

Mayor's Letter



City of Chattanooga
Office of the Mayor

City Hall 101 East 11th Street Chattanooga, Tennessee 37402

December 11, 2015



Mayor Andy Berke

To the Citizens and City Council of the City of Chattanooga:

I am honored to present the City of Chattanooga's annual financial report for the year ended June 30, 2015. Every day, my Administration ensures city government's actions match our community priorities of safer streets, smarter students and stronger families, a growing economy, stronger neighborhoods, and high performing government. We are committed to addressing these important priorities – and we are seeing clear results.

Over the past year, we have made our streets safer for more Chattanoogaans. Robberies are at a five-year low, property crime is down 22%, and violent crime is down 4.75%. While the rate of violence is rising in cities across the country, Chattanooga has seen a slight but steady decrease in shootings and homicides. In addition, our police department is making strides with our Community Police Response to Victims of Violence (CPRVV) initiative. Recognized as a national best practice, CPRVV is building relationships between law enforcement and victims to ensure cooperation and trust during the investigative process.

We know local government is most effective when we partner with businesses, nonprofits, and local organizations to move the needle in a variety of ways, including growing our economy. To that end, Chattanooga's unemployment rate has declined from 7.8% on April 2013 to 5.4% today. Last year, 3,341 new jobs were created and we experienced the third fastest wage growth of any mid-sized city in the country. This focus on our local economy and high quality of life puts Chattanooga on the "Best Of" lists throughout the year, from one of the *Best Cities to Start a Business and a Best Place to Retire to Outside Magazine's designation of Best Town Ever*.

Chattanooga's focus on innovation and technology can be seen throughout our community. Whether visiting a new startup located in our downtown Innovation District to dropping in on an award-winning Tech Goes Home class at a neighborhood church, we are working to ensure everyone has an opportunity to participate in the 21st Century. And while access to technology like the Internet is critical, we also know that the foundation for future success must be established early on. That's why the City has invested in our families like never before, from teaching students how to read at one of our 18 Youth & Family Development Centers to teaching parents how to be their child's first educator at Baby University, which provides important resources to some of our most underserved families.

All of this work is to ensure every Chattanoogaan can live the life of their choosing. That means streets safe from the threat of violence and more job opportunities, especially those that build our middle class. It means thriving neighborhoods where families are strong and kids have access to opportunity. And it means a local government committed to using taxpayer dollars efficiently and effectively to provide the best services possible and enhance the quality of life for all Chattanoogaans.

Sincerely,

Mayor Andy Berke

City of Chattanooga



City Council



Chip Henderson
District 1



Jerry Mitchell
District 2



Ken Smith
District 3



Larry Grohn
District 4



Russell Gilbert
District 5



Carol Berz
Chair
District 6



Chris Anderson
District 7



Moses Freeman
Vice Chair
District 8



Yusuf Hakeem
District 9



Letter of Transmittal



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

December 11, 2015

To the Honorable Mayor Andy Berke, 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, 2015 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, 2015. 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. 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, Ala-

bama; and Atlanta, Georgia. Over 11 million people live within a 2 to 2½ hour drive of Chattanooga. It encompasses an area of 148 square miles. Official results of the 2010 U.S. Census show a population of 167,674, a 7.8% growth since the 2000 Census. The Census Bureau now estimates the population at 173,366. The City is empowered to levy a property tax on both real and personal property located within its boundaries. Corporate limits may be extended at the request of the property owner or by a referendum of the people in the affected areas that might want to petition to come into the city.

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; youth and family development; 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 wastewater 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 Chattanooga Downtown Redevelopment Corporation which is reported along with EPB as an enterprise fund. Additional services are provided through the legally separate Metropolitan Airport Authority and the Chattanooga Area Regional Transportation Authority (CARTA), both 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.

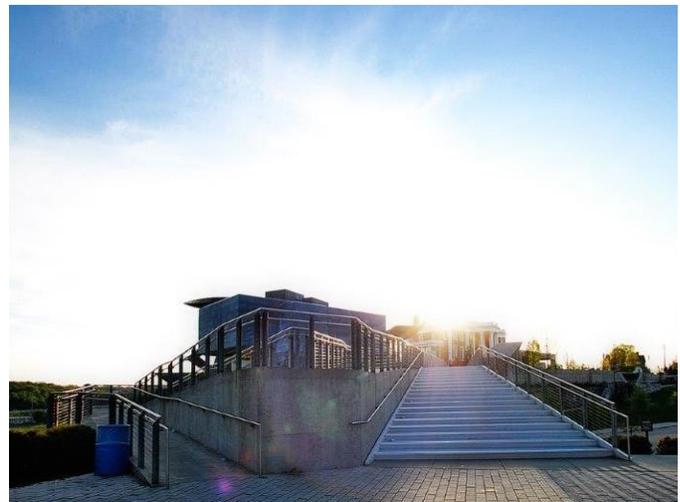
The annual budget serves as the foundation for the City's financial plan. In lieu of the traditional approach, the City develops its annual budget utilizing the Budgeting for Outcomes (BFO) approach. BFO is a process designed to operate a government that works better and cost less. It is based on the premise that the percentage of personal income the public is willing to pay for their government through taxes, fees, and charges is fixed. While the "price of government" is fixed, the cost of providing services is increasing. Budgeting for Outcomes focuses on results and priorities, not cost. The budget process shifts from paying for costs to buying results. It puts citizens and their priorities, not status quo, first. It emphasizes accountability, innovation, and partnerships. The City Finance Officer obtains budget offers from all City departments and agencies to address the major results area communicated by the citizens. These results areas are safer streets, a growing economy, stronger neighborhoods, smarter students and stronger families, and high performing government. Offers are evaluated by a Results Team and allocations are recommended by the Mayor based on citizens' priorities and available funding. During the months of April, May and June, advertised public hearings are held by the council whereby 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. The City Finance Officer is authorized to make intra-fund transfers if necessary and report to council. Budgetary comparison schedules are provided in the budget document 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: The City of Chattanooga is well positioned for future growth. Employment in the Chattanooga area is diverse. The top employment sectors of trades, transportation, and utilities (21%), government (13%), manufacturing (13%), professional and business services (19%), education and health (14%), and leisure and hospitality (12%) comprise 92% of the workforce. The local unemployment rate of 5.6% for the Metropolitan Statistical Area is comparable to the state and national averages of 5.7% and 4.9% as of September, 2015, according to information from the Tennessee Department of Labor and Workforce Development. Tennessee added jobs at twice the rate of the rest of the country over the past year. Specifically in the Chattanooga MSA, wages grew twenty-five percent faster than the U.S. Average in 2014, the most recent figure available from the U.S. Bureau of Labor Statistics, ranking 3rd among medium size cities.



Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. 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 eight major cities. The Airport is adding 300 parking spaces as boardings continue to rise, perhaps on track to exceed 400,000 in 2015. 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.

Employment in the retail service sector continues to thrive. Hamilton Place Mall, which is in its 29th year of opera-



tion, anchors the area's I-75 retail corridor. Retail expansion continues just north of the mall at Waterside, a mixed used development encompassing over 40 acres. The Hixson area at the north end of Highway 153 is also enjoying a resurgence of activity. Additionally, car dealerships in highly visible locations along I-24, I-75, and Highway 153 make the bulk of area car sales where dealers are enjoying increased sales activity as a result of lower fuel prices and a continually improving local economy.



Downtown is continuing to add hotels, housing, and office space. The first phase of a proposed \$100 million housing and commercial project on the west side of downtown along the river is nearing completion. Once finished, it will include 39 homes and luxury townhomes along Riverfront Parkway expected to range upward from \$319,000 each. A \$19 million hotel, with 140 rooms, is currently nearing completion.

Other new hotels are in the early development or planning stages. These include a 90-room upscale boutique hotel slated to open in 2016 near the Tennessee Aquarium and the possibility of another 500 rooms to be located in the former Blue Cross Blue Shield building on Pine Street. New development in the core of the city is also being planned. The vacant 700 block of Market Street has been purchased by a developer who hopes to construct a 10-story building on the site which will hold retail, office, and up to 125 apartments. Additionally, the McClelland Building on Broad Street and the First Tennessee Bank Building on Market Street are being considered for redevelopment to include apartment space. The old Fleetwood Coffee Building, just east of City Hall is well on its way to a complete renovation which will house apartments and office space. On the Southside, portions of the Chattanooga Choo Choo complex are being reconstructed into affordable housing and additional space for entertainment. These projects, along with numerous other housing and retail developments under construction or consideration throughout the city, are in response to increasing demand for downtown housing and retail which ensures sustained economic growth in the coming years.

Chattanooga remains a world leader in technology, having been the first city in the world to offer a one-gigabit per

second internet service since 2010 through the Electric Power Board (EPB), Chattanooga's municipal power provider. We have now become the first city to offer a ten-gigabit connection to all customers in the service area. The Fiber-to-the-Home (FITH) network has offered a one-gigabit per second internet service since 2010, putting Chattanooga at 10 times faster and 10 years ahead of the FCC National Broadband Plan, according to EPB officials. The ten-gigabit network is available to all 170,000 homes, schools, and businesses in the service area, a total of 600 square miles that covers urban, suburban, and rural places and a diverse population of 300,000 people. The system is 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 in 2010 dramatically accelerated the installation in 2012 of the Smart Grid, shortening the planned five year implementation schedule to two years. A wireless mesh network is piggybacked onto the entire system, enhancing public safety as well.

To take advantage of the 10-gig speed, the city has established NoogaNet in city-owned spaces and buildings to provide free Wi-Fi. As of 2015, EPB has over forty percent of the market. Approval has been received from the Federal Communications Commission to offer service outside the existing service area, and EPB anticipates final regulatory changes by the State of Tennessee that would enable them to carry out those expansion plans. To date, over \$300 million has been invested in the fiber optics and smart grid. Few other cities in the world offer such service.

The economic impact to the area as a result of the EPB fiber optic network has approached \$1 billion since its inception according to a study the University of Tennessee at Chattanooga, with an estimated creation of 2800 jobs. The high-speed internet continues to attract competition and international visitors. In 2015, Chattanooga hosted its fourth GigTank competition, with specialists from around the world to develop business ideas. The availability of technology helped foster "Startup Week Chattanooga" which held its second annual week-long workshop in October to provide a networking venue for internet entrepreneurs.

Manufacturing continues the resurgence that began in 2008 with the announcement that Volkswagen AG would locate its United States manufacturing headquarters in Chattanooga. Since that time, the area has attracted \$4 billion in foreign direct investment. The Enterprise South Industrial Park (ESIP), home to Volkswagen AG, hosts numerous companies associated with automobile manufacturing, as well as an Amazon distribution center. The 3000 acre industrial site has essentially been filled or committed for potential expansion of the VW plant which will house the new SUV designed and built specifically for the U.S. market. The \$900 million expansion, including \$600 million by VW, \$230 million from state and local government, and up to \$70 million in additional incentives and infrastructure improvements over the next decade, brings local economic development efforts to fruition. The City and County



share equally a \$52.5 million direct investment in this expansion. VW retains an option on 900 additional acres adjacent to their 1300 acre facility, in anticipation of significant additional future expansion. Spanish supplier Gestamp, a world leader in hot-stamp technology and a Tier 1 supplier for VW, BMW, and Mercedes-Benz, has embarked on a \$180 million expansion of its existing facility as well as a second plant on site and a third location in an existing building near the park on Jersey Pike. The company, which already had a significant presence as a supplier of cold-stamped components, says the expansions will create an additional 500 jobs. Plastic Omnium Auto Exterior has located a \$65 million factory to furnish exterior automotive parts, adding up to 300 jobs.

Chattanooga is one of the leading areas in the state for business start-ups. Large announcements get the headlines, but small business growth can make up the bulk of our job growth and diversity. Our success in this regard is driven by technology, capital venture funding, business incubators, and a new City initiative which will award a total of \$100,000 in City grants to small companies. The City awards are based on a formula which evaluates pay per job created. There is also a new initiative called the “Innovation District” designed to connect entrepreneurs who have creative ideas with existing businesses to jump start new successful companies.



Retention of existing jobs can be as important as the addition of new. Not only is the city attracting new industry, it is retaining and expanding historic industry as well. The Chattanooga Coca-Cola Bottling Company, with a presence in our city for 115 years, broke ground in 2014 on a new \$62 million distribution center and regional headquarters, expected to be completed in January, 2016. The new facility near I-75 will absorb the Dalton, Georgia and Scottsboro, Alabama distribution regions and will bring over 40 jobs in addition to the 270-employee base. The bridge at the exit to the facility from Highway 153 is being widened at a cost of \$5.3 million, including intersection improvements, to allow easy access for employees and deliveries as well as provide improved access to the airport. These successes and many more are the result of

strong leadership among all the various civic leaders and elected officials.

The third phase of the Chattanooga Chamber of Commerce “Chattanooga Can Do” campaign, conducted from July 2011 – June 2015, set goals for job growth. These goals were far exceeded as indicated below.

<u>Goal to increase</u>	<u>Target</u>	<u>Actual</u>
Regional Employment	15,121	17,536
Private Investment	\$550 M	\$1.08 B
Payroll	\$427 M	\$810.5 M

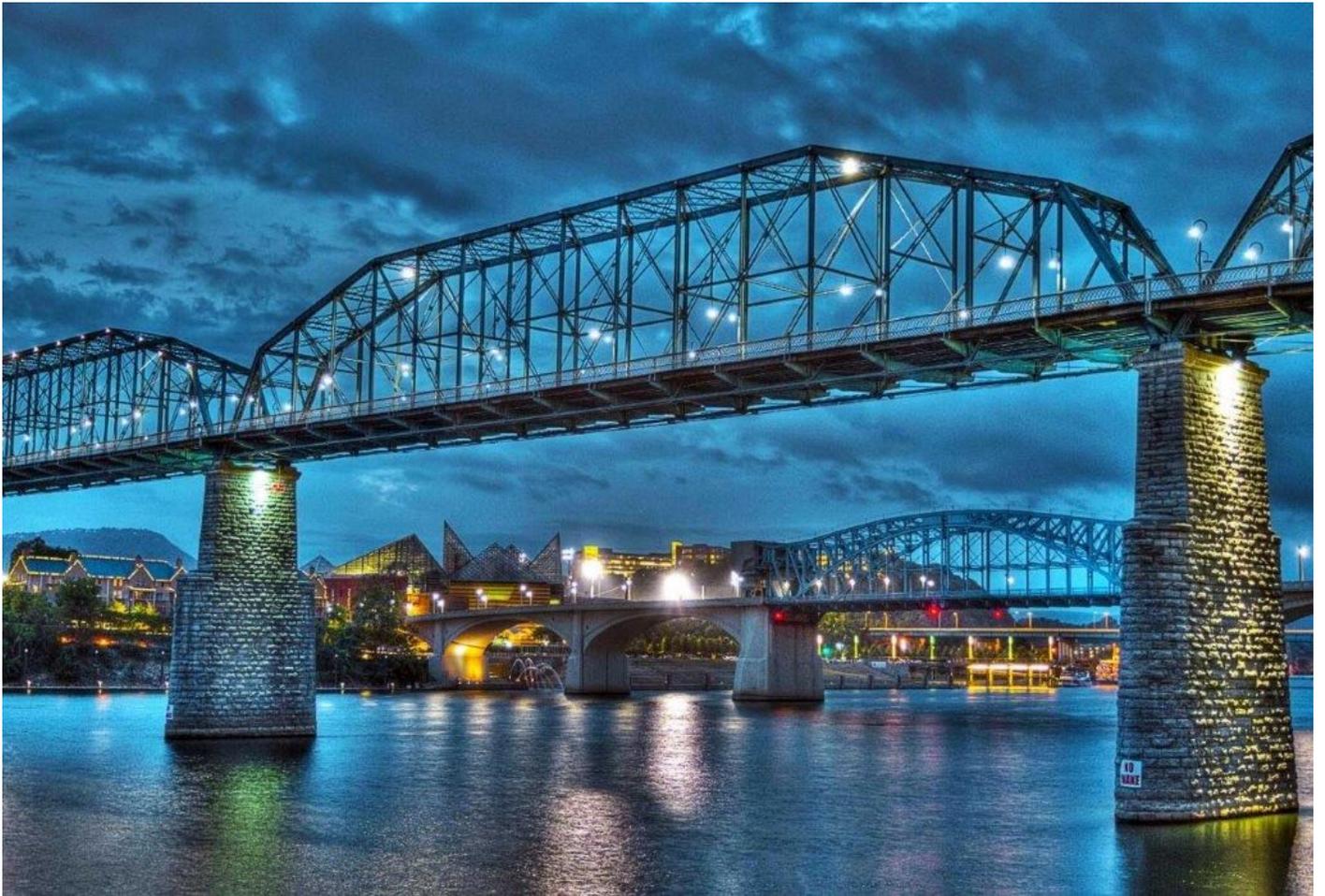
Quality education is the centerpiece of a successful community. A study released by the Manhattan Institute shows the number of adults age 25 and over in the Chattanooga MSA with a bachelor’s degree or higher has increased over 40% since 2000. Chattanooga State Technical Community College maintains five training partnerships with local manufacturers or groups to provide industry-specific training to students, allowing flexibility so programs can be tailored to current needs. This approach to educational and training support to industry will serve to attract additional new manufacturing and technical jobs to the area. The Hamilton County Public School System has established a school for Science, Technology, Engineering and Math (STEM), located on the Chattanooga State campus, which provides coursework based in hands-on training and offers internships or apprenticeships to the students.

Another contribution to the local economy is the level of support we continue to enjoy from several national events held here. Among those which took place over the past year were the Head of the Hooch rowing competition, the USA Cycling pro championships and Ironman Chattanooga. These and a host of regional tournaments, outdoor events, and recreational activities, bring millions to the local economy and help keep Chattanooga in the forefront.

The fiscal health of Chattanooga City Government remains strong. As outlined in the Management’s Discussion and Analysis on page iv, 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 Ratings Services raised the City’s bond rating to AAA in November, 2013, which was reaffirmed as AAA Stable in October, 2015. Fitch Ratings affirmed their bond rating for the City at AA+ Stable in October, 2015. The EPB maintains AA+ ratings from S&P and Fitch.

Long-term financial planning: The City takes a long range approach to capital spending by the adoption of a five year capital plan. As part of the strategic plan, the new





administration has restructured operations to include a department of economic and community development and hired a capital planner to focus intensely on long term sustainability and economic growth. The City continues to explore growth opportunities through economic development, regional growth plans, and other strategic initiatives that involve all citizens.

The City began a new approach to budget preparation and management with the Fiscal Year 2014 budget, known as Budgeting for Outcomes. This approach, in its third year with the Fiscal Year 2016 budget, is designed to measure results against goals and benchmarks used in determining funding levels for all city operations. Budgeting for Outcomes provides 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. A new Open

Data portal is being developed which will improve transparency and promote citizen engagement and will include regular updates to the budget and spending for the public to view on the City's website.

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: Over five (5.8) square miles have been annexed since May, 2001. Chattanooga is a major participant in a 40-year regional growth plan, known as the Greater Chattanooga Regional Growth Initiative, or "Thrive 2055". The participants include sixteen counties and their major cities from southeast Tennessee, northwest Georgia, and northeast Alabama, including the three metropolitan statistical areas. This public-private initiative 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 Acknowledgments

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, 2014. This was the twenty-third 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.

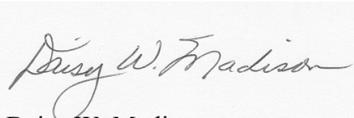
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal 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 twenty 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 GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting was received for the fiscal year ended June 30, 2015. This is the fourth consecutive year for which the City applied for the award. In order to qualify, a government must publish a Popular Annual Financial Report with contents that conform to program standards of creativity, presentation, understandability, and reader appeal.

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, 2015



EXECUTIVE BRANCH:

Andy Berke, Mayor
 Travis McDonough, Chief of Staff
 Brent Goldberg, Chief Operating Officer

CITY COUNCIL:

	Carol Berz, Chair.....District 6	
Moses Freeman, Vice Chair.....District 8		Larry Grohn.....District 4
Chip Henderson.....District 1		Russell Gilbert.....District 5
Jerry Mitchell.....District 2		Chris Anderson.....District 7
Ken Smith.....District 3		Yusuf Hakeem.....District 9

COURTS:

Sherry B. Paty.....City Court Judge Russell J. Bean.....City Court Judge
 Ron Swafford.....City Court Clerk

DEPARTMENT ADMINISTRATORS

Legal.....	Wade Hinton.....	City Attorney
Legislative.....	Sandra Freeman.....	Clerk of Council
Finance and Administration.....	Daisy W. Madison.....	Administrator
	Vickie C. Haley.....	Deputy Administrator
Fire.....	Chief Chris Adams.....	Administrator
Economic and Community Development	Donna Williams..... Anthony Sammons.....	Administrator Deputy Administrator
Police.....	Chief Fred Fletcher.....	Administrator
Public Works.....	Lee Norris.....	Administrator
Youth and Family Development.....	Lurone Jennings.....	Administrator
Transportation.....	Blythe Bailey.....	Administrator



Organization Chart

