

## **CITY OF TACOMA, WASHINGTON**

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**City of Tacoma**  
Finance Department

July 31, 2009

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

The comprehensive annual financial report of the City of Tacoma, Washington (the City), for the year ended December 31, 2008, is hereby submitted in accordance with City Charter and state statutes. Both the City Charter and state statutes require that the City issue annually a report on its financial position and activity. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management based upon a comprehensive framework of internal control that it has established to provide 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.

Generally Accepted Accounting Principles (GAAP) in the United States of America requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Tacoma's MD&A can be found immediately following the Independent Auditor's Report.

The Tacoma Community Redevelopment Authority (TCRA), the Foss Waterway Development Authority (FWDA) and the Greater Tacoma Regional Convention Center Public Facilities District (GTRCCPF) are included as component units and are discretely presented within the City's annual financial statements.

The City is required to undergo an independent, annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this independent, single audit, including a schedule of expenditures of federal awards, the State Auditor's Office Reports on the internal control structure and compliance with applicable laws and regulations, and a schedule of findings and questioned costs, if any, are included in a separately issued report.

### **CITY OF TACOMA PROFILE**

The City of Tacoma was incorporated on February 14, 1880. The City Charter, under which it 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 including police and fire protection, electrical generation and distribution, water distribution, wastewater and surface water services, solid waste services and many others.

The name Tacoma stems from the Indian name for Mt. Rainier, "Tacobet," 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.

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Tacoma is located in Pierce County in Washington State on the Puget Sound. Its boundaries encompass approximately 47.8 square miles of land and 11.4 sq. miles of waterfront. Lying between sea level and 440 feet above sea level, Tacoma averages 38.8 inches of rainfall each year with an average low temperature in January of 36.6 degrees Fahrenheit and an average high temperature in July of 76.4 degrees Fahrenheit.

### **FACTORS AFFECTING THE CITY'S FINANCIAL CONDITION**

#### **Economic Overview**

Pierce County is fortunate; it enjoys a diverse economy influenced by its ideal location in the central Puget Sound region. Important industry sectors include the military, healthcare, manufacturing (aerospace, plastics, machinery, food products, and electronics) and wholesale distribution. Tacoma shares in this good fortune in that it has one of the few ports on the West Coast with a large inventory of waterfront land available for development. Created by Pierce County citizens in 1918, the Port of Tacoma (Port) has 2,400 acres that are used for shipping terminal activity and warehouse, distributing, and manufacturing. The Port is considered an "economic engine" for the region. More than 43,000 jobs in Pierce County and 113,000 jobs in Washington State are related to the Port's activities. In addition, Port-related jobs generate \$748 million in annual wages in Pierce County and more than \$107.5 million annually in state and local taxes.

Downtown Tacoma is another important hub of cultural, entertainment, and recreational opportunities for the City. Every day 40,000 employees work in downtown Tacoma and the City has plans to increase commercial investment in this vital area and provide even more job opportunities for the region's residents. One of the top ten employers in Pierce County, Russell Investments has called Tacoma home since it was founded in 1936. A recognized leader in the financial investments and advisory field, Russell Investments operates from their headquarters overlooking Commencement Bay in downtown Tacoma, with offices in New York, San Diego, Milwaukee, Chicago, Tampa and San Francisco (Russell/Pantheon). Outside the U.S., they have offices in London, Amsterdam, Paris, Johannesburg, Sydney, Melbourne, Auckland, Tokyo, Singapore and Toronto. They provide a full range of professional money management, consulting and market analytics and multi-manager mutual fund products to investors in 46 countries. They advise their clients on how to invest approximately \$786 billion, and directly manage \$136.1 billion in assets.

Reflecting a nationwide trend, one of the largest components of the services sector in Tacoma is the healthcare industry. Two of the ten largest employers in the Tacoma area are: Franciscan Health System (number six in number of employees) with 4,406 employees, and the Multicare Health System (number 5 in number of employees) which includes three major medical service centers and employs 6,204 people. Multicare Health System, which operates Tacoma General, Allenmore and Mary Bridge Children's Hospitals, is the county's largest private employer. The top nine employers in the area are either government or health-care institutions.

Government is Tacoma's second largest economic sector. The area's three major U.S. Military installations account for the highest numbers of employees among this sector. Fort Lewis (Army), McChord Air Force Base and Madigan Army Medical Center together station 56,555 active duty military personnel and civilians. The Army at Fort Lewis remains the county's largest employer with more than 42,231 troops and civilian employees. Other large government employers include local public school districts with 13,736 employees, Washington State with 7,889 employees, Pierce County with 3,299 employees and higher education institutions with 2,912 employees.

Although the diversity of the region's economic base has served it well in the past and is expected to help it recover from the effects of the current recession, the Puget Sound area is not immune from the impacts being felt by the rest of the nation. Retail sales are down by 12% for the first six months of 2009 compared to the same period in 2008, and two car dealerships were closed in Tacoma as a result of the Chrysler bankruptcy restructuring. The average year-to-date unemployment rate for the Tacoma metropolitan area was 9.7% as of May 2009 compared to 5.7% in 2008 and 4.7% in 2007.

The population of the City of Tacoma totaled 202,700 in 2008, an increase of 4.7% since the 2000 census count of 193,556.

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### **Effect of Revenue Limitation**

State law allows the City to levy a 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 is limited to 1% per year. In no event may the annual levy exceed the \$3.60 per \$1,000 of assessed value rate limit. During 2007, the City levied at the statutory limitation of \$2.23 per \$1,000 of assessed value.

### **Retirement Plans**

The Tacoma Employees' Retirement System is a single employer defined benefit plan that is an actuarially funded system administered by the City and covers city employees other than law enforcement officers, firefighters and railroad employees. The other major plans are the Law Enforcement Officers' and Firefighters' Retirement Pension Systems (LEOFF I and II), which cover most of the firefighters and law enforcement officers, and is operated by the State of Washington. Further details about the plan may be found in Note 5 of the Notes to the Financial Statements.

#### Police and Firemen's Relief and Pension Funds

An actuarial study was completed by Milliman USA, Inc., as of January 1, 2009. The annual obligations are met principally by General Fund contributions. The Firemen's Relief and Pension Fund is also supported by property taxes and an annual fire insurance premium tax. Since these are both closed plans to new members, the City's obligation is fairly level from year to year; these payments are made from the General Fund on a "pay as you go" basis.

No new employees have been covered by either of these plans since March 1, 1970. Pension obligations for all firefighters and law enforcement officers retired since March 1, 1970, whether hired before or since that same date, have been assumed by the State of Washington Law Enforcement Officers' and Firefighters' Retirement System (LEOFF), with the exception of certain benefits in excess of the LEOFF benefits.

#### Law Enforcement Officers' and Firefighters' Retirement System (LEOFF)

Contribution rates for LEOFF I for both employee and employer are established by state statute, which also provides that any unfunded liability shall be a liability of the State's general fund. Contribution rates for LEOFF II are set by statute by the Director of the State Department of Retirement Systems upon advice of the State Actuary. The contribution rates paid by the City of Tacoma under these retirement systems are based upon state-wide analysis and not upon specific participation of the City.

#### Railroad Retirement System

Tacoma Rail employees are members of the Railroad Retirement System in lieu of membership in Social Security. The City's obligation is to ensure the payment is made to the system for withholding levied on payroll paid.

### **Cash Management**

Cash temporarily idle during the year is invested in demand deposits, certificates of deposit (CD's), bankers' acceptances, commercial paper, repurchase agreements and obligations of the U. S. Treasury and government agencies.

Tacoma's investment policy is to preserve capital, ensure that funds are available to meet operating cash requirements and to earn a market average rate of return. To ensure the safety of the City's funds, demand deposits and CD's are made only in Washington state financial institutions which are qualified public depositories. These funds are guaranteed under the Washington State Public Deposit Protection Act, which established a multiple financial institution collateral pool to protect public funds against loss. All other securities are held by the City's third party custodial bank in the City's name.

The City Treasurer, for all funds other than the pension trust fund, manages the City's short-term investments. Pooled investments are reported in the City's financial statements as cash and cash equivalents. At December 31, 2008, cash and cash equivalents were \$902 million. Interest earned on the pooled investments is prorated to individual funds daily, based on the fund's equity in the pool. The City earned \$34.0 million on its short-term investments for the year ending December 31, 2008.

The City's pension trust fund investments of \$860 million on December 31, 2008, were in a diversified portfolio of stocks, bonds, Real Estate Investment Trusts (REITs) and index funds, divided among several portfolio managers under contract to the retirement system. The fair market value of the pension fund investments decreased by \$440 million in 2008. The City of Tacoma Retirement Board, in response to this impact, has taken action to increase employer and employee contribution rates for 2009 and 2010. Effective as of the first payroll period in February 2009, the employee contribution increased to 7.36%, and effective as of the first payroll period in 2010, it shall increase to 8.28%. The employer contribution increased to 8.64%, effective as of the first payroll period in February 2009 and to 9.72%, effective as of the first payroll period in 2010. Milliman, actuaries for Tacoma Employees' Retirement System, estimated that the funding ratio for Tacoma Employees' Retirement System as of January 1, 2009 is 93.3%.

### **Risk Management**

The City maintains various insurance policies and self insurance funds to protect itself from risk. Details of the City's insurance programs can be found in Note 8 of the Notes to Financial Statements.

## **MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS**

### **Reclaiming and Redevelopment Project – Thea Foss Waterway**

More than 100 years ago the Thea Foss Waterway was a thriving economic hub, but by 1981 business had moved out and left behind primarily vacant lots. Today, the Thea Foss Waterway is a master planned waterfront community in downtown Tacoma. New development along the Foss Waterway is a careful blend of historic and contemporary elements. When full development is complete, it will include parks, a residential community, office and retail along 1.5 miles of the waterway. A public esplanade will run the full length of the project. Currently seven of the 15 development sites are constructed or planned for redevelopment.

## **CONSTRUCTION PROJECTS**

### **Center for Urban Waters**

Construction has begun on a new \$40 million 56,000 square foot office and laboratory building that will house the Center for Urban Waters. This building will house the Environmental Sciences and research labs for both the City of Tacoma and the State of Washington, as well as an office for the Puget Sound Partnership. The design of the Center for Urban Waters facility won the "2008 Civic Design Award" presented by the American Institute of Architects (AIA) Washington.

### **Central Wastewater Treatment Plant Upgrade and Expansion Project**

The Central Treatment Plant (CTP) provides wastewater service to much of Tacoma, as well as all or portions of Fircrest, Fife, Milton, Lakehaven Utility District, unincorporated Pierce County (Dash Point, Browns Point, Fife Heights), and unincorporated King County. The CTP was constructed in 1952 and has undergone several major facility upgrades since then.

In 2002, the City developed plans to upgrade and expand the Central Treatment Plant. The main goals of the upgrade and expansion project were to provide increased hydraulic and treatment capacity for a 20-year planning period; to address Sanitary Sewer Overflows (SSOs) at the plant and in the upstream conveyance system during heavy rainfall events, and to expand, improve, and rehabilitate various areas of the plant with high-quality facilities and equipment. A peak wet weather treatment system was installed to treat flows in excess of the existing treatment facilities and process control capabilities were improved in various areas of the plant.

Prior to the upgrade and expansion project, the CTP had a permitted peak capacity of 78 million gallons per day (mgd). As a result of the upgrade and expansion project, the CTP is now capable of treating flows up to 133 mgd and will be able to treat up to 150 mgd following the completion of CTP outfall improvements in the future. Phased testing of the upgrade and expansion facilities began in 2008 and will be completed in 2009. The project budget for the upgrade and expansion project is \$94 million. This project is currently under budget.

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### **Broadway Local Improvement District (LID)**

Construction began on the \$ 12.6 million Broadway LID project in 2008. This project includes portions of Market Street and St. Helens Avenue, between South 9<sup>th</sup> and South 7<sup>th</sup> Street, together with portions of Broadway from South 9<sup>th</sup> Street northerly towards North 2<sup>nd</sup> Street. During the initial phase of the project, an improved streetscape was installed with better pedestrian safety and visibility, as well as improved landscaping. The landscaping and new concrete sidewalks contributed to the overall revitalization of this neighborhood.

### **Stone Road Airport Safety Zone**

The \$ 15.7 million Stone Road Safety Zone project extended the Tacoma Narrows Airport safety zone to meet FAA standards. Stone Road was lowered and a concrete structure built over the roadway, extending the safety zone. The Tacoma Narrows Airport was transferred to Pierce County as part of a larger facilities transfer at the end of 2008, which included Cheney Stadium and the County/City Building.

### **D Street overpass**

Work has completed on the \$24.5 million "D" street overpass designed to improve access to the Port of Tacoma, and provide a fast freight corridor that will help move product to market as expeditiously as possible to accommodate port expansion.

### **South Park Parking Plaza**

Work continues on the \$15.4 million South Park Parking Plaza to add parking, commercial office and retail uses. The facility is expected to open in 2009.

### **LeMay Museum**

As a result of economic challenges, the LeMay Museum had to delay construction of the new museum. As of the printing of the 2008 annual report, contributions exceeded \$50.0 million towards the goal of \$57.0 million for construction to begin. When the project is complete, the total costs will likely exceed \$100 million.

## **AWARDS AND ACKNOWLEDGEMENTS**

### **Awards**

We are pleased that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Tacoma for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2007. 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. The City of Tacoma has received this award twenty of the last twenty one years.

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.

### **Acknowledgements**

Thank you for your continuing interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. I also express my appreciation to the City employees for their assistance and cooperation during the year and for providing information for this report. Special appreciation is extended to the employees of the Finance Department, whose dedicated service made this report and the year a success.

Respectfully,

ROBERT K. BILES  
Director of Finance