



City of Tacoma
Finance Department

May 22, 2015

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, 2014, 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 2013 population was 203,446, an increase of 2.5% since the 2010 count of 198,397.

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 \$52.4 billion in international trade and an estimated \$21.9 billion in trade to China/Hong Kong in 2014. 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 2.6% for the first three months of 2015

compared to the same period in 2014. The average year-to-date unemployment rate for the Tacoma metropolitan area was 7.8% as of February 2015 compared to 8.4% and 9.7% for February 2014 and 2013, 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 2014, the City levied at the statutory limitation of \$3.23 per \$1,000 of assessed value.

MAJOR INITIATIVES

Tacoma Avenue South Bridge Project

The purpose of the Tacoma Avenue South Bridge project will be to rehabilitate it with a new bridge deck, streetlights, guardrails and the entire bridge will be painted. These improvements will make the bridge look like new once completed. The traffic lanes will be re-configured from the current four vehicular lanes to three vehicular lanes and two bicycle lanes and wider sidewalks. The \$11.5 million project will be funded from a combination of state, federal and local sources. A construction contract was awarded in 2014 and completion of the project is expected to end in December 2015.

Prairie Line Trail Phase 1

This project will complete an important link in Tacoma's non-motorized transportation system, connecting the water front to downtown with multiple city and regional trails. Traversing the steep hills of Tacoma is a challenge-the gentle grade of this former rail corridor provides an easier walking and cycling alternative. Construction of this multiuse path includes wayfinding, lighting, stormwater improvements, landscaping, public art and amenities. The first phase of the project is located along the former BNSF rail line running between South 15th Street and Dock Street. The \$4.0 million project will be funded from a combination of state and local sources. The design phase was completed in 2014 and construction is scheduled to begin in July 2015.

Tacoma Police Department's "IF Project"

The "IF-Project" reached out to runaways and juvenile offenders by helping them visualize the paths they might take if they had some level of stability and support. The project was awarded a \$43,344 U.S. Department of Justice Community Policing Development Micro Grant. Four "IF Project" Youth and Parent workshops were held by the Tacoma Police Department in partnership with Common Voice, along with two community youth summits which were hosted by the Tacoma Police Department and the Neighborhood and Community Services Department.

Green River Water Filtration Plant

Construction on the Green River Filtration Facility continued through the year, and reached the point of substantial completion when filtered water entered the system on December 16, 2014. This project began construction in May 2012, and is 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 12/31/2014 were \$187 million. The project budget, originally estimated at \$211.0 million, has been lowered to \$190 million due to a favorable competitive bidding climate and high quality project management.

Customer Support Center

In 2014 the City's Customer Support Center- a "one-stop shop" for City services offering a concierge feel in the way of reception, face-to-face interaction, 311 telephone support and online resources served thousands of residents to date. Its latest offering, mobile app connectivity, gives community members the ability to make and track non-emergent service requests, and find answers to frequently asked questions. The updated brand – TacomaFIRST 311- reflects the commitment made by the City through its Public Access, Service and Security initiative to providing residents and visitors with a level of access to services designed with an enhanced customer experience in mind.

AWARDS AND ACKNOWLEDGEMENTS

Awards

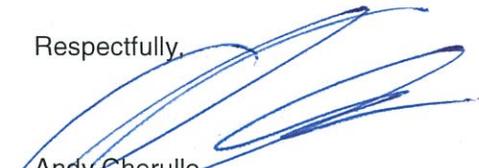
We are pleased that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Tacoma for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2013. In order to 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-sixth 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 their 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 would like to 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