



City of Tacoma
Finance Department

May 31, 2013

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, 2012, 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 \$46 billion in international trade and an estimated \$3 billion in trade to Alaska in 2012. The Port is the sixth 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, Auburn Medical Center, Good Samaritan Hospital 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 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 up 7.3% for the first

three months of 2013 compared to the same period in 2012. The average year-to-date unemployment rate for the Tacoma metropolitan area was 9.7% as of February 2013 compared to 9.8% and 10.7% for February 2012 and 2011, 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.

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 2012, the City levied at the statutory limitation of \$2.97 per \$1,000 of assessed value.

MAJOR INITIATIVES

Murray Morgan Bridge Rehabilitation

In late 2009, the City signed a Turnback Agreement with the Washington State Department of Transportation to take back ownership of the Murray Morgan Bridge, which had been closed to vehicle traffic since November 2007. A design-build contract was signed in January 2011 to replace the bridge deck, repair or replace damaged steel, paint the steel members, and replace the mechanical and electrical systems that operate the lift span. An elevator and adjoining stairs was added to the project to provide access from downtown to the west side of the Thea Foss Waterway. The \$57 million project was substantially complete in January 2013 in time for the 100-year rededication of the bridge on February 15, 2013. The rehabilitated structure returns traffic to the bridge, provides emergency egress from the Port of Tacoma and the East Foss Peninsula, reduces emergency response times and costs, and serves as a catalyst for development on the east side of the waterway.

Stadium Way Arterial Street Improvement

The Stadium Way Arterial Improvement project began in June 2012, and is scheduled to be completed in September 2013. The work is primarily along Stadium Way from South 9th Street to Tacoma Avenue, including Commerce Street, North 'E' and 1st Streets, and Division Avenue. The work involves stabilizing the subsurface soils, upgrading utilities, and reconstructing the roadway with bike lanes, wide sidewalks, pedestrian crossings, and landscaping consistent with the City's Complete Street Guidelines. A new traffic signal will also be installed at South 4th Street and Stadium Way. Concrete repairs to a large retaining wall on Schuster Parkway (located near the I-705 on-ramp) are also part of the project scope. The \$13 million project is funded from a combination of state, federal and local sources.

Recovery & Transfer Center

The new Recovery & Transfer Center at the Tacoma Landfill will enable Solid Waste Management to handle waste disposal, reuse and recovery for the next 30 years. This 83,590-square-foot facility handles 165,000 tons of garbage per year and is designed for peak loads of 1,400 tons per day. Final cost was \$26 million, about \$1 million under budget. The Recovery & Transfer Center consolidates the functions of several on-site facilities into a single building, eliminating double- and triple-handling of materials. The building was designed to allow flexibility for operations to be changed as new technology becomes available and additional materials can be extracted from the waste stream. This facility received LEED Gold Certification because of the many energy- and water-saving features incorporated into the building and the sustainable approach used in construction. It has also been recognized by Engineering News-Record as the 2012 Best Industrial Project in the Northwest for the building's environmental standards and by the American Public Works Association as a 2013 Public Works Project of the Year in the Environment category for projects between \$25 million and \$75 million.

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, 2011. 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-fourth 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

We would like to thank the Mayor, members of the City Council, and the City Manager for your continuing leadership, interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. We would also like to thank the citizens of the City of Tacoma for their continuing support and advocacy during these challenging economic times. We also express our appreciation to all City employees for their service, 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 year and this report 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, we would like to specifically thank Linda Parks, Mary Mansperger, Su Yi, Min Soo Chun, Sam Benscoter, and Sheri Hayes for their work in bringing the final document together.

Respectfully,



Andy Cherullo
Director of Finance



Susan Ramirez
Assistant Director of Finance/
Controller