

Mayor's Letter



City of Chattanooga
Office of the Mayor

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

December 15, 2010

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

It is once again my pleasure to present the City's annual financial report for the fiscal year ended June 30, 2010. This report documents our sound financial position and operations for the year. As Mayor of the City of Chattanooga, I am charged with the responsibility of making sure that the City's financial resources are used wisely and effectively to promote sustainable economic growth and fiscal stability.

This has been an exceptional year for Chattanooga. While other cities aspire to become a model of next-generation technology users, The City of Chattanooga has quietly installed the fastest and most comprehensive Fiber-to-the-Home (FITH) and Smart Grid in the United States. By the end of 2010, the FITH network will grow to include all 170,000 homes and business in the community delivering video, phone, and up to 1 gigabit Internet service to every residence and company in a 600 square mile area.

We are fortunate to enjoy a favorable economic environment with a significant commercial presence and a strong employment base. While our local economy has felt the impact of the recent economic downturn, we are in a better position than most other cities nationally. City, County and State governments together with the Chattanooga Chamber of Commerce continue to attract an unprecedented number of businesses to the area.

It is a privilege to be a part of the success of this community and I look forward to working with the council as we continue to make Chattanooga the most transformed community in the nation.

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



Manuel Rico
Chairman
District 7



Pam Ladd
Vice-Chair
District 3



Deborah Scott
District 1



Sally Robinson
District 2



Jack Benson
District 4



Russell Gilbert
District 5



Carol Berz
District 6



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, 2010

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, 2010 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.

Hazlett, Lewis & Bieter, PLLC, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the City of Chattanooga’s financial statements for the year ended June 30, 2010. 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.

GAAP 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
Photo by Lawson Whitaker*



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 145.02 square miles and a population of 171,345, a 10.2% 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". The City's most recent annexation included .86 square miles with a population of 360 and over \$26.4 million of appraised property value.

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, internet, and cable 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 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 (21.0%), government (14.8%), manufacturing (12.3%), professional and business services (17.2%), education and health (13.7%), 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.



Business Facilities magazine named Chattanooga its top pick for growth in its July/August 2010 edition. Chattanooga also led the rebound in regional job growth for the first quarter of 2010, according to the Brookings Institute. Moody's Economy.com forecast that job growth in the Chattanooga area will rebound at a twenty percent greater rate than the national average. Chattanooga ranked 3rd among the most affordable cities to buy a home in an article published by Forbes.com in June, 2010.

Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. The local unemployment rate of 8.3% remains significantly below the state average of 9.4% and the national average of 9.2% as of September, 2010. Fiscally, the City of Chattanooga is well positioned to weather the current economic downturn. Information released by the Bureau of Labor Statistics shows the Chattanooga area has fared better than the other major Tennessee metropolitan areas, having added 2900 jobs in the past year. 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. 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. "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". By the end of 2010, EPB (Chattanooga's municipal power provider), estimates that its Fiber-to-the-Home (FITH) network will grow to become available to all 170,000 homes and businesses in the community. This puts Chattanooga at 10 times faster and 10 years ahead of the FCC National Broadband Plan, according to EPB officials. EPB is including every home, school, and business in a 600 square mile area 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.

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 has been more than 96 publicly announced new expansion projects bringing over 7,559 new jobs and saving over 630 additional jobs to the community. The Enterprise South Industrial Park (ESIP), the new home to Volkswagen AG's U.S. manufacturing headquarters, 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. 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.

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, named by Southern Business & Development Magazine as the "deal of the year", will bring a total permanent direct workforce of 2,000 jobs worth \$100 million in annual payroll. The completed plant will cover approximately 2.5 million square feet. Volkswagen is Europe's largest carmaker and is working toward their goal to become the largest in the world. To date, the company has already hired 1,000 employees. Annual production of 150,000 cars, some of which are expected to be exported to Mexico and Canada, will begin in 2011. Expansion plans to double the plant size could begin shortly after production startup, depending on economic conditions.

Support industries are expected to bring an additional \$500 million investment and 12,000 jobs. In total, a \$600 million annual economic benefit to the area is expected. VW has already announced a \$20 million supplier park, to be located on 85 acres adjacent to the plant, which will hold approximately 10 companies to be located in buildings totaling 400,000 square feet in size. Gestamp Corporation, a supplier of stamped parts for VW, broke ground on a \$90 million facility on a 49 acre tract of land it purchased within the industrial park. To date, suppliers have announced the creation of approximately 800 jobs.

