

# Mayor's Letter



**City of Chattanooga**  
Office of the Mayor

City Hall • 101 East 11th Street • Chattanooga, Tennessee 37402

December 15, 2011

**To the members of the City Council and Citizens of  
Chattanooga, Tennessee:**

It is with pride that I present the City's annual financial report for the fiscal year ended June 30, 2011. This report documents our sound financial position and operations for the year. It demonstrates good stewardship by City administrators who continue to manage the citizen's financial resources by promoting sustainable economic growth and fiscal stability.

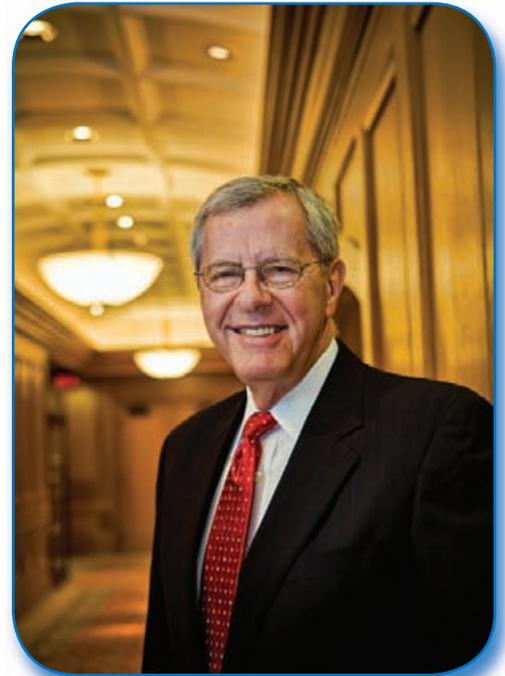
Strong partnerships between public and private sectors along with enthusiasm from the citizens of this community have enabled the City of Chattanooga to continue to thrive and we are continuously searching for new ways to ensure sustainability and remain a leader in a world economy. We are now a global leader in technology with EPB's 600 square mile fiber optic network with access to internet speeds of up to 1 gigabit per second – the fastest in the nation!

It's a great time to be a Chattanooga and it is a privilege to be a part of the success of this community. I look forward to working with this council as we continue to make Chattanooga the most transformed city in America.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ron Littlefield".

Mayor Ron Littlefield



*Mayor Ron Littlefield*



*Dan Johnson, Chief of Staff*

*Photos by Lawson Whitaker*

# City Council



**Pam Ladd**  
Chairperson  
District 3



**Jack Benson**  
Vice Chairman  
District 4



**Deborah Scott**  
District 1



**Sally Robinson**  
District 2



**Russell Gilbert**  
District 5



**Carol Berz**  
District 6



**Manuel Rico**  
District 7



**Andraé McGary**  
District 8



**Peter Murphy**  
District 9

# Letter of Transmittal



**City of Chattanooga**  
Department of Finance and Administration  
City Hall  
101 East 11th Street, Suite 101  
Chattanooga, Tennessee 37402

December 15, 2011

**To the Honorable Mayor Ron Littlefield, Members of the City Council and the Citizens of Chattanooga, Tennessee:**

State and local statutes require that the City publish annual audited financial statements for each fiscal year.

This Comprehensive Annual Financial Report (CAFR) of the City of Chattanooga for the fiscal year ended June 30, 2011 is submitted in compliance with this requirement.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Henderson, Hutcherson & McCullough, PLLC, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Chattanooga's financial statements for the year ended June 30, 2011. The independent auditor's report is presented as the first item in the financial section of this report.

The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. These reports are in a separate Single Audit section.

Generally Accepted Accounting Principles require 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 MD&A and should be read in conjunction with it. The City of Chattanooga's MD&A can be found immediately following the financial statement report of the independent auditors.



*Daisy W. Madison, City Finance Officer*



## GOVERNMENTAL STRUCTURE, ECONOMIC CONDITIONS AND MAJOR INITIATIVES

### PROFILE OF THE GOVERNMENT

Nestled in a bend of the Tennessee River and surrounded by mountains and lakes, Chattanooga is so beautiful it inspired a community quest to make it the best mid-sized city in America. Living in Chattanooga means that outdoor views and adventures are around every corner, but our city is much more than a pretty playground. Over the last four decades, we've been winning acclaim for our unique way of working together to produce national best practices for cleaning up air pollution, downtown revitalization, affordable housing, and much more.

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. It encompasses an area of 144 square miles. Official results of the 2010 U.S. Census show a population of 167,674, a 7.8% growth since the 2000 Census. 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.

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 and a sewer and sewage facility system for its residents and for other communities in southeast Tennessee and northwest Georgia. The City's Electric Power Board (EPB) provides electric and fiber-to-home services. Other services are provided through legally separate Metropolitan Airport Authority, Chattanooga Downtown Redevelopment Corporation, and the Chattanooga Area Regional Transportation Authority, all of which are reported separately within the City's financial statements. Additional information on all these legally separate entities can be found in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. The City Finance Officer obtains information from all City departments and agencies to which appropriations are made and/or revenues are collected and compiles the operating budget for submission to the Mayor. During the months of April, May and June, advertised public hearings are held by the council whereby budget requests from the departments and agencies are presented and taxpayers are given the opportunity to comment prior to final passage. The budget is legally enacted through passage of an ordinance with an operative date of July 1. The appropriated budget is adopted on a departmental basis; the legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer is authorized to make intra-fund transfers if necessary. Budgetary comparison schedules are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

## FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements may be best understood when it is considered from the broader perspective of the specific economic environment within which the City of Chattanooga operates.

The Local Economy: Employment in the Chattanooga area is diverse. The top employment sectors of trades, transportation, and utilities (21.2%), government (15.5%), manufacturing (12.3%), professional and business services (17.1%), education and health (13.6%), and leisure and hospitality (10.6%) comprise 89.6% of the workforce. Employment in the retail service sector is driven, in part, by the presence of Hamilton Place Mall, Tennessee's largest. The 1.4 million-square-foot

mall has brought in many tourists and locals with a mix of new and familiar stores, theme restaurants and movie theaters. Thanks to the mall, the area has become a retail hotbed with more than 22 million visitors a year.

Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. The local unemployment rate of 8.8% remains significantly below the state average of 9.7% and the national average of 9.1% as of August, 2011. Fiscally, the City of Chattanooga is well positioned for future growth. Information released by the Tennessee Department of Labor and Workforce Development shows the Chattanooga metropolitan area has fared better than the other major Tennessee metropolitan areas, having added 5,540 jobs in the past year. The U.S. Bureau of Economic Affairs estimates personal income in the area grew at 4.1 percent during the same period, almost double the national average. The Kiplinger Letter, a weekly financial publication, named Chattanooga as one of its "Comeback Cities for 2011" in April.

Chattanooga is also becoming 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, Chattanooga's municipal power provider. "Only Hong Kong and a few other cities in the world offer such lightning-fast service, and analysts say Chattanooga will be the first in the United States to do so". This puts Chattanooga at 10 times faster and 10 years ahead of the FCC National Broadband Plan, according to EPB officials. The Fiber-to-the-Home (FITH) network has grown to become available to all 170,000 homes, schools, and businesses in the service area, a



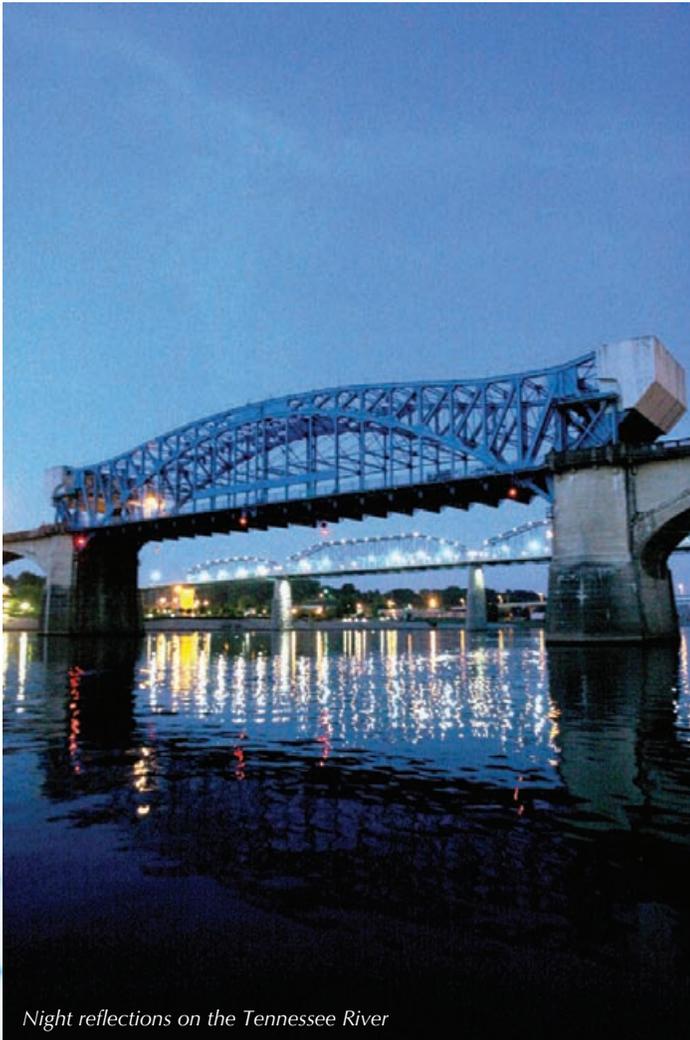
*Sail boats pass under the Market Street Bridge*

total of 600 square miles that covers urban, suburban, and rural places and a diverse population of 300,000 people. The system will be integrated with Smart Grid, a technology which allows remote monitoring of meters for every customer. A \$111 million federal stimulus grant from the Department of Energy has dramatically accelerated the installation of the Smart Grid, expected to be fully implemented by the end of 2012.

Since the national economic recession began in 2008, the Chattanooga area has attracted \$4 billion in foreign direct investment including a Volkswagen auto assembly plant and major investments in alternative energy. Over the past 4 years there have been 90 publicly announced new expansion projects bringing 8,287 new jobs and saving 655 others. The Enterprise South Industrial Park (ESIP), the new home to Volkswagen AG's U.S. manufacturing headquarters and a new Amazon distribution center, continues to be a prize asset for additional growth. The old Volunteer Army Ammunition Plant has been reborn as perhaps the

finest industrial park in the Southeastern United States, earning designation as a TVA-certified Megasite and being granted Foreign Trade Zone status. This will help VW avoid as much as \$1.9 million per year in tariffs, making expansion of the local plant more attractive. ESIP is served by a new interstate connection with I-75 as well as by two competing rail lines. Rail service to the park is undergoing a \$17 million improvement. The City has worked hard to continue to be an EPA ozone attainment area meeting the federal health-based ozone standard. As one of only thirteen areas in the nation, the City participated successfully in an Early Action Compact from 2004-2007. This compact allowed economic development recruitment to continue while measures were implemented to meet the more restrictive ozone standards. The City's success in dealing with air pollution is a model for the world. Local officials are committed to maintaining a sustainable community and a clean environment as demonstrated by projects such as the Green Initiative, establishment of an office of sustainability and promotion of construction projects that conform to the Leadership in Energy and Environmental Design certification. There are currently 64 acres remaining for industrial development out of the original 3000 acres.

The announcement in 2008 by Volkswagen AG to locate its new U.S. manufacturing headquarters here could not have come at a better time for Chattanooga. This \$1 billion capital investment, which includes a \$40 million training facility, was named by Southern Business & Development Magazine as the "deal of the year". As of July, 2011 the 2000th employee had been hired. 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. Business Facilities magazine cites the location of the plant in Chattanooga as ensuring Tennessee will have a dominant role in auto manufacturing for many years. Volkswagen is Europe's largest carmaker and is working toward their goal to become the largest in the world. As of September, the 10,000th car had been produced. Annual production of 150,000 cars is projected, with a goal of exporting 20% of the total number of cars produced. Expansion plans to double the plant size are still being discussed. 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



*Night reflections on the Tennessee River*



*Sister City ceremony with Wolfsburg, Germany*

facility. They will purchase 16.5 acres to combine with the original 49 acre tract of land it purchased within the industrial park. This will allow a 30,000 square foot addition to their 225,000 square foot facility.

These successes and many more are the result of strong leadership among all the various civic leaders and elected officials. This includes the “Chattanooga Can Do” campaign, being conducted from July 2007 – June 2011. Some other industrial development announcements include Alstom Power (steam turbine manufacturer), Westinghouse Electric Co, Sanofi-Aventis, Dixie Industries expansion, Schaaf Industrie AG (turbine tower maker), Archer Daniels Midland, Aki Nobel, and many more. The Chamber goals through 2011 include the following benchmarks (with progress as of June 2011 in parentheses):

- Increase regional employment by 15,573 (15,874 jobs have been created)
- Increase private investment by \$500 million (\$1.703 billion has been announced)
- Create \$526.8 million in new payroll income

(\$628.7 million has been achieved)

- Increase disposable income by \$421.5 million (\$502.9 million has been achieved)
- Increase net personal consumption by \$390.1 million (\$465.5 million has been achieved)

A new Chamber plan, “Chattanooga Can Do: Building Tomorrow Today” is slated to take place from 2011 – 2015. This new plan has as its primary goal the creation of 15,000 jobs.

Quality education is also the centerpiece of a successful community. Chattanooga State Technical Community College has established training partnerships with local manufacturers to provide industry-specific training to companies such as VW and Gestamp. This approach to educational and training support to industry will serve to attract additional new manufacturing and technical jobs to the area. The University of Tennessee at Chattanooga’s MBA program continues to gain national exposure, appearing on the list of Princeton Review’s Best Business School guidebook for the fourth year in a row in the 2011 edition. Transportation is another key

to a vibrant economy. The Chattanooga area is served by three interstate highways, seven U.S. highways, two railways, airlines, bus service, and the Tennessee River system. Direct flights are available to nine major cities. Chattanooga is home to three major air cargo facilities, three public use port terminals, and four major industrial parks. Railway service is provided by four divisions of the Norfolk Southern Railway System and two divisions of the CSX Transportation System, all with switching service throughout the entire area. Modern “piggyback” service is provided by both lines.

The Tennessee River which flows through the heart of the city has provided the backdrop for the waterfront development projects and is an invaluable source of clean water for consumption, recreation, transportation, and industrial use. The opening of the 21st Century Waterfront in April 2005 marked the culmination of a vision first conceived by Chattanoogaans in the early 1980’s. Through the work of the publicly commissioned

Moccasin Bend Task Force, Chattanoogaans created a shared dream for riverfront redevelopment over twenty years and across 22 miles. With the opening of the \$120 million development on the waterfront, the connection was completed twenty years to the month from the publication of the Tennessee Riverpark Master Plan and included major expansions to the Tennessee Aquarium, the Creative Discovery Museum and the Hunter Museum, as well as many new attractions, public green spaces, and urban wetlands. The public-private investment in the waterfront came on the heels of a \$129 million investment in Chattanooga’s Southside area which was completed in 2003. The Riverwalk, which was begun in 1985, is expected to expand again with a proposed multi-million dollar extension from Ross’s Landing to St. Elmo Avenue. Also, a recent Moccasin Bend Gateway Plan proposes to connect Moccasin Bend with Stringer’s Ridge with walking and biking trails.





These investments continue to pay dividends. Chattanooga's tourism experienced growth over the previous year despite the opposite trend in many major tourist areas around the country. Tourism brings in excess of \$750 million to the area annually. We continue to gain and retain recognition for the diversity in local attractions. 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 8th top livable downtown.

The Enterprise Center serves as an umbrella organization overseeing a number of federally funded entities, many of which have a technology focus. From fuel cell development to heavy duty vehicle wind drag studies to electric and Maglev high speed ground transportation alternatives, each of the independently run entities overseen by The Enterprise Center have come together to form a Council of Managers, encompassing the heads of each agency. As a result, The Center has poised itself as a virtual stage where ideas are presented

and acted upon for the sake of efficient technology and to ensure the economic future of the area.

Downtown is unquestionably important, but there is more to "the greater city" than downtown. Mayor Littlefield recognizes that nothing is more essential to a healthy city than healthy neighborhoods. Beautiful, clean, safe neighborhoods continue to be a primary focus of this administration. Recreation also continues to be an important aspect of our community. The Parks and Recreation Department completed a \$10.5 million softball complex, 83 acres in size, in the eastern portion of the city in 2009. In July 2010, the complex hosted its first Amateur Softball Association tournament, with an estimated \$1 million economic impact. In November, the Amateur Softball Association awarded Chattanooga the 2013 tournament for the 12 and Under teams. This brings with it an estimated \$2 million economic impact.

The fiscal health of Chattanooga City Government remains strong. As outlined in the Management's Discussion and Analysis, the City has maintained a healthy financial position through sound fiscal management. We have a history of strong fiscal

discipline, healthy reserves, and constant review of operations, being ever vigilant to find new efficiencies and cost reduction measures. Standard and Poor's affirmed the City's bond rating at AA+ Stable in September, 2011. Fitch Ratings also affirmed their AA+ Stable rating in September. Moody's affirmed their Aa2 rating with a stable outlook in 2009.

**Long-term financial planning:** The City takes a long range approach to capital spending by the adoption of a five year capital plan. The City Council passed its first property tax increase in nine years for 2011, setting the stage for continued sustainable economic growth and development and maintenance of a vibrant community. As part of the strategic plan, the City deployed an ultra high-speed broadband mesh network that will carry the City well into the future. The network was the key factor in Chattanooga being voted among the world's Top Seven intelligent Communities by the Intelligent Community Forum. At their annual awards ceremony, the city was cited for having the "Coolest Broadband App". Alcatel-Lucent announced a \$100,000 investment to assist the city in development of ways to take advantage of the network as a business development tool.

The City continues its chattanoogaRESULTS and vacancy control programs that began in February 2002. These programs ensure accountability by providing for regular review and monitoring of departmental performance by the Mayor, the City Finance Officer and other senior City officials. The City's annual performance report to the citizens of Chattanooga gives

residents an update on how city services are responding to their needs. It also provides department heads and managers with quantifiable information to assess performance in meeting the City's goal of efficient and effective management of resources in providing quality services to the citizens of Chattanooga.

**Relevant financial policies:** The City Council has 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 set forth and changes are made as needed to meet the desired goals.

**Major initiatives:** A series of annexations has begun which will set the stage for a stronger base for the municipal government. The annexation largely follows the Master Inter-local Agreement and Growth Boundaries adopted a decade ago as provided for under state law. Chattanooga is a major participant in a 40-year regional growth plan, known as the Greater Chattanooga Regional Growth Initiative. The participants include sixteen counties and their major cities from southeast Tennessee, northwest Georgia, and northeast Alabama, including the three metropolitan statistical areas. This is a pioneering effort for a new kind of long-term regional plan. It is a continuation of the type of public visioning and community engagement that has transformed Chattanooga and the surrounding area over the past 30 years.



# Awards And Acknowledgements

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 Chattanooga, Tennessee for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the nineteenth consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports 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 continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

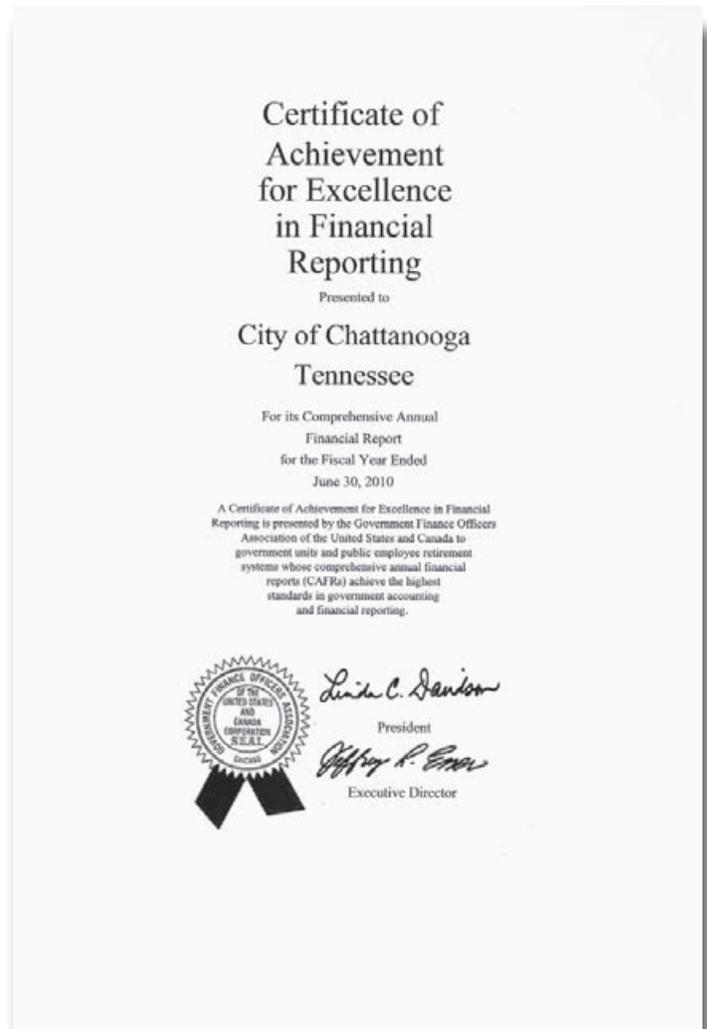
The City also received the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget for each of the sixteen fiscal years for which it applied. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

The preparation of this report could not have been accomplished without the professional and dedicated services of the entire staff of the Finance Department and the City's independent public accountants, Henderson, Hutcherson & McCullough, PLLC. We would like to express our appreciation to members of various City departments who assisted and contributed to the preparation of this report. Further appreciation is extended to the Mayor and the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Respectfully submitted,



Daisy W. Madison  
City Finance Officer



# City Officials as of June 30, 2011

L. Dan Johnson, Chief of Staff



**Ron Littlefield, Mayor**

## CITY COUNCIL:

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

## COURTS:

Sherry B. Paty.....City Court Judge	Russell J. Bean.. City Court Judge
Jan M. Turner..... City Court Clerk (interim)	

## DEPARTMENT ADMINISTRATORS AND DIRECTORS:

Legal .....	Michael McMahan.....	City Attorney
Legislative .....	Carol O'Neal .....	Clerk of the Council
Finance and Administration.....	Daisy W. Madison .....	Administrator
	Vickie C. Haley.....	Deputy Administrator
Education, Arts & Culture .....	Missy N. Crutchfield .....	Administrator
Fire.....	Chief Randall L. Parker .....	Administrator
Human Services .....	Ron Swafford .....	Administrator
	Donna Stone.....	Deputy Administrator
Neighborhood Services and .....	Beverly P. Johnson .....	Administrator
Community Development	Anthony Sammons.....	Deputy Administrator
Parks and Recreation .....	Lawrence A. Zehnder.....	Administrator
Personnel .....	Donna Kelley.....	Administrator
Police.....	Chief Bobby H. Dodd .....	Administrator
Public Works.....	Steven C. Leach .....	Administrator
	D. Lee Norris .....	Deputy Administrator

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Brian Smart.....	Manager, Financial Operations
Fredia F. Kitchen .....	Budget Officer
Gayle P. Keown.....	Treasurer
Mark J. Keil.....	Director, Information Services
Artie L. Prichard .....	Purchasing Manager
Paul R. Page .....	Director of General Services
Stanley L. Sewell .....	Director of Internal Audit
Madeline W. Green.....	Risk Manager
Sandra Gober .....	Manager, Community Development
Gary B. Hilbert.....	Director, Codes and Inspection
James H. Templeton .....	Director, City Wide Services
Jerry W. Stewart.....	Director, Waste Resources
William C. Payne .....	City Engineer
John Van Winkle .....	City Traffic Engineer
Harold E. DePriest.....	President and CEO, Electric Power Board
Eva Johnston..	Interim Director, Chattanooga-Hamilton County Bicentennial Library
Micheal J. Landguth.....	President and CEO, Metropolitan Airport Authority
John Bridger .....	Director, Regional Planning Agency
Robert H. Colby .....	Director, Air Pollution Control Board
(Vacant).....	Director, Scenic Cities Beautiful Commission

# Organizational Chart

