



City of Tacoma
Finance Department

July 27, 2022

Honorable Mayor, Members of the City Council, City Manager and Citizens of the City of Tacoma:

We are pleased to present the Annual Comprehensive Financial Report of the City of Tacoma, Washington (the City), for the year ended December 31, 2021. The State Auditor has issued an unmodified opinion, or in other words, a “clean opinion” on the City of Tacoma’s 2021 financial statements. The independent auditor’s report can be found immediately after the Management’s Discussion & Analysis section of the Annual Report.

The 2021 Annual Report is submitted in accordance with City Charter and state statutes which require that the City issue an annual report on its financial position and activity. Responsibility for the accuracy of the data, its completeness and its fair presentation of its information, including all disclosures, rests with the City’s management. City management has developed a comprehensive framework of internal controls. The cost of these controls should not exceed the benefits, with the objective being to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City.

Governmental Accounting Standards Board (GASB) requires that the Annual Report include the following:

- **Letter of Transmittal** - this letter is a narrative introduction provided by City management that typically includes a discussion of the legal requirements for submitting the Annual Report, a profile of the City’s government, economic information that is useful in assessing the economic condition of the City, and ends with a section on awards and acknowledgements;
- **Management’s Discussion and Analysis (MD&A)** - this provides a narrative introduction, overview and analysis of the basic financial statements and is meant to be read with and supplement the Letter of Transmittal;
- **Financial Section** – this section provides detail on the City’s financial position and activities including government wide financial statements, individual fund statements and notes that are intended to help explain the financial statements; and
- **Statistical Section** - this section includes some basic statistical information about the City and region.

This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The City’s MD&A can be found immediately following the Independent Auditor’s Report.

In addition to the opinion on the Annual Report, the State Auditor also issues a separate report on internal controls and compliance with laws and regulations that meet the requirements of the Single Audit Act under Title 2 CFR Part 200 Subpart F (OMB Uniform Guidance). These are included in a separately issued report that is typically issued in the fall.

CITY OF TACOMA PROFILE

The City was incorporated on January 7, 1884. The name Tacoma stems from the Native American name for Mt. Rainier, “Tacobet” or “Tahoma”, which means Mother of the Waters. “City of Destiny” became Tacoma’s moniker when it was designated as the Northern Pacific Railroad’s western terminus for its transcontinental railroad in 1873.

Tacoma is located in Pierce County in Washington State on the Puget Sound, thirty-two miles southwest of Seattle, thirty-one miles northeast of the state capital, Olympia and fifty-eight miles northwest of Mount Rainier National Park. Its boundaries encompass approximately 50 square miles of land and 13 miles of waterfront. Lying between sea

level and 440 feet above sea level, the 2021 population estimate was 218,700 which is decrease of 0.3% from the 2020 census count of 219,346.

The City Charter, under which the City is now governed, was adopted in 1952. The City operates under a council-manager form of government. The City Council is comprised of nine members: a Mayor, five district representatives and three at-large representatives. The City Council appoints a City Manager to carry out Council policies and administer the day-to-day operations of the City. Various departments provide a full range of services to the citizens of Tacoma including police and fire protection, electrical generation and distribution, water distribution, wastewater and surface water services, solid waste services, public works (which includes street operations, engineering, facility management and fleet operations), planning and development services, community and economic development, neighborhood and community services, and many others.

The Tacoma City Council adopts a biennial budget for all fund types. All budgets are controlled at the fund level which is the legal level of budgetary control.

The biennial budget process typically begins in February/March of even numbered years. The Office of Management and Budget begins by using the City Council's long-term strategic plan, goals, and priorities as a starting point. In April, City departments begin budget preparations and the revenue forecasting process begins. Community budget engagement begins in June and occurs regularly for the duration of the budget process. After a period of review and updates, a preliminary budget is presented by the City Manager to the City Council in early fall. By Washington State law, the City Council must receive a balanced preliminary budget by October 1st. Formal public budget hearings are conducted by the City Council in October/November. Any changes the Council decides to make to the preliminary budget are typically made after the public hearings and before the final adoption of the budget ordinance in December.

Washington State law requires the City Council adopt a balanced budget on or before December 31. State law also requires that a mid-biennial review and modification be conducted between September 1 and December 31 of the first year of the biennium.

The Tacoma Community Redevelopment Authority and the Greater Tacoma Regional Convention Center Public Facilities District are included as component units and are discretely presented within the City's annual financial statements.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITION

Economic Overview

The City's economy benefits from the presence of large, stable employers in health care, education, professional services, and transportation. Tacoma is also a hub of government including major employers in federal, military, state, county and local governments. The City's diverse economy is influenced by its ideal location in the central Puget Sound region.

The Port of Tacoma (Port), created by Pierce County citizens in 1918, has 2,700 acres that are used for shipping terminal activity as well as warehousing, distributing, and manufacturing. Tacoma has one of the few ports on the West Coast with a large inventory of waterfront land available for development. In 2015, the Ports of Seattle and Tacoma formed the Northwest Seaport Alliance to strengthen the Puget Sound gateway - the fourth largest in North America - and create more economic development opportunities.

Government is the one of the largest regional employment sectors. The area's major U.S. Military installation, Joint Base Lewis-McChord heavily contributes to the region's workforce. Other large government employers include local public schools, Washington State and Pierce County, and health care organizations. Tacoma is home to several higher education institutions (University of Washington Tacoma, University of Puget Sound and Pacific Lutheran University) as well as several technical and vocational schools including Tacoma Technical College, Bates Technical College, and Clover Park Technical College. The table below provides the 2020 top ten employers in Pierce County as the 2021 information was not available at the time of printing.

TOP TEN EMPLOYERS FOR 2020 (PIERCE COUNTY)				
		EMPLOYEES	PERCENTAGE OF TOTAL COUNTY POPULATION	TYPE OF BUSINESS
Joint Base Lewis McChord		54,000	5.8%	Military
Multicare Health System		8,264	0.9%	Health Care
State of Washington		7,859	0.8%	Government
CHI Franciscan Health		5,682	0.6%	Health Care
Tacoma Public Schools		3,649	0.4%	Education
City of Tacoma		3,623	0.4%	Government
Pierce County Government		3,304	0.4%	Government
Puyallup School District		2,711	0.3%	Education
Bethel School District		2,689	0.3%	Education
Safeway & Albertsons		2,153	0.2%	Retail
Total		93,934	10.1%	
2021 Pierce County Population	927,428			

The average year-to-date unemployment rate for the Tacoma metropolitan area was 6.1% at the end of 2021 compared to 9.6% and 5.4% for years ending 2020 and 2019, respectively. Tacoma's median household income for 2020 was \$ 56,532 compared to \$53,572 for 2019.

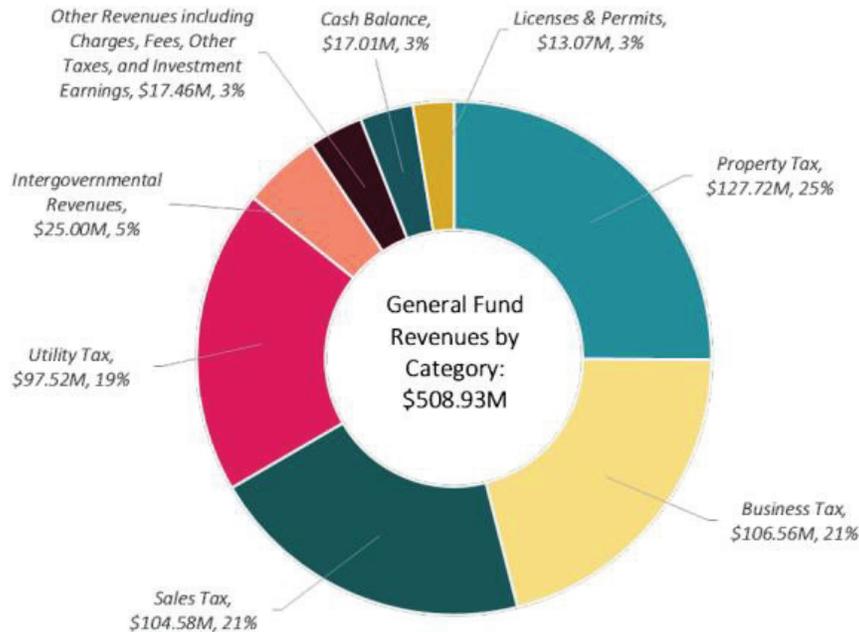
The City's budgeted major revenue sources for the General Fund include property tax, business & occupation (B&O) tax, sales tax and a gross earnings tax (GET) on utilities. Below are each major revenue source and their respective amount and percentage in the 2021-2022 biennial budget,

Property Tax—represents \$127.7 million or 25% of General Fund Revenues. Property tax revenues are limited by state law. The City's levy can only increase by 1% from year to year, as well as adding the value of new construction.

Business Tax - represents \$106.6 million or 21% of General Fund Revenues. Business taxes are paid based on the total income of a business. The City offers exemptions from business taxes for businesses whose gross receipts are less than \$250,000 annually. These revenues are dependent on economic conditions.

Sales Tax – represents \$104.6 million or 21% of General Fund Revenues. Tacoma consumers pay a sales tax rate of 10.3% (as of July 1, 2021) of which 1.0% is the City's General Fund portion and 0.1% each for the Transportation Benefit District, Mental Health & Chemical Dependency Services, Tacoma Creates and support of affordable housing. These revenues are highly variable depending on economic conditions.

Utility Tax – represents \$97.5 million or 19% of General Fund Revenues. Utility taxes are paid by both private and public utilities and are calculated based on the total operating revenues earned by the utilities.



Property Tax Revenue Limitation

State law allows the City to levy a regular property tax rate of up to \$3.60 per \$1,000 of assessed property value annually. No matter what the assessed value is, however, the growth rate of property tax collections is limited to 1% per year, plus revenues based on new construction. In no event may the annual levy exceed the \$3.60 per \$1,000 of assessed value rate limit. During 2021, the City levied at the statutory limitation of \$2.26 per \$1,000 of assessed value (this is the total levy and includes approximately \$0.20 per \$1,000 related to the Streets Initiative).

Tax Abatements

The City offers five tax abatements in three categories that support affordable housing units, historical property rehabilitation and maintenance, and job creation. The Multi-Family Property Tax Exemption incentivizes development in growth target areas throughout the city, which has led to nearly 2,000 units added in the past five years. The historical property exemption is in place by order Revised Code of Washington (RCW) 84.26 and managed by the City. This exemption is in the public interest of the people to encourage maintenance, improvement and preservation of privately owned historic landmarks. The third and final category of tax exemptions are in place by RCW 82.60 to promote economic stimulation and new employment opportunities in distressed areas, thus reducing poverty in distressed counties of the State.

Relevant Financial Policies

Financial and Budget Policy Statements are presented on pages 187-192 of the 2021-2022 Biennial Budget and can be found on the City's website at www.cityoftacoma.org or at the following specific link: <https://cms.cityoftacoma.org/finance/budget/2021-2022/2021-2022AdoptedBudgetBook.pdf>

Response to COVID-19

The outbreak of the 2019 novel coronavirus ("COVID-19") is a significant event that has had and is expected to have ongoing, effects on the region where the City is located. Certain historical information in this Transmittal Letter about the finances and operations of the City predate the outbreak of COVID-19 and should be considered in light of the possible or probable negative effects the COVID-19 pandemic may have on the current and future finances and operations of the City and economy of the State of Washington.

On March 11, 2021, the American Rescue Plan Act ("ARPA") was signed into law. ARPA provides \$350 billion to help states, counties, cities and tribal governments cover increased expenditures, replenish lost revenue and mitigate economic harm from the COVID-19 pandemic. Based on allocation projections, the City expects to receive

approximately \$60.9 million in ARPA assistance. The City received approximately \$30.5 million of the \$60.9 million in May of 2021, the second tranche of funds (\$30.4 million) is expected to be received in Mid-May of 2022. Funds received under the ARPA may be used for authorized purposes relating to mitigating the fiscal effects of the COVID-10 pandemic, including responding to the public health emergency, providing governmental services, and making certain infrastructure investments, among other purposes. The City will monitor and apply for additional Federal and State support for expenses related to responding to the COVID-19 pandemic if and as such relief becomes available.

The City has and will continue to review the range of financial impacts of COVID-19 on the City and its finances. The City's adopted 2021-2022 biennial budget includes reduced projections for sales and use taxes, licenses and permits and various other revenue sources. As part of the 2021-2022 budget process, City departments were asked to submit spending plans based on approximately 15% reductions. The final adopted budget included a variety of reductions across City departments to meet the reduced revenue estimates.

While the full impact of the COVID-19 pandemic on the City and the regional economy is currently uncertain, the City currently believes that the measures it has taken will help mitigate its anticipated revenue shortfall. The City, however, cannot predict the duration and extent of the COVID-19 public health emergency, or quantify the magnitude of the impact on the regional and local economy or on the revenues and expenses of the City. The City will continue to monitor the evolving situation and respond as needed.

MAJOR INITIATIVES

During the 2021-2022 biennial budget process, City priorities were identified by the City Council and the community. Some of the major initiatives accomplished during 2021 are:

Tacoma Fire Department

In 2021, Tacoma Fire Department began implementation of Basic Life Support Medical Transportation service to improve the continuity of patient care and shift the provision of basic life support (BLS) medical transportation from private ambulance to Firefighter-EMTs. This implementation put two BLS-level medical transports units into service, with three more planned in 2022. In addition to the five Advanced Life Support transport units already in our deployment, this added resources to our response model while providing a revenue stream to support it through insurance billing.

Tacoma Police Transformation

Continuing to build upon the work accomplished in 2020, the Tacoma Police Department (TPD) has increased the number of body worn cameras (BWC) at the department by 60. These additional cameras will be deployed when officers not generally assigned to patrol duty are out in the community on temporary uniformed assignments. The department has also recently expanded its leadership team, appointing both a new Deputy Chief, and a civilian Chief of Staff. Both positions came recommended by the 21st Century Policing Study conducted in 2021.

In addition to the expansion of the BWC program, TPD is committed to procuring dash camera systems for use in patrol vehicles. Initially slated for deployment in early 2022, this system is now anticipated to be rolled out in 2023. This delay is due to global supply chain issues and computer chip shortages as reported by the vendor. TPD has also begun collaboration with the National Network for Safe Communities (NNSC) as it begins the reconciliation process in close coordination with multiple counterparts across the City and from the Community at large.

Transformation- Diversity, Inclusion and Equity

Organizationally, the City Manager's Office and Director of Public Utilities sought deeper understanding of the needs of Black, Indigenous, People of Color (BIPOC) employees by conducting a series of Employee Listening Sessions in the fall. The City also convened several workshops of a group of staff throughout the organization who participated in a 9-month program with the Government Alliance on Race and Equity (GARE) to identify key objectives the City could pursue to become an anti-racist organization. Concurrently, the Office of Equity and

Human Rights (OEHR) led each department through the development of Racial Equity Action Plans (REAP). First drafts of the REAPs were completed in September 2020 and plans continue to evolve as the organization grows in understanding and maturity of the principles of anti-racism. Monthly Council updates from Departments across the City began in February of 2022.

Affordable Housing Action Strategy

On April 12, 2021, the City notified the Washington State Department of Revenue that it would be seeking the sales and use tax under House Bill (HB)1590, which allows the City to increase sales tax by 1/10 of 1% to address housing and related services. The City Council's priority for housing is evident in the City's Affordable Housing Action Strategy. This strategy focuses on housing and strategies to reach housing targets in the City using a range of tools including policy, process, and funding. As a pathway toward creating more units of affordable housing and providing additional or expanded support for services in new development the City Council adopted Ordinance 28747 which authorized the collection of sales taxes under HB 1590. Through the passage of Ordinance 28747 to enable the collection of HB 1590 sales tax revenue the City has a designated a permanent resource for creating new units, preserving existing units and providing services for new units generated by the funds. Sales taxes collected are estimated to be over \$6 million each year. These funds will be used for the development of affordable housing and the provision of housing related services. Housing developers and service providers will be selected to carry out specific projects and services which will be determined based on need each year. Projects and services must assist eligible target populations with an income of 60% AMI or less.

AWARDS AND ACKNOWLEDGEMENTS

Awards

We are pleased to announce that for the 36th year in a row, the Government Finance Officers Association of the United States and Canada (GFOA) has awarded the City of Tacoma a Certificate of Achievement for Excellence in Financial Reporting to the City of Tacoma for its 2020 Annual Report. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

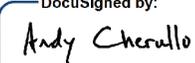
A Certificate of Achievement is valid for a period of one year only. We believe our current report conforms to the new reporting standards established by GASB and the GFOA's standards of excellence. We will submit the current report to GFOA to determine its eligibility for another Certificate of Achievement for Excellence.

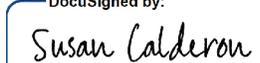
Acknowledgements

We would like to thank the Mayor, members of the City Council, and the City Manager for their continuing leadership, interest and support in planning and conducting the financial operations of the City in a responsible manner. We would also like to thank the citizens of the City of Tacoma for their continuing support and advocacy. Finally, we would like to express our appreciation to all City employees for their service and dedication. This report would not be possible without their assistance throughout the year and for providing information for this report.

Special appreciation is extended to the employees of the Finance Department, whose commitment to excellence made this year and this report a success. While a list of the staff who contributed to making this year's Annual Report a success can be found on page 6-35, we would like to specifically thank Kristy Magyar, Su Yi, Min Soo Chun, Diana Kerin-Tate, Ghassan Diab, Van Chung and Polly Wainaina for their work in bringing the final document together.

Respectfully,

DocuSigned by:

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 Andy Cherullo
 Director of Finance

DocuSigned by:

 1E7F48CBF27C40A...
 Susan Calderon
 Assistant Director of Finance/
 Controller