

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Tacoma, we offer readers of the City of Tacoma's financial statements this narrative overview and analysis of the financial activities of the City of Tacoma for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which can be found on pages 1-1 to 1-4 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total assets and deferred outflows of resources exceeded the City's liabilities and deferred inflows resources by \$2.6 billion. Of this amount, \$105 million were reported as unrestricted net position, amounts which are available to meet the City's on-going obligations to citizens and creditors.
- The City's net position increased by \$69 million. This increase is due to an increase in capital assets and a decrease in liabilities for Business Activities.
- Tacoma Power reported a change in net position of \$17.8 million, up \$1.9 million from the change in 2012.
- Tacoma Water reported change in net position of \$27.4 million, up \$3.8 million from the change in 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Tacoma's basic financial statements. The City of Tacoma's basic financial statements consist of three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

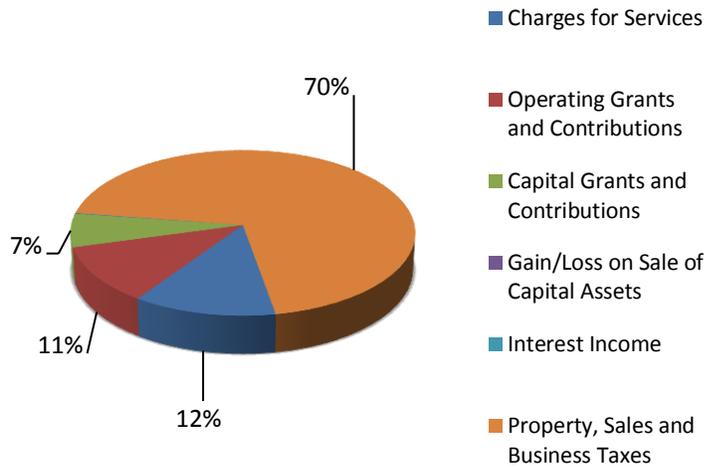
Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Tacoma's finances, and are similar to private sector financial statements. The statements also include the discretely presented component units, Tacoma Community Redevelopment Authority (TCRA), the Greater Tacoma Regional Convention Center Public Facilities District (GTRCCPF), and the Foss Waterway Development Authority (FWDA.)

The Statement of Net Position includes information on all assets and deferred outflows of resources and all liabilities and deferred inflows of resources of the City of Tacoma's general government as well as its business-type activities. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City of Tacoma is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods.

Governmental Activities



Business Activities

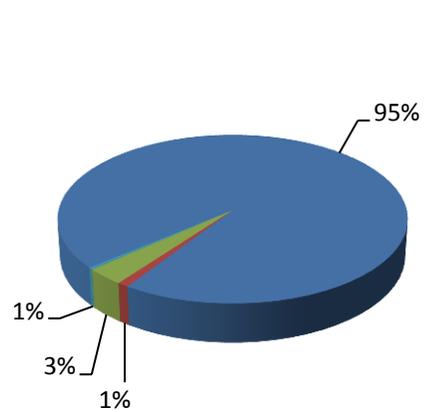


Figure 1. Comparison of Governmental and Business Activity Revenues

Both the Statement of Net Position and the Statement of Activities differentiate the functions of general government from the functions of business-type activities. Governmental activities reflect the City's basic functions such as general government, public safety, transportation, economic environment, social services, and culture and recreation. Governmental activities are primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover most if not all of their costs through user fees and charges for services. The government-wide financial statements can be found on pages 3-2 to 3-5 of this report.

Governmental Activities Expenses

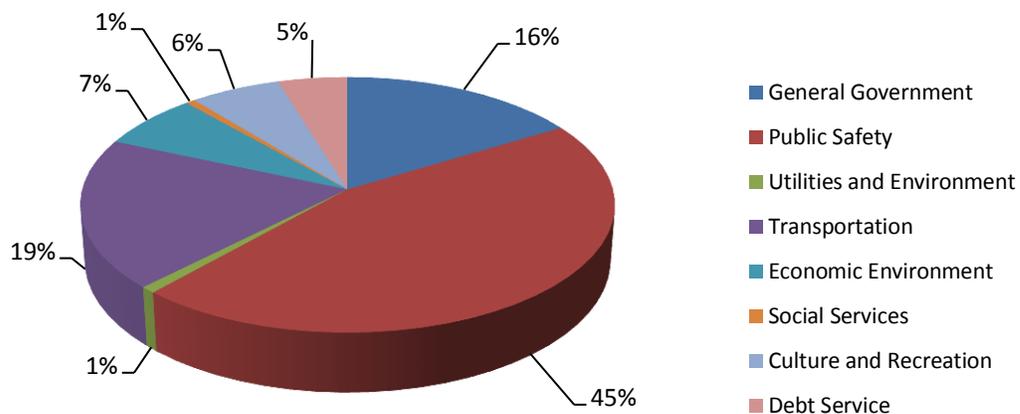


Figure 2. Governmental Activities Expenses

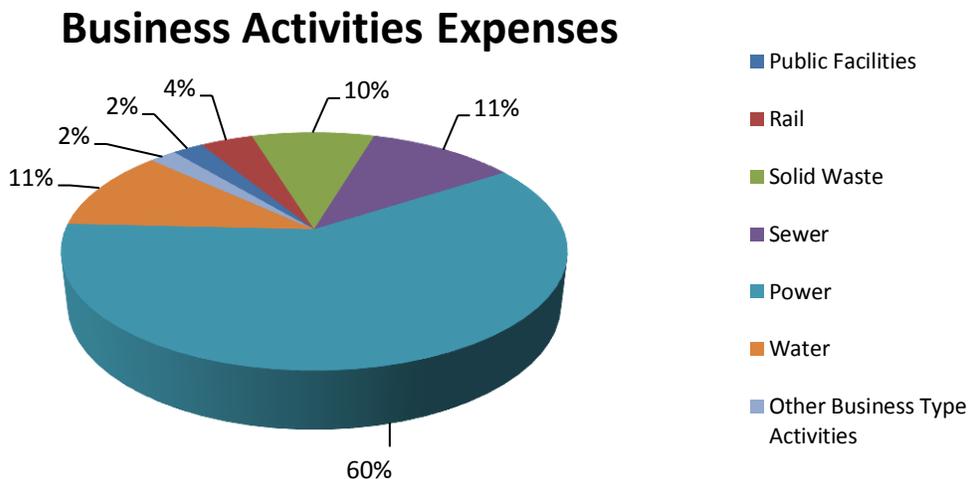


Figure 3. Business Activities Expenses

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Tacoma, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City of Tacoma can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

The focus of the governmental fund statements is on major funds. A fund is considered major if it represents at least 10% of the assets, liabilities, revenues or expenditures of its fund category and at least 5% of the corresponding totals for the governmental and business-type activities combined. All other governmental funds are combined and presented as a single column in the respective governmental fund statements. Individual fund data for each of these combined non-major funds is provided in the form of combining statements elsewhere in this report. The Street fund was added to governmental activities as a major fund in 2011.

The City of Tacoma adopts a biennial budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 3-6 to 3-9 of this report.

Proprietary Funds

There are two types of proprietary funds, internal service and enterprise, both of which the City of Tacoma uses. Internal service funds are used to accumulate and allocate costs internally among the City of Tacoma's various functions. Because these services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. There are two exceptions with the Self Insurance and Utility Fleet funds which only services utilities funds and are included within business type activities. Enterprise funds account for various utilities which provide services such as power, water, sewer, and solid waste collection. The service area for these utilities is generally broader than the corporate limits of the City. The activities in these funds are primarily supported by user fees and are presented as business-type activities in the government-wide financial statements. The Solid Waste fund was added to business activities as a major fund in 2012. The basic proprietary fund financial statements can be found on pages 3-10 to 3-21 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Tacoma's programs. The accounting used by the fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund statements can be found on pages 3-22 to 3-23 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 3-24 to 3-83 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information (RSI) concerning the City of Tacoma's budget. Required supplementary information can be found on pages 4-1 to 4-5 of this report.

Combining Statements – Non-Major funds

The combining statements referred to earlier in connection with Non-Major governmental funds, internal service funds, and fiduciary funds can be found on pages 5-1 to 5-109 of this report.

Other Supplementary Information

This section provides schedules of capital assets used in the operations of Governmental Funds and statistical information on Local Improvement District assessments. The Other Supplementary Information section can be found on pages 5-112 to 5-114.

Statistical Section

This section provides financial trends, revenue and debt capacity, and demographic and economic information about the City's operations. The Statistical Section can be found on pages 6-1 to 6-36 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position. The City's total assets exceeded total liabilities by \$2.6 billion at December 31, 2013. 84% of the total net position reflects the City's investment in capital less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; thus, they do not represent resources available for future spending. 4% of the City's net position is unrestricted, meaning they are available for meeting the City's ongoing obligations. The remaining 12% of net position are restricted for other purposes such as debt redemption and new capital construction. Governmental activities represent 28% of total net position and business activities represent 72% of total net position.

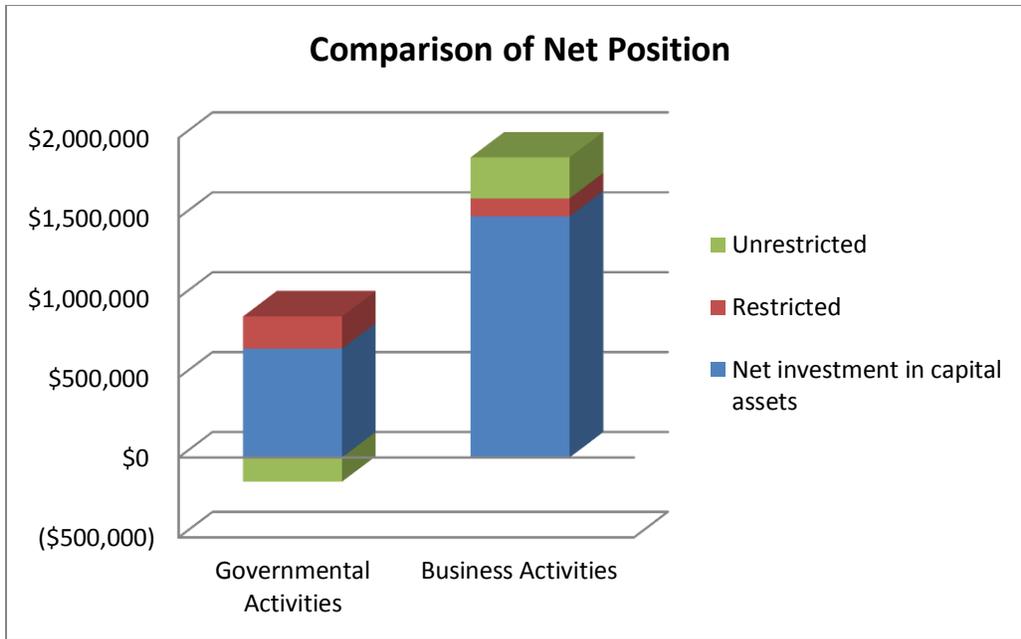


Figure 4. Comparison of Net Position, By Activity Type (Amounts expressed in thousands)

Table 1. Summary Statement of Net Position

**Statement of Net Position
For the Year Ended December 31, 2013**

(Amounts expressed in thousands)	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 272,098	\$ 227,307	\$ 977,710	\$ 985,763	\$ 1,249,808	\$ 1,213,070
Capital assets	847,508	855,746	2,626,269	2,494,084	3,473,777	3,349,830
Total assets	\$ 1,119,606	\$ 1,083,053	\$ 3,603,979	\$ 3,479,847	\$ 4,723,585	\$ 4,562,900
Deferred outflow of resources	\$ 4,226	\$ -	\$ 19,146	\$ -	\$ 23,372	\$ -
Current and other liabilities	\$ 105,258	\$ 112,310	\$ 187,620	\$ 306,648	\$ 292,878	\$ 418,958
Long-term liabilities outstanding	247,675	253,921	1,442,574	1,349,250	1,690,249	1,603,171
Total liabilities	\$ 352,933	\$ 366,231	\$ 1,630,194	\$ 1,655,898	\$ 1,983,127	\$ 2,022,129
Deferred inflow of resources	\$ 39,731	\$ -	\$ 114,575	\$ -	\$ 154,306	\$ -
Net Position:						
Net investment in capital assets	\$ 681,794	\$ 699,307	\$ 1,508,950	\$ 1,401,679	\$ 2,190,744	\$ 2,100,986
Restricted	200,675	82,405	112,925	103,350	313,600	185,755
Unrestricted	(151,301)	(64,890)	256,481	318,920	105,180	254,030
Total net position	\$ 731,168	\$ 716,822	\$ 1,878,356	\$ 1,823,949	\$ 2,609,524	\$ 2,540,771

In 2013, the City’s net position increased by \$69 million. This is due to an increase in capital assets and a decrease in liabilities for business activities.

Net Position - Governmental Activities

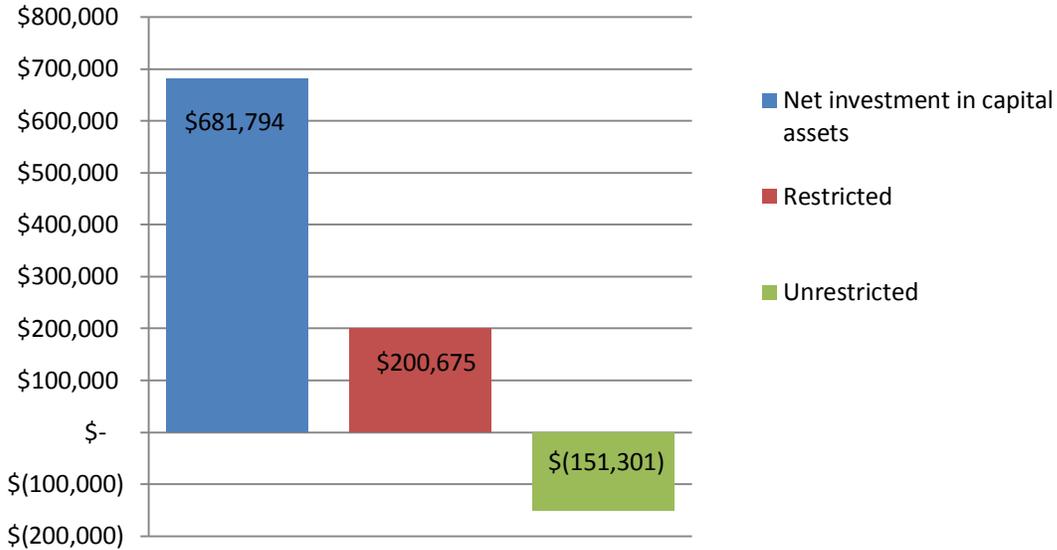


Figure 5. Composition of Net Position--Governmental Activities (Amounts expressed in thousands)

Net Position - Business Activities

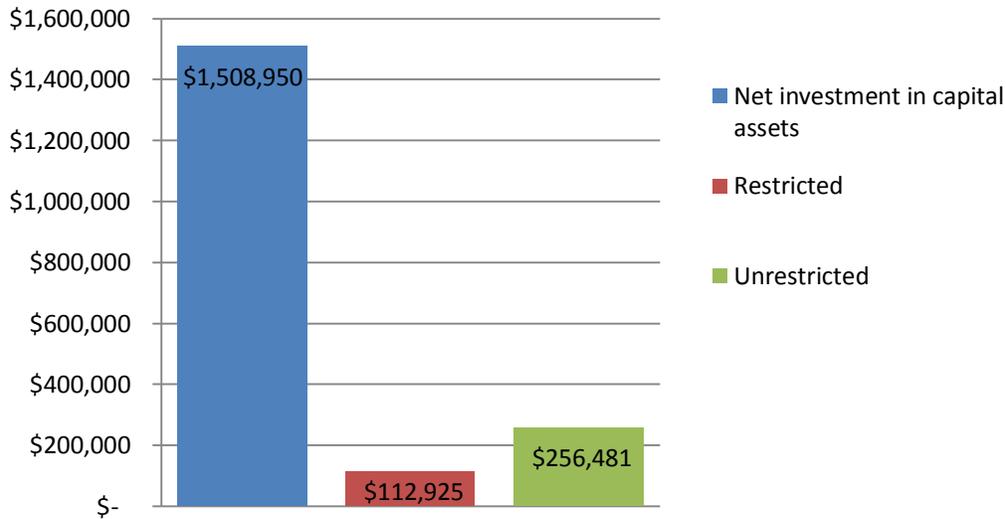


Figure 6. Composition of Net Position--Business Activities (Amounts expressed in thousands)

City of Tacoma, Washington
Changes in Net Position

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	\$ 37,354	\$ 43,079	\$ 739,699	\$ 662,612	\$ 777,053	\$ 705,691
Operating grants and contributions	33,925	14,974	7,438	180	41,363	15,154
Capital grants and contributions	19,813	37,338	25,150	31,222	44,963	68,560
General revenues						
Property taxes	62,487	64,900	-	-	62,487	64,900
Other taxes	149,374	137,448	-	-	149,374	137,448
Other	433	2,540	2,879	19,288	3,312	21,828
Total revenue	303,386	300,279	775,166	713,302	1,078,552	1,013,581
Expenses:						
General government	\$ 49,781	\$ 52,038	\$ -	\$ -	\$ 49,781	\$ 52,038
Public safety	138,368	150,575	-	-	138,368	150,575
Utilities and environment	2,477	2	-	-	2,477	2
Transportation	58,288	52,424	-	-	58,288	52,424
Social services	1,953	757	-	-	1,953	757
Economic Environment	21,255	23,510	-	-	21,255	23,510
Culture and recreation	18,832	10,690	-	-	18,832	10,690
Debt Service	14,401	6,351	-	-	14,401	6,351
Public assembly facilities	-	-	16,832	18,424	16,832	18,424
Rail	-	-	29,024	24,753	29,024	24,753
Solid waste	-	-	67,591	59,391	67,591	59,391
Waste water	-	-	81,286	83,294	81,286	83,294
Water	-	-	79,773	76,755	79,773	76,755
Power	-	-	432,321	396,331	432,321	396,331
Other business-type funds	-	-	14,979	14,408	14,979	14,408
Total expenses	305,355	296,347	721,806	673,356	1,027,161	969,703
Increase/(Decrease) in net position before transfers	(1,969)	3,932	53,360	39,946	51,391	43,878
Transfers	(2,153)	(10,186)	2,153	10,186	-	-
Increase/(Decrease) in net position	(4,122)	(6,254)	55,513	50,132	51,391	43,878
Net position--January 1, 2013	716,822	729,358	1,823,949	1,774,364	2,540,771	2,503,722
Prior Period Adjustments	18,468	(6,282)	(533)	(547)	17,935	(6,829)
Change in accounting principle	-	-	(573)	-	(573)	-
Net position--January 1, 2013	735,290	723,076	1,822,843	1,773,817	2,558,133	2,496,893
Net position--December 31, 2013	\$ 731,168	\$ 716,822	\$ 1,878,356	\$ 1,823,949	\$ 2,609,524	\$ 2,540,771

Table 2. Changes in Net Position

The governmental activities net position increased by \$14.3 million in 2013 due to an increase in assets and deferred outflows of resources by \$40.7 million and a decrease of liabilities and deferred inflows of resources of \$26.4 million.

Business activities net position increased by \$54.4 million in 2013 due to an increase in assets and deferred outflows of \$143.3 million and a decrease of \$88.9 million in liabilities and deferred inflows of resources.

Information on significant outstanding claims can be found in Note 9.

Financial Analysis of the City's Fund Statements

The City prepares fund statements for governmental funds and for proprietary funds.

Governmental Fund Statements

Fund balance for the City's General Fund increased by \$23.8 million in 2013 from an increase in revenues and a decrease in expenses. Fund balance for the Street fund decreased by \$1.2 million in 2013 from a decrease in revenues. Fund balance for the Non-Major governmental funds, which include debt service funds, capital projects funds, and special revenue funds, decreased by \$6.9 million. The Non-Major governmental funds fund balance decreased from an increase in expenditures.

Fund Balances

At December 31, 2013, the City's governmental funds reported combined ending fund balances of \$161 million. Of this amount, \$17.8 million is nonspendable, either due to its form or legal constraints. \$74.8 million is restricted for specific programs by external constraints. \$22.7 million is committed for specific purposes as approved by City Council. \$11.1 million is assigned to specific purposes by management and the remaining \$34.6 million is unassigned.

Proprietary Fund Statements

The total net position for the enterprise funds increased by \$56.7 million in 2013. The Power, Water, Solid Waste and Sewer utilities make up the majority of the proprietary funds. Activity in these utilities was the primary driver for the change in the net position. The Power fund had an increase in net position of \$17.8 million from a decrease in liabilities. The Water fund had a significant increase in their net position of \$27.4 million due to an increase in capital construction. The Sewer fund had an increase in net position of \$16.2 million from a decrease in liabilities. The Solid Waste fund had a decrease in net position of \$3.8 million from a decrease in assets. The non-major Enterprise funds had no significant change in activity. The total net position for internal service funds' increased by \$19.4 million in 2013. This is the result of decreased liabilities of \$22.7 million and a decrease of \$3.3 million in assets.

General Fund Budgetary Highlights

In 2013, the City made budgetary adjustments as part of the 2013-2014 Mid-Biennium Budget Amendment. Budget revisions included a \$4.1 million reduction in the General Fund to move appropriations to the Transportation Benefit District Fund. The City's budget is a two year biennium budget which begins every odd year.

Capital Assets, Infrastructure, Bond Debt Administration

Capital Assets

The City of Tacoma's capital assets net of accumulated depreciation for its governmental and business type activities as of December 31, 2013 is \$3.5 billion. This investment in capital assets includes land, construction in process, property, plant and equipment, and infrastructure. The vast majority of this amount represents assets held by the City's various utilities and infrastructure.

The following table summarizes the City's investment in capital assets.

**City of Tacoma, Washington
Schedule of Capital Assets**

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 28,201	\$ 34,726	\$ 158,386	\$ 149,491	\$ 186,587	\$ 184,217
Construction in progress	84,083	54,758	180,780	125,512	264,863	180,270
Property, plant and equipment	214,192	225,430	3,739,727	3,577,987	3,953,919	3,803,417
Infrastructure	1,303,768	1,303,723	-	-	1,303,768	1,303,723
Less accumulated depreciation	(782,736)	(762,891)	(1,452,624)	(1,358,906)	(2,235,360)	(2,121,797)
Other Non Current Assets	-	-	-	-	-	-
	<u>\$ 847,508</u>	<u>\$ 855,746</u>	<u>\$ 2,626,269</u>	<u>\$ 2,494,084</u>	<u>\$ 3,473,777</u>	<u>\$ 3,349,830</u>

Table 3. Schedule of Capital Assets

Additional information on the City's capital assets can be found in Notes 1-D5 and 4-C of the Notes to the Financial Statements.

Outstanding Debt

The City's debt at December 31, 2013 was \$1.82 billion. Approximately 82% of the bonded debt is related to utilities with repayment pledged by specific revenue sources generated by the utilities. Of the remaining 18% bonded debt, debt is either secured by voter approved special levies or general government resources. Additional information on the City of Tacoma's long-term debt can be found in Note 4-F and Note 12 of the Notes to the Financial Statements.

**City of Tacoma, Washington
Schedule of Long Term Debt**

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonded debt and loans	\$ 225,653	\$ 224,243	\$ 1,403,305	\$ 1,314,094	\$ 1,628,958	\$ 1,538,337
Capital leases	-	626	35,058	35,831	35,058	36,457
Claims and judgments	24,236	40,589	1,178	1,516	25,414	42,105
Accrued landfill liability	-	-	25,691	27,936	25,691	27,936
Net Pension Obligation	9,643	5,000	-	-	9,643	5,000
Other Post Employment Benefits	42,145	35,179	13,952	11,291	56,097	46,470
Compensated absences	17,310	17,142	18,944	17,827	36,254	34,969
	<u>\$ 318,987</u>	<u>\$ 322,779</u>	<u>\$ 1,498,128</u>	<u>\$ 1,408,495</u>	<u>\$ 1,817,115</u>	<u>\$ 1,731,274</u>

Table 4. Schedule of Long Term Debt

The City's debt rating for 2013 is as follows:

Bond	Moody's	S&P	Fitch
GO	Aa2	AA	A+
LTGO	Aa3	AA	A
Solid Waste	A2	AA	AA-
Sewer	Aa2	AA+	AA+
Water	Aa2	AA	--
RWSS	Aa2	AA	--
Power	Aa3	AA	AA-
Convention Center Revenue	A2	A	A+

Economic Factors

The following economic factors currently affect the City of Tacoma:

- The unemployment rate for the City of Tacoma is currently 7.4% which is a decrease of 1.1% from 2012.
- Taxable assessed values have shown a positive growth for the first time since the recession in 2008 with a change of 2.2 million over the prior year.
- Housing prices and sales have improved slightly over the prior year and continue to show gains.
- Revenues have been higher than projected and operating expenses have decreased resulting in an increase in the general fund's unassigned fund balance.
- The Transportation Benefit District, which was created in 2012 to collect motor vehicle license fees, has been collecting revenues as projected. The 2013-2014 biennium budget is \$4.1 million.
- B&O tax exemptions for medical facilities were phased out starting in 2012 resulting in an increase in B&O tax revenues of \$12.9 million from the prior year.
- Commercial vacancy has dropped to around 8% with the move of State Farm Insurance Company's claims center to downtown Tacoma. The building formerly occupied by Frank Russell Investments has the potential for up to 1,100 employees.

During the current fiscal year, the unassigned fund balance in the general fund was \$43.2 million, up \$19.6 million from 2012. There is still a projected deficit of \$12 million for the 2015-2016 biennium. The City will continue to evaluate revenues and expenditures during the 2015-2016 budget preparation to produce a balanced budget.

Other Considerations

In response to the slow economic recovery, the City has taken steps to reduce discretionary spending. General government activities took significant expenditure reductions to bring levels of service to those that are affordable and sustainable. Revenue growth is limited by several citizen initiatives that limit the growth of property tax collections.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Tacoma Finance Department, 747 Market Street Room 132, Tacoma, Washington 98402.