

## 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, 2016. 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 of resources by \$2.8 billion. Of this amount, \$252 million is reported as unrestricted net position, representing amounts which are available to meet the City's on-going obligations to citizens and creditors.
- The City's overall net position decreased by \$839 thousand.
- Tacoma Power's net position for 2016 was \$821.8 million which was a decrease of \$4.2 million from 2015.
- Tacoma Water's net position for 2016 was \$549.6 million which was an increase of \$7.1 million from 2015.
- Sewer's net position for 2016 was \$421.9 million which was an increase of \$12.6 million from 2015.
- The City has adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during the fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (see note 7).

### 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 intended to furnish additional detail to support the basic financial statements themselves.

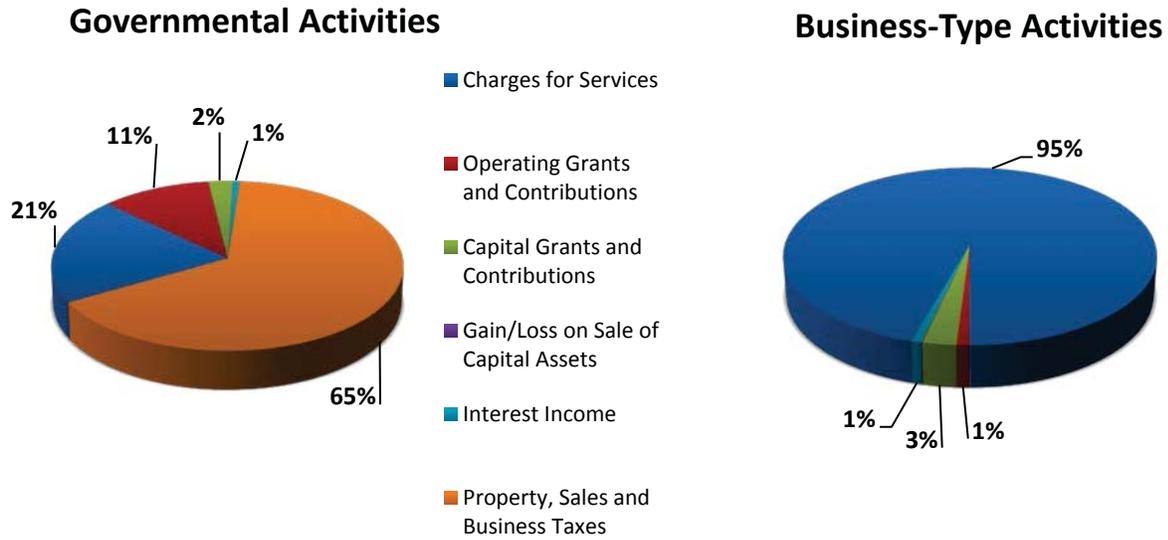
### Government-wide Financial Statements

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.

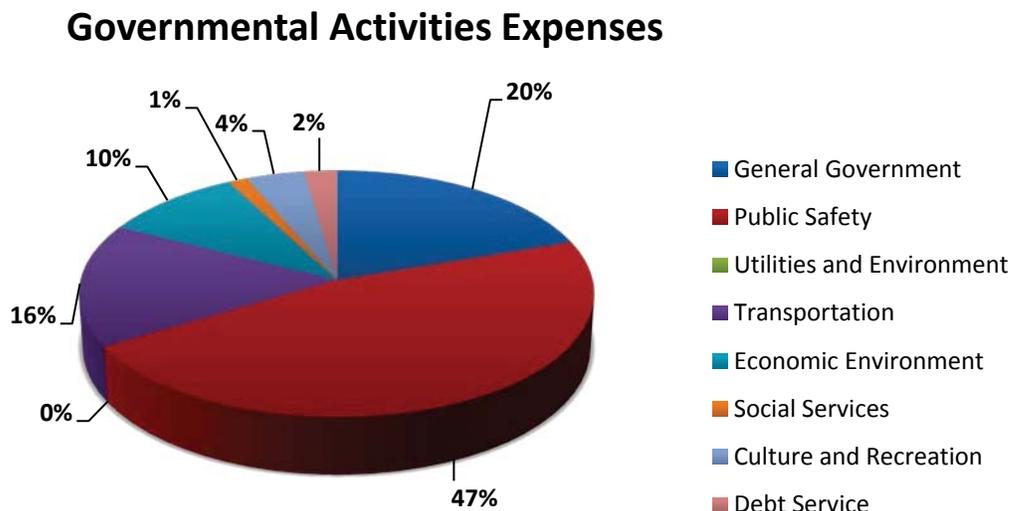
The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues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

**Figure 1. Comparison of Governmental and Business-Type Activity Revenues**

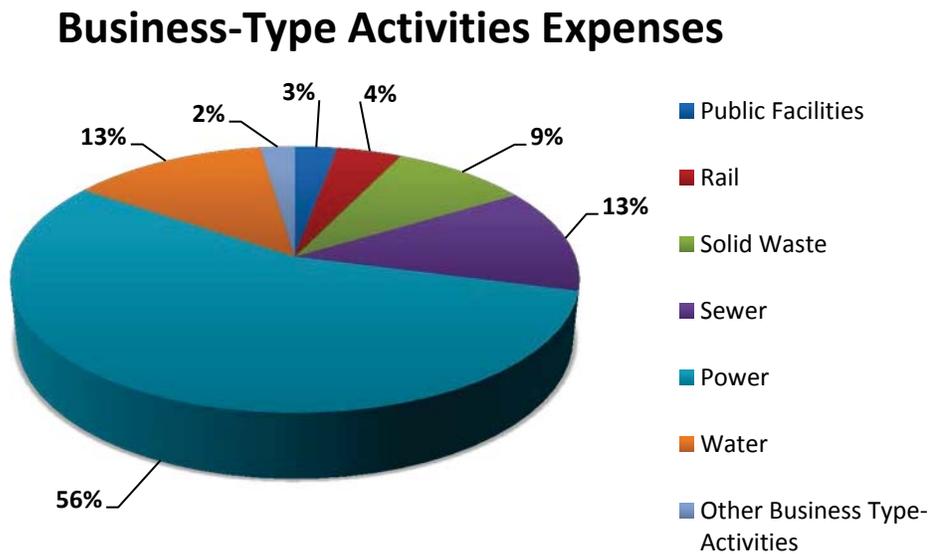


Both the Statement of Net Position and the Statement of Activities differentiate the functions of general government from the functions of business-type activities. Governmental activities reflect the City’s basic functions such as general government, public safety, transportation, economic environment, 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.

**Figure 2. Governmental Activities Expenditures**



**Figure 3. Business-Type 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 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 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 3-89 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.

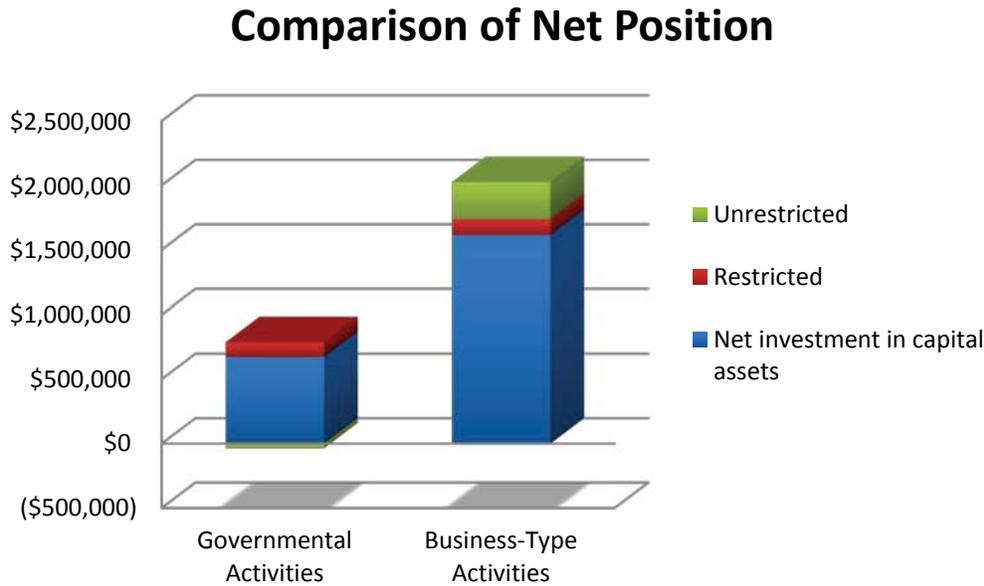
**Statistical Section**

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, 2016. 82.3% of the total net position reflects the City's investment in capital assets 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. 9.1% of the City's net position is unrestricted, meaning they are available for meeting the City's ongoing obligations. The remaining 8.6% of net position is restricted for other purposes such as debt redemption and new capital construction. Governmental activities represent 27% of total net position and business-type activities represent 73% of total net position.

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

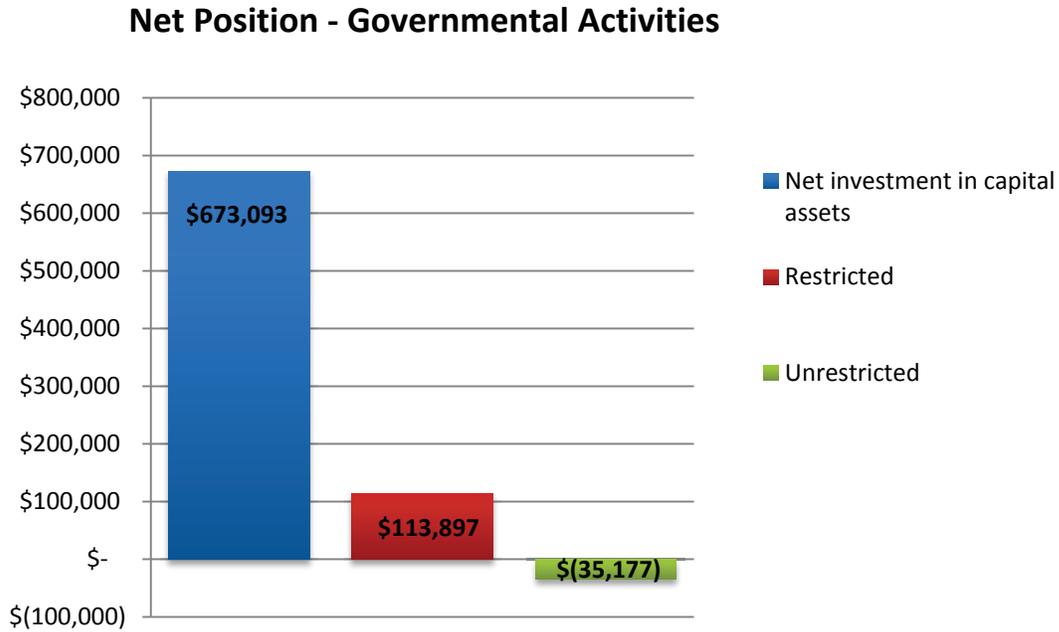


**Table 1. Summary Statement of Net Position**

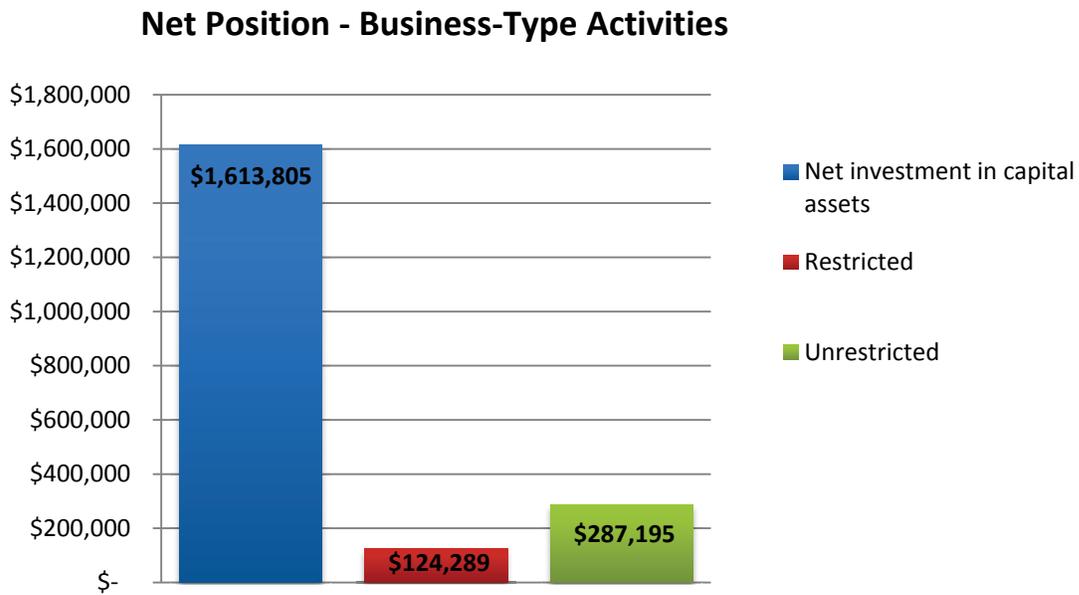
Statement of Net Position For the Year Ended December 31, 2016						
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 316,348	\$ 306,333	\$ 877,669	\$ 886,107	\$ 1,194,017	\$ 1,192,440
Capital assets	819,394	833,394	2,824,020	2,782,358	3,643,414	3,615,752
Total assets	\$ 1,135,742	\$ 1,139,727	\$ 3,701,689	\$ 3,668,465	\$ 4,837,431	\$ 4,808,192
Deferred Outflow of Resources	\$ 21,512	\$ 16,560	\$ 77,892	\$ 23,173	\$ 99,404	\$ 39,733
Current and other liabilities	\$ 128,664	\$ 105,834	\$ 228,257	\$ 153,100	\$ 356,921	\$ 258,934
Long-term liabilities outstanding	236,901	233,500	1,406,754	1,410,514	1,643,655	1,644,014
Total liabilities	\$ 365,565	\$ 339,334	\$ 1,635,011	\$ 1,563,614	\$ 2,000,576	\$ 1,902,948
Deferred Inflows of Resources	\$ 39,876	\$ 45,176	\$ 119,281	\$ 121,860	\$ 159,157	\$ 167,036
Net Position:						
Net investment in capital assets	\$ 673,093	\$ 678,872	\$ 1,613,805	\$ 1,620,194	\$ 2,286,898	\$ 2,299,066
Restricted	113,897	110,825	124,289	127,008	238,186	237,833
Unrestricted	(35,177)	(17,920)	287,195	258,962	252,018	241,042
Total net position	\$ 751,813	\$ 771,777	\$ 2,025,289	\$ 2,006,164	\$ 2,777,102	\$ 2,777,941

In 2016, the City's total net position decreased by \$839 thousand, which was less than a 1% change in fund balance from 2015.

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



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



**Table 2. Changes in Net Position**

City of Tacoma, Washington						
Changes in Net Position						
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 62,782	\$ 40,150	\$ 761,282	\$ 767,177	\$ 824,064	\$ 807,327
Operating grants and contributions	33,903	30,420	8,392	8,138	42,295	38,558
Capital grants and contributions	7,392	23,996	21,413	21,582	28,805	45,578
General revenues						
Property taxes	78,886	67,313	-	-	78,886	67,313
Other taxes	122,310	118,097	-	-	122,310	118,097
Other	2,316	2,000	7,005	8,644	9,321	10,644
Total revenue	307,589	281,976	798,092	805,541	1,105,681	1,087,517
<b>Expenses:</b>						
General government	\$ 74,293	\$ 51,578	\$ -	\$ -	\$ 74,293	\$ 51,578
Public safety	175,131	144,312	-	-	175,131	144,312
Utilities and environment	1	2,864	-	-	1	2,864
Transportation	60,881	57,885	-	-	60,881	57,885
Social services	4,983	3,551	-	-	4,983	3,551
Economic Environment	36,759	20,887	-	-	36,759	20,887
Culture and recreation	15,258	18,448	-	-	15,258	18,448
Debt Service	8,670	13,643	-	-	8,670	13,643
Public assembly facilities	-	-	20,986	17,801	20,986	17,801
Rail	-	-	31,571	28,579	31,571	28,579
Solid waste	-	-	66,661	54,867	66,661	54,867
Waste water	-	-	92,958	84,984	92,958	84,984
Water	-	-	95,869	82,604	95,869	82,604
Power	-	-	404,566	425,044	404,566	425,044
Other business-type funds	-	-	16,721	16,594	16,721	16,594
Total expenses	375,976	313,168	729,332	710,473	1,105,308	1,023,641
Increase/(Decrease) in net position						
before transfers	(68,387)	(31,192)	68,760	95,068	373	63,876
Transfers	48,973	43,572	(48,973)	(43,572)	-	-
Increase/(Decrease) in net position	(19,414)	12,380	19,787	51,496	373	63,876
Net position--January 1	771,777	729,014	2,006,164	1,944,331	2,777,941	2,673,345
Prior Period Adjustments	(1,048)	675	(662)	2,000	(1,710)	2,675
Change in accounting principle	498	29,708	-	8,337	498	38,045
Net position--January 1	771,227	759,397	2,005,502	1,954,668	2,776,729	2,714,065
Net position--December 31	\$ 751,813	\$ 771,777	\$ 2,025,289	\$ 2,006,164	\$ 2,777,102	\$ 2,777,941

Tacoma's governmental activities reported a combined fund balance of \$752 million, which was a decrease of \$20 million from 2015, this decrease was due in a large part to increased spending on public safety.

Business-type activities showed a positive change, with an ending net position of \$2.03 billion which was an increase of \$19.1 million over 2015.

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 was \$80.3 million which increased by \$7.6 million, 10%, over 2015. The general funds unassigned fund balance saw an increase of \$12 million; this amount is not restricted for any specific purposes and may be used for spending at the government's discretion. Fund balance for the Transportation Capital and Engineering fund was \$6.5 million which increased by \$2.1 million (48%) in 2016 from a decrease in liabilities of \$2.1 million. Fund balance for the Non-Major governmental funds, which include debt service funds, capital projects funds, and special revenue funds, was \$85.1 million and was an increase of \$5.2 million (6.5%) from an increase in assets and deferred outflow of resources of \$4.7 million and an decrease of liabilities and deferred inflows of resources of \$500 thousand.

### **Fund Balances**

At December 31, 2016, the City's governmental funds reported combined ending fund balances of \$172 million. Of this amount, \$9.7 million is nonspendable, either due to its form or legal constraints. \$78.7 million is restricted for specific programs by external constraints. \$1 million is committed for specific purposes as approved by City Council. \$17.5 million is assigned to specific purposes by management and the remaining \$64.5 million is unassigned.

### **Proprietary Fund Statements**

Total net position for enterprise funds increased by \$17.3 million in 2016. Power, Water, Solid Waste and Sewer utilities make up the majority of the proprietary funds and activity in these utilities was the primary driver for the change in the net position. The Power funds position saw a fairly small decrease of \$4.2 million. The Water fund had an increase in their net position of \$7.1 million which was only a 1% increase from 2015. The Sewer fund had an increase in net position of \$12.7 million, or 3%, from increasing revenues by 8% to \$104 million. The Solid Waste funds net position stayed relatively the same with a small decrease of \$161 thousand which was less than 1%. The non-major Enterprise funds had an ending net position of \$156 million which was an increase of \$1.9 million. The total net position for internal service funds' was \$100.4 million and increased by \$8 million, or 9%, in 2016.

## 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, 2016 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.

**Table 3. Schedule of Capital Assets**

City of Tacoma, Washington Schedule of Capital Assets						
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 35,335	\$ 35,038	\$ 163,451	\$ 158,533	\$ 198,786	\$ 193,571
Construction in progress	57,538	87,346	57,691	135,796	115,229	223,142
Property, plant and equipment	255,700	231,760	4,338,447	4,123,184	4,594,147	4,354,944
Infrastructure	1,373,328	1,339,991	-	-	1,373,328	1,339,991
Less accumulated depreciation	(902,507)	(860,741)	(1,735,569)	(1,635,155)	(2,638,076)	(2,495,896)
	<u>\$ 819,394</u>	<u>\$ 833,394</u>	<u>\$ 2,824,020</u>	<u>\$ 2,782,358</u>	<u>\$ 3,643,414</u>	<u>\$ 3,615,752</u>

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, 2016 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.

**Table 4. Schedule of Long Term Liabilities**

City of Tacoma, Washington Schedule of Long Term Liabilities						
(Amounts expressed in thousands)	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonded debt and loans	\$ 182,106	\$ 193,819	\$ 1,396,763	\$ 1,369,551	\$ 1,578,869	\$ 1,563,370
Capital leases	-	-	-	33,523	-	33,523
Claims and judgments	27,183	24,481	-	-	27,183	24,481
Accrued landfill liability	-	-	21,118	19,649	21,118	19,649
Net Pension Obligation	9,662	9,433	-	-	9,662	9,433
Other Post Employment Benefits	62,495	54,725	20,181	18,355	82,676	73,080
Compensated absences	24,967	22,125	20,196	19,490	45,163	41,615
	<u>\$ 306,413</u>	<u>\$ 304,583</u>	<u>\$ 1,458,258</u>	<u>\$ 1,460,568</u>	<u>\$ 1,764,671</u>	<u>\$ 1,765,151</u>

The City's debt rating for 2016 is as follows:

Bond	Moody's	S&P	Fitch
GO	Aa3	AA	AA
LTGO	Aa3	AA	AA
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 6% which is a decrease of 0.1% from 2015.
- Expenditures for governmental activities reduced by \$1.6 million from 2015.
- Sales tax revenue was \$81.8 million in 2016, which is a \$33.8 million increase over 2015 sales tax revenues.
- Taxable property values have increased by \$1.7 billion over 2015, which is an 8.4% increase.
- The housing market continues to show great improvement.

City of Tacoma voters passed Proposition A and Proposition 3 in November 2015, which went into effect March 1<sup>st</sup>, 2016 and will increase both sales and property taxes in order to fund the repair and maintenance of roads, crosswalks and sidewalks. This will be accomplished through methods including pothole repair, street resurfacing, fixing sidewalk approaches and building missing sidewalks. Proposition A will raise sales tax by 1/10 of 1% over a period of 10 years. Proposition 3 will authorize an additional 1.5% earning tax on natural gas, electric and phone companies, and an increase in the regular property tax levy of \$.20 per \$1,000 of assessed value. The propositions together will provide an estimated \$17-18 million per year over the next ten years, with \$4.5 million from Proposition A and \$13 million from Proposition 3 per year. The City has also committed \$30 million and with matching grants the amount raised should total \$325 million.

## **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.