



City of Tacoma
Finance Department

May 31, 2012

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, 2011, 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's MD&A can be found immediately following the Independent Auditor's Report.

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 was incorporated on January 7, 1884. 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.

Tacoma is located in Pierce County in Washington State on the Puget Sound. Its boundaries encompass approximately 50.1 square miles of land and 12.5 miles of waterfront. Lying between sea level and 440 feet above sea level, Tacoma averages 37 inches of rainfall each year with an average low temperature in January of 35.9 degrees Fahrenheit and an average high temperature in August of 75.6 degrees Fahrenheit. The 2010 population was 198,397, an increase of 2.5% since the 2000 census count of 193,556.

The Tacoma Community Redevelopment Authority, the Foss Waterway Development 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.

The Tacoma City Council adopts a biennial budget for all funds types.

The biennial budget process begins in June of even numbered years using the City Council's long-term strategic plan, goals, and priorities as a starting point. Revenue forecasts are prepared and city departments begin budget preparation. After a period of review and update, a preliminary budget is presented to the City Council. By Washington State law, the City Council must receive a balanced preliminary budget by November 1st. Public budget hearings are conducted by the City Council in November. Any changes the Council decides to make to the preliminary budget are made after the public hearings and before the reading of the budget ordinance in December. Washington State law requires the City Council adopt a balanced budget on or before December 31.

Washington State law requires that a mid biennial review and modification be conducted between September 1 and December 31 of the first year of the biennium.

All budgets are controlled at the fund level, and the legal level of budgetary control is at the fund level.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITION

Economic Overview

Pierce County enjoys a diverse economy influenced by its ideal location in the central Puget Sound region. Important industry sectors include the military, education, 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 a leading North American seaport, handling more than \$28 billion in annual trade in 2010. The Port is the seventh largest container port in North America and is considered an "economic engine" for the region.

Government is the largest regional employment sector with the area's major U.S. Military installations (Joint Base Lewis-McChord and Madigan Army Medical Center) heavily contributing to the workforce. Other large government employers include local public schools, Washington State, Pierce County, and higher education institutions.

Another large regional employment sector is the healthcare industry. Two of the largest employers in the Tacoma area are Franciscan Health System and the Multicare Health System. Multicare Health System, which operates Tacoma General, Allenmore and Mary Bridge Children's Hospitals, is the county's largest private employer.

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. Taxable retail sales, as measured by sales tax receipts, are down 3.8% for the first

three months of 2012 compared to the same period in 2011. The average year-to-date unemployment rate for the Tacoma metropolitan area was 9.8% as of February 2012 compared to 10.7% and 11.7% for February 2011 and 2010, respectively.

Relevant Financial Policies

Financial and Budget Policy Statements are presented on pages 23-28 of the 2011-12 Biennial Budget and can be found on the City's website at www.cityoftacoma.org. The General Fund reserve Policy is:

- Unreserved fund balance should be maintained between 5% and 15% of projected annual expenditures. Ideally the City should have a total unencumbered reserve equal to 10% of projected annual expenditures. Any proposed use of the reserves below 5% of projected annual expenditures will require super-majority (majority plus one of voting members) approval by the City Council.
- 5% to 10% of reserves shall only be available to fund one-time emergencies, unanticipated expenditure requirements, or offset unanticipated revenue fluctuations occurring within a fiscal year.
- The next 10% to 15% of reserves is a counter cyclical reserve. This portion of the reserve is to either maintain General Fund current service level programs or transition expenditure growth to match slower revenue growth during the first 18 – 24 months of a recession.

In accordance with the Reserve Policies, the reserve is being used to mitigate the effects of the current economic downturn. The 2011-12 Biennial Budget was developed using the concept of Reserved and Unreserved Fund Balance for the General Fund and a separate Council Contingency Fund. The amounts in those categories were \$18,492,815, \$15,241,862, and \$1,116,557 as of December 31, 2011, which was the mid-biennium.

Long-term financial planning is discussed in several of the Policy Statements, including strategic planning, debt, rate projections, and budget and contingency policies.

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 growth. In no event may the annual levy exceed the \$3.60 per \$1,000 of assessed value rate limit. During 2011, the City levied at the statutory limitation of \$2.63 per \$1,000 of assessed value.

MAJOR INITIATIVES

Cheney Stadium

In 2009, the City sold \$28 million in bonds to help finance improvements to Cheney Stadium, home of the Triple-A Baseball Club, the Tacoma Rainiers. Renovations to the 50-year old stadium were completed in April 2011 and included replacing the grandstand, roof and concourse. New concession stands, seats, suites and restrooms were also added and the size of the dugouts and bullpens were increased. The City and the Rainiers have entered into a long-term agreement through September 2041.

LeMay America's Car Museum

The LeMay America's Car Museum began construction in June 2010 and has planned their grand opening for June 2, 2012. The main focus of the nine-acre campus is a four-story, 165,000 sq foot museum which will include 15 galleries housing up to 500 cars, trucks and motorcycles from private owners, corporations and the LeMay collection. Besides showcasing vintage vehicles, the museum will also host vintage car events, rock concerts and drive-in movies. It is projected to attract 425,000 visitors and result in \$34 million impact for the local economy each year. The City contributed land and other consideration valued at over \$15 million towards the project, which is located at the Tacoma Dome.

Green River Water Filtration Plant

In response to federal and state regulatory requirements, and following a substantial period of analysis and public outreach in 2009 and 2010, the Tacoma Public Utilities Board and City Council authorized implementing filtration for Tacoma Water's Green River Supply. This \$211 million project began construction in May 2012, and is expected to be in service in November 2014. In addition to satisfying regulatory requirements, the project will substantially improve the quality and reliability of Tacoma's primary supply, and that of Tacoma Water's Regional Water Supply System Partners, who are funding approximately one-third of the project costs.

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, 2010. 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. This is the twenty-third year the City of Tacoma has received this award.

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 throughout 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. While a list of the staff who contributed to making this year's CAFR a success can be found on page 6-36, I would like to specifically thank Linda Parks, Mary Mansperger, Su Yi, Min Soo Chun, Sam Benscoter, and Sandy Buchanan for their work in bringing the final document together.

In closing, I would like to welcome Councilmember Anders Ibsen, who was elected to office for a four year term beginning in January 2012 and T.C. Broadnax, who was appointed City Manager in February 2012.

Respectfully,



Jeff Litchfield
Interim Director of Finance