



City of Tacoma
Finance Department

August 24, 2016

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, 2015, 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, thirty-two miles southwest of Seattle, thirty-one miles northeast of the state capital, Olympia and fifty-eight miles northwest of Mount Rainier National Park. Its boundaries encompass approximately 49.72 square miles of land and 12.62 miles of waterfront. Lying between sea level and 440 feet above sea level, Tacoma averages 39 inches of rainfall each year with an average low temperature in January of 37 degrees Fahrenheit and an average high temperature in August of 77 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 \$73 billion in two-way international trade in 2014. The ports of Seattle and Tacoma formed The Northwest Seaport Alliance in August to strengthen the Puget Sound gateway -the third largest in North America- and create more economic opportunities.

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 2.3% for the first three months of 2016 compared to the same period in 2015. The average year-to-date unemployment rate for the Tacoma metropolitan area was 6.9% as of February 2016 compared to 7.8% and 8.4% for February 2015 and 2014, respectively.

Relevant Financial Policies

Financial and Budget Policy Statements are presented on pages 177-183 of the 2015-2016 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 2015, the City levied at the statutory limitation of \$3.06 per \$1,000 of assessed value.

MAJOR INITIATIVES

Lincoln District Revitalization

In 2014, the City Council set a strategic objective to focus on development of the South Tacoma and Lincoln District Neighborhoods, both of which are designated as mixed use centers. The Lincoln Neighborhood Revitalization Project Open House was held on August 20, 2015 at the Tacoma-Pierce County Health Department Auditorium. This event gave residents a chance to hear about neighborhood revitalization initiatives and provide public comment on the streetscape design. Key project features will include neighborhood entryway, roadway, sidewalk and pedestrian infrastructure improvements. The \$4.2 million project will be funded from a combination of state and local sources.

Tacoma Avenue Bridge

The Tacoma Avenue South Bridge will be rehabilitated with a new bridge deck, streetlights, guardrail and the entire bridge will be painted. The traffic lanes will be reconfigured from the current four vehicular lanes to three vehicular lanes and two bicycle lanes and wider sidewalks. The bridge will be closed during construction from February 2015 through June 2016. The project is expected to take 15 months to complete. The \$12 million project will be funded from a combination of state, federal and local sources. The bridge is scheduled to open in June 2016. After the projection completion the bridge will be fully open to all legal loads.

Tacoma Police Department’s Project PEACE

Project PEACE was launched in September 2015, after local community leaders met with City leadership and the Tacoma News Tribune to discuss concerns that the unrest that occurred in Baltimore and Ferguson could happen in Tacoma. City leadership made a commitment to proactively address historical and present day feelings in the community of distrust, anger and grief to build trust and improve community and police relations. Beginning now through the next biennium the Police Department will focus on the following six key pillars to create safer neighborhoods and more engaged community policing practices in our community: Community Policing and Crime Reduction; Build Trust and Legitimacy; Improved Policy and Oversight; Enhance Training and Education; Officer Wellness and Safety Action Items; Social Media.

Cowlitz Falls North Shore Collector

Construction began on the Cowlitz Falls North Shore collector for collection of downstream migrating smolts from the upper Cowlitz River. The collector, located at Lewis County Public Utility District Cowlitz Falls Dam, will improve natural fish runs in the Cowlitz River and help Tacoma Power meet its Federal Energy Regulatory

Commission (FERC) license obligations. The \$35 million construction project is scheduled for completion near the end of 2016. .

AWARDS AND ACKNOWLEDGEMENTS

Awards

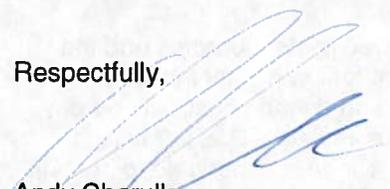
We are pleased that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Tacoma for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2014. In order to 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-seventh 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, Su Yi, Min Soo Chun, Mary Mansperger, Joel Sipes, Donna Ruby, Gwen Herring and Tina Hemphill for their work in bringing the final document together.

Respectfully,



Andy Cherullo
Director of Finance



Susan Calderon
Assistant Director of Finance/
Controller