

CITY OF CHATTANOOGA, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

**DEPARTMENT OF FINANCE AND ADMINISTRATION
DAISY W. MADISON, ADMINISTRATOR**

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Mayor's Letter

January 9, 2008

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

I am pleased to present the annual report of the City of Chattanooga for the fiscal year ending June 30, 2007.

This year's report outlines the City's solid fiscal performance and sound financial management. As always, my goals are to continue focusing on economic development, improving our neighborhoods, providing responsive government, and effectively delivering the best services possible.

Chattanooga is a beautiful and historical city. This year, we had a unique look into our historic past when we discovered the long forgotten 1908 time capsule in the cornerstone of City Hall. Our city has undergone tremendous change since 1908. In May of 2007, we were pleased to re-open Chattanooga City Hall after a much needed total restoration and renovation. Our seat of government is once again befitting the growing and prosperous metropolitan city that we are today.

Economic development continues to be a strong priority for this administration. Efforts to expand our local industrial mega site, Enterprise South, and the new I-75 interchange are paying off. This year, we gained international attention when Chattanooga was selected as one of two final contending locations for Toyota Motor Corporation's new manufacturing site. Although we finished a close second, we proved that Chattanooga has the necessary infrastructure to make it an attractive site for world-class developments.

To engage the youth of our community in a positive way and to offer creative solutions to youth violence, our local government offices, foundations, and corporate citizens created the "Youth School to Work Program" providing at-risk students with paid internships in the community (including city government) to encourage them to make connections, observe various career paths, and develop the abilities to make the right choices for a brighter future.

To further create stronger, more unified neighborhoods, I started regular "Mayor's Neighborhood



Mayor Ron Littlefield and his wife, Lanis arrive dressed in their 1908 apparel for the Grand Re-Opening of City Hall
Photo by Lawson Whitaker



Ribbon cutting ceremony at City Hall's Grand Re-Opening.

Photo by Dottie Swasey

Meetings” for each of Chattanooga’s nine council districts. These meetings have already proven to be beneficial and educational - benefiting our residents and my administration.

We have fulfilled our promise of increasing investment in new sidewalks. More have been created during this administration than during any previous time in recent history. To continue making our neighborhoods safer, our police department is carrying out regular “crime suppression exercises” which have proven not only effective, but also very useful in enhancing local and federal inter-agency communications and cooperation. Since we began these unannounced multi-agency raids, we have arrested well over two hundred and fifty criminals and cited others for hundreds of various offenses.

This year, the Electric Power Board, a city owned utility, will begin offering residential and corporate clients the most innovative and technologically advanced infrastructure for transfer of information in this digital age. The expansion of their fiber optic system will allow consumers the ability to have greater choices for cable, high speed internet, and phone service. This is a project that the Electric Power Board has been seeking to implement for several years and will definitely be a major selling point for our community.

By offering new recycling drop off centers around our community and switching all of our diesel trucks, including our recycling trucks, to Biodiesel, we have improved our environment in two significant ways. We have further reduced waste going into landfills while improving the air we breathe.



*Dan Johnson, Chief of Staff
Photo by Lawson Whitaker*



Mayor Littlefield at his desk. The historic desk was first recorded being used by Mayor Edward W. Bass in 1927, the longest continuous serving mayor in Chattanooga’s history. It was found covered with boxes and printers in the police department, and was refinished and brought back to City Hall.

Photo by Lawson Whitaker

These are just a few of the dramatic changes affecting the City of Chattanooga. Not only have we transformed our economic base and local neighborhood aesthetics, but we have continued to implement better environmental practices and policies so that we might leave a cleaner, more environmentally friendly city to our future generations.

We have made great strides as a city and we are on the right track for our future. As your Mayor, I look forward to hearing from you and working hard to make Chattanooga a better place to live, work, and play.

Sincerely,

Ron Littlefield, Mayor

Chattanooga City Council



District 1 Linda G. Bennett Vice Chairperson	District 2 Sally L. Robinson	District 3 Dan B. Page Chairperson	District 4 W. Jack Benson, Sr.	District 5 John P. Franklin, Jr.	District 6 Marti P. Rutherford	District 7 Manuel Rico	District 8 Leamon Pierce	District 9 Deborah C. Gaines
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Chattanooga City Hall



Photo by Dottie Swasey

From its conception, Chattanooga was a city with enormous potential and natural beauty. The once small Indian village of Chief John Ross had become a bustling industrial and railroad town. The boisterous sounds of mighty steam engines were common in Chattanooga. Her great rail stations could take passengers all over America and in 1890, she was deemed the “Pittsburgh of the South”.

The original City Courthouse was small, wooden, and needed to be rebuilt. To quote the

words of former Mayor William R. Frierson, *“Here it is proposed that there shall be a governmental house where the public business may be conducted in a manner and with a dignity befitting a splendid city.”*

With that idea, our forefathers envisioned a glorious new city hall worthy of a growing metropolis. They chose to enlist the talents and creative genius of a local, self taught architect named R. H. Hunt. Hunt’s designs would later be the building blocks of many of the most notable buildings in Chattanooga and in the southwest United States, including two of the largest churches of his era located in Dallas, Texas and Norman, Oklahoma.

Construction Begins

The preparation of the new Chattanooga City Hall began years before its official cornerstone laying on April 24, 1908. Then Mayor A. W. Chambliss requisitioned \$30,000 dollars in 1905 for the purchase of the land for the new City Hall. The plans for City Hall were approved during the administration of Mayor William R. Frierson.

Construction began sometime in the late summer or early fall of 1907. On April 24, 1908, a stormy and rainy day, around 3:00 o’clock in the afternoon, the commemorative cornerstone was hoisted and set in place by numerous citizens and public officials. Captain H. A. Chambers, a Civil War veteran and City Alderman, helped to insert a small copper box into the cornerstone of the new City Hall.



In the right foreground you can see the construction site for City Hall, with the Custom House and the Hotel Patten in the background.

Photo courtesy of Chattanooga-Hamilton County Bicentennial Library



The Custom House circa 1907. The corner lot in the foreground is where City Hall stands today.

Photo courtesy of Chattanooga-Hamilton County Bicentennial Library

At the laying of the cornerstone, Mayor R. W. Crabtree stated, *“We determine the civilization, the culture, and the worth of the people of past ages to a large extent by the permanence, the beauty, and the utility of their public improvements and public buildings.”*

When City Hall was first designed, an estimated twenty people worked in the building. Its offices were large and as the years passed, more people would be hired as the city government continued to grow. In the beginning, all four of the city departments were housed in City Hall.

For the next one hundred years, the City Hall would serve the citizens of Chattanooga respectfully. Before

1980, it would see three minor renovations including the retrofitting of the top floor for Chattanooga's first computer in 1964.

In 2004, then Mayor Bob Corker and City Council members decided to completely renovate Chattanooga City Hall. It proved to be a major undertaking that would last well over two years.

The renovation process was never dull. Construction crews continuously found hidden articles, including some of the original windows and doors which had been plastered over to make walls. Some of the windows were still open.



Artifacts found during the renovation of City Hall.

Photo by Dottie Swasey

City Hall was built in a 'U' shape with the inside part of the 'U' remaining hollow and used as a courtyard where employees could eat lunch or relax during their breaks. As was the custom before air conditioning, this 'U' shaped design allowed for greater air movement throughout the building when windows were opened.

In the late 1940's when air conditioning became available, the space was framed in to create more office space as the number of city employees increased. When the area was blocked in, the original windows and walls were left in place and plastered over hiding all traces of their existence until the renovation in 2005.

The eighteen foot high ceilings, with the once ornate cornice moldings which adorned Chattanooga's magnificent City Council and Alderman's Chambers, were hidden by dropped ceilings when the first computer was installed in 1964. The beautiful molding and cornice work would not be found until workers started removing pieces of the dropped ceilings during the renovations.

Other items were discovered in unusual places such as the plumbing chase, attic, and walls. Some of these objects were empty liquor bottles, pipe tobacco tins, snuff cans, men's razors, pipes, and drinking cups.



The Discovery of the 1908 Time Capsule

The most celebrated artifact found in City Hall was the original 1908 cornerstone time capsule. After finding newspaper accounts mentioning the laying of a ceremonial copper box within the cornerstone, city officials began studying the last location of the time capsule by piecing together records and historical accounts.

On February 7, 2007, a cold and windy day, officials, city employees, reporters, residents, and construction crews gathered at the southwest corner of Chattanooga City Hall to witness the removal of the original 1908 cornerstone.

Once the cornerstone was removed, it was evident there was a time capsule inside. The time capsule was carefully removed by Mayor Ron Littlefield and then City Council Chairman



Mayor Ron Littlefield and Councilman Leamon Pierce retrieve the time capsule from the cornerstone

Photo by Michelle Michaud



City officials and media gather to view the contents of the time capsule.

Photo by Dottie Swasey

Leamon Pierce and brought to the City Council Chamber where local archivists were on hand for the opening.

The time capsule contained numerous articles of intrinsic value from the year 1908. Inside the hand made, leaden sealed copper box, city officials found several signed business cards from city employees and elected officials. Also recovered was an original poster depicting the architectural creations of the building's architect, R. H. Hunt.

The capsule also included three well preserved and complete newspapers, The Chattanooga Times, Chattanooga News, and what would become the only surviving intact copy of the Chattanooga Star.

City officials were delighted to find an original 1908 city directory with pull out advertisements and the name of President Theodore Roosevelt inscribed in pencil on the inside cover. Other interesting articles found were a signed adult pass to the Oxley Zoo and various handwritten letters from the Chattanooga Manufacturing Association and the Chattanooga Chamber of Commerce.

Chattanooga City Hall Today

Chattanooga City Hall stands as a proud monument of our city's long history. For one hundred years, this grand, opulent building has witnessed the turmoil of two world wars, the Great Depression, the Korean, Vietnam, and Iraq conflicts, two forms of government, and eighteen mayors. Today, its walls now hold the Mayor's Office, Treasurer's Office, the Departments of Personnel, Neighborhood Services and Community Development, Internal Audit, and Finance and Administration.

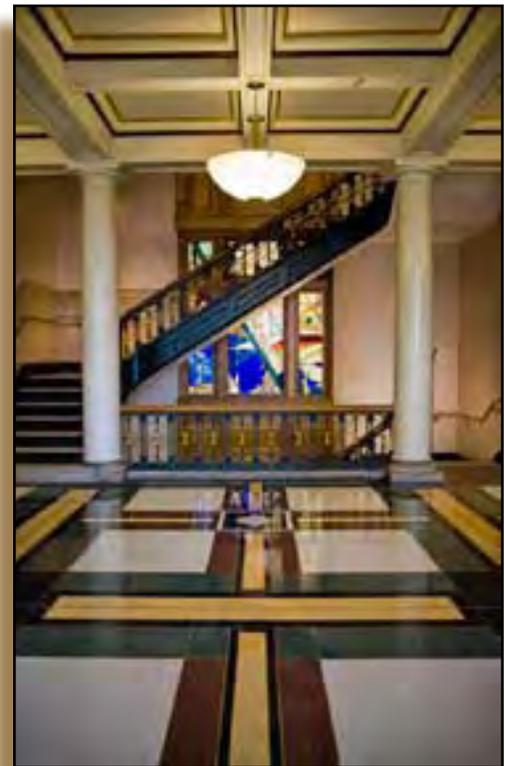
From its first rough sketch from the hands of a self taught local architect to the finishing touches on its 2007 renovation, the halls of this historic building continue to echo the words of former Chattanooga Mayor, William R. Frierson,

"Here it is proposed that there shall be a governmental house where the public business may be conducted in a manner and with a dignity befitting a splendid city."



The main hallway in the Mayor's office

Photo by Lawson Whitaker



The remodeled lobby of City Hall

Photo by Lawson Whitaker



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DEPARTMENT OF FINANCE AND ADMINISTRATION
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January 9, 2008

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

In compliance with state and local statutes, I am submitting the Comprehensive Annual Financial Report (CAFR) of the City of Chattanooga for the fiscal year ended June 30, 2007. These ordinances and statutes require that the City of Chattanooga issue annually a report on its financial position and activities, and that an independent firm of certified public accountants audit this report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management of the City of Chattanooga has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Chattanooga's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this report is complete and reliable in all material respects.

The City of Chattanooga's financial statements have been audited by Hazlett, Lewis & Bieter, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Chattanooga's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent



Daisy W. Madison, Finance Officer Photo by Lawson Whitaker

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.

GOVERNMENTAL STRUCTURE, ECONOMIC CONDITIONS AND MAJOR INITIATIVES

PROFILE OF THE GOVERNMENT

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 144.16 square miles.



Steamers "Missionary" and "Chattanooga" near Ross's Landing circa 1864.

Photo courtesy Chattanooga-Hamilton County Bicentennial Library

The official 2000 Census showed the city with a population of 155,554. The census estimate for 2006 shows the city has grown to a population of 168,293. 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" agreed to between the city and the county.

The City operates under a Mayor/Council form of government. The 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 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 storm water maintenance program and a sewer and sewage facility system for its residents and for other communities in southeast Tennessee and northwest Georgia.

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 for which appropriations are made and/or revenues are

collected and compiles the operating budget for submission to the Mayor. During the months of May and June, the City Council hears budget requests from the departments and agencies at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments 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 may make interdepartmental transfers within the General Fund. Budgetary comparison schedules are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.



Chattanooga's Market Street circa 1908

Photo courtesy Chattanooga-Hamilton County Bicentennial Library

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 City's Economic Future: Employment in the Chattanooga area is diverse. The top employment sectors of trades, transportation, and utilities (22.4%), government (14.2%), manufacturing (14.2%), professional and business services (11.1%), education and health (10.4%), and leisure and hospitality (9.5%) comprise 81.8% 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 15 million visitors a year. The Chattanooga-based retail mall owner is completing a 76,000 square foot headquarters building on site.



The 21st Century Waterfront at Ross's Landing.

Photo courtesy Chattanooga Area Convention and Visitors Bureau

Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. The local unemployment rate of 3.9% remains significantly below the state average of 4.4 % and the national average of 4.7% as of September, 2007.

A solid foundation has been laid for Chattanooga's future through two major recent initiatives within the heart of the city. The opening of the 21st Century Waterfront in April 2005 marked the culmination

View of East Lake Park circa 1910. The park was dedicated as the first city park on July 4, 1896.

Photo courtesy Chattanooga-Hamilton County Bicentennial Library



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. The \$120 million waterfront initiative includes major expansions to the Tennessee Aquarium, the Creative Discovery Museum and the Hunter Museum featuring new attractions ranging from a glass-floored walking bridge to a 160-foot pier

illuminated by towering light columns. It also include public green spaces, and urban wetland, boat docks and a downtown-to river-side pedestrian link with dazzling artwork that evokes American Indian history. 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 Southside project provided an expanded Convention and Trade Center, parking garage, a Development Resource Center, and The Chattanooga, a premier meeting facility.

Hotel tax receipts indicated a 20% surge in tourism dollars spent as compared to the prior year. Additionally, housing development within the city remains strong, defying a national trend. The City recently agreed to lease a parcel of land near the riverfront on which a planned \$10 million, 120-unit apartment project will be constructed. This is the largest project of its kind in the last three decades.

The overall health of our existing employers is good. Since the Chattanooga Chamber of Commerce announced it's goal of producing more than 20,000 new jobs in the MSA over a 4 year period, there has been more than 132 projects with an investment of over \$1.4 billion and 17,500 new jobs announced. The second phase of an initiative to market Chattanooga referred to as 'Chattanooga can Do' will last from July 2007 to June 2011. The Chamber goals are to:

- Increase employment by 15,573;
- Increase high-wage jobs average by 10%
- Increase private investment by \$500 million,
- Create \$526.8 million in new income (payroll)
- Increase disposable income by \$421.5 million
- Increase net personal consumption by \$390.1 million

Blue Cross Blue Shield of Tennessee is currently in the first phase of a \$300 million office campus just west of the central business district. The project, scheduled for completion in 2009, will house the entire workforce of the company and will provide an estimated 2000 construction jobs during this time. Memorial Hospital has announced a five-year, \$320 million expansion project to its hospital campus which is ultimately



A section of the Riverwalk, part of the Tennessee Riverpark Master plan .

Photo courtesy Chattanooga Area Convention and Visitors Bureau

expected to create 700 new permanent jobs in the local health care industry.

Quality education is also the centerpiece of a successful community. Chattanooga State Technical Community College, the Chattanooga Manufacturer's Association and others are working together to establish a Center for Advanced Manufacturing Training. The center will begin operations in mid-2009. The center will help support existing industry and will serve to attract 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 second year.

Transportation is another key to a vibrant economy. The Chattanooga area is served by three interstate highways, six U. S. highways, railways, airlines, bus service, and the Tennessee River system. Direct flights are available to ten major cities plus an addition of two more cities planned for December. Airport passenger traffic has increased more than 20% over the past year. On the Tennessee River, construction has begun on a multi-year \$349 million replacement project for the Chickamauga Lock which will enhance river traffic for years to come. A coffer dam, the second phase of the project, is expected to be completed by the end of 2009. The entire replacement is expected by the end of 2013.

Chattanooga has as a prize asset for potential job growth the Enterprise South Industrial Park. The old Volunteer Army Ammunition Plant has been reborn as perhaps the finest industrial park in the Southeastern United States. This TVA-certified Megasite has been the focus of the City, County, State, and Federal investment.

City and County governments have invested over \$31 million to date. The 1600 acres recently marketed for an automotive plant is an ideal site for many industrial uses. Additional acreage currently being cleaned will be available by the end of 2009, bringing the total available for industrial use to 3000 acres, with an additional 2900 acres set aside for recreational use and buffering.



Chattanooga Central High School circa 1907.

Photo courtesy Chattanooga-Hamilton County Bicentennial Library



Chattanooga State Technical Community College

Photo courtesy of Chattanooga State Technical Community College



Fletcher Hall on the Main Campus of the University of Tennessee at Chattanooga

Photo courtesy University of Tennessee at Chattanooga



*Chattanooga from Boynton Park on Cameron Hill circa 1905.
Photo courtesy Chattanooga-Hamilton County Bicentennial Library*

Including state and federal dollars, the total investment is a planned \$85 million. The land is located within the corporate limits of Chattanooga and represents the greatest regional development site the City has seen. It is served by a new interstate connection with I-75 as well as by two competing rail lines. Continuing efforts are underway by the City and County Mayors, the Chamber of Commerce, the State and the region to recruit businesses to the area. Government leaders in Tennessee and Georgia have joined forces in

an effort to recruit a large manufacturer to the area, recognizing that a large plant within Chattanooga will have a significant long-term regional impact on our economy and job markets. The City has achieved the EPA clean air standard for the past three years, easing concerns that industries might have for obtaining permits as well as allowing the area to continue to receive federal funding for roads. Local officials expect the EPA to certify the area as in compliance in 2008.

Another major asset which has been highlighted by the extreme regional drought is the Tennessee River which flows through the heart of the city. In addition to providing the backdrop for the waterfront development projects, it is an invaluable source of clean water for consumption, recreation, transportation, and industrial use. The estimated annual economic impact for waterfront events over the past year has exceeded \$20 million. The river is also critical for electric power generation in the area and for other industries heavily dependent on water. Regionally, we are among the few water basins which have no usage restrictions as a result of the drought.

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 continues to be a primary focus of this administration as well as ensuring that all Chattanoogaans enjoy the benefits of the City’s renewed downtown and rising economic tide. Recreation also continues to be an important aspect of our community. The Parks and Recreation Department plans to complete a \$10.5 million softball complex in the eastern portion of the city to open in 2009.



*Downtown Chattanooga today.
Photo courtesy Chattanooga Area Convention and Visitors Bureau*

During the past five years, general

fund revenues have grown at a slower pace than expenditures. This is primarily due to use of reserves to fund a large portion of the capital budget. Revenues and transfers in have increased 9.79% while expenditures and transfers out have increased 13.50%. Increase in expenditures and transfers out excluding capital funding from the general fund increased by 11.3%. The City's two biggest local revenue sources, property tax and sales tax, grew 6.95% and 22.41% respectively during that period. The sales tax increase is net of the portion earmarked for education which is now collected by Hamilton County. Property tax rates were decreased by 31.7 cents (from \$2.519 to \$2.202/\$100 assessed valuation) in 2005 due to a property reappraisal. This favorable revenue trend along with sound management has allowed the City to increase its general fund balance from \$40,677,980 to \$55,130,349 or 35.5% over the past five years. The City's unreserved fund balance increased from \$30,784,700 to \$45,027,258 or 46.3%. Over \$12 million of these reserves have been appropriated as pay-go-capital for Fiscal Year 2008.

Budget Highlights: For the sixth consecutive year tax increases and layoffs have been avoided by a combination of more effective management and economic growth. This budget provides the resources for continued investment in the long term fiscal health of this community.

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 has published two annual performance reports to the citizens of Chattanooga. The report not only 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.

Cash management policies and practices. Cash temporarily idle during the year is invested in commercial bank certificates of deposit as well as various instruments guaranteed by the United States Government. These instruments generally have terms ranging from one week to one year. Cash idle for a longer period of time is invested in longer-term government securities. Due to statutes of the State of Tennessee, the City is limited in the investment methods it may utilize. Changes in the fair value of investments are reported as investment income or loss.

Risk management. The City manages exposure to risk of loss through several methods including contracts with commercial carriers for property insurance, surety bond coverage of officials and employees, and commercial liability coverage. The City assumes the risk of loss for general liability not covered by commercial carriers. To minimize its losses, the City has implemented various risk control techniques such as safety inspections and safety training classes. As part of the City's risk management program, resources are being accumulated in an Internal Service Fund to meet potential losses relating to general liabilities and tort claims. Reserves are accumulated in the General Fund to meet potential losses for all other exposures. Additional information on the City's risk management activity can be found in the notes to the financial statements.

Pension and other postemployment benefits. The City provides retirement benefits through three single-employer defined benefit pension plans that cover all employees. One plan covers general City employees; a second plan covers employees of the Electric Power Board; and the third covers firefighters and police officers. Each

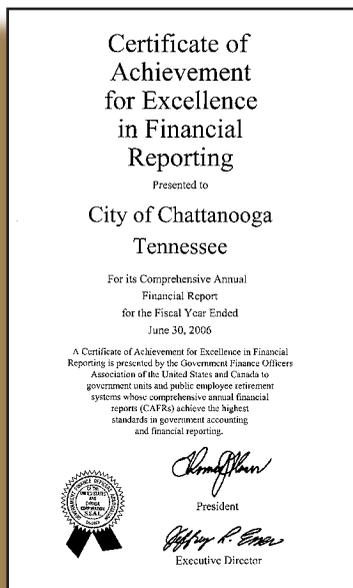


City of Chattanooga Finance Department staff, left to right: Fredia Kitchen, Ed Hammonds, Vickie Haley, Daisy Madison, Brian Smart and Gayle Keown.

Photo by Lawson Whitaker

of these plans is maintained separately and engages an independent actuary to calculate the amount of annual contribution that must be made to each plan to ensure the plans will be able to fully meet their obligations to retired employees on a timely basis. As a result of the City's conservative funding policy, all plans are fully funded.

The City also provides postemployment health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 939 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. The City has established a trust fund which will eventually fund our future obligation. A preliminary \$2 million contribution was accrued as of June 30, 2007. Additional information on the City's pension arrangements and postemployment benefits can be found in the notes to the financial statements.



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, 2006. This was the fifteenth 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 eleven 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, Hazlett, Lewis & Bieter, 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,

[Signature]
Daisy W. Madison
City Finance Officer

City Officials as of June 30, 2007



Ron Littlefield, Mayor

L. Dan Johnson, Chief of Staff

CITY COUNCIL:

Dan B. Page, Chairperson.....	District 3
Linda G. Bennett, Vice Chairperson	District 1
Sally L. Robinson.....	District 2
W. Jack Benson, Sr.....	District 4
John P. Franklin, Jr.....	District 5
Marti P. Rutherford	District 6
Manual Rico.....	District 7
Leamon Pierce	District 8
Deborah C. Gaines	District 9

COURTS:

Sherry B. Paty.....	City Court Judge
Russell J. Bean	City Court Judge
Edward C. Hammonds	City Court Clerk

DEPARTMENT ADMINISTRATORS AND DIRECTORS:

Legal.....	Randall Nelson.....	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 Wendell G. Rowe.....	Administrator
Human Services	Bernadine Turner.....	Administrator
	Tommie Pruitt.....	Deputy Administrator
Neighborhood Services and Community Development....	Beverly P. Johnson	Administrator
	Anthony Sammons.....	Deputy Administrator
Parks and Recreation.....	Lawrence A. Zehnder	Administrator
Personnel.....	Donna Kelley.....	Administrator
Police.....	Chief Freeman Cooper, Jr	Administrator
Public Works	Steven C. Leach.....	Administrator
	D. Lee Norris.....	Deputy Administrator

Brian Smart	Manager, Financial Operations
Fredia F. Kitchen.....	Budget Officer
Gayle P. Keown.....	Treasurer
Mark J. Keil.....	Director, Information Services
Gene D. Settles.....	Purchasing Agent
Paul R. Page	Director of General Services
Stanley L. Sewell	Director of Internal Audit
Jeffrey E. Claxton	Risk Manager
Sandra Gober	Manager, Community Development
Gary B. Hilbert.....	Director, Land Development
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
David F. Clapp	Director, Chattanooga-Hamilton County Bicentennial Library
Micheal J. Landguth.....	President and CEO, Metropolitan Airport Authority
Barry M. Bennett	Director, Regional Planning Agency
Robert H. Colby	Director, Air Pollution Control Board
(Vacant).....	Director, Scenic Cities Beautiful Commission

Organizational Chart

