase for residential and commercial garbage, and composting services effective April 1, 2019. This resulted in residential and commercial solid waste collection service revenue gains of \$10.4 million, made up of \$7.5 million in residential garbage collection and \$2.9 million in commercial collection revenue. There was also a \$0.5 million increase in the transfer station revenue. These increases were offset by a \$1.8 million decrease in revenues from fluctuations in pricing of recycling commodities. Additionally, there was no transfer to the rate stabilization account in 2019 as compared to a \$10.2 million transfer in 2018.

Seattle City Council enacted legislation in 2012 (ordinance 124056) allowing the Fund to make contributions to a Rate Stabilization Account if the balance of operating cash on hand at year-end met certain targets. With sufficient funds in the Rate Stabilization Account, no transfers were made in 2019.

Operating expenses in 2019 increased \$0.1 million (0.0%) compared to 2018. The largest operating expense that increased was a \$1.7 million increase in City and State taxes due to the increase in revenue in 2019. Additional increases included \$1.2 million for personnel benefits, \$0.9 million for salaries and wages and \$0.2 in services. These increases were offset by decreases of \$2.5 million in supplies and \$1.4 million in other operating expenses.

Nonoperating revenues and expenses experienced a net increase of \$3.9 million (-65.2%). Investment income increased \$2.5 million, other nonoperating revenue increased \$1.1 million, and interest expense decreased by \$0.4 million.

Capital Assets

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2020, 2019, and 2018:

Summary of Capital Assets, Net of Accumulated Depreciation

| | 2020 | 2019 | 2018 |
|--|-----------------------|-----------------------|-----------------------|
| Land and land rights | \$ 26,882,856 | \$ 26,882,856 | \$ 26,882,856 |
| Buildings | 114,281,596 | 117,394,496 | 120,891,674 |
| Structures | 12,682,749 | 12,241,597 | 12,649,182 |
| Machinery and equipment | 29,509,118 | 33,115,527 | 33,732,739 |
| Computer systems | 14,521,702 | 14,710,731 | 16,911,689 |
| Construction in progress | 4,341,772 | 12,146,765 | 7,374,575 |
| Artwork | 917,443 | 917,443 | 913,593 |
| Property held for future use | 1,529,982 | 1,529,982 | 1,529,982 |
| Capital assets, net of accumulated depreciation | <u>\$ 204,667,218</u> | <u>\$ 218,939,397</u> | <u>\$ 220,886,290</u> |

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

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

Financial Analysis (continued)

2020 Compared to 2019

The Fund’s capital assets (net of accumulated depreciation) for the year ended December 31, 2020, is \$204.7 million. This represents a decrease of approximately \$14.3 million (-6.5%) compared to 2019.

Highlights of the Fund’s capital assets placed in service during 2020 include the following:

- \$1.5 million for the Utilities CSS Portal Project

The Fund’s construction in progress at year end did not include any projects over \$2 million.

2019 Compared to 2018

The Fund’s capital assets (net of accumulated depreciation) for the year ended December 31, 2019, is \$218.9 million. This represents a decrease of approximately \$1.9 million (-0.9%) compared to 2018.

Highlights of the Fund’s capital assets placed in service during 2019 include the following:

- \$2.7 for heavy equipment purchases
- \$1.5 million for the South Transfer Station Track-Out Control Project

The Fund’s construction in progress at year end included \$7.6 million for a new facility at the prior site of the South Transfer Station.

Debt Administration

The Fund’s debt primarily consists of bonded debt and loans. Bonded debt is secured solely by solid waste revenues and provides financing for capital improvements. Loans issued by the Washington State Agencies for certain capital improvements are unsecured. The Fund’s credit ratings on its bonds were Aa3 and AA+ by Moody’s Investors Service Inc. and Standard & Poor’s Rating Services, respectively. Additional details about the Fund’s revenue bonds and loans is in Note 4 of this report.

2020 Compared to 2019

At the end of 2020, the Fund had \$180.1 million in bonded debt, as compared to \$187.1 million in 2019, all of which was secured solely by solid waste revenues. This decrease of \$7.0 million is attributed to scheduled principal payments for existing bond debt. The Fund has used bond proceeds mostly for the Utilities CSS Portal and other miscellaneous projects. The Fund retains bond reserves of \$9.8 million.

Seattle Public Utilities – Solid Waste Fund **(An Enterprise Fund of the City of Seattle)** **Management’s Discussion and Analysis**

Financial Analysis (continued)

2019 Compared to 2018

At the end of 2019, the Fund had \$187.1 million in bonded debt, as compared to \$194.2 million in 2018, all of which was secured solely by solid waste revenues. This decrease of \$7.1 million is attributed to scheduled principal payments for existing bond debt. The Fund has used bond proceeds mostly for a new facility at the prior site of the South Transfer Station. The Fund retains bond reserves of \$9.8 million.

Economic Factors Affecting Next Year

Effective April 1, 2021, the Fund will adopt a rate increase of approximately 2.9% for residential and commercial services. This rate increase is expected to bring an additional \$4.1 million in operating revenues to the Fund in 2021.

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, Accounting 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, | |
|--|-----------------------|-----------------------|
| | 2020 | 2019 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Operating cash and equity in pooled investments | \$ 98,043,055 | \$ 72,277,630 |
| Receivables | | |
| Accounts, net of allowance | 18,180,732 | 16,372,817 |
| Unbilled revenues | 16,391,761 | 15,809,379 |
| Due from other funds | 390,028 | 2,889,299 |
| Due from other governments | 1,258,258 | 1,148,601 |
| Materials and supplies inventory | 306,839 | 135,956 |
| Prepayments and other current assets | 36,743 | 21,515 |
| | <u>134,607,416</u> | <u>108,655,197</u> |
| NONCURRENT ASSETS | | |
| Restricted cash and equity in pooled investments | 57,394,426 | 52,914,036 |
| Prepayments long-term | 216,363 | 234,393 |
| Regulatory landfill closure and postclosure costs | 17,001,367 | 15,342,885 |
| Regulatory assets | 1,531,871 | 1,623,031 |
| Other charges | 625,653 | 572,772 |
| Capital assets | | |
| Land and land rights | 26,882,856 | 26,882,856 |
| Plant in service, excluding land | 257,473,897 | 254,627,430 |
| Less accumulated depreciation | (86,478,732) | (76,247,636) |
| Construction in progress | 4,341,772 | 12,146,765 |
| Other property, net | 2,447,425 | 1,529,982 |
| | <u>281,436,898</u> | <u>289,626,514</u> |
| | <u>416,044,314</u> | <u>398,281,711</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Unamortized loss on refunded debt | 1,854,429 | 2,003,502 |
| Pension and OPEB contributions and changes in assumptions | 4,415,891 | 8,056,659 |
| | <u>6,270,320</u> | <u>10,060,161</u> |
| | <u>\$ 422,314,634</u> | <u>\$ 408,341,872</u> |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

| | December 31, | |
|---|-----------------------|-----------------------|
| | 2020 | 2019 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 21,581,638 | \$ 11,820,242 |
| Salaries, benefits, and payroll taxes payable | 1,333,720 | 2,553,116 |
| Compensated absences payable | 105,798 | 85,917 |
| Interest payable | 2,029,617 | 2,116,179 |
| Taxes payable | 781,341 | 1,500,353 |
| Revenue bonds due within one year | 7,400,000 | 7,045,000 |
| Claims payable | 248,724 | 259,900 |
| Environmental liabilities | 411,000 | 2,431,000 |
| Landfill closure and postclosure liability | 3,779,701 | 8,673,320 |
| Other | 10,067 | 8,725 |
| | 37,681,606 | 36,493,752 |
| NONCURRENT LIABILITIES | | |
| Compensated absences payable | 2,010,150 | 1,632,414 |
| Claims payable | 419,882 | 434,628 |
| Environmental liabilities | 16,439,503 | 16,283,140 |
| Landfill closure and postclosure liability | 12,399,960 | 13,923,280 |
| Unfunded other post employment benefits | 1,073,051 | 1,036,097 |
| Net pension liability | 27,834,678 | 33,157,484 |
| Other noncurrent liabilities | - | 27,555 |
| Revenue bonds | 180,060,000 | 187,105,000 |
| Less bonds due within one year | (7,400,000) | (7,045,000) |
| Bond premium | 18,043,807 | 19,009,723 |
| | 250,881,031 | 265,564,321 |
| Total liabilities | 288,562,637 | 302,058,073 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows - pension and OPEB | 4,926,513 | 3,027,193 |
| Rate stabilization | 38,079,880 | 37,360,352 |
| | 43,006,393 | 40,387,545 |
| NET POSITION | | |
| Net investment in capital assets | 29,625,548 | 32,280,073 |
| Restricted | 312,301 | 323,745 |
| Unrestricted | 60,807,755 | 33,292,436 |
| | 90,745,604 | 65,896,254 |
| Total net position | 90,745,604 | 65,896,254 |
| Total liabilities, deferred outflows, and net position | \$ 422,314,634 | \$ 408,341,872 |

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, | |
|---|--------------------------|----------------|
| | 2020 | 2019 |
| OPERATING REVENUES | | |
| Charges for services and other revenues | \$ 224,052,357 | \$ 224,965,227 |
| OPERATING EXPENSES | | |
| Salaries and wages | 15,194,987 | 16,635,087 |
| Personnel benefits | 7,230,570 | 8,152,049 |
| Supplies | 1,081,240 | 1,927,131 |
| Services | 121,757,197 | 121,395,817 |
| Intergovernmental payments | 30,364,994 | 30,815,040 |
| Depreciation and amortization | 13,889,576 | 14,765,473 |
| Other operating expenses | 7,461,794 | 1,106,854 |
| Total operating expenses | 196,980,358 | 194,797,451 |
| OPERATING INCOME | 27,071,999 | 30,167,776 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Other nonoperating revenue | 178,535 | 1,166,932 |
| Investment income | 4,966,202 | 4,160,871 |
| Interest expense | (7,741,714) | (7,516,274) |
| Contributions and grants | 374,328 | 123,906 |
| Total nonoperating revenues (expenses) | (2,222,649) | (2,064,565) |
| CHANGE IN NET POSITION | 24,849,350 | 28,103,211 |
| NET POSITION | | |
| Beginning of year | 65,896,254 | 37,793,043 |
| End of year | \$ 90,745,604 | \$ 65,896,254 |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows

| | Years Ended December 31, | |
|--|--------------------------|-----------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 224,841,870 | \$ 206,476,719 |
| Cash paid to suppliers | (127,735,284) | (121,271,686) |
| Cash paid to employees | (26,125,376) | (24,452,429) |
| Cash paid for taxes | (30,869,768) | (29,220,101) |
| Net cash provided by operating activities | <u>40,111,442</u> | <u>31,532,503</u> |
| CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Operating grants received | 374,328 | 123,907 |
| Recovery for environmental liabilities | - | (27,300) |
| Net cash provided by noncapital and related financing activities | <u>374,328</u> | <u>96,607</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Principal payments on long-term debt | (5,425,869) | (6,832,878) |
| Capital expenditures and other charges | (1,438,869) | (12,808,762) |
| Interest paid on long-term debt | (8,404,500) | (8,756,875) |
| Proceeds from sale of capital assets | 64,124 | 455,447 |
| Net cash used in capital and related financing activities | <u>(15,205,114)</u> | <u>(27,943,068)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on investments | <u>4,965,159</u> | <u>4,162,885</u> |
| NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS | 30,245,815 | 7,848,927 |
| CASH AND EQUITY IN POOLED INVESTMENTS | | |
| Beginning of year | <u>125,191,666</u> | <u>117,342,739</u> |
| End of year | <u>\$ 155,437,481</u> | <u>\$ 125,191,666</u> |
| CASH AT THE END OF THE YEAR CONSISTS OF | | |
| Operating cash and equity in pooled investments | \$ 98,043,055 | \$ 72,277,630 |
| Noncurrent restricted cash and equity in pooled investments | <u>57,394,426</u> | <u>52,914,036</u> |
| Total cash at the end of the year | <u>\$ 155,437,481</u> | <u>\$ 125,191,666</u> |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows (continued)

| | Years Ended December 31, | |
|---|--------------------------|---------------|
| | 2020 | 2019 |
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 27,071,999 | \$ 30,167,776 |
| Adjustments to reconcile net operating income to net cash provided by operating activities | | |
| Adjustment for net pension liability | 217,282 | 720,700 |
| Depreciation and amortization | 13,889,576 | 14,765,473 |
| Nonoperating revenues and expenses | 114,410 | 694,863 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (1,807,915) | (1,009,409) |
| Unbilled revenues | (582,382) | (15,464,914) |
| Due from other City funds | 2,499,271 | 845,614 |
| Due from other governments | (109,657) | 602,566 |
| Materials and supplies inventory | (170,883) | 21,433 |
| Other assets | (1,654,635) | 2,118,111 |
| Accounts payable | 9,761,396 | 3,032,203 |
| Salaries, benefits, and payroll taxes payable | (1,219,396) | 1,494,364 |
| Taxes payable | (719,012) | 897,924 |
| Compensated absences payable | 397,617 | 201,198 |
| Due to other City funds | - | (2,795,988) |
| Claims payable | (25,922) | 49,103 |
| Accrued landfill closure and post-closure costs | (6,416,939) | (299,902) |
| Environmental liability | (1,863,636) | (300,217) |
| Rate stabilization | 719,528 | 865,406 |
| Other liabilities | 10,740 | (5,073,801) |
| Total adjustments | 13,039,443 | 1,364,727 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 40,111,442 | \$ 31,532,503 |

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 information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2020 and 2019, paid \$6,760,293 and \$7,218,737, respectively, to the City for its share of these services. Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid \$21,893,428 and \$22,031,211 for these taxes in 2020 and 2019, respectively, as well as \$4,503,586 and \$4,710,784, 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 \$466,631 in 2020 and \$546,256 in 2019 from the City for solid waste services provided.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Seattle Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information technologies services mentioned above. Within SPU, the costs 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 \$2,327,309 and \$2,190,419 in 2020 and 2019, respectively. The Fund paid \$31,132 and \$8,143 for the utility billing services in 2020 and 2019, respectively.

The City's Clean City program, administered by SPU staff, reduces public blight including illegal dumping, litter, graffiti, community cleanup, rat abatement, and abandoned vehicles services. Until 2016, the Program was funded by tonnage tax revenues with additional general fund support to maintain service levels. In the 2016 budget process, the City made an accounting adjustment that remits all tonnage tax revenues to the general fund and then funds the Program using only general funds.

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)

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.

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 in a pooled investment portfolio that is managed by the City's Finance and Administration Services Department. The City's investment portfolio consists of fixed income securities authorized by the Revised Code of Washington and other applicable law. The pool operates like a demand deposit account in that all City departments may deposit cash at any time and withdraw cash out of the pool without prior notice or penalty. 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. Cash and equity in pooled investments are reported at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*. 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." Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds and a Rate Stabilization Account.

Receivables and unbilled revenues – Customer accounts receivable consist of amounts owed by private individuals and businesses 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, 2020 and 2019, the Fund's allowance for doubtful accounts was \$1,598,731 and \$1,546,869, respectively.

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)

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.

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 landfill post closure costs and cleanup costs related to remediation of the South Park Bus Barn site located near the South Park Landfill.

Other charges – Other charges primarily include costs related to the Comprehensive Solid Waste plan which directs the Fund's future operations. 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, which became part of the landfill area. 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.

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)

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 |

Asset depreciation begins in the month the asset is placed in service.

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 debt 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. The Fund has also recorded deferred outflows/inflows of resources for certain pension and other post-employment benefit activities including, the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 6 and 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 2020, the Rate Stabilization Account earned interest totaling \$0.7 million. However, the Fund did not deposit any additional funds into the rate stabilization account in 2020 or 2019. The Fund has also recorded deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions (Notes 6 and 9).

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.

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)

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.

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.

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the benefit have been determined on the same basis as they are reported by the City. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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 when 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.

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)

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.

Operating expenses – The Fund's operating expenses include the cost of sales and services, administrative expenses, depreciation on capital assets and amortization of deferred assets.

Taxes – The Fund paid an 14.2% 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 a tax by the City based on solid waste tonnage for operating transfer stations and for collecting garbage within the City of Seattle. The City tonnage tax rate of \$13.27 per ton remained the same as 2019. In addition, the Fund paid a 1.75% 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 rate for business and occupation tax increased from 1.5% in 2019 and the other rates remained the same. The State refuse tax rate of 3.60% remained the same as 2019.

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 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.

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. 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.

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)

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, 2020 and 2019.

Accounting standard changes – GASB has issued Statement No. 87, *Leases*. The new GASB standard on leases was issued in June 2017 and was originally scheduled to be effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delayed the implementation dates of certain standards. As a result, GASB 87 will be effective for the Fund for reporting periods beginning after June 15, 2021. Under this rule, leases are all assumed to be capital financings of the underlying asset with only a narrow range of short term equipment and motor vehicle leases treated as an 'operating lease.' GASB now assumes that all leases are 'capital leases' except for the specific exceptions noted. The Fund is evaluating the impact of this standard on the financial statements.

GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Statement was issued in June 2018 to be implemented effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB issued Statement No. 95 which delayed the implementation dates of certain standards. As a result, GASB 89 will be effective for the Fund for reporting periods beginning after December 15, 2020. The Fund plans to invoke regulatory accounting under GASB 62 and will continue to capitalize interest as an expense to projects.

Use of estimates – The preparation of the financial statements in accordance 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, fair market value of cash and equity in pooled investments, 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.

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)

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 Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the City's Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of the Department are combined with cash resources of the City to form a pool of cash that is managed by the City's Department of Finance and Administrative Services (FAS). Under the City's investment policy, all temporary cash surpluses in the pool are invested. The Fund's share of the pool is included on the balance sheets as Cash and Equity in Pooled Investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Fund, may deposit cash at any time and can also withdraw cash, out of the pool, up to the amount of the Fund's balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

Custodial credit risk – deposits – Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City's depository institutions, the City's deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2020 and 2019, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2020 and 2019, the City held sufficient cash in its vault for operations. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 2 – Cash and Equity in Pooled Investments (continued)

Custodial credit risk – investments – Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City’s contractual custodial agent. The City maintains a custody relationship with Wells Fargo under the State of Washington’s statewide custody provider program arranged by the State Treasurer’s Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City’s pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool’s total assets in these credit sensitive sectors.

State statute defines the investments in commercial paper and corporate notes as a “credit portfolio”. The credit portfolio may not exceed 25 percent of the Pool’s market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool’s market value.

Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase.

Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3 percent of the Pool’s market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool’s market value.

Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool’s market value.

Interest rate risk – Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington’s Local Government Investment Pool (LGIP).

Seattle Public Utilities – Solid Waste Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

Note 2 – Cash and Equity in Pooled Investments (continued)

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle, is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1-7 year index. The duration of the Strategic Portfolio is targeted between 75% and 125% of the benchmark.

To further mitigate interest rate risk a minimum of 60% of the Operating Portfolio and 30% of the Strategic Portfolio must be invested in asset types with high liquidity, specifically U.S. Government obligations, U.S. Government Agency obligations, LGIP, Demand Accounts, Repo, Sweep, and Commercial Paper.

Investments – The Fund’s cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City’s Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. As of December 31, 2020, and 2019, the Fund did not have any dedicated investments. The City’s Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

The City of Seattle has three objectives in managing its investments that define its risk profile and guide implementation of its investment strategy. In order of importance they are Safety of Principal, Maintenance of Liquidity, and Return on Investment.

The City follows a set of Standards of Care when it comes to its investments that include the following:

- **Social Policies:** A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- **Ethics and Conflict of Interest:** Investment officers shall comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.

Delegation of authority – The Director of Finance and Administrative Services has delegated management responsibility for the City’s investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City’s Treasury Services Director. No persons may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 2 – Cash and Equity in Pooled Investments (continued)

Fair value of pooled investments – The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value of the City’s pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City’s pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements.

As of December 31, 2020, the City held \$519.7 million on deposit in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City’s investments in the LGIP are reported at amortized cost which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor’s Office.

The City reports its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The City uses a combination of the market and cost approach for the valuation of pooled investments.

The City’s overnight repurchase agreement with Wells Fargo Bank, N.A., and investment in the State of Washington Local Government Investment Pool (LGIP) are accounted for at cost. The LGIP is an external investment pool and is measured at a net asset value (NAV) per share of \$1. The remainder of the City’s investments are purchased in the over-the-counter U.S. bond market and accounted for at market.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Wells Fargo Institutional Retirement & Trust, and its third-party investment accounting vendor FIS AvantGard LLC. Both Wells Fargo and FIS contract with Interactive Data Pricing and Reference Data, Inc., for securities pricing.

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 2 – Cash and Equity in Pooled Investments (continued)

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

Level 2 – inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

As of December 31, 2020, the City's pooled investments were categorized within the fair value hierarchy as follows:

| Investments | Fair Value as of December 31, 2020 | Fair Value Measurements Using | | | Measured at Amortized Cost | Weighted Average Maturity (Days) |
|---|---|-------------------------------|-----------------------|-------------------|-------------------------------|---|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | | |
| U.S. Government Agency Securities | \$ 760,599,687 | \$ 760,599,687 | \$ - | \$ - | \$ - | 1,111 |
| Local Government Investment Pool | 519,690,038 | - | - | - | 519,690,038 | 1 |
| U.S. Treasury and U.S. Government-Backed Securities | 470,004,815 | 470,004,815 | - | - | - | 732 |
| Municipal Bonds | 319,681,755 | - | 319,681,755 | - | - | 2,597 |
| U.S. Government Agency Mortgage-Backed Securities | 268,695,014 | - | 268,695,014 | - | - | 1,616 |
| Corporate Bonds | 92,745,580 | 92,745,580 | - | - | - | 509 |
| Repurchase Agreements | 72,592,802 | - | - | - | 72,592,802 | 4 |
| International Bank for Reconstruction and Development | 41,064,600 | 41,064,600 | - | - | - | 1,654 |
| | <u>\$ 2,545,074,291</u> | <u>\$ 1,364,414,682</u> | <u>\$ 588,376,769</u> | <u>\$ -</u> | <u>\$ 592,282,840</u> | |

Weighted Average Maturity of the City's Pooled Investments

1,010

The City's investments in US Treasuries are valued as Level 1. The City's remaining investments are valued as Level 2 or measured at amortized cost. The City does not invest in securities that require Level 3 inputs.

As of December 31, 2019, the City's pooled investments were categorized within the fair value hierarchy as follows:

| Investments | Fair Value as of December 31, 2019 | Fair Value Measurements Using | | | Measured at Amortized Cost | Weighted Average Maturity (Days) |
|---|---|-------------------------------|-----------------------|-------------------|-------------------------------|---|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | | |
| U.S. Government Agency Securities | \$ 693,744,193 | \$ 693,744,193 | \$ - | \$ - | \$ - | 1,246 |
| U.S. Treasury and U.S. Government-Backed Securities | 583,535,317 | 583,535,317 | - | - | - | 902 |
| Local Government Investment Pool | 509,563,594 | - | - | - | 509,563,594 | 2 |
| Municipal Bonds | 354,007,423 | - | 354,007,423 | - | - | 2,184 |
| U.S. Government Agency Mortgage-Backed Securities | 290,939,453 | - | 290,939,453 | - | - | 1,821 |
| Repurchase Agreements | 118,189,506 | - | - | - | 118,189,506 | 2 |
| Commercial Paper | 84,916,181 | - | 84,916,181 | - | - | 22 |
| Corporate Bonds | 50,188,027 | 50,188,027 | - | - | - | 570 |
| International Bank for Reconstruction and Development | 44,743,700 | 44,743,700 | - | - | - | 1,714 |
| | <u>\$ 2,729,827,394</u> | <u>\$ 1,372,211,237</u> | <u>\$ 729,863,057</u> | <u>\$ -</u> | <u>\$ 627,753,100</u> | |

Weighted Average Maturity of the City's Pooled Investments

1,026

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 2 – Cash and Equity in Pooled Investments (continued)

As of December 31, 2020 and 2019, the Fund's share of the City Pool was as follows:

| | 2020 | 2019 |
|---|----------------|----------------|
| Cash and equity in pooled investments | \$ 98,043,055 | \$ 72,277,630 |
| Restricted cash and equity in pooled investments | 57,394,426 | 52,914,036 |
| | \$ 155,437,481 | \$ 125,191,666 |
| Balance as a percentage of City Pool cash and investments | 6.1% | 4.6% |

Concentration of credit risk – Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as bank notes and corporate notes.

The City's investments in which five percent or more is invested in any single issuer, as of December 31 are as follows:

| Issuer | 2020 | | 2019 | |
|--|----------------|------------------------------------|----------------|------------------------------------|
| | Fair Value | Percent of Total Investments | Fair Value | Percent of Total Investments |
| Local Government Investment Pool | \$ 519,690,038 | 20% | \$ 509,563,594 | 19% |
| United States Government | 470,004,815 | 18% | 583,535,317 | 21% |
| Federal National Mortgage Association | 292,500,837 | 11% | 283,978,980 | 10% |
| Federal Home Loan Bank | 200,784,989 | 8% | 244,714,007 | 9% |
| Federal Home Loan Mortgage Corp | 193,228,369 | 8% | 293,802,918 | 11% |
| Federal Farm Credit Bank | 152,404,144 | 6% | 162,187,740 | 6% |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 3 – Capital Assets

Capital assets activity for the year ended December 31, 2020, consisted of the following:

| | Beginning Balance | Additions and Transfers In | Retirements and Transfers Out | Ending Balance |
|--------------------------------------|-----------------------|-------------------------------|----------------------------------|-----------------------|
| Buildings | \$ 139,038,541 | \$ 374,062 | \$ - | \$ 139,412,603 |
| Structures | 13,837,233 | 894,739 | - | 14,731,972 |
| Machinery and equipment | 71,157,119 | 832,127 | (496,342) | 71,492,904 |
| Computer systems | 29,677,094 | 2,159,324 | - | 31,836,418 |
| Total capital assets, excluding land | 253,709,987 | 4,260,252 | (496,342) | 257,473,897 |
| Less accumulated depreciation | (76,247,636) | (10,700,476) | 469,380 | (86,478,732) |
| | 177,462,351 | (6,440,224) | (26,962) | 170,995,165 |
| Construction in progress | 12,146,765 | 4,834,140 | (12,639,133) | 4,341,772 |
| Land and land rights | 26,882,856 | - | - | 26,882,856 |
| Artwork | 917,443 | - | - | 917,443 |
| Property held for future use | 1,529,982 | - | - | 1,529,982 |
| Capital assets, net | <u>\$ 218,939,397</u> | <u>\$ (1,606,084)</u> | <u>\$ (12,666,095)</u> | <u>\$ 204,667,218</u> |

Capital assets activity for the year ended December 31, 2019, consisted of the following:

| | Beginning Balance | Additions and Transfers In | Retirements and Transfers Out | Ending Balance |
|--------------------------------------|-----------------------|-------------------------------|----------------------------------|-----------------------|
| Buildings | \$ 138,913,900 | \$ 124,641 | \$ - | \$ 139,038,541 |
| Structures | 13,760,135 | 77,098 | - | 13,837,233 |
| Machinery and equipment | 68,593,400 | 4,435,800 | (1,872,081) | 71,157,119 |
| Computer systems | 34,220,881 | 160,895 | (4,704,682) | 29,677,094 |
| Total capital assets, excluding land | 255,488,316 | 4,798,434 | (6,576,763) | 253,709,987 |
| Less accumulated depreciation | (71,303,032) | (11,444,730) | 6,500,126 | (76,247,636) |
| | 184,185,284 | (6,646,296) | (76,637) | 177,462,351 |
| Construction in progress | 7,374,575 | 9,978,976 | (5,206,786) | 12,146,765 |
| Land and land rights | 26,882,856 | - | - | 26,882,856 |
| Artwork | 913,593 | 3,850 | - | 917,443 |
| Property held for future use | 1,529,982 | - | - | 1,529,982 |
| Capital assets, net | <u>\$ 220,886,290</u> | <u>\$ 3,336,530</u> | <u>\$ (5,283,423)</u> | <u>\$ 218,939,397</u> |

During 2020 and 2019, the Fund capitalized interest costs relating to construction of \$(236,720) and \$378,589, respectively. The negative amount in 2020 was a result of the cancellation of the South Transfer Station Phase 2 project.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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 \$9,831,311 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, 2020, were \$180,060,000.

Revenue bonds outstanding as of December 31, 2020 and 2019, consisted of the following Solid Waste bonds:

| Name of Issue | Issuance Date | Maturity Years | Interest Rates | Original Issue Amount | Bonds Outstanding | |
|--------------------------------------|---------------|----------------|----------------|-----------------------|-----------------------|-----------------------|
| | | | | | 2020 | 2019 |
| 2007 Improvement and Refunding Bonds | 12/05/2007 | 2008-2033 | 4.0 - 5.0% | \$ 82,175,000 | \$ - | \$ - |
| 2011 Improvement Bonds | 6/22/2011 | 2012-2036 | 3.0 - 5.0% | 45,750,000 | 35,165,000 | 36,610,000 |
| 2014 Improvement and Refunding Bonds | 6/12/2014 | 2015-2039 | 2.0 - 5.0% | 95,350,000 | 79,460,000 | 83,690,000 |
| 2015 Improvement Bonds | 6/25/2015 | 2016-2040 | 2.0 - 5.0% | 35,830,000 | 31,735,000 | 32,665,000 |
| 2016 Improvement and Refunding Bonds | 6/30/2016 | 2017-2041 | 4.0 - 5.0% | 35,335,000 | 33,700,000 | 34,140,000 |
| | | | | <u>\$ 294,440,000</u> | <u>\$ 180,060,000</u> | <u>\$ 187,105,000</u> |

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

| Year Ending December 31, | Principal | Interest | Total |
|--------------------------|-----------------------|----------------------|-----------------------|
| 2021 | \$ 7,400,000 | \$ 8,045,125 | \$ 15,445,125 |
| 2022 | 7,775,000 | 7,667,625 | 15,442,625 |
| 2023 | 8,170,000 | 7,271,000 | 15,441,000 |
| 2024 | 8,590,000 | 6,854,125 | 15,444,125 |
| 2025 | 9,035,000 | 6,415,750 | 15,450,750 |
| 2026 - 2030 | 52,060,000 | 24,969,394 | 77,029,394 |
| 2031 - 2035 | 53,705,000 | 12,761,797 | 66,466,797 |
| 2036 - 2040 | 32,240,000 | 3,128,169 | 35,368,169 |
| 2041 | 1,085,000 | 21,700 | 1,106,700 |
| | <u>\$ 180,060,000</u> | <u>\$ 77,134,685</u> | <u>\$ 257,194,685</u> |

The following table shows the revenue bond activity during the year ended December 31, 2020:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|-----------------------|-------------|-----------------------|-----------------------|---------------------|
| Bonds payable, revenue bonds | \$ 187,105,000 | \$ - | \$ (7,045,000) | \$ 180,060,000 | \$ 7,400,000 |
| Add (deduct) deferred amounts | | | | | |
| Issuance premiums | 19,009,723 | - | (965,916) | 18,043,807 | - |
| Total bonds payable | <u>\$ 206,114,723</u> | <u>\$ -</u> | <u>\$ (8,010,916)</u> | <u>\$ 198,103,807</u> | <u>\$ 7,400,000</u> |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 4 – Revenue Bonds (continued)

The following table shows the revenue bond activity during the year ended December 31, 2019:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|-----------------------|-------------|-----------------------|-----------------------|------------------------|
| Bonds payable, revenue bonds | \$ 194,225,000 | \$ - | \$ (7,120,000) | \$ 187,105,000 | \$ 7,045,000 |
| Add (deduct) deferred amounts | | | | | |
| Issuance premiums | 19,980,464 | - | (970,741) | 19,009,723 | - |
| Total bonds payable | <u>\$ 214,205,464</u> | <u>\$ -</u> | <u>\$ (8,090,741)</u> | <u>\$ 206,114,723</u> | <u>\$ 7,045,000</u> |

Prior year defeasance of debt – In prior years, the Fund defeased certain obligations by placing the proceeds of new bonds in 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. At December 31, 2020, no outstanding bonds are considered defeased.

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 442% of annual debt service for 2020. Management believes the Fund was in compliance with all debt covenants as of December 31, 2020. For more information, see Other Information (page 49).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal property with minimum payments of \$9,660 in 2020 and \$9,516 in 2019. The Fund has leases for properties at 2702 6th Avenue South and a trail at the South Transfer Station, with expiration dates of December 2020 and December 2025, respectively. Rents are paid as they become due and payable. Minimum payments under the leases for the years ending December 31 are as follows:

| | |
|------|------------------|
| 2021 | \$ 9,731 |
| 2022 | 9,838 |
| 2023 | 9,947 |
| 2024 | 8,332 |
| 2025 | 4,899 |
| | <u>42,747</u> |
| | <u>\$ 42,747</u> |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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.

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 plan description – 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.

Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis.

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. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. 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.

Seattle Public Utilities – Solid Waste Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

Based on the latest biennial actuarial valuation date, the significant methods and assumptions are as follows:

Actuarial data and assumptions – The demographic assumptions of mortality, termination, retirement, and disability are set equal to the assumptions used for City pension actuarial valuations based on a Seattle City Employees’ Retirement System Experience Report for the period 2014–2017.

| Actuarial data and assumptions | 2020 |
|--|---|
| Valuation date | January 1, 2020 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Discount rate | 2.74% |
| Health care cost trend rates – medical | 6.55% in 2020, decreasing to 6.32% in 2021, and decreasing by varying amounts until 2030 thereafter |
| Health care cost trend rates – Rx | 9.00% in 2020, decreasing to 8.50% in 2021, and decreasing by varying amounts until 2030 thereafter |
| Participation | 25% of active employees who retire participate |

Mortality

General Service (Actives)

Males: RP-2014 Employees Table for Males, adjusted by 60%
 Females: RP-2014 Employees Table for Females, adjusted by 95%
 Rates are projected generationally using Scale MP-2014 ultimate rates

General Service (Retirees)

Males: RP-2014 Healthy Annuitant Males, adjusted by 95%
 Females: RP-2014 Healthy Annuitant Females, adjusted by 95%
 Rates are projected generationally using Scale MP-2014 ultimate rates

Marital status – 25% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

Health care claims development – The sample per capita claim cost assumptions shown below by age, benefit, and plan represent the true underlying baseline experience estimated for the City of Seattle’s sponsored postretirement benefits and costs.

| Age | Aetna Preventive Plan | | | Aetna Traditional Plan | | |
|-----|-----------------------|----------|--------|------------------------|----------|--------|
| | Medical | Rx | Admin | Medical | Rx | Admin |
| 50 | \$ 11,520 | \$ 2,677 | \$ 358 | \$ 11,243 | \$ 2,659 | \$ 358 |
| 52 | 12,533 | 2,912 | 358 | 12,230 | 2,893 | 358 |
| 55 | 14,220 | 3,305 | 358 | 13,877 | 3,282 | 358 |
| 57 | 15,499 | 3,601 | 358 | 15,125 | 3,576 | 358 |
| 60 | 17,638 | 4,097 | 358 | 17,210 | 4,069 | 358 |
| 62 | 19,003 | 4,415 | 358 | 18,543 | 4,384 | 358 |

| Age | Group Health Deductible | | | Group Health Standard | | |
|-----|-------------------------|----------|--------|-----------------------|----------|--------|
| | Medical | Rx | Admin | Medical | Rx | Admin |
| 50 | \$ 4,961 | \$ 1,145 | \$ 689 | \$ 5,291 | \$ 1,171 | \$ 689 |
| 52 | 5,397 | 1,246 | 689 | 5,755 | 1,273 | 689 |
| 55 | 6,123 | 1,413 | 689 | 6,531 | 1,445 | 689 |
| 57 | 6,674 | 1,540 | 689 | 7,118 | 1,574 | 689 |
| 60 | 7,595 | 1,752 | 689 | 8,100 | 1,792 | 689 |
| 62 | 8,182 | 1,888 | 689 | 8,727 | 1,930 | 689 |

The average medical and prescription drug per capita claims costs were developed from 2021 calendar year self-funded premium rates. Premium-equivalent rates were provided by City of Seattle’s health pricing actuary. The average medical and prescription drug per capita “adult-equivalent” claims costs were based on the respective pre-65 enrollment weighted average of the 2021 four-tier rate structure including the add-on cost of dependent children and trended back from 2021 to 2020 to be centered at the mid-point of the annual period following the valuation date. Average medical/Rx per capita claims costs were then age-adjusted based on the demographics of the rating population, and the assumed health care aging factors shown in the table below.

The average medical and prescription drug per capita claims costs were blended with the 2019 medical/Rx per capita developed claims cost trended forward to the valuation date.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2020 and future valuations. The Aon consulting team leveraged expertise of Health experts within Aon as it relates to reviewing the models used for development of the per capita claims costs and future trend rates.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

Morbidity factors – The claim costs for medical and prescription drugs were assumed to increase with age according to the table below.

| <u>Age</u> | <u>Medical</u> | <u>Rx</u> | <u>Composite</u> |
|------------|----------------|-----------|------------------|
| 40–44 | 3.0% | 4.8% | 3.3% |
| 45–49 | 3.7% | 4.7% | 3.8% |
| 50–54 | 4.2% | 4.7% | 4.3% |
| 55–59 | 4.4% | 4.6% | 4.4% |
| 60–64 | 3.7% | 4.6% | 3.8% |

Other considerations – Active employees with current spouse and/or dependent coverage elect same plan and coverage. After retirement, it is assumed that children will have aged off coverage and will have \$0 liability.

OPEB liability – The Fund reported an OPEB liability of approximately \$1.1 million in 2020 and \$1.0 million in 2019. The Fund’s proportionate share of the change in the OPEB liability was 1.47% and 1.69% for the years ended December 31, 2020, and December 31, 2019, respectively. Based on the actuarial valuation date of January 1, 2019, details regarding the Fund’s Total OPEB Liability as of December 31, 2020, are shown below.

Changes in Net OPEB Liability

| <i>(\$ in thousands)</i> | <u>Total OPEB Liability</u> |
|--|--|
| Changes recognized for the fiscal year: | |
| Service cost | \$ 49.6 |
| Interest on the total OPEB liability | 38.0 |
| Differences between expected and actual experience | 102.2 |
| Changes of assumptions | (114.0) |
| Benefit payments | (36.5) |
| Contributions from the employer | 0.0 |
| Other changes | (2.3) |
| | <hr/> |
| Net changes | 37.0 |
| Balance recognized at 12/31/2019 | 1,036.1 |
| | <hr/> |
| Balance recognized at 12/31/2020 | <u><u>\$ 1,073.1</u></u> |

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 Fund recorded an expense for OPEB of \$66,252 in 2020 and \$79,353 in 2019. The Health Care Subfund of the General Fund is reported in The City of Seattle’s Comprehensive Annual Financial Report.

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 2.74% for 2020 and 4.10% for 2019. The following tables present the sensitivity of OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

| | Discount Rate Sensitivity <i>(in millions)</i> | OPEB Liability at December 31, 2020 |
|-------------------------------|---|---|
| Discount rate | | |
| 1% decrease – 1.74% | | \$ 1.2 |
| Current discount rate – 2.74% | | 1.1 |
| 1% increase – 3.74% | | 1.0 |

| | Discount Rate Sensitivity <i>(in millions)</i> | OPEB Liability at December 31, 2019 |
|-------------------------------|---|---|
| Discount rate | | |
| 1% decrease – 3.10% | | \$ 1.1 |
| Current discount rate – 4.10% | | 1.0 |
| 1% increase – 5.10% | | 0.9 |

The following table presents the sensitivity of net Health Plan OPEB liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates used to measure the total Health Plan OPEB liability:

| | Healthcare Cost Trend Rate Sensitivity <i>(in millions)</i> | |
|---------------|--|--------|
| | OPEB Liability at December 31, | |
| | 2020 | 2019 |
| Discount rate | | |
| 1% decrease | \$ 1.0 | \$ 0.9 |
| Trend rate | 1.1 | 1.0 |
| 1% increase | 1.2 | 1.2 |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 6 – Postemployment Benefit Plans (continued)

Deferred outflows of resources and deferred inflows of resources related to OPEB – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2020.

| <i>(in thousands)</i> | Deferred Outflows | Deferred Inflows |
|---|----------------------|---------------------|
| Difference between actual and expected experience | \$ 247.9 | \$ - |
| Assumption changes | - | 411.4 |
| Contributions made in 2020 after measurement date | 43.1 | N/A |
| Total | \$ 291.0 | \$ 411.4 |

The Fund’s contributions made in 2020 in the amount of \$43,097 are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2021. These contributions will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

| <i>(in thousands)</i> | Amortization |
|-----------------------|--------------|
| 2021 | \$ (24.9) |
| 2022 | (24.9) |
| 2023 | (24.9) |
| 2024 | (24.9) |
| 2025 | (24.9) |
| Thereafter | (39.0) |
| Total | \$ (163.5) |

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/financial-services/comprehensive-annual-financial-report.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

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 2020 and 2019, 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, 1.816% and 2.334%, respectively. Claims expected to be paid within one year are \$248,724 and \$259,900 as of December 31, 2020 and 2019, respectively.

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

| | 2020 | 2019 |
|--|------------|------------|
| Beginning liability, discounted | \$ 694,528 | \$ 645,425 |
| Payments | (64,438) | (152,517) |
| Incurred claims and change in estimate | 38,516 | 201,620 |
| Ending liability, discounted | \$ 668,606 | \$ 694,528 |

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 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:

| | 2020 | 2019 |
|---------------------|--------------|--------------|
| Beginning liability | \$ 1,718,331 | \$ 1,517,133 |
| Additions | 1,735,698 | 2,204,176 |
| Reductions | (1,338,081) | (2,002,978) |
| Ending liability | \$ 2,115,948 | \$ 1,718,331 |

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 9 – Pension Benefit Plan

Plan description – The Seattle City Employees' Retirement System (the System) is a cost-sharing multiple employer pension plan covering employee 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.

Beginning with employees with hire dates of January 1, 2017, or later, all new members are enrolled in SCERS Plan II, which has contribution and benefit calculation rates different than the original SCERS I Plan.

All permanent Fund employees are eligible to participate in the system.

System benefits – Service retirement benefits are calculated on the basis of age, salary, and service credit.

SCERS I – 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. 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. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

SCERS II – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

Member and employer contributions – member and employer contributions are:

| | <u>YEAR</u> | <u>SCERS I</u> | <u>SCERS II</u> |
|-----------------------|-------------|----------------|-----------------|
| Member Contribution | 2020 | 10.03% | 7.00% |
| | 2019 | 10.03% | 7.00% |
| Employer Contribution | 2020 | 16.20% | 15.76% |
| | 2019 | 15.23% | 14.42% |

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund's contributions to the System for the years ended December 31, 2020 and 2019, were \$2,682,412 and \$2,537,101, 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 of resources related to pensions – At December 31, 2020 and 2019, the Fund reported a liability of \$27,834,678 and \$33,157,484, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2019 and December 31, 2018, for the years ended December 31, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates. 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, 2020 and 2019, the Fund's proportion was 1.86% and 2.18%, respectively.

For the years ended December 31, 2020 and 2019, the Fund recognized pension expense of approximately \$2,846,000 and \$4,228,000, respectively.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

The Fund’s deferred outflows and inflows of resources are as follows at December 31, 2020:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 4,932 | \$ 854,909 |
| Change of assumptions | 1,437,540 | - |
| Difference between projected and actual earnings | - | 2,031,140 |
| Contributions made subsequent to measurement date | 2,682,412 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 1,629,100 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 4,124,884</u> | <u>\$ 4,515,149</u> |

The Fund’s deferred outflows and inflows of resources are as follows at December 31, 2019:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 11,803 | \$ 701,837 |
| Change of assumptions | 1,793,923 | - |
| Difference between projected and actual earnings | 3,492,702 | - |
| Contributions made subsequent to measurement date | 2,537,101 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 1,973,034 |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 7,835,529</u> | <u>\$ 2,674,871</u> |

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:

| | |
|-------|-----------------------------|
| 2021 | \$ (1,183,319) |
| 2022 | (867,203) |
| 2023 | 178,106 |
| 2024 | (1,000,994) |
| 2025 | (199,267) |
| | <u> </u> |
| Total | <u>\$ (3,072,677)</u> |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

Actuarial assumptions – The total pension liability as of December 31, 2020, was determined using the following actuarial assumptions:

| | |
|----------------------------------|--|
| Valuation date | January 1, 2019 |
| Measurement date | December 31, 2019 |
| 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 Non-asymptotic |
| Inflation | 2.75% |
| Investment rate of return | 7.25% compounded annually, net of expenses |
| Discount rate | 7.25% |
| Projected general wage inflation | 3.5% |
| Postretirement benefit increases | 1.5% |
| Mortality | Various rates based on RP-2014 mortality tables and using generational projection of improvement using MP-2014 Ultimate projection scale. See 2018 Investigation of Experience report for details. |

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, 2014 – December 31, 2017.

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 employer 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.

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.

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Notes to Financial Statements

Note 9 – Pension Benefit Plan (continued)

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, 2019, are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|-----------------------------|--|
| Equity: Public | 4.77% |
| Equity: Private | 7.96% |
| Fixed Income: Broad | 0.67% |
| Fixed Income: Credit | 3.66% |
| Real Assets: Real Estate | 3.76% |
| Real Assets: Infrastructure | 3.95% |
| Diversifying Strategies | N/A |

Sensitivity analysis – The following presents the Fund’s proportionate share of the net pension liability calculated using the discounted rate of 7.25%, 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 (6.25%) or 1 percentage point higher (8.25%) than the current rate.

| 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|-------------------------|-----------------------------------|-------------------------|
| \$ 39,838,672 | \$ 27,834,678 | \$ 17,787,327 |

Note 10 – Contractual Obligations

The City contracts with Waste Management and Recology of King County for the collection of residential and commercial garbage, yard waste, food waste, and recycling. In addition, a few independent vendors provide large scale recycling and food waste for business customers. The collection contracts began in 2019 and are scheduled to end on March 31, 2029, with City options to extend to March 2031 and March 2033. Total payments under these contracts for residential and commercial collection were \$80,585,666 in 2019 and \$81,606,668 in 2020.

The City contracts with Waste Management of Washington, Inc. (formerly known as Washington Waste Systems), for rail-haul and disposal of non-recyclable City waste. The disposal contract began in 1990 and is scheduled to end on March 31, 2028, however the City may terminate this contract at its option without cause on March 31, 2024. Total payments under the terms of this contract for waste disposal were \$15,279,836 in 2019 and \$14,638,711 in 2020.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 10 – Contractual Obligations (continued)

The City contracts with Lenz Enterprises, Inc., and Cedar Grove Composting, Inc. to process yard and food waste into marketable products. The Lenz processing contract began in 2014 and the Cedar Grove processing contract began in 2017. Both contracts are scheduled to end on March 31, 2022, with City options to extend to March 31, 2024. Total payments under the terms of these contracts were \$4,534,016 in 2019 and \$4,962,701 in 2020.

The City contracts with Rabanco, LTD., to process recyclables and marketing those commodities. The Rabanco processing contract began in 2016 and is scheduled to end on March 31, 2024, with a City option to extend to March 31, 2027. Total payments, net of recycling revenue, were \$5,285,545 in 2019 and \$5,194,417 in 2020. This variance resulted from fluctuations in recycling commodity pricing.

Note 11 – Environmental Liabilities

The City of Seattle and a private developer are under a Consent Decree with the Washington State Department of Ecology (Ecology) to implement a Cleanup Action Plan for the historic South Park Landfill site under the State Model Toxics Control Act. Previously the City was advancing a design based on an Interim Action Workplan approved by Ecology. SPU delayed the project to re-define the project scope. The delay caused the City to fall behind the schedule in the Consent Decree and Ecology has determined that the City must amend the existing Consent Decree and Cleanup Action Plan to reflect the revised project and new timeline. At the same time two additional parties will be added to the Consent Decreed, King County and Kenyon Business Park.

As of March 2021, a redefined scope has been approved by SPU. Amendments to the Consent Decree and Cleanup Action Plan are scheduled to be completed in 2021. Project design will occur between 2021 and 2022. Project construction is scheduled to start in 2023 and be completed in 2026.

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. In 2015, the developer completed Ecology-approved interim cleanup action on its portion of the site.

The Fund has included in its estimated liability those portions of the environmental remediation work that are 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.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 11 – Environmental Liabilities (continued)

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:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Beginning environmental liability, net of recoveries | \$ 18,714,140 | \$ 19,014,357 |
| Payments or amortization | (168,976) | (389,296) |
| Change in estimated liability | <u>(1,694,661)</u> | <u>89,079</u> |
| Ending environmental liability, net of recoveries | <u>\$ 16,850,503</u> | <u>\$ 18,714,140</u> |

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

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|----------------------|----------------------|
| Environmental liability, current | \$ 411,000 | \$ 2,431,000 |
| Environmental liability, noncurrent | <u>16,439,503</u> | <u>16,283,140</u> |
| Ending liability | <u>\$ 16,850,503</u> | <u>\$ 18,714,140</u> |

Note 12 – Landfill Closure and Post Closure Care

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.

At December 31, 2020, accrued landfill closure and post closure costs consist primarily of monitoring, maintenance, and estimated construction costs related to I-5 improvement projects. 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 cost in the accompanying financial statements, in accordance with generally accepted accounting principles. These costs are being amortized as they are recovered from rate payers and will be fully amortized in 2030. 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 post-closure costs will continue to amortize until 2030.

Required Supplementary Information

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Required Supplementary Information

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

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Employer's proportion of the net pension liability | 14.33% | 14.55% | 14.73% | 15.13% | 16.37% | 16.96% |
| Employer's proportionate share of the net pension liability | \$ 180,105,232 | \$ 221,049,893 | \$ 163,086,154 | \$ 197,454,529 | \$ 212,671,200 | \$ 187,919,945 |
| Employer's covered payroll | \$ 112,528,955 | \$ 111,973,027 | \$ 107,715,383 | \$ 106,696,535 | \$ 105,031,141 | \$ 102,783,473 |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll | 160.05% | 197.41% | 151.40% | 185.06% | 202.48% | 182.83% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.48% | 64.14% | 72.04% | 65.60% | 64.03% | 67.70% |

Schedule of Seattle Public Utilities' Pension Contributions

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Contractually required employer contribution | \$ 17,041,133 | \$ 17,103,559 | \$ 16,466,270 | \$ 16,354,089 | \$ 16,487,154 | \$ 15,170,276 |
| Contributions in relation to the contractually required employer contribution | (17,041,133) | (17,103,559) | (16,466,270) | (16,354,089) | (16,487,154) | (15,170,276) |
| Employer contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Employer's covered payroll | \$ 112,528,955 | \$ 111,973,027 | \$ 107,715,383 | \$ 106,696,535 | \$ 105,031,141 | \$ 102,783,473 |
| Employer contributions as a percentile of covered payroll | 15.14% | 15.27% | 15.29% | 15.33% | 15.70% | 14.76% |

Seattle Public Utilities – Solid Waste Fund

(An Enterprise Fund of the City of Seattle)

Required Supplementary Information

Schedule of City of Seattle's OPEB Liability and Related Ratios

| | December 31, 2020 | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|----------------------|
| Total OPEB Liability | | | |
| Normal cost | \$ 3,378,925 | \$ 3,842,152 | \$ 3,821,876 |
| Interest | 2,586,942 | 2,195,238 | 2,583,105 |
| Differences between expected and actual experience | 6,956,579 | - | 13,491,865 |
| Changes in assumptions | (7,760,776) | (3,886,702) | (22,126,128) |
| Benefit payment | (2,484,320) | (2,333,610) | (2,289,000) |
| Total OPEB liability – beginning of year | <u>60,946,911</u> | <u>61,129,833</u> | <u>65,648,115</u> |
| Total OPEB liability – end of year | <u>\$ 63,624,261</u> | <u>\$ 60,946,911</u> | <u>\$ 61,129,833</u> |
| Covered-employee payroll | \$ 1,124,692,046 | \$ 1,015,097,334 | \$ 1,015,097,334 |
| Net OPEB liability as percentage of covered-employee payroll | 5.66% | 6.00% | 6.02% |

Other Information (Unaudited)

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Solid Waste Debt Service Coverage Calculation 2020

| | |
|--|-----------------------------|
| Operating Revenue | |
| Residential Collection Services | \$ 145,915,895 |
| Commercial Collection Services | 57,708,592 |
| Disposal and Other | <u>20,427,870</u> |
| Total Operating Revenue | <u>224,052,357</u> |
| Operating Expense | |
| Solid Waste Contract Expense | 108,683,770 |
| Other Operations and Maintenance | 44,256,258 |
| City Taxes | 26,397,014 |
| State B&O Tax | <u>3,753,741</u> |
| Total Operating Expense | <u>183,090,783</u> |
| Net Operating Income | <u>40,961,574</u> |
| Adjustments | |
| Less: DSRF Earnings | (190,314) |
| Add: City Taxes | 26,397,014 |
| Add: Environmental Liability Costs | (1,694,661) |
| Add: Investment Interest | 1,848,339 |
| Add: Net Proceeds from Sale on Assets | - |
| Add: Net Other Nonoperating Revenues | <u>114,410</u> |
| Total Adjustments | <u>26,474,788</u> |
| Net Revenue Available for Debt Service | <u><u>\$ 67,436,362</u></u> |
| Net Revenue Available for Debt Service (w/o City Taxes) | <u><u>\$ 41,039,348</u></u> |
| Annual Debt Service | |
| Annual Debt Service | \$ 15,449,500 |
| Less: DSRF Earnings | <u>(190,314)</u> |
| Adjusted Annual Debt Service | <u><u>\$ 15,259,186</u></u> |
| Coverage | 4.42 |
| Coverage without taxes | 2.69 |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Solid Waste Customers by Class

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| VARIABLE CANS | | | | | |
| No Can/Vacancy | 2,280 | 2,270 | 1,910 | 1,959 | 1,938 |
| 12-Gallon Can | 20,707 | 21,355 | 21,747 | 21,710 | 21,587 |
| 20-Gallon Can | 47,791 | 47,601 | 47,772 | 48,480 | 49,023 |
| 32-Gallon Can | 85,503 | 82,859 | 83,504 | 82,932 | 82,259 |
| 64-Gallon Can | 7,263 | 7,466 | 7,716 | 8,042 | 8,348 |
| 96-Gallon Can | 2,235 | 2,484 | 2,777 | 2,994 | 3,239 |
| TOTAL VARIABLE CANS | 165,779 | 164,035 | 165,426 | 166,117 | 166,394 |
| Residential Dumpster Accounts | 5,383 | 5,324 | 5,221 | 5,245 | 5,240 |
| Commercial Accounts | 8,096 | 8,082 | 8,023 | 8,556 | 8,214 |

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Solid Waste Tonnage

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| GARBAGE | | | | | | |
| Residential Collection | 101,972 | 103,720 | 105,315 | 107,485 | 109,367 | 119,903 |
| Self-Haul Garbage | 60,938 | 65,754 | 99,290 | 100,828 | 101,506 | 97,320 |
| Commercial Collection | 139,557 | 138,546 | 139,317 | 138,009 | 134,816 | 109,891 |
| Total tons disposed | 302,467 | 308,020 | 343,922 | 346,322 | 345,689 | 327,114 |
| RECYCLING | | | | | | |
| Private Recycling ⁽¹⁾ | 235,880 | 252,242 | 246,747 | 262,249 | 257,010 | 183,659 |
| Residential Curbside Recycling | 57,073 | 54,207 | 55,123 | 53,582 | 50,505 | 55,133 |
| Apartment Recycling | 24,028 | 24,781 | 24,652 | 24,520 | 24,802 | 26,852 |
| Residential Curb Yard & Food Waste | 89,213 | 91,375 | 90,789 | 88,947 | 89,105 | 99,850 |
| Self Haul Yard Waste | 4,009 | 4,390 | 6,127 | 6,127 | 6,957 | 6,780 |
| Self-Haul Wood Waste | 682 | 866 | 1,185 | 1,040 | 893 | 655 |
| Self-Haul Recycling ⁽¹⁾ | 2,209 | 2,747 | 4,495 | 4,567 | 4,879 | 4,109 |
| Composting ⁽²⁾ | 10,800 | 10,800 | 10,800 | 9,450 | 9,450 | 9,450 |
| Total tons recycled | 423,894 | 441,408 | 439,918 | 450,482 | 443,601 | 386,488 |
| Total tons generated | 726,361 | 749,428 | 783,840 | 796,804 | 789,290 | 713,602 |
| Garbage as a percentage of total tons generated | 42% | 41% | 44% | 43% | 44% | 46% |
| Recycling as a percentage of total tons generated | 58% | 59% | 56% | 57% | 56% | 54% |

⁽¹⁾ Estimate for 2020

⁽²⁾ Composting figures are estimates based on surveys and include grasscycling and backyard food waste and yard waste composting. Surveys were conducted in 2005, 2010, and 2018.

Seattle Public Utilities – Solid Waste Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Solid Waste Rate Schedule and Transfer Station Fees

2021 Monthly Residential Rate Schedule

| Service unit | Rates (Effective April 1, 2021) |
|--|------------------------------------|
| No can (minimum charge) | 6.85 |
| 12-Gallon | 25.72 |
| 20-Gallon | 31.50 |
| 32-Gallon | 40.95 |
| 64-Gallon | 81.85 |
| 96-Gallon | 122.85 |
| Recycling | No charge |
| Non-Compacted Dumpster (one cubic yard, once/week, one container) ⁽²⁾ | 303.55 |
| Compacted Dumpster (three cubic yards, once/week, one container) ⁽²⁾ | 876.19 |
| Yard Waste Mini-Can | 6.80 |
| Yard Waste 32-Gallon Can | 10.20 |
| Yard Waste 96-Gallon Can | 13.00 |

(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 \$45.05 monthly account fee.

2021 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, 2021 the cost of this service is \$549.68 per month, including a monthly account fee of \$30.30

2020 Transfer Station Fees

| | Rates (Effective April 1, 2020) |
|--|---|
| Garbage | |
| Sedans, SUVs, and station wagons | \$31.00 per trip |
| All other self-haul vehicles with garbage | \$149.00 per ton (\$31.00 minimum charge) |
| Yard and wood waste | |
| Sedans, SUVs, and station wagons | \$21.00 per trip |
| All other self-haul vehicles with yard waste | \$113.00 per ton (\$21.00 minimum charge) |

Regional Comparison of Transfer Station Rates

| Garbage | 2019 | | 2020 | |
|----------------|-----------|-------------|-----------|-------------|
| | Seattle | King County | Seattle | King County |
| Per Ton | \$ 145.00 | \$ 151.06 | \$ 149.00 | \$ 151.06 |
| Minimum Charge | \$ 30.00 | \$ 25.25 | \$ 31.00 | \$ 25.50 |

