

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, 2015. 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 \$2.8 billion. Of this amount, \$241 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 \$105 million. This increase is due to an increase in capital assets and a decrease in liabilities for Business Activities.
- Tacoma Power's net position for 2015 was \$825.9 million which is an increase of \$3.1 million from 2014.
- Tacoma Water's net position for 2015 was \$542.5 million which is an increase of \$25.8 million from 2014.
- Sewer's net position for 2015 was \$409.3 million in 2015 which is an increase of \$2.9 from 2014.

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

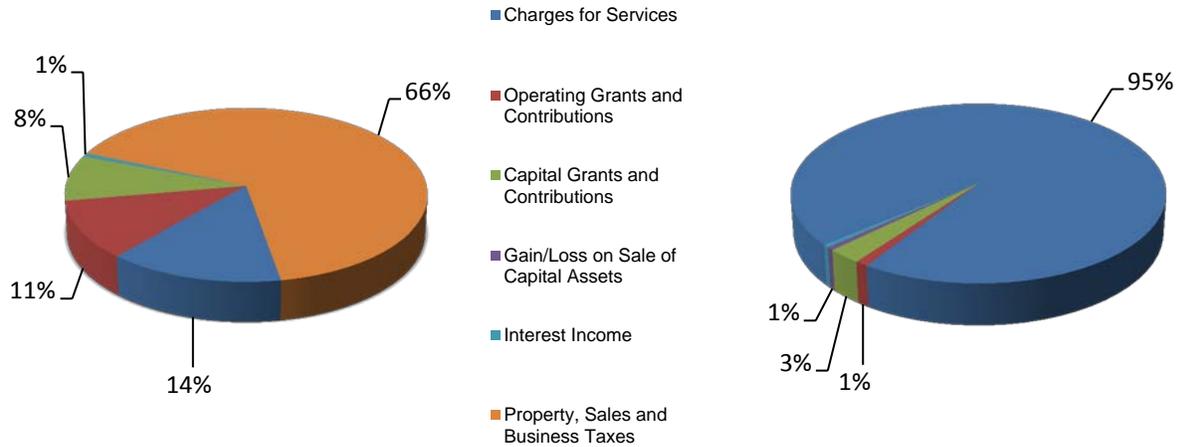


Figure 1. Comparison of Governmental and Business Activity Revenues

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

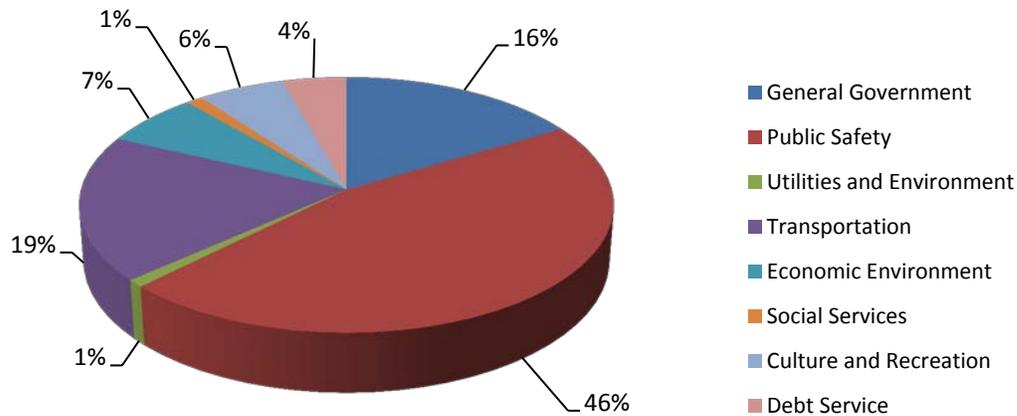


Figure 2. Governmental Activities Expenses

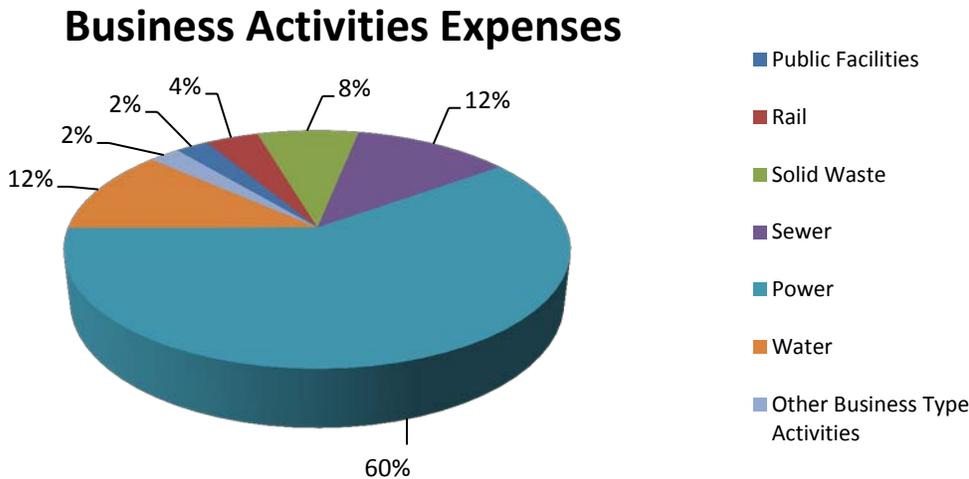


Figure 3. Business Activities Expenses

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 Transportation Capital and Engineering 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 3-91 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 4-9 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 5-107 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 5-110 to 5-112.

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 \$2.8 billion at December 31, 2015. 82% 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. 9% of the City's net position is unrestricted, meaning they are available for meeting the City's ongoing obligations. The remaining 9% of net position is 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.

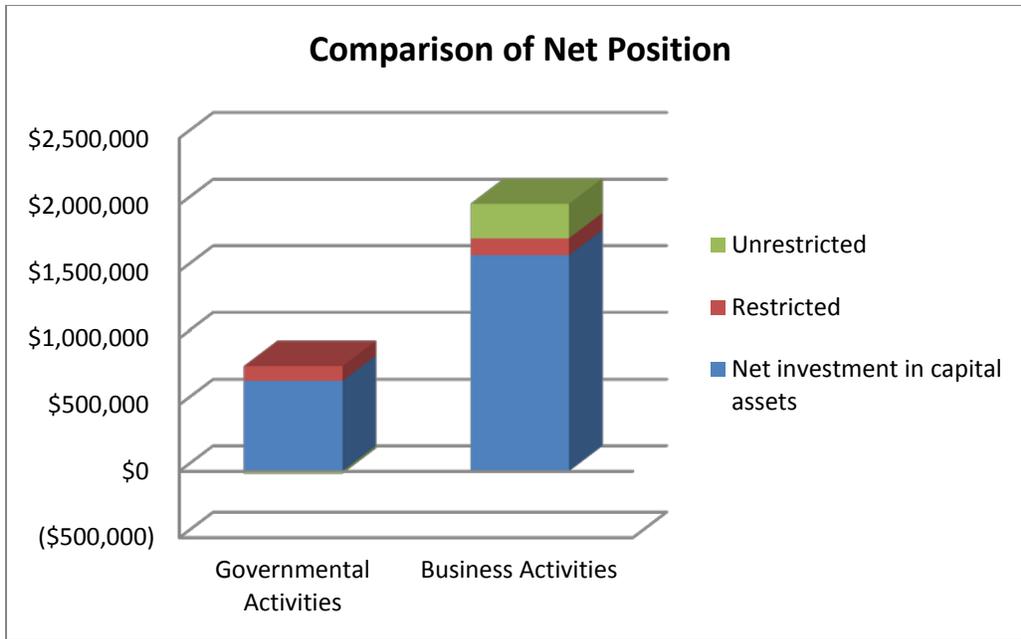


Figure 4. Comparison of Net Position, By Activity Type (Amounts expressed in thousands)

Table 1. Summary Statement of Net Position

**Statement of Net Position
For the Year Ended December 31, 2015**

(Amounts expressed in thousands)	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 306,333	\$ 276,795	\$ 886,107	\$ 931,897	\$ 1,192,440	\$ 1,208,692
Capital assets	833,394	828,035	2,782,358	2,723,738	3,615,752	3,551,773
Total assets	\$ 1,139,727	\$ 1,104,830	\$ 3,668,465	\$ 3,655,635	\$ 4,808,192	\$ 4,760,465
Deferred Outflow of Resources	\$ 16,560	\$ 4,226	\$ 23,173	\$ 13,898	\$ 39,733	\$ 18,124
Current and other liabilities	\$ 105,834	\$ 108,802	\$ 153,100	\$ 183,202	\$ 258,934	\$ 292,004
Long-term liabilities outstanding	233,500	232,123	1,410,514	1,427,425	1,644,014	1,659,548
Total liabilities	\$ 339,334	\$ 340,925	\$ 1,563,614	\$ 1,610,627	\$ 1,902,948	\$ 1,951,552
Deferred Inflows of Resources	\$ 45,176	\$ 39,117	\$ 121,860	\$ 114,575	\$ 167,036	\$ 153,692
Net Position:						
Net investment in capital assets	\$ 678,872	\$ 669,951	\$ 1,620,194	\$ 1,515,858	\$ 2,299,066	\$ 2,185,809
Restricted	110,825	79,630	127,008	121,369	237,833	200,999
Unrestricted	(17,920)	(20,567)	258,962	307,104	241,042	286,537
Total net position	\$ 771,777	\$ 729,014	\$ 2,006,164	\$ 1,944,331	\$ 2,777,941	\$ 2,673,345

In 2015, the City’s net position increased by \$105 million. This is due to an increase in capital assets and a decrease in liabilities for governmental and business activities. The 2014 fund balances were restated in the fund balance categories.

Net Position - Governmental Activities

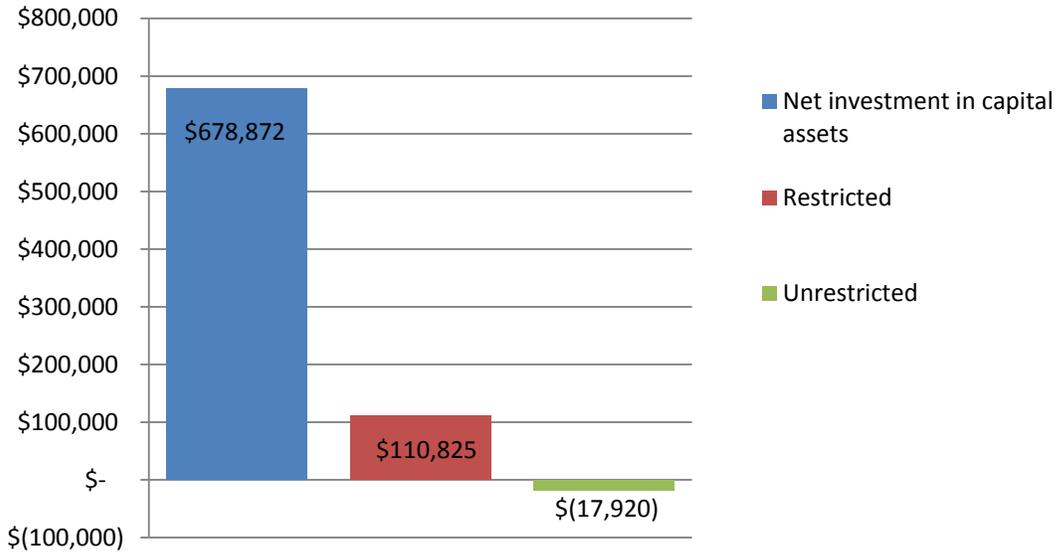


Figure 5. Composition of Net Position--Governmental Activities (Amounts expressed in thousands)

Net Position - Business Activities

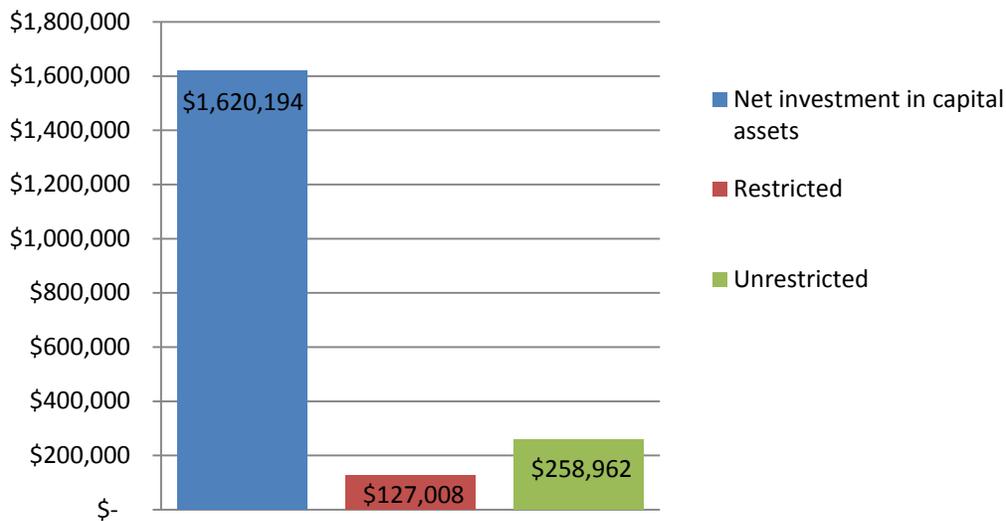


Figure 6. Composition of Net Position--Business Activities (Amounts expressed in thousands)

City of Tacoma, Washington
Changes in Net Position

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues						
Charges for services	\$ 40,150	\$ 41,628	\$ 767,177	\$ 785,502	\$ 807,327	\$ 827,130
Operating grants and contributions	30,420	30,378	8,138	7,968	38,558	38,346
Capital grants and contributions	23,996	15,882	21,582	19,587	45,578	35,469
General revenues						
Property taxes	67,313	64,204	-	-	67,313	64,204
Other taxes	118,097	111,945	-	-	118,097	111,945
Other	2,000	2,090	8,644	1,774	10,644	3,864
Total revenue	281,976	266,127	805,541	814,831	1,087,517	1,080,958
Expenses:						
General government	\$ 51,578	\$ 56,887	\$ -	\$ -	\$ 51,578	\$ 56,887
Public safety	144,312	142,097	-	-	144,312	142,097
Utilities and environment	2,864	2,580	-	-	2,864	2,580
Transportation	57,885	61,524	-	-	57,885	61,524
Social services	3,551	2,649	-	-	3,551	2,649
Economic Environment	20,887	22,856	-	-	20,887	22,856
Culture and recreation	18,448	14,823	-	-	18,448	14,823
Debt Service	13,643	13,001	-	-	13,643	13,001
Public assembly facilities	-	-	17,801	19,801	17,801	19,801
Rail	-	-	28,579	30,095	28,579	30,095
Solid waste	-	-	54,867	61,040	54,867	61,040
Waste water	-	-	84,984	80,343	84,984	80,343
Water	-	-	82,604	72,324	82,604	72,324
Power	-	-	425,044	422,265	425,044	422,265
Other business-type funds	-	-	16,594	16,005	16,594	16,005
Total expenses	313,168	316,417	710,473	701,873	1,023,641	1,018,290
Increase/(Decrease) in net position before transfers	(31,192)	(50,290)	95,068	112,958	63,876	62,668
Transfers	43,572	44,853	(43,572)	(44,853)	-	-
Increase/(Decrease) in net position	12,380	(5,437)	51,496	68,105	63,876	62,668
Net position--January 1	729,014	731,168	1,944,331	1,878,356	2,673,345	2,609,524
Prior Period Adjustments	675	3,283	2,000	(2,130)	2,675	1,153
Change in accounting principle	29,708	-	8,337	-	38,045	-
Net position--January 1	759,397	734,451	1,954,668	1,876,226	2,714,065	2,610,677
Net position--December 31	\$ 771,777	\$ 729,014	\$ 2,006,164	\$ 1,944,331	\$ 2,777,941	\$ 2,673,345

Table 2. Changes in Net Position

The governmental activities net position increased by \$42.8 million in 2015 due to an increase in assets and deferred outflows of resources by \$47.2 million and also an increase of liabilities and deferred inflows of resources of \$4.4 million.

Business activities net position increased by \$61.8 million in 2015 due to an increase in assets and deferred outflows of \$22.1 million and a decrease of \$39.7 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 \$6.5 million, this was a result of reducing liabilities and deferred inflow of resources by \$7.2 million but the assets and deferred outflows of resources also decreased by \$700 thousand. Fund balance for the Transportation Capital and Engineering fund decreased by \$5.2 million in 2015 from a decrease in assets of \$4.2 million and an increase of liabilities of \$1 million. Fund balance for the Non-Major governmental funds, which include debt service funds, capital projects funds, and special revenue funds, decreased by \$8.2 million from a decrease in assets and deferred outflow of resources of \$11.4 million and an increase of liabilities and deferred inflows of resources of \$3.2 million.

Fund Balances

At December 31, 2015, the City's governmental funds reported combined ending fund balances of \$157 million. Of this amount, \$11.8 million is nonspendable, either due to its form or legal constraints. \$69.5 million is restricted for specific programs by external constraints. \$1.1 million is committed for specific purposes as approved by City Council. \$22.6 million is assigned to specific purposes by management and the remaining \$52 million is unassigned.

Proprietary Fund Statements

Total net position for the enterprise funds increased by \$58.4 million in 2015. 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 a small increase in net position of \$3.1 million. The Water fund had an increase in their net position of \$25.8 million due to a significant increase of property, plant and equipment. The Sewer fund had an increase in net position of \$12.9 million from an increase in revenues. The Solid Waste fund had an increase of \$8.4 million in net position from an increase of assets. The non-major Enterprise funds had an increase in net position of \$8.3 million from a decrease in liabilities. The total net position for internal service funds' increased by \$4 million in 2015. This is the result of an increase of \$2 million in revenues and a decrease in expenses of \$2 million.

General Fund Budgetary Highlights

The City's budget is a two year biennium budget which begins every odd year, with 2015 being the start of the 2015-2016 biennium budget. The City made budgetary adjustments as part of the 2015-2016 Mid Biennium Budget Amendment. Budget revisions included a reappropriation of \$2.6 million in carryforwards from prior years which was added to the General Fund budget.

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, 2015 is \$3.6 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 35,038	\$ 27,102	\$ 158,533	\$ 158,046	\$ 193,571	\$ 185,148
Construction in progress	87,346	84,113	135,796	266,764	223,142	350,877
Property, plant and equipment	231,760	219,833	4,123,184	3,844,414	4,354,944	4,064,247
Infrastructure	1,339,991	1,316,313	-	-	1,339,991	1,316,313
Less accumulated depreciation	(860,741)	(819,326)	(1,635,155)	(1,545,486)	(2,495,896)	(2,364,812)
	<u>\$ 833,394</u>	<u>\$ 828,035</u>	<u>\$ 2,782,358</u>	<u>\$ 2,723,738</u>	<u>\$ 3,615,752</u>	<u>\$ 3,551,773</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, 2015 was \$1.8 billion. Approximately 83% of the bonded debt is related to utilities with repayment pledged by specific revenue sources generated by the utilities. Of the remaining 17% 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	
	2015	2014	2015	2014	2015	2014
Bonded debt and loans	\$ 193,819	\$ 206,664	\$ 1,369,551	\$ 1,392,059	\$ 1,563,370	\$ 1,598,723
Capital leases	-	-	33,523	34,305	33,523	34,305
Claims and judgments	24,481	22,830	-	-	24,481	22,830
Accrued landfill liability	-	-	19,649	26,724	19,649	26,724
Net Pension Obligation	9,433	9,608	-	-	9,433	9,608
Other Post Employment Benefits	54,725	49,703	18,355	16,408	73,080	66,111
Compensated absences	22,125	16,218	19,490	19,147	41,615	35,365
	<u>\$ 304,583</u>	<u>\$ 305,023</u>	<u>\$ 1,460,568</u>	<u>\$ 1,488,643</u>	<u>\$ 1,765,151</u>	<u>\$ 1,793,666</u>

Table 4. Schedule of Long Term Debt

The City's debt rating for 2015 is as follows:

Bond	Moody's	S&P	Fitch
GO	Aa3	AA	A+
LTGO	A1	AA	A+
Solid Waste	A1	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 5.7% which is a decrease of 0.4% from 2014.
- Expenses for governmental activities were reduced by \$1.6 million from 2014.
- Sales tax revenue was \$81.8 million in 2015, which is a \$33.8 million increase over 2014 sale tax revenues.
- Taxable property value has increased by \$1.1 billion over 2014, which is a 6% increase.
- Housing prices and sales have continued to improve and show gains over the prior year.

The unassigned fund balance for the general fund was \$56.5 million in 2015, which is \$8.2 million higher than 2014. 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.