

City of Chattanooga, Tennessee



**POPULAR  
ANNUAL  
FINANCIAL  
REPORT**



For the year ended June 30, 2011

# MESSAGE FROM THE CITY MAYOR

Dear Fellow Citizens,

As part of our continuous effort to keep you informed of the City's operations, services and programs, as well as the financial condition, I am pleased to present the City of Chattanooga's first "Popular Annual Financial Report" (PAFR). This report provides an overview of the current financial condition of the city as well as significant current and future activities affecting our city.

The City remains in excellent fiscal condition despite the tough economic times. Long term fiscal strategies and sound financial management have placed the City in a position that is envied by many across the nation and the globe. A diverse group of companies continue to expand or locate here. Tough decisions were made to increase revenues at a time when it was not popular but necessary to continue the economic growth and provide the level of services demanded by our citizens.

Chattanooga is one of the most vibrant and progressive cities in the State and the nation. Forbes ranks Chattanooga as one of the top 10 cities where home values to rise in 2011. Over a third of the new jobs in the state were created here. We are the first city in the western hemisphere to offer 1 gigabit per second fiber network services (fastest in the nation) to all residents and businesses being recognized globally by the Intelligent Community Forum as one of the world's seven smartest cities in 2011.

As our city continues to grow, we will face even more challenges and opportunities.. Therefore, it is vitally important that you send your comments and recommendations to us at [www.chattanooga.gov](http://www.chattanooga.gov). Thanks you for the privilege of serving Chattanooga.

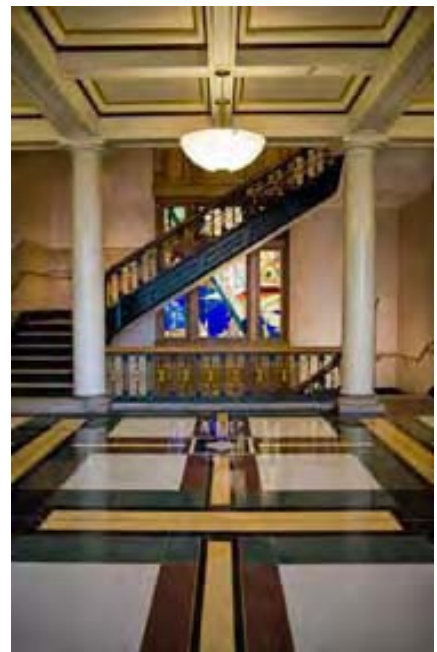
Sincerely,



Ron Littlefield, Mayor



Mayor Ron Littlefield



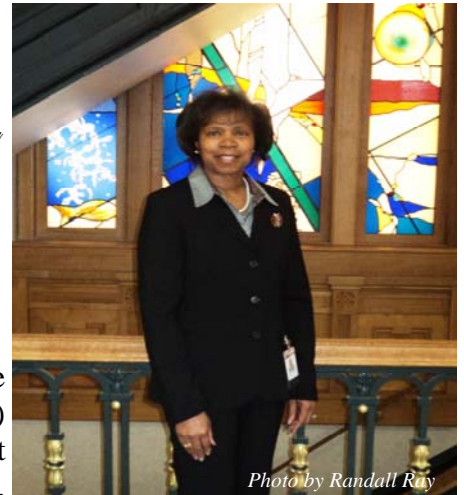
City Hall lobby

Photos by Lawson Whitaker





**MESSAGE  
FROM THE CHIEF  
FINANCIAL OFFICER**



*Photo by Randall Ray*

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Dear Citizens of Chattanooga,

We are pleased to present to you the City of Chattanooga’s (the City’s) first Popular Annual Financial Report (PAFR) for the year ended June 30, 2011. This report summarizes the financial activities and position of the primary government of Chattanooga. Component units of the City such as the Metropolitan Airport Authority, Chattanooga Regional Transportation Authority and the Chattanooga Downtown Redevelopment Corporation are not included. The information contained herein was derived from the City’s Comprehensive Annual Financial Report (CAFR), which was prepared in conformity with Generally Accepted Accounting Principles (GAAP).

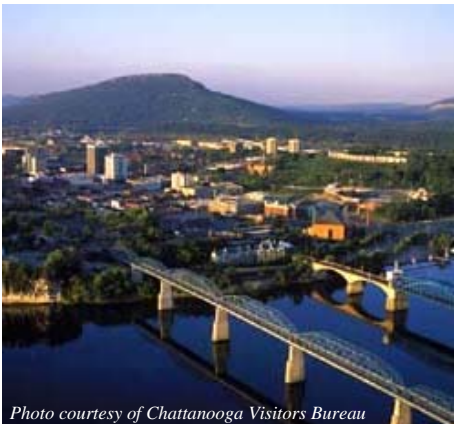
The PAFR is intended to increase awareness throughout the community of the financial operations of the City. As such, this report is presented on a non-GAAP basis and communicates complex financial and statistical information in a user friendly manner to the citizens and other interested parties.

The City’s financial statements have been audited by Henderson, Hutcherson & McCullough, PLLC, a firm of licensed certified public accountants, and received an unqualified opinion which means that the City’s financial statements are fairly presented in conformity with GAAP and are free of material misstatement. Copies of the CAFR which includes the City’s audited financial statements may be obtained from the City’s Finance Department, local library or the City’s website ([www.chattanooga.gov](http://www.chattanooga.gov)) . We are proud to say that the City has been awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association for nineteen consecutive years.

We welcome any feedback, comments, or concerns regarding the information included in this report.

Respectfully,

Daisy W. Madison,  
Chief Financial Officer



*Photo courtesy of Chattanooga Visitors Bureau*



Founded as a ferry landing and warehouse site in 1815, the City of Chattanooga was incorporated under State of Tennessee Private Acts of 1839. The City is the county seat of Hamilton County and is located near the southeastern corner of the state on the Tennessee-Georgia border. Chattanooga is centrally located in relation to other major population centers of the southeast, being within a 150-mile radius of Knoxville and Nashville, Tennessee; Birmingham, Alabama; and Atlanta, Georgia. Over 11 million people live within a 2 to 2½ hour drive of Chattanooga. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also has the power to extend its corporate limits by annexation in accordance with procedures under an “Urban Growth Plan”, adopted in 2001.

The City Mayor is elected at-large and is not a member of the City Council. The Council is composed of nine members, with each member being elected from one of nine districts within the geographic boundaries of the City. The Mayor and Council are elected on a non-partisan basis for four-year terms. The Mayor is the City’s chief executive officer and oversees the operation of all City departments.

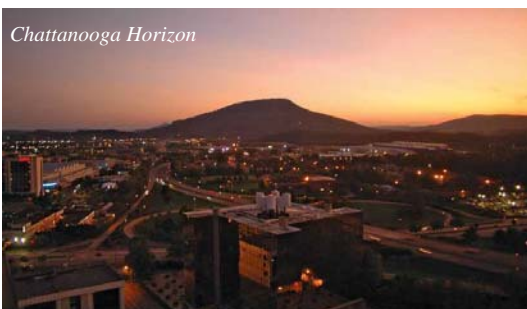
### City Council

Meets each Tuesday at 6:00 p.m.

Chairman:	Pam Ladd	District 3
District 1	Deborah S. Scott	
District 2	Sally L. Robinson	
District 4	W. Jack Benson, Sr.	Vice Chairman
District 5	Russell J. Gilbert	
District 6	Carol B. Berz	
District 7	Manuel Rico	
District 8	Andrae McGary	
District 9	Peter B. Murphy	



The City provides a full range of municipal services including but not limited to fire and police protection; sanitation services and recycling; construction and maintenance of highways, streets and infrastructure; recreation and cultural activities; public library; community development; planning and zoning; neighborhood services; social services; and general administrative services. It also operates a water quality program, a solid waste program, an electric utility system, airport authority, public transportation system, and a sewer and sewage facility system.





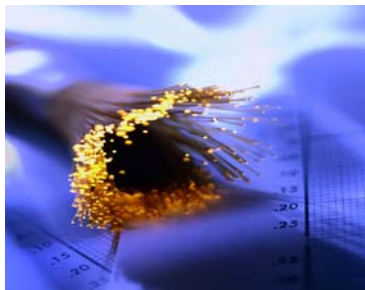
“Recognized as one of the world’s top Seven Intelligent Communities in 2011”

Chattanooga: The City to be . . .

Chattanooga has become a world leader in technology. The *New York Times* cites Chattanooga as a global leader in fast internet service thanks to the



one-gigabit per second internet service to be offered by the Electric Power Board (EPB), Chattanooga’s municipal power provider. This puts Chattanooga at 10 times faster and 10



years ahead of the Federal Communication Commission National Broadband Plan, according to EPB officials.

The Fiber-to-the-Home (FITH) network has grown to become available to:

- 170,000 homes, schools, and businesses in the service area,
- a total of 600 square miles that covers urban, suburban, and rural places
- a diverse population of 300,000 people

Chattanooga’s tourism brings in excess of \$750 million to the area annually. *Where to Retire Magazine* recognized Chattanooga as a top retirement destination in its April/May 2011 edition. In an on-line vote taken by *Outside Magazine* for its October 2011 issue, one third voted Chattanooga as the “Best Town Ever”. *Livability.com* ranked Chattanooga as having the 8<sup>th</sup> top livable downtown.

Since 2008, the Chattanooga area has attracted \$4 billion in foreign direct investment including a Volkswagen auto assembly plant and major investments in alternative energy. During the same time period, there have been 90 publicly announced new and expansion projects bringing over 8,300 new jobs and saving 655 others.

As of July, 2011 Volkswagen hired the 2000<sup>th</sup> employee in its Chattanooga auto assembly plant. The annual payroll is expected to exceed \$100 million. A \$12 billion income growth and an additional 9,500 jobs are expected in the region as a result of the plant’s location here.

The VW supplier park, a \$20 million investment located on 85 acres adjacent to the plant, will eventually hold approximately 10 companies to be located in buildings totaling over 440,000 square feet in size. Gestamp Corporation, a supplier of stamped parts for VW, recently announced an expansion to their \$90 million facility.



Photo courtesy of city of Chattanooga Parks & Recreation Department

**Major Employment Sectors in Chattanooga**

Trade, transportation, Utilities	21.2%
Government	15.5%
Manufacturing	12.3%
Professionals & business services	17.1%
Education & health	13.6%
Leisure & hospitality	10.6%

# 2011 Annual Financial “Physical” Comparison

Vital Signs	Government Measurement	Chattanooga	Memphis	Nashville	Knoxville
Weight	Bond Rating (Standard & Poor's)	AA+	AA	AA	AA+
Blood Pressure	Property Tax Rate - City	2.31	3.20	*	2.46
Blood Pressure	Property Tax Rate - City & County	5.07	7.22	4.13	4.82
Cholesterol	Tax Levy Per Capita - City only	\$662	\$588	\$1,211	\$578
Height	Personal Income Per Capita**	\$34,903	\$35,775	\$43,457	\$34,245
Temperature	Population **	167,674	646,889	626,681	178,874
Stress Test	Unemployment Rate	9.1%	10.9%	9.0%	8.3%
Pulse	Gross Debt Per Capita	\$2,436	\$3,505	\$4,463	\$1,083
Blood Sugar	Gross Debt as % of Personal Income	6.98%	4.48%	10.27%	5.65%



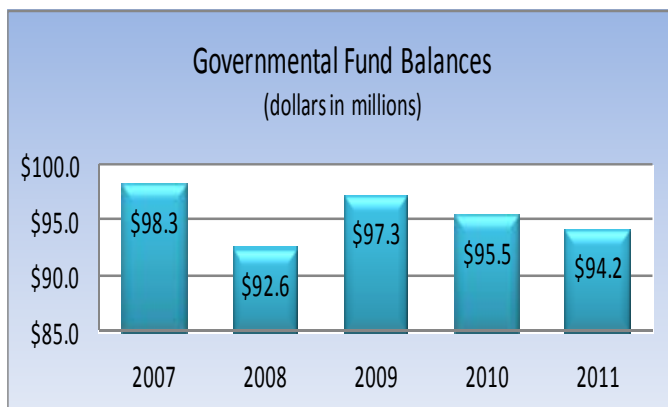
\* Nashville amount represents total rate for urban services district of 0.57 and general services district of 3.56.

\*\* Personal income and population information are provided by each municipality and based on data in the most recent published CAFR.



Photo by Dorothy Brewer

Maintaining an adequate fund balance is important for any municipality because it provides a financial "safety net" in the event of emergencies, economic downturns, or other unforeseen circumstances. This year, the City's governmental fund balances decreased \$1.3 million, 1.3% compared to last year. This decrease was all in the capital projects funds. The City General Fund balance increased by over \$10 million.



Chattanooga's Annual Financial “Physical” is an annual report card indicating the financial health of our city. Government measurements (i.e., bond rating, etc.) used are analogous to medical vital signs. Vital signs will be reviewed annually (similar to annual physical) to determine if we improved, remained status-quo or underperformed in the areas identified by our City Finance Department as key indicators of the City's financial health.

The City has maintained a healthy financial position through sound fiscal management each year. We have a history of strong fiscal discipline, healthy reserves, and constant review of operations for efficiencies.



## The Chattanooga region . . .

- Among the 1st to recover after the Great Recession (Moody's)
- Created 1/3 of all net new jobs in Tennessee (FY 2010-2011)
- Job growth is much faster than U.S. (1.58% Chattanooga vs. 1.04% U.S.)
- Chattanooga MSA economy has seen much less foreclosure in 2008-2010 (9.49% vs. 23.23% U.S.)
- The Kiplinger Letter named Chattanooga as one of its “Comeback Cities for 2011” in April
- Tennessee Department of Labor and Workforce Development shows Chattanooga added 5,540 jobs in the past year.

# Where the money comes from

Adequate resources are essential in order to provide the municipal services that the citizens of the city have come to expect. This year's revenue for the governmental activities were \$258.1 million compared to \$242.4 million last year, an increase of 6.5%.

- The single largest source of revenue, property taxes, increased by \$16.0 million, or 16.5%, resulting from a rate increase of 19% which was the first increase in nine years.

- Charges for services decreased 7.8% or \$1.6 million due to change in management of the zoo and decreased courts costs and fines.
- Operating grants and contributions increased \$1.8 million or 4.2%. Current year includes \$1.2 million in Federal Emergency Management Agency (FEMA) grant as reimbursement for costs related to damages incurred during a severe tornado in April 2011. Additional reimbursement is anticipated in FY2012.
- Capital grant and contributions decreased \$2.7 million or 25.9% due to fluctuations in grants awarded and completed each year. The reduction is largely due to elimination of a \$5.7 million Public Safety Interoperability Communications Grant (PSIC) for a regional communications system to be managed by the City.
- The majority of the miscellaneous revenues consists of investment income which increased \$0.2 million or 20.3%.

(dollars in million)



## Tax Revenue Sources

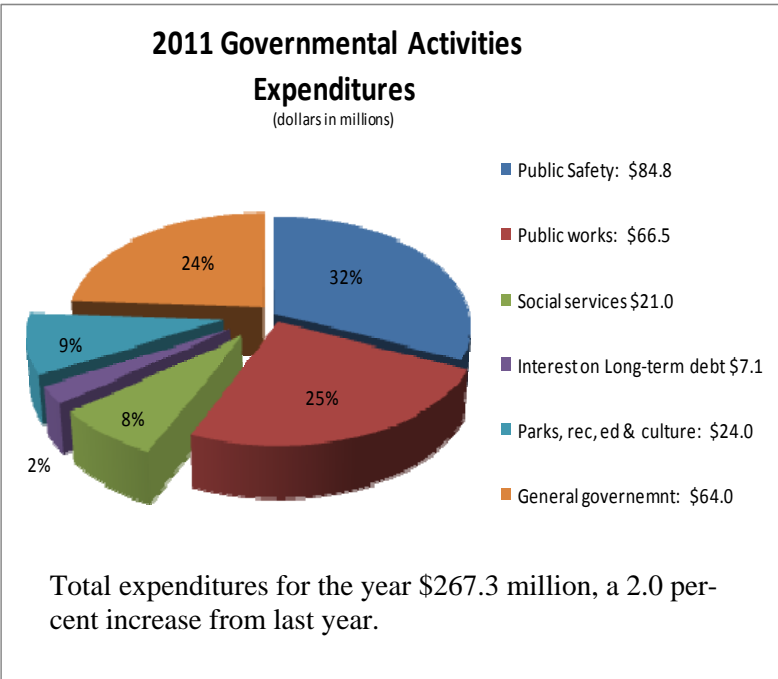
(dollars in million)

	FY 2011	FY 2010
Property tax	\$113.0	\$ 97.0
Franchise taxes	2.1	2.3
Liquor & Beer taxes	7.4	7.1
Gross receipts tax	4.4	3.8
Hotel/Motel tax	4.7	4.0
	<u>\$131.6</u>	<u>\$ 114.3</u>

Hotel-Motel tax increased \$0.7 million or 17.0% with a recovery in tourism and business travel while gross receipts were up \$0.6 million or 17.1%.

# How the Money is Spent

- General government expenses decreased \$9.1 million or 12.5%. The largest reductions related to a change in the method of accounting for the cost of other post employment benefits (OPEB) and elimination of an appropriations to the Industrial Development Board (IDB) that was required under the Memorandum of Understanding between Volkswagen, the State and Hamilton County. The City began prefunding OPEB based on an actuarially computed annual required contribution effective fiscal year 2011. As part of this transition, \$5.6 million in retiree health costs were reallocated to other functional area as a percent of salaries. \$5.2 million which was appropriated to the IDB for the Volkswagen facility during the prior fiscal year was eliminated during FY2011.



- Public Safety expenses increased by \$8.4 million or 11% increase primarily as a result of the reallocation of OPEB cost mentioned above and funding to address a pay anomaly for police officers.
- Public Works expenses increased 7.7% or \$4.8 million. The largest increase was \$3.5 million in Tennessee Department of Transportation grant projects and \$1.0 million of storm damage.
- Parks, Recreation, Education, Arts & Culture increased by \$3.7 million or 18.4%. A major portion of the increase (\$2.1 million) related to pollution remediation at Montague Park.
- Social Services expenses decreased \$2.6 million or 11.1%. primarily as a result of discontinuation of funding provided under the American Recovery and Reinvestment Act for a weather assistance program (\$1.2 million)
- Interest on long-term debt decreased by \$100,000, or 1.52% compared to last year.

The long anticipated Wilcox Tunnel project estimated at around \$47 million has been approved and \$2 million have been appropriated for fiscal year 2012 budget.



## \$54.8 Million Capital Budget Highlights

- \$13.9 million for various public works projects including street paving and railroad improvements
- \$2 million for enhancement to parks & recreation facilities
- 1.3 million for replacement of old Fire Station to comply with safety standards
- \$6.2 million to purchase vehicles under the City's Fleet Management Program
- \$27.4 million to address compliance requirements of the Environmental Protection Agency relating to Water Quality, Sewers and landfills
- \$2.5 million to implement a regional intelligent information system



## Governmental & Business-type

### Net Assets

As the difference between all assets and liabilities, net assets, serves as a useful indicator of whether the City's financial position is improving or deteriorating.

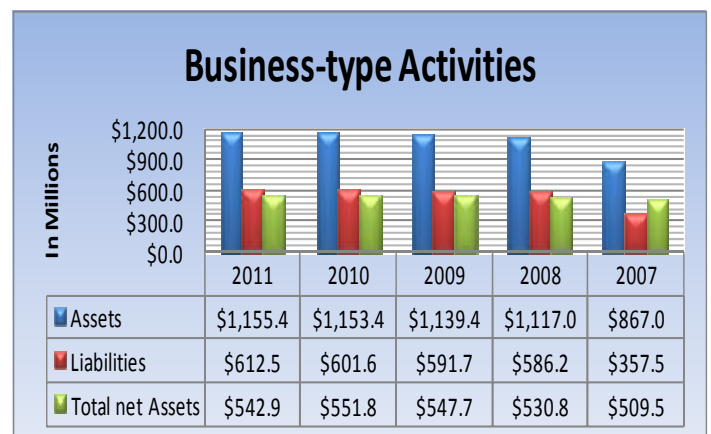
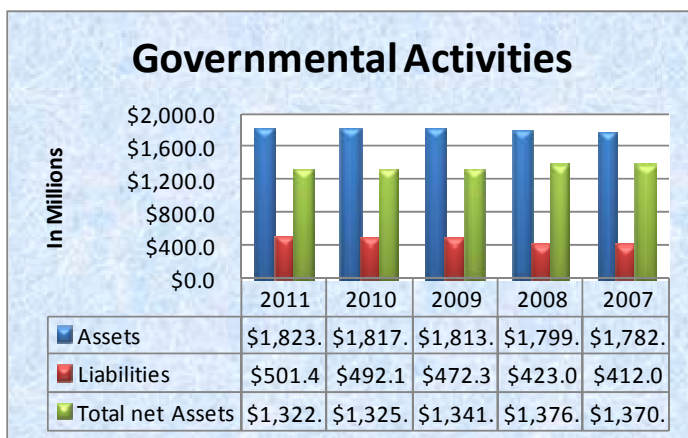
At the end of the fiscal year, total net assets of governmental activities and business-type activities was \$1.9 billion, a 0.6% decrease from last year.

By far the largest portion of the City's net assets, 96.5%, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt. While capital assets are used to provide services to citizens, the assets are not available for future spending.

The City's overall financial condition is divided and reported in three distinct sections:

- Governmental activities:** primarily supported by taxes and intergovernmental revenues. Activities include General Government; Public Safety; Public Works; Parks, Recreation, Education, Arts & Culture and Social Services.
- Business – type activities:** 100% of total costs is supported by user fees and charges for service. The City's business-type activities include electric, sewer and water quality systems, as well as solid waste disposal and housing management operations.
- Component Units:** these entities are legally separate but the City of Chattanooga is financially accountable or has oversight responsibility. They are: The Chattanooga Metropolitan Airport Authority, the Chattanooga Area Regional Transportation Authority (CARTA) and the Chattanooga Downtown Redevelopment Corporation (CDRC).

This report is limited to the Governmental and Business-type activities as they are considered the primary government activities. Component Units are not included in this report.



## Capital Assets

## Governmental & Business-type

A strong net asset position is necessary to ensure sustained delivery of services to the citizens of the Chattanooga. In 2011 the City had \$2.4 billion invested in capital assets (net of accumulated depreciation) an increase of \$42.4 million or 1.8% from last year. This investment includes land, building, utility system, improvement, machinery, equipment, park facilities and infrastructure.

### City of Chattanooga's Capital Assets

(net of depreciation, in thousands of dollars)

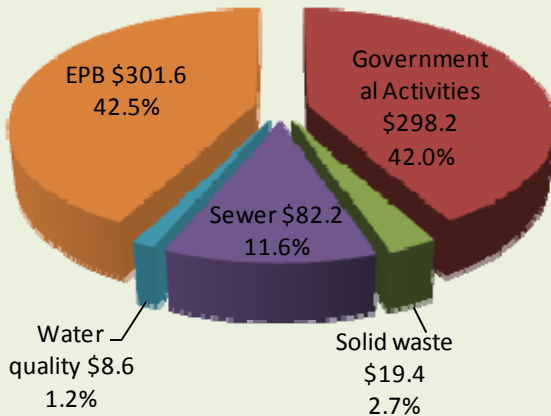
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Non-depreciable:</b>						
Land & Easements	\$ 1,035,729	\$1,034,885	\$ 17,147	\$ 17,055	\$ 1,052,876	\$ 1,051,940
Construction in progress	29,131	14,237	50,449	64,428	79,580	78,665
<b>Depreciable:</b>						
Buildings & Improvements	123,686	130,923	81,805	81,769	205,491	212,692
Vehicles & Machinery	35,344	37,207	147,347	94,962	182,691	132,169
Infrastructure	305,926	320,034	576,163	554,044	882,089	884,878
<b>Total</b>	<b>\$ 1,529,816</b>	<b>\$1,547,186</b>	<b>\$ 872,911</b>	<b>\$ 813,158</b>	<b>\$ 2,402,727</b>	<b>\$ 2,360,344</b>

## Long Term Debt

For more transparency and better measurement of the City's finances, the City Council has prudently adopted a Debt Management Policy which is intended to guide current and future decisions related to debt issued by the City. Performance is measured against benchmarks and changes are made as needed to meet the desired goals.

The City of Chattanooga maintains an "AA+" rating from Standard & Poor's and a "AA" rating from Fitch Investor's Service for general obligation debt.

### City of Chattanooga Long Term Debt (dollars in millions)



City Charter limits the amount of net general obligation debt the City can issue to 10% of the assessed value of all taxable property within the City's corporate limits. For the current fiscal year that limit is \$480.9 million. The City's general obligation debt, net of self-supporting debt of \$133.4 million is well within that limit.

At year-end the City had \$710.0 million in long-term debt outstanding. This is a \$14.5 million decrease, 2.0% from last year.

# Business-type Activities

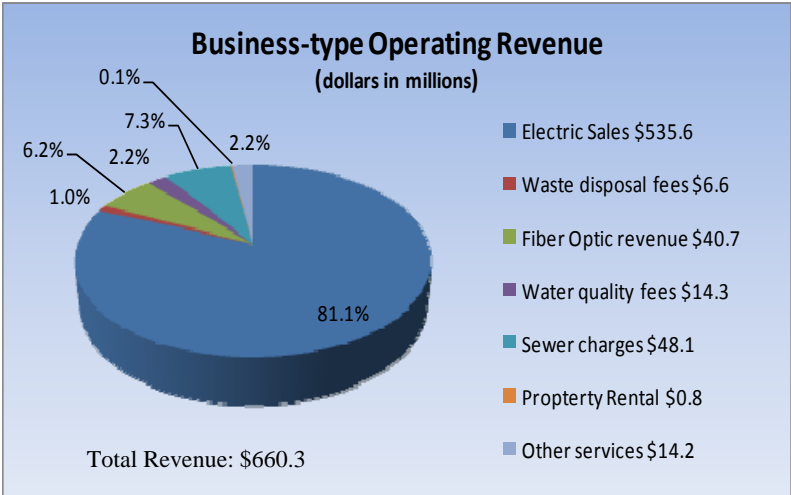
These activities operate like private businesses, with their own self-supporting revenue sources. They are generally not supported by taxes.

EPB is a community owned company that provides electric utility and fiber optics service for the residential and commercial uses in Chattanooga and surrounding areas. It is managed as an enterprise operation by a board appointed by the Mayor and City Council



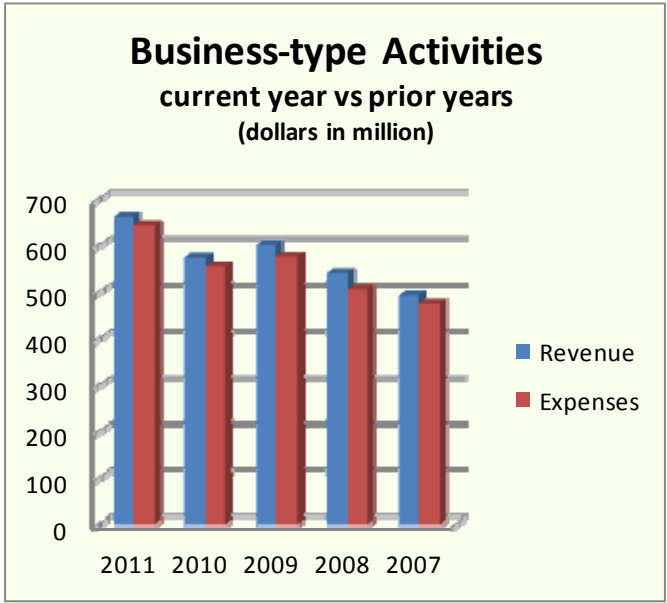
The water quality fee structure was revised last year increasing rates 200%. This rate change, the first since the program began in 1994, was necessary to comply with environmental regulations imposed by the Environmental Protection Agency. \$31.4 million of the net assets are invested in capital assets as a result of the aggressive capital campaign designed to continually improve drainage and discharge within the City. This is a \$2.3 million, 7.7% increase.

The largest source of business-type activity revenue is generated from EPB. Total operating revenue from customers increased by \$84.9 million, 16.8%. Operating revenues from electric sales increased \$61.8 million, 13.0% based on increased total degree days while operating revenues from fiber optic sales increased \$19.8 million, 94.7% as more customers were added.



### Business-type Operating Expenses (dollars in billions)

Power purchases	\$453.8
Others	9.4
Other electric operations	57.1
Fiber optic operations	27.6
Sewer plant operations	30.2
Waste disposal operations	3.4
Water quality operations	8.5
Depreciation	50.5
Housing operations	0.8
<b>Total expenses</b>	<b>\$ 641.4</b>



This report and the Comprehensive Annual Financial Report, as well as a variety of other information, can be obtained by visiting the City's web-site:

<http://www.chattanooga.gov>



*Photo courtesy of Chattanooga Visitors Bureau*

Questions, comments, or suggestions regarding this report can be directed to

City of Chattanooga  
Finance & Administration Department  
101 East 11th Street  
Chattanooga, TN 37402  
423-757-5230