



City of Tacoma
Finance Department

August 24, 2017

Honorable Mayor, Members of the City Council, City Manager and Citizens of the City of Tacoma:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Tacoma, Washington (the City), for the year ended December 31, 2016. The State Auditor has issued an unmodified opinion, or in layman's terms a "clean opinion" on the City of Tacoma's 2016 financial statements. The independent auditor's report can be found immediately after the MD&A section of the CAFR.

The 2016 CAFR is submitted in accordance with City Charter and state statutes which require that the City issue an annual 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. To provide reasonable assurance that the financial statements are free of any material misstatements, City management has developed a comprehensive framework of internal control. 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) require that the CAFR include the following sections:

- **Letter of Transmittal** - this letter is a narrative introduction provided by City management that typically includes a discussion of the legal requirements for submitting the CAFR, a profile of the City's government, economic information that is useful in assessing the economic condition of the City, and ends with a section on awards and acknowledgements;
- **Management's Discussion and Analysis (MD&A)** - this provides a narrative introduction, overview and analysis of the basic financial statements and is meant to be read with and supplement the Letter of Transmittal;
- **Financial Section** – this section provides detail on the City's financial position and activities including government wide financial statements, individual fund statements and notes that are intended to help explain the financial statements; and
- **Statistical Section** - this section includes some basic statistical information about the City and region.

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.

In addition to the CAFR, 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 (SEFA), the State Auditor's Office reports on the internal control structure, compliance with applicable laws and regulations, and a schedule of findings and questioned costs, if any, are included in a separately issued report that is typically issued in the fall.

CITY OF TACOMA PROFILE

The City was incorporated on January 7, 1884. The name Tacoma stems from the Indian name for Mt. Rainier, “Tacobet” or “Tahoma”, 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 50 square miles of land and 13 miles of waterfront. Lying between sea level and 440 feet above sea level, the 2015 population estimate was 207,948 which is an increase of 4.8% from the 2010 census count of 198,397.

The City Charter, under which the City 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 to the citizens of Tacoma including police & fire protection, electrical generation & distribution, water distribution, wastewater & surface water services, solid waste services, public works (which includes street operations, engineering, facility management and fleet operations), planning & development services, community & economic development, neighborhood & community services, and many others.

The Tacoma City Council adopts a biennial budget for all funds types and all budgets are controlled at the fund level which is the legal level of budgetary control.

The biennial budget process typically begins in February/ March of even numbered years. The Office of Management & Budget begins by using the City Council’s long-term strategic plan, goals, and priorities as a starting point. In April, City departments begin budget preparations and the revenue forecasting process begins. 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 by the City Manager to the City Council in early fall. 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 typically made after the public hearings and before the final adoption of the budget ordinance in December.

Washington State law requires the City Council adopt a balanced budget on or before December 31, and also requires that a mid-biennial review and modification be conducted between September 1 and December 31 of the first year of the biennium.

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.

FACTORS AFFECTING THE CITY’S FINANCIAL CONDITION

Economic Overview

The City’s economy benefits from the presence of large, stable employers in health care, education, professional services, and transportation. Tacoma is also a hub of government including major employers in federal, military, state, county and local governments. The City’s diverse economy is influenced by its ideal location in the central Puget Sound region.

The Port of Tacoma (Port), created by Pierce County citizens in 1918, has 2,700 acres that are used for shipping terminal activity as well as warehousing, distributing, and manufacturing. Tacoma has one of the few ports on the

West Coast with a large inventory of waterfront land available for development. The Port is a leading North American seaport, handling more than \$52.1 billion in two-way international trade in 2015. In addition, the Ports of Seattle and Tacoma formed the Northwest Seaport Alliance to strengthen the Puget Sound gateway - the third largest in North America - and create more economic development opportunities.

Government is the one of the largest regional employment sectors 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 several higher education institutions including University of Washington Tacoma, the University of Puget Sound, and Pacific Lutheran University. In addition to the higher education institutions, Tacoma has several technical and vocational schools including Tacoma Technical College, Bates Technical College, and Clover Park Technical College.

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 average year-to-date unemployment rate for the Tacoma metropolitan area was 6.0% as of February 2017 compared to 6.8% and 7.2% for February 2016 and 2015, respectively. Tacoma's median household income in 2015 was approximately \$52,000 as compared to \$51,200 in 2014 and \$50,500 in 2013.

The City's major revenue sources for the General Fund include property tax, business & occupation (B&O) tax, sales tax and a gross earnings tax (GET) on utilities.

Property Tax – represents approximately 25% of General Fund revenues. The 2017-2018 biennial budget estimated approximately \$116 million in property taxes in the General Fund. This is an increase of 4.6% from the 2015-2016 biennial budget. State law limits property tax revenues to only increase by 1% from year-to-year (in addition to revenues based on new construction).

B&O Tax – represents approximately 21% of General Fund revenues. Business taxes are based on the total income of a business. The 2017-2018 biennial budget estimated approximately \$95 million in B&O taxes in the General Fund. This is an increase of 1.7% from the 2015-2016 biennial budget. The City offers certain exemptions from businesses taxes such as exempting from tax those businesses with annual gross receipts less than \$250,000.

Sales Tax – represents approximately 21% of General Fund revenues. The 2017-2018 biennial budget estimated approximately \$99 million in sales taxes in the General Fund. This is an increase of 6.2% from the 2015-2016 biennial budget. Consumers within the City pay a sales tax rate of 9.6% of which 1% is the City's General Fund portion and 0.1% funds mental health and chemical dependency services.

Gross Earning Tax (GET) on Utilities – represents approximately 19% of General Fund revenues. The 2017-2018 biennial budget estimated approximately \$86 million in GET taxes in the General Fund. This is an increase of 2.9% from the 2015-2016 biennial budget. Utility taxes are paid by both private and public utilities and are calculated based on the total operating revenues earned by the utilities.

Property Tax 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 2016, the City levied at the statutory limitation of \$3.14 per \$1,000 of assessed value (this is the total levy and includes approximately \$0.20 per \$1,000 related to the Streets Initiative).

Relevant Financial Policies

Financial and Budget Policy Statements are presented on pages 177-183 of the 2017-2018 Biennial Budget and can be found on the City's website at www.cityoftacoma.org or at the following specific link: <http://www.cityoftacoma.org/cms/One.aspx?portalId=169&pageId=109596> .

MAJOR INITIATIVES

Port of Tacoma Road

The Port of Tacoma Road Rehabilitation, an \$11.9 million project, began in May 2015 and was completed in July 2016. The initial project included improvements from East 11th Street to Marshall Avenue. Additional funding added a second phase to the project and extended the improvements from Marshall Avenue to the SR 509 interchange. The project included replacing the existing failing asphalt pavement curb to curb with concrete pavement designed to heavy haul corridor standards, providing a continuous sidewalk to safely separate pedestrians from truck and rail traffic, improving three rail crossings, installing a permanent traffic signal to direct trucks in the off-road queuing yard into the Washington United Terminal, and installing infrastructure for an Intelligent Transportation System.

Tacoma avenue south bridge rehabilitation

The rehabilitation of the existing Tacoma Avenue South Bridge began in November 2014 and was completed in June 2016. The \$12.5 million project was funded from a combination of federal and local sources. The project replaced the driving deck, steel girders, guardrails and sidewalks. In addition, the project added bicycle lanes in each direction, reduced the roadway from four vehicle lanes to three vehicle lanes and the entire bridge was painted.

An Equity Lens for Everything

The Office of Equity and Human Rights was established in 2015 to carry out the Council policy priorities to achieve equity in service delivery, decision-making and community engagement. In 2016, this meant applying an equity lens in the budget process, diversifying the workforce, creating a more inclusive organizational culture, and engaging community members more meaningfully. Specifically, the budget process included a set of questions that asked departments to analyze the impact of the budget requests on underserved and/or vulnerable populations. Two major efforts took place in 2016 to diversify the workforce and create a more inclusive culture: 1) Managers began implementing recommendations from a Handbook for Recruiting, Hiring & Retention that applied an equity lens to every step of the hiring process; and 2) the City's values were updated to include equity. Applying an equity lens for community engagement included hosting meetings in Spanish, with translation services for the English-language speakers. 2017 will bring enhanced training, more outreach to the immigrant and refugee communities in Tacoma, and a focus on analyzing services with an equity lens.

AWARDS AND ACKNOWLEDGEMENTS

Awards

We are pleased to announce that for the 31st year in a row, the Government Finance Officers Association of the United States and Canada (GFOA) has awarded the City of Tacoma a Certificate of Achievement for Excellence in Financial Reporting to the City of Tacoma for its 2015 CAFR. 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.

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 of Achievement for Excellence.

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 manner. We would also like to thank the citizens of the City of Tacoma for their continuing support and advocacy. We also would like to express our appreciation to all City employees for their service and dedication. This report would not be possible without their assistance throughout the year and for providing information for this report.

Special appreciation is extended to the employees of the Finance Department, whose commitment to excellence 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 Su Yi, Min Soo Chun, Mary Mansperger, Joel Sipes, Donna Ruby, Tina Hemphill and Thu Pham for their work in bringing the final document together.

Respectfully,



Andy Cherullo
Director of Finance



Susan Calderon
Assistant Director of Finance/
Controller