

Mayor's Letter



City of Chattanooga
Office of the Mayor

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



Mayor Andy Berke

December 3, 2013

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

I am honored to present to you the City's annual financial report for the fiscal year ended June 30, 2013. After taking office on April 15, 2013, I found a city in good financial health with strong reserves and solid bond ratings. These indicators of a responsible local government can be attributed to the talent and hard work of our city employees, many of whom have spent decades in service to the City of Chattanooga.

The first months of a new administration offer a time to reflect on where we've been as a community but, more importantly, where we are headed. Chattanooga is a city transformed and I am excited to make sure that opportunities reach every corner of our city. In fact, after just a few months in office, City government has gone through a transformation of our own to ensure we address the issues that matter most to our community.

Today, we are an organization relentlessly focused in four strategic priority areas: Safer Streets; Stronger Neighborhoods & a Growing Economy; Smarter Students & Strong Families; and Innovative Government. To reflect these community priorities, we have reoriented City departments and launched Budgeting for Outcomes to ensure the dollars we spend move us closer to our goals.

My administration was able to make these changes because of the strong foundation of our City government. As I offer you the City's annual financial report for the last twelve months, I encourage you to also look forward to what's to come. I am excited to work diligently over the next four years to provide opportunity to our young people, make our streets safer, strengthen our neighborhoods and local economy, and create a more innovative, efficient and effective government.

Sincerely,

A handwritten signature in black ink that reads "Andy Berke". The signature is written in a cursive, flowing style.

Mayor Andy Berke
City of Chattanooga



City Council



Chip Henderson
Vice Chairman
District 1



Jerry Mitchell
District 2



Ken Smith
District 3



Larry Grohn
District 4



Russell Gilbert
District 5



Carol Berz
District 6



Chris Anderson
District 7



Moses' Freeman
District 8



Yusuf Hakeem
Chairperson
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 3, 2013

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, 2013 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, 2013. 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



Vickie Haley, Deputy 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, Alabama; 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 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; 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 the legally separate Chattanooga Downtown Redevelopment Corporation which is reported as an enterprise fund along with EPB. Additional services are provided through the Metropolitan Airport Authority and the Chattanooga Area Regional Transportation Authority, both of which are reported separately within the City's financial statements. Additional information on 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 (20.8%), government (14.3%), manufacturing (13.2%), professional and business

services (18.6%), education and health (14.5%), and leisure and hospitality (10.9%) comprise 92.3% of the workforce. Employment in the retail service sector continues to thrive. Hamilton Place Mall, which is in its 27th year of operation, anchors the area's most vibrant retail corridor along I-75. Most recently a new hotel, operated by a major chain, is set to open adjacent to the mall's retail campus. Additional retail expansion continues just north of the mall at Waterside, a mixed used development encompassing over 40 acres. Downtown is continuing to attract new investment as well. A housing and commercial project was recently approved for the west side of downtown along the river. The proposed \$40 million investment will bring a mix of homes and apartments. A major grocery chain in the north shore area is currently under construction. These projects, along with numerous other housing and retail development under construction or under consideration throughout the city, will guarantee a strong base for growth in the coming years.

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% for the Metropolitan Statistical Area remains below the state average of 8.5%, but higher than the national average of 7.7% as of July 2013, according to information from the Tennessee Civilian Labor Force Summary. Fiscally, the City of Chattanooga is well positioned for future growth. Chattanooga's success in adding jobs was highlighted in a July visit by President Obama to showcase his new economic development plan for the nation.

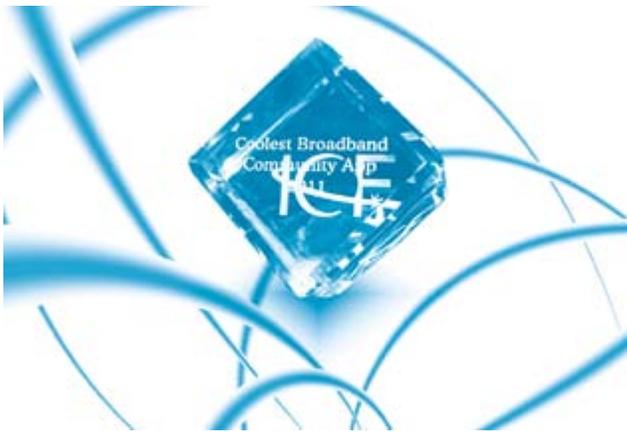


Chattanooga remains a world leader in technology. The Electric Power Board, Chattanooga's municipal power provider, offers a one-gigabit per second internet service. Few other cities in the world offer such lightning-fast

Photo by Neighborhood Services



service. 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 network has grown to become 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 dramatically accelerated the installation 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. The high-speed internet has attracted competitions. In 2013, Chattanooga hosted its second Gigtank competition, hosting specialists from around the world to develop business ideas.



Manufacturing has been in the midst of resurgence over the past five years. Since 2008, the Chattanooga area has attracted \$4 billion in foreign direct investment including a Volkswagen (VW) auto assembly plant and major investments in alternative energy. The Enterprise South Industrial Park (ESIP), home to Volkswagen AG's U.S. manufacturing headquarters, plant, and supplier park hosting numerous companies, as well as an Amazon distribution center, has essentially been filled or committed for potential expansion of the VW plant. The expansion site is undergoing a \$20 million improvement to fulfill the remaining phase of the agreement with VW. This will enable doubling of the existing assembly plant if VW management chooses to exercise that option. As of this fall, Chattanooga is in the lead as VW considers where to build a new sport utility vehicle.

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, being conducted from July 2011 – June 2015, has set goals for job growth. These goals include the following benchmarks (with progress as of September 2012 in parentheses):

- Increase regional employment by 15,121 (7,356)
- Increase private investment by \$500 million (\$66.8 million)
- Create \$427 million in new payroll income (\$327.6 million)

Quality education is also the centerpiece of a successful community. Chattanooga State Technical Community College maintains five training partnerships with local manufacturers 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 school for a Science, Technology, Engineering and Math (STEM), located on the Chattanooga State campus, which provides coursework based on hands-on training and offers internships or apprenticeships to the students.

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 eight 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.

Housing is continuing a healthy, steady rebound within the City. Recently completed or in-process additions have increased the number of apartments in Chattanooga by 1500 units within the past year. The local market for single family houses has also seen recent marked improvement. Chattanooga housing costs are well below the U.S. average according to a recent U.S. News & World Report article. This fact helps drive the local cost of living down, making Chattanooga a top-10 city in which to retire.





The fiscal health of Chattanooga City Government remains strong. As outlined in the Management's Discussion and Analysis starting on page iii, 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 Rating Services raised the City's bond rating to AAA in November, 2013 and Fitch Ratings affirmed their bond rating for the City at AA+ Stable in November, 2013.

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

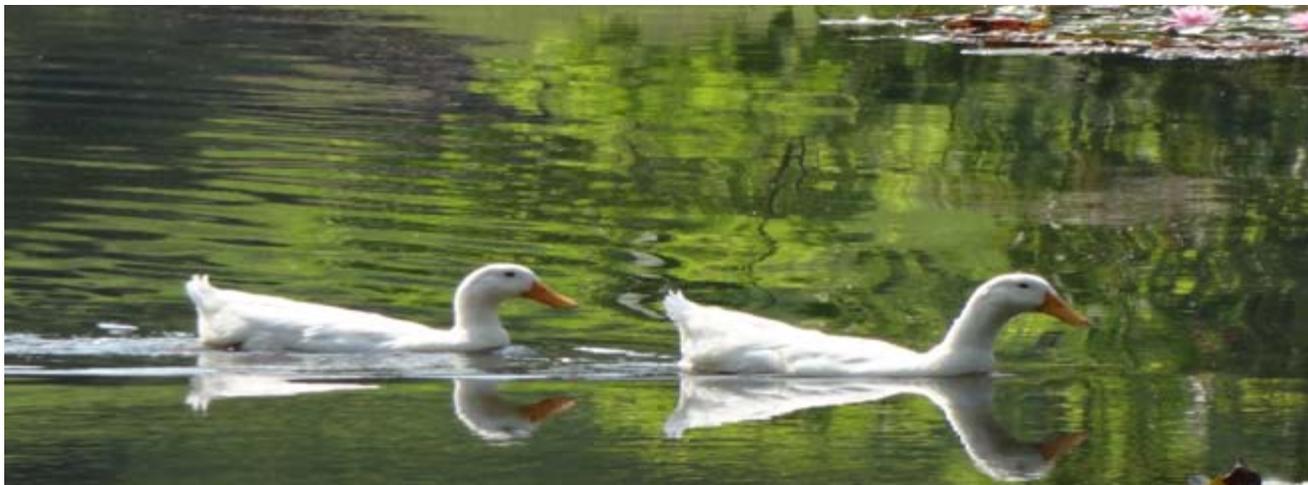
being voted among the world's Top Seven intelligent Communities by the Intelligent Community Forum. The City continues to explore growth opportunities through economic development, regional growth plans, annexation opportunities and other strategic initiatives that involve all citizens.

The City began its ChattanoogaRESULTS program in 2002. This program ensured accountability by providing for regular review and monitoring of departmental performance by the Mayor, the City Finance Officer and other senior City officials. Results continue with the first phase of a new approach to budget preparation and management, known as Budgeting for Outcomes, begun for the Fiscal Year 2014 budget. This approach measures results against goals and benchmarks used in determining funding levels for all city operations. 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. There have been 5.8 square miles annexed since the adoption of the plan in May, 2001. Steps are being taken to annex 2 additional areas (1 additional square mile) effective December 31, 2013, leaving an additional 21.5 square miles which can potentially be annexed in the future. 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, 2012. This was the twenty-first 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.

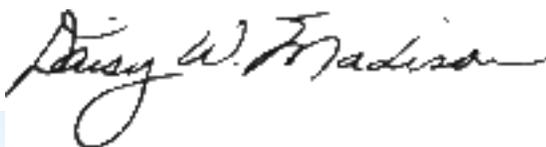
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal 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 eighteen 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.

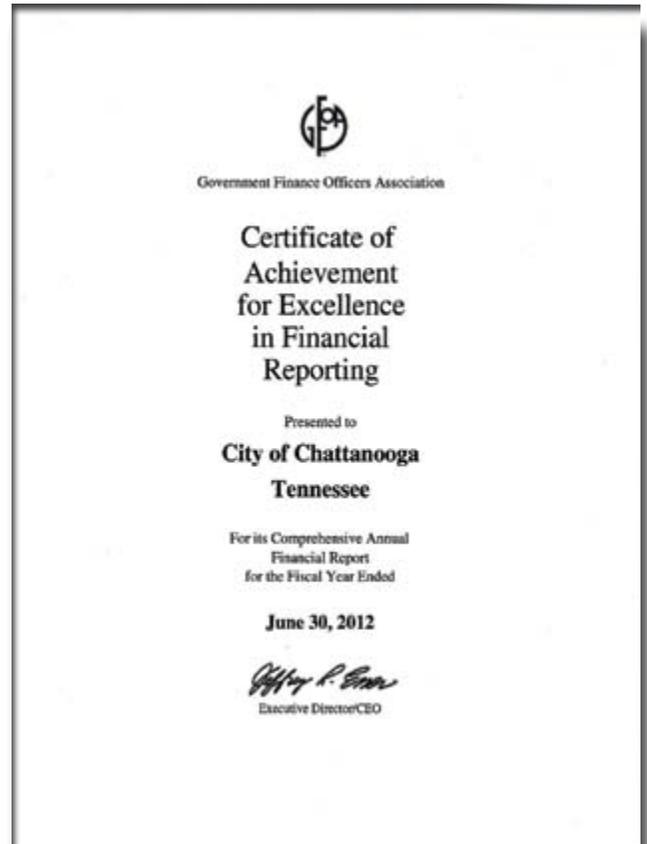
The GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting was received for the fiscal year ended June 30, 2012. This is the second consecutive year for which the City applied for the award. In order to qualify, a government must publish a Popular Annual Financial Report with contents 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, 2013



EXECUTIVE BRANCH:

Andy Berke, Mayor
 Travis McDonough, Chief of Staff
 Andrew Kean, Chief Operating Officer

CITY COUNCIL:

Yusuf Hakeem, ChairpersonDistrict 9	
Chip Henderson, Vice Chairperson.....District 1	Russell GilbertDistrict 5
Jerry MitchellDistrict 2	Carol BerzDistrict 6
Ken Smith.....District 3	Chris AndersonDistrict 7
Larry Grohn.....District 4	Moses Freeman.....District 8

COURTS:

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

DEPARTMENT ADMINISTRATORS AND DIRECTORS:

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



Organization Chart

