



City of Tacoma
Finance Department

June 19, 2014

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, 2013, 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 March of even numbered years using the City Council's long-term strategic plan, goals, and priorities as a starting point. In April, the Office of Management & Budget begins the revenue forecasting process. Once the revenue forecast is completed, city departments begin budget preparations in May. Community budget engagement begins in June and occurs regularly for the duration of the budget process. 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. 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 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 2,700 acres that are used for shipping terminal activity and warehouse, distributing, and manufacturing. The Port is a leading North American seaport, handling more than \$48.7 billion in international trade and an estimated \$3 billion in trade to Alaska in 2013. The Port is one of the top container ports in North America and a major gateway for trade with Asia and Alaska.

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.

The Puget Sound area was not immune from the impacts of the "Great Recession". However, the diversity of the region's economic base has served it well in the past and has helped it recover from the effects of the

recession, taxable retail sales, as measured by sales tax receipts, are up 3.1% for the first three months of 2014 compared to the same period in 2013. The average year-to-date unemployment rate for the Tacoma metropolitan area was 8.4% as of February 2014 compared to 9.7% and 9.8% for February 2013 and 2012, respectively.

Relevant Financial Policies

Financial and Budget Policy Statements are presented on pages 27-32 of the 2013-14 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 2013, the City levied at the statutory limitation of \$3.26 per \$1,000 of assessed value.

MAJOR INITIATIVES

Pacific Avenue Streetscape Project

The purpose of the Pacific Avenue Streetscape project was to beautify the downtown, spark economic activity, provide innovative storm water treatment, and enhance transportation opportunities for transit/vehicles, pedestrians and cyclists. The \$11 million project was funded from a combination of state, federal and local sources. The project included the installation of bulb-outs, rain gardens, the replacement of sidewalk and streetlights, new asphalt pavement, the infilling of vaulted walks, and the installation of a catenary lighting between South 7th and South 9th Streets. The project also included artwork and benches. The project was substantially complete in November 2013.

Stadium Way Arterial Street Improvement

The Stadium Way Arterial Improvement project began in June 2012, and was completed in September 2013. The \$13 million project is funded from a combination of state, federal and local sources. 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 involved 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 was also 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) were also part of the project scope.

Every Other Week Garbage Collection

In 2013 the City of Tacoma's Solid Waste Management Division implemented the change from weekly collection to every-other-week garbage, recycling and yard waste collection services for all 54,000 residential customers living in single-family homes and duplexes. Every-Other-Week (EOW) garbage collection program is a new way of delivering traditional services to residential customers. This was a significant project, requiring 23 temporary employees to be hired for approximately one year to complete the project. With the goal of implementing the transition by January 2014, the project was completed on time and on budget. The program produces significant benefits for residents and the City of Tacoma, including customer savings (10% annual savings for the average customer), increased waste diversion (6.5 % decrease in landfilled residential garbage), reduced collection costs (\$1,020,000 less per year), and lowered environmental impacts (44% reduction in CO₂ emissions from our garbage collection fleet).

Green River Water Filtration Plant

Construction on the Green River Filtration Facility continued through the year. This project began construction in May 2012, and is now expected to be in service in May 2015. In addition to satisfying regulatory

requirements, the project will substantially improve the quality and reliability of Tacoma's primary water supply, and that of Tacoma Water's Regional Water Supply System Partners, who are funding approximately one-third of the project costs. Total project costs as of 12/31/2013 were \$121.4 million. The project budget, originally estimated at \$211.0 million, has been lowered to \$184.6 million due to a favorable competitive bidding climate and high quality project management.

Fitch Rating Upgrade

In 2013, Fitch ratings revised its outlook for the City of Tacoma from negative to stable. The upgraded rating resulted from an improvement in financial operations following recent appointment of a new management team, positive general fund results for fiscal year 2012 after four consecutive years of deficits, and the adoption of a balanced budget for the 2013-2014 biennium.

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, 2012. 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-fifth 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, Imelda Marquez, and Joel Sipes for their work in bringing the final document together.

Respectfully,

Andy Cherullo
Director of Finance

Susan Ramirez
Assistant Director of Finance/
Controller