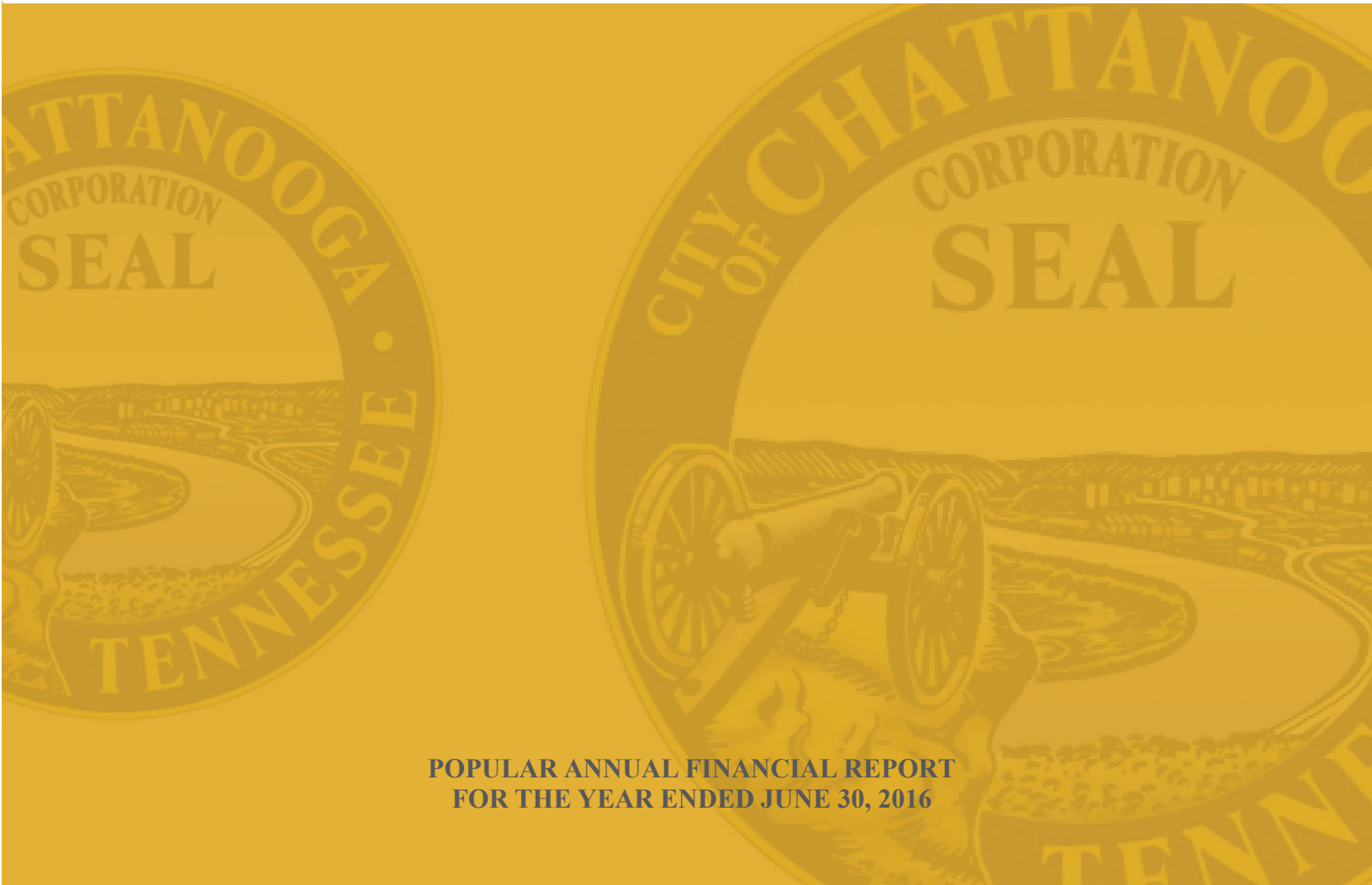


City of Chattanooga, Tennessee

PAFR 2016



POPULAR ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

MESSAGE FROM THE CITY MAYOR



Mayor Andy Berke

To the Citizens of the City of Chattanooga:

I am honored to present the City of Chattanooga's Popular Annual Financial Report for the year ended June 30, 2016. As an Administration, we focused on spreading opportunity to those in our community who have been left out of our growing prosperity. Over the past year, we have made critical investments and progress in neighborhoods, workforce development, public safety, and education. Whether it's making our streets safer or growing our local economy, the City of Chattanooga works to provide the best services to our citizens while producing real results in the priority areas that matter most to our community.

In the last three years, Chattanooga has made tremendous strides. Our unemployment rate has fallen dramatically, from 8.1% in May of 2013 to 4% in May of 2016, and we have experienced the third highest wage growth in the country for a mid-sized city. Downtown Chattanooga is booming and our rising home prices reflect the buying power of more citizens. Home to the first Innovation District in a mid-sized city, Chattanooga has worked to leverage our resources and maximize the impact of our burgeoning tech sector. And through initiatives like TechHire and NetBridge, we push to ensure digital equity throughout our diverse community.

While we have made our streets safer for more Chattanoogaans, there is always work to do. Robberies are at a five-year low and violent crime and property crimes have fallen over the past three years. To address the all too prevalent gun violence in our streets, the City invested in technology and cameras which provide important resources to our Chattanooga Police Department's investigation unit. In partnership with our Community Police Response to Victims of Violence initiative and our Citizens Safety Coalition, we established a Witness Support Fund to help bring more criminals to justice while keeping our witnesses safe. And this past year we have made real progress on our Family Justice Center to service survivors of domestic and family violence, slated to open in its permanent location in the fall of 2016.

Over the last year, people and organizations from across the city have taken part in a public process called Chattanooga 2.0. Through this important initiative, we can see clearly the difficult path our kids face every day—on the streets, in our school system, and in the job market. The City of Chattanooga is committed to tackling these issues head on, specifically ensuring more of our citizens have access to early learning opportunities. From initiatives like Baby University to Head Start expansion, we have made progress, but we are ready to do more. In the year to come, the City will kick our early learning efforts into high gear with a newly established Office of Early Learning, expanded Baby University, and major investments in Pre-K scholarships.

For every Chattanoogaan to live the life of their choosing, we must come together as a community—non-profits, private businesses, churches, schools, leaders and government. When I reflect on the past three years, I am proud of the results we have achieved together and look forward to accomplishing even more to strengthen our city and our community.

Sincerely,

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

Mayor Andy Berke
City of Chattanooga



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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Dear Citizens of Chattanooga,

We are pleased to present to you the City of Chattanooga's Popular Annual Financial Report (PAFR) for the year ended June 30, 2016. This report summarizes the financial activities and position of the primary government of Chattanooga. The information contained herein was derived mostly from the City's Comprehensive Annual Financial Report (CAFR), which was prepared in conformity with Generally Accepted Accounting Principles (GAAP) and independently audited. For more detailed and complete city financial information, please view the CAFR at www.chattanooga.gov/finance/finance-division/cafr.



The PAFR is intended to increase awareness throughout the community of the financial operations of the City. As such, this report is presented on a non-GAAP basis and communicates complex financial and statistical information in a user friendly manner to the citizens and other interested parties.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial reporting to the City of Chattanooga for its PAFR for fiscal year ended June 30, 2015. The Award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. To receive this award, a government unit must publish a PAFR, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

This award is valid for a period of one year only. We are proud to say this was the fifth year we published this report and received the award. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA. The City has also been awarded a Certificate of Achievement for Excellence in Financial Reporting by the GFOA each of the past 24 years for its CAFR.

We welcome any feedback, comments, or concerns regarding the information included in this report.

Respectfully,

Daisy W. Madison, CFO



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

**City of Chattanooga
Tennessee**

For its Annual
Financial Report
for the Fiscal Year Ended

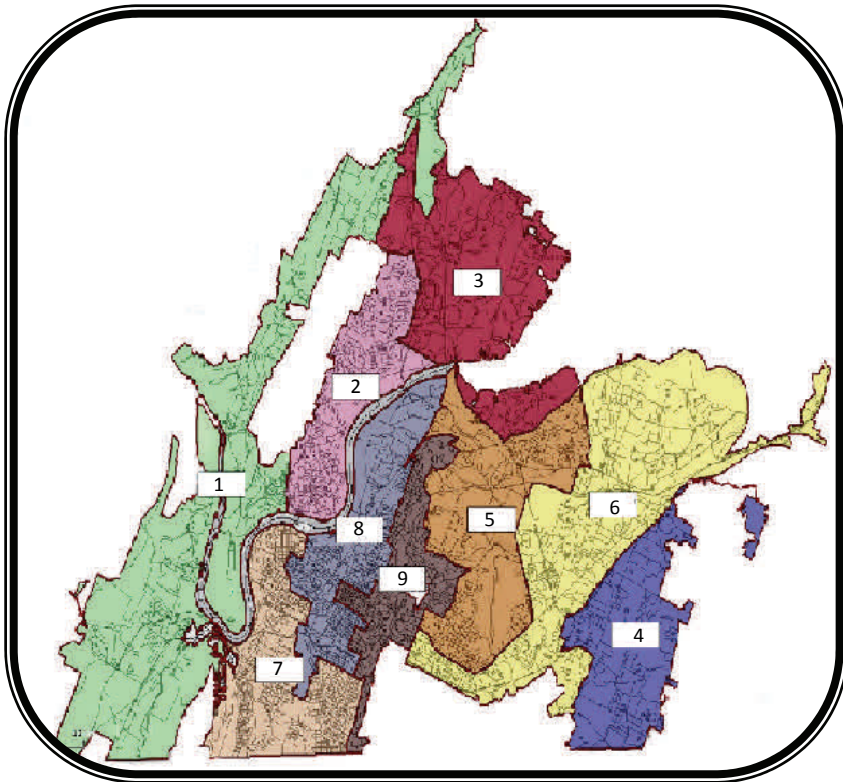
June 30, 2015

Executive Director/CEO



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.

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 data shows the city is the second-fastest growing urban area in the state, with a population estimated at 176,588. 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 by a referendum of the people in the affected areas that might want to petition to come into the city.



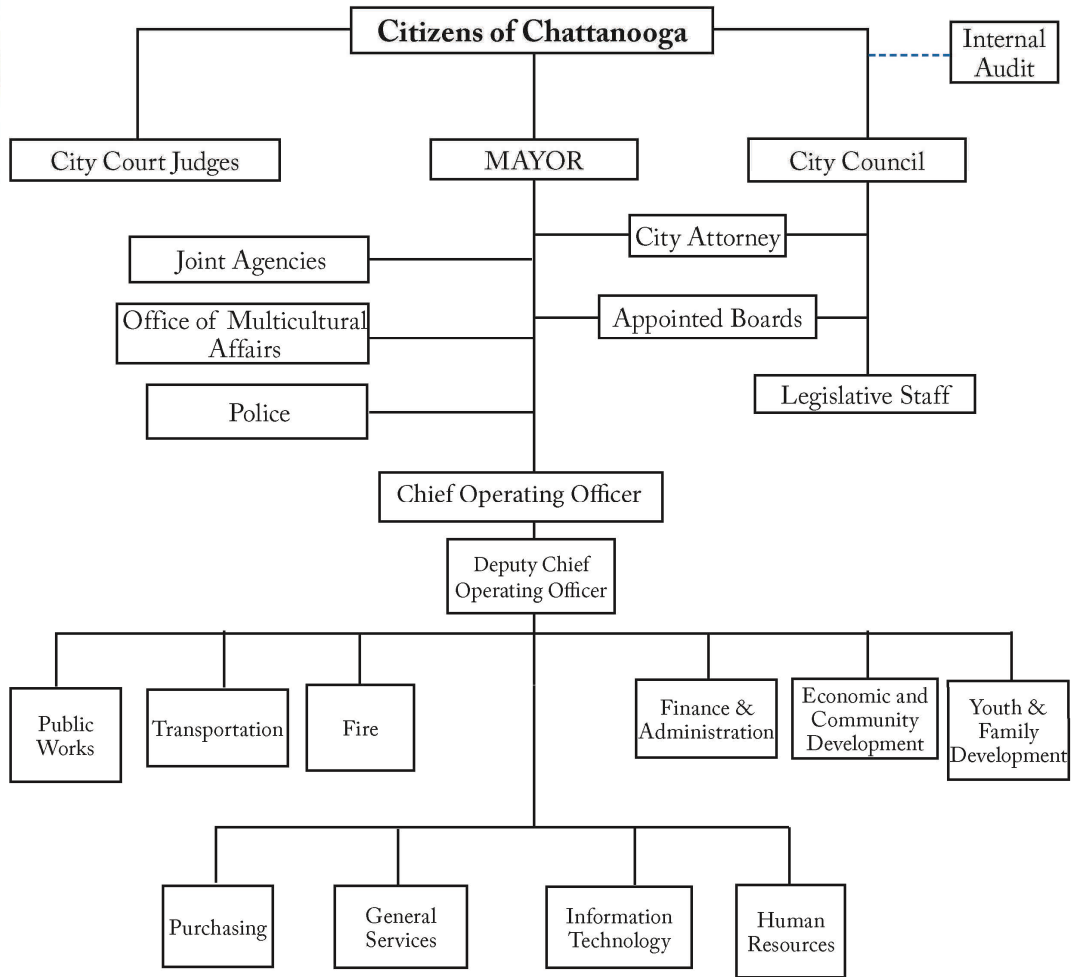
City Council

Meets each Tuesday at 6:00 p.m.

Chair person: Moses Freeman
District 8 (423) 643-7182

District 1	Chip Henderson	(423) 643-7186
District 2	Jerry Mitchell	(423) 643-7187
District 3	Ken Smith	(423) 521-0238
District 4	Larry Grohn	(423) 643-7184
District 5	Russell Gilbert	(423) 643-7183
District 6	Carol Berz	(423) 643-7181
District 7	Chris Anderson	(423) 643-7180
District 9	Yusuf Hakeem	(423) 643-7185

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.



City Government Department Contacts:

City Council	(423) 643-7170	City Court	(423) 643-6311
Economic & Community Development	(423) 643-7300	Finance & Admin	(423) 643-7360
Fire Department	(423) 643-5600	General Service	(423) 643-7503
Human Resources	(423) 643-7200	Information Technology	(423) 643-6300
Internal Audit	(423) 643-6200	Mayor's Office	(423) 643-7800
Multicultural Affairs	(423) 643-6701	City Attorney Office	(423) 643-8250
Police Department	(423) 643-5000	Public Library	(423) 643-7700
Public Works	(423) 643-6311	Purchasing	(423) 643-7244
Transportation	(423) 643-5950	Youth & Family Development	(423) 643-6400

Through Budgeting for Outcomes, City Mayor Andy Berke has ensured the priorities of City Government are aligned with those established by the community - safer streets, smarter students and stronger families, a growing economy, stronger neighborhoods, and high performing government. From initiatives like community policing and the Chattanooga Violence Reduction Initiative to ensure every young person in Chattanooga has the opportunity to succeed, the City is relentlessly focused on building the best mid-size city in America while delivering the most efficient and effective services to our community.

What Is Happening In Our City



Since 2008, the Chattanooga area has attracted \$4 billion in foreign direct investment including a Volkswagen auto assembly plant and major investments in alternative energy. The Enterprise South Industrial Park, home to Volkswagen AG's U.S. manufacturing headquarters, 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 shared equally a \$52.5 million direct investment in this expansion. VW retains an option on 900 additional acres adjacent to their 1,300 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 510 jobs.

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, Chattanooga's municipal power provider. In 2015, Chattanooga became the first city to offer a ten-gigabit connection to all customers in its service area. The Fiber-to-the-Home 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. To take advantage of the ten-gigabit speed, the city has established NoogaNet in city-owned spaces and buildings to provide free Wi-Fi. In 2016, EPB added 4K ultra high definition TV service, the first in the area. To date, over \$320 million has been invested in the fiber optics and smart grid. 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 at The University of Tennessee at Chattanooga, with an estimated creation of 2,800 jobs. The Oak Ridge National Laboratory recently opened an office at EPB and city leaders are hopeful that this will lead to a permanent presence for the U.S. Department of Energy in Chattanooga.



Photo by J. P. Liu

CHATTANOOGA LARGEST EMPLOYERS

Source: Chattanooga Chamber of Commerce

BlueCross BlueShield of Tennessee	4,899
Hamilton Co. Dept. of Education	4,508
Erlanger Health System	4,384
Tennessee Valley Authority	3,786
Amazon.com LLC	3,312
Unum	2,800
McKee Foods	2,700
CHI Memorial	2,602
City of Chattanooga	2,250
Volkswagen Chattanooga	2,177

Chattanooga enjoys strategic advantage related to its location, strong transportation system, natural resources and competitive cost of doing business.

Major Employment Sectors

Trade, transportation, utilities	20%
Government	15%
Manufacturing	13%
Professionals & business services	18%
Education & health	14%
Leisure & hospitality	11%

“Building Tomorrow Today”

The fourth phase of the “Chattanooga Can Do” campaign, conducted from July 2015—June 2019, has set the following goals for job growth: increase regional employment by 15,121, increase private investment by \$500 million and create \$439 million in new payroll income. As of June 2016, 2,563 new jobs were created, private investment reached \$247 million and new payroll income exceeded \$118 million.

June 2016 Unemployment Rates

Source: U.S. Department of Labor, Bureau of Labor Statistics

Year	U.S	TN	Chattanooga MSA
2011	8.9%	9.2%	8.2%
2012	8.6%	8.5%	8.1%
2013	7.6%	8.5%	8.5%
2014	6.1%	6.6%	7.1%
2015	5.3%	5.7%	6.2%
2016	4.9%	4.1%	5.1%

Downtown continues to add hotels, housing and office space. The first two phases of a \$100 million housing and commercial project on the west side of downtown along the river have sold out and the third phase is available. A \$19 million hotel, with 140 rooms, opened in December 2015. There are two new major developments happening in downtown Chattanooga. The first, a 254 room hotel, is being constructed out of the old Blue Cross Blue Shield of Tennessee “Gold Building”. The second, a 10-story building, which will include 125 apartments and retail and office space, is under construction in the 700 block of Market Street. The historic Chattanooga Choo Choo is in the process of completing an \$8 million renovation and has already added an upscale restaurant in Stir and two venues in The Comedy Catch and the Revelry Room. They still have plans to add another restaurant and a world-class guitar museum.



Photo by J.P. Liu

These projects, along with numerous other housing and retail developments under construction or consideration throughout the city, will guarantee a strong base for growth in the coming years.

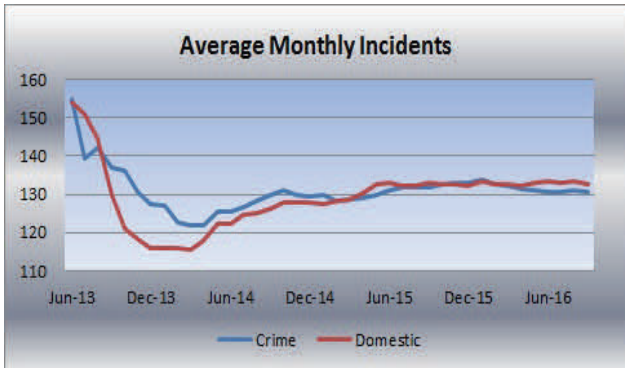
Chattanooga plays host for numerous national events. Major events which took place over the past year include the Head of the Hooch rowing competition, The USA Cycling Pro Championships, Ironman and Ironman 70.3. In March 2016, the city hosted the inaugural Chattanooga Marathon.

These nationally recognized outdoor events helped Chattanooga win *Outside Magazine’s* “Best Town Ever” contest in 2015.

Performance Measures

Police/Crime

In the fall of 2013, the City of Chattanooga launched a Violence Reduction Initiative (VRI) to reduce violent crime in the streets of Chattanooga. The strategy of the VRI is to decrease group-related violence by focusing on individuals who engage in group violence. The goal was to reduce violent crime by 20% from the three month average of 142 incidents, for the period June 2013 - August 2013, by June 30, 2016. As of June 2016, the average monthly incidents have fallen to 131.



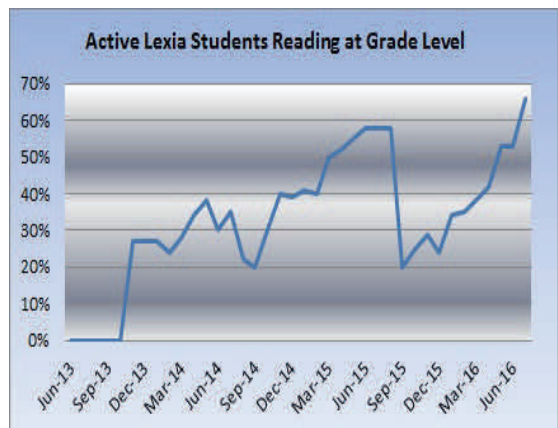
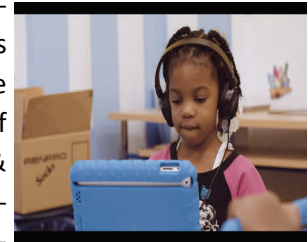
Chattanooga is also committed to reducing domestic violence crimes in order to protect families throughout the city. In the fall of 2016, the City of Chattanooga will open its very own Family Justice Center, which will provide a wide range of free services for victims of domestic violence in one centralized location. The goal is to reduce domestic violence crimes by 20% from the three month average of 145 incidents, for the period June 2013—August 2013, by June 30, 2016. As of June 2016, the average monthly incidents have fallen to 134. The City of Chattanooga will continue to work with every possible resource in order to ensure that every Chattanoogaan feels safe.



YFD Reading

The City of Chattanooga created the smarter students and stronger families initiative to safeguard a successful future for Chattanooga. One of the main goals was to focus on accelerated reading for students in grades Pre-K through 12th. Through Lexia Literacy Software, students are able to participate in more than 900 age-appropriate activities that focus on the five major areas of reading instruction: Phonemic Awareness, Phonics, Fluency, Vocabulary, and Com-

prehension. This software is made available in each of our 18 Youth & Family Development Centers, giving students throughout the City access to this developmental tool. Lexia was first provided in the Fall of 2013 and has grown to be a big success throughout the city. The number of active Lexia students reached an all time high in November 2014 with 4,303 students participating. The percentage of active Lexia students reading at grade level has continued to rise since the program began in 2013. As of June 2016, the percentage is expected to be the highest it has ever been at 66%.



2016 Annual Financial “Physical” Comparison

Vital Signs	Government Measurement	Chattanooga	Memphis	Nashville	Knoxville
Weight	Bond Rating (Standard & Poor's)	AAA	AA	AA	AA+
Blood Pressure	Property Tax Rate - City	2.31	3.40	(1)	2.73
Blood Pressure	Property Tax Rate - City & County	5.07	7.77	4.52	5.05
Cholesterol	Tax Levy Per Capita - City only	\$670	\$594	\$1,376	\$679
Height	Income Per Capita (2)	\$41,225	\$42,300	\$50,635	\$40,870
Temperature	Population (3)	176,588	655,770	654,610	185,291
Stress Test	Unemployment Rate (4)	5.1%	5.7%	4.0%	4.7%
Pulse	Gross Debt Per Capita	\$1,778	\$3,252	\$5,251	\$918
Blood Sugar	Gross Debt as % of Personal Income	4.71%	5.06%	8.96% (5)	3.96%

(1) Metro Nashville rates are 0.59 for urban services district and 3.92 for general services district

(2) U.S. Bureau of Economic Analysis for calendar year 2015

(3) U.S. Census Bureau State & County QuickFacts

(4) U.S. Department of Labor Bureau of Labor Statistics

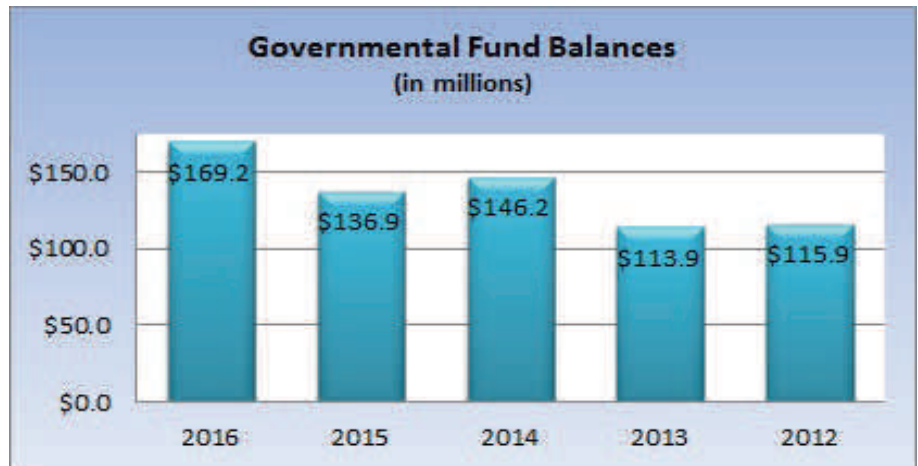
(5) 2015 rate; 2016 rate not available

Chattanooga’s Annual Financial “Physical” is an annual report card indicating the financial health of our city. Government measurements (i.e., bond rating, etc.) used are analogous to medical vital signs. Vital signs will be reviewed annually (similar to annual physical) to determine if we improved, remained status-quo or underperformed in the areas identified by our City Finance Department as key indicators of the City’s financial health. The per capita measurements are signs of the City fiscal health condition at individual citizen’s level.



Governmental Funds consist of the following funds:

- ◆ **General Fund** is the chief operating fund of the City and is used to account for all activities except those required to be accounted for in another fund.
- ◆ **Capital Project Fund** focuses on project-to-date resources and construction of many projects within the City.
- ◆ **Special Revenue Funds** are operating funds which are restricted as to use by federal or state government and special purpose funds established by the City Council, such as State Street Aid, Hotel/Motel Tax, Regional Planning Agency, etc.
- ◆ **Debt Service Fund** accumulates resources for, and payment of, general long-term obligations.
- ◆ **Permanent Fund** accounts for resources provided to the City but with restrictions, such as the Library Endowment.



The measurement used to evaluate each fund is called fund balance which is simply an accumulation of revenues minus expenditures. Maintaining an adequate fund balance is important for any municipality because it provides a financial "safety net" in the event of emergencies, economic downturns, or other unforeseen circumstances. This year, the City’s governmental fund balance is \$169.2 million which increased \$32.3 million, or 23.6% compared to last year. The increase is mainly due to the issuance of new bonds to fund capital projects and not as many pay-as-you-go capital expenditures as prior years. Over 39.0% of the fund balance, or \$65.9 million, is available for spending at the City’s discretion. 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.

Where The Money Comes From

The General Fund

Since the day-to-day operation of the City is captured mostly in the General Fund, it will be our primary focus of discussion.

Adequate resources are essential in order to provide the municipal services the Citizens of the Chattanooga have come to expect. The categories of revenue the City receives for operation are as follows:

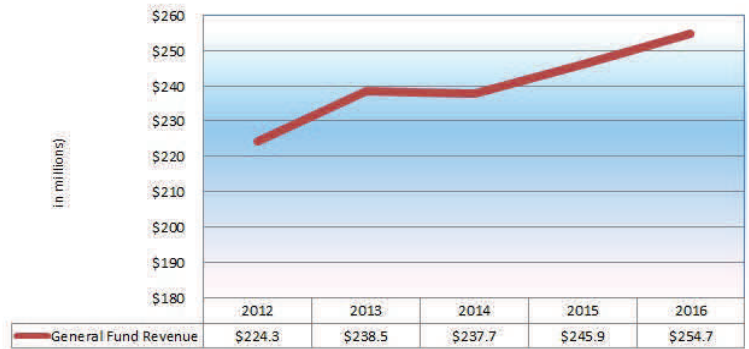
- ◆ Tax revenues
- ◆ Licenses, fees, and charges
- ◆ Intergovernmental revenues

This year's general fund revenue increased \$8.8 million or 3.6% from the prior year. The primary contributing factors are the growth in property taxes and the increase in local option sales tax. Both are positive signs of healthy economy in Chattanooga area.

Tax Revenue Sources (in millions)			
	FY 2016	FY 2015	Change
Property tax	\$130.4	\$127.9	\$2.5
Franchise taxes	\$4.4	\$4.7	-\$0.3
Liquor & Beer taxes	8.7	8.2	0.5
Gross receipts tax	5.6	4.9	0.7
Total	\$149.1	\$145.7	\$3.4

Taxes by far are the biggest portion of the total revenue city government receives each year. Here are some highlights of the changes during the year. In fiscal year 2016, tax revenue increased by \$3.4 million, or 2.3% over the last year. This includes a \$2.5 million, or 2.0% increase in property tax as the city experiences some growth in property taxes. Additionally, there is a \$312,000, or 6.6% decrease in franchise taxes which primarily comes from the gas company's franchise fee being \$407,000 or 19.4% less due to a mild winter.

GENERAL FUND REVENUE



Licenses, fees and charges are revenues received for services provided by city government. \$22.2 million was collected in fiscal year 2016 which is an \$800,000 or 3.7% increase from the prior year. Licenses and permits increased \$854,000, or 14.3% and building related permits increased \$639,000, or 23.5%. Both highlight the health of the local economy. Fines, forfeitures and penalties decreased \$117,000, or 4.4% primarily due to decrease from automated traffic enforcement. Investment income increased \$1.0 million or 111.2% resulting from the availability of additional proceeds from a bond sale, more timely requests for grant reimbursements and a decrease in cash flow funding for economic development.

Licenses, fees, and charges \$22.2 million or 8.7%



Intergovernmental revenues are revenues received from other governments such as city allocation of state sales tax, allocation of state income tax, gas inspection fees, county-wide sales tax, etc. In fiscal year 2016, intergovernmental revenue increased \$4.6 million, or 5.8% over the prior year. This is primary resulting from a \$3.9 million or 7.2% increase in local option sales tax, another indicator of the health of the local economy.

Intergovernmental Revenue Sources (in millions)			
	FY 2016	FY 2015	Change
State of TN	\$21.7	\$21.2	\$0.5
Hamilton County	1.1	1.0	0.1
County-wide sales tax	58.5	54.5	4.0
Others	2.1	2.1	-
Total	\$83.4	\$78.8	\$4.6

How The Money Is Spent

To ensure the priorities of City Government are aligned with those established by the community, fiscal year 2016 general fund spending was allocated according to Mayor Andy Berke's five strategic priority areas:

- ◇ **Safer Streets 50%** - The City actively implements smart policing strategies, effective prevention programs for our youth, and high-quality response.
- ◇ **Stronger Neighborhoods 18%** - Building Strong Neighborhoods is critical to the long-term health of any City. Every Chattanooga citizen should have the opportunity to live in a thriving neighborhood with high quality affordable homes, recreation opportunities nearby, and access to a variety of transportation options.
- ◇ **Smarter Students and Strong Families 11%** - To ensure Chattanooga has a successful future and a high quality of life, the City is investing in building Smarter Students and Stronger Families by supporting kids from cradle to career, providing character education, and creating effective programming for seniors and parents.
- ◇ **Growing Economy 10%** - Growing our local economy means investing in small businesses, ensuring Chattanooga has the skills to compete, and strengthening our infrastructure to support business expansion.
- ◇ **High Performing Government 11%** - The City of Chattanooga strives each day to operate a High Performing Government by ensuring the long-term financial health of the City, using each dollar effectively, and providing excellent customer service.



General Fund Expenditures

(in million)

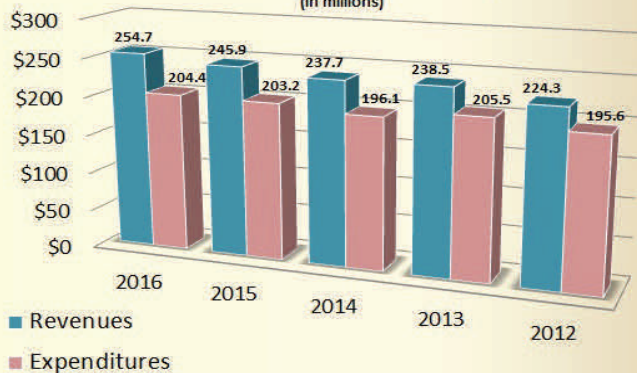
	FY 2016	FY 2015	Change
General Government	\$57.4	\$60.1	(\$2.7)
Economic & Community Development	6.8	6.8	(0.1)
Public Safety	96.0	93.2	2.8
Public Works & Transportation	34.3	34.0	0.3
Youth & Family Development	9.8	9.0	0.9
Total	\$204.4	\$203.2	\$1.2

Here we will only focus on the chief operating fund of the City, the general fund. According to the reporting requirement of the GFOA, general fund expenditures are categorized by type of service provided. In fiscal year 2016, total expenditures increased \$1.2 million or 0.6% from the previous year. Major changes are discussed below:

- ◆ In fiscal year 2016 employee compensation increased by \$2.1 million or 2.4%. Civilian personnel making under \$50,000 received a lump sum increase of \$750 while all other civilians received a 1.5% increase in base pay. Sworn personnel increases were provided based on a career ladder program. The largest increase in personnel costs was a \$1.7 million or 16.6% increase in Fire and Police Pension contributions. General Pensions contribution amounts were flat.
- ◆ In the operations area, costs decreased by \$1.1 million or 0.9%. Fiscal year 2015 was the first of six \$1.96 million annual payments to the Hamilton County Department of Education for past mixed-drink taxes. The second installment for fiscal year 2016 is shown as a transfer to the Debt Service Fund.

General Fund Revenues & Expenditures Comparison

(in millions)



Governmental & Business-type

The City's overall financial condition is generally being reported in three distinct sections:

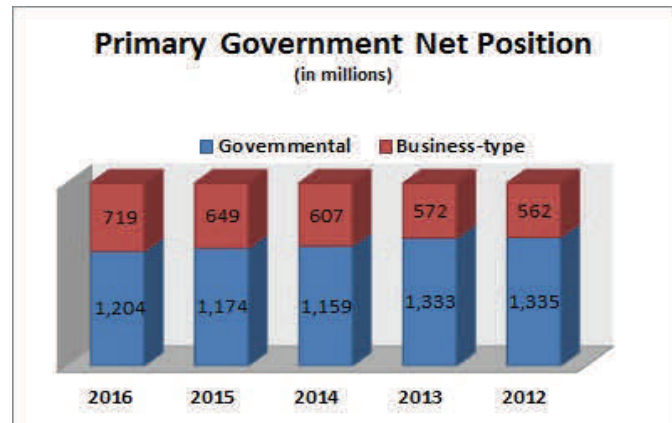
- Governmental activities:** primarily supported by taxes and inter-governmental revenues. Activities include General Government, Economic and Community Development, Public Safety, Public Works, Transportation, Youth and Family Development.
- Business – type activities:** costs are supported by user fees and charges for service. Activities include electric, fiber optic, sewer, water quality systems, solid waste disposal as well as the Chattanooga Downtown Re-development Corporation (CDRC) and the Tennessee Valley Regional Communications System.
- Component Units:** these entities are not part of the primary government. They are legally separate from the City of Chattanooga but the City still has oversight responsibility. These units include: The Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transportation Authority (CARTA).

Information in this PAFR is limited to the governmental activities and business-type activities as these are considered the primary government. Component Units are not included in this report.

For more information on Component Units, please refer to the CAFR at www.chattanooga.gov/finance/finance-division/cafr.

Net Position

The net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. It serves as a useful indicator of whether the City's financial position is improving or deteriorating. Our focus changes from general fund to the City's primary government using the full accrual basis of accounting which is similar to the accounting used in the private sector.



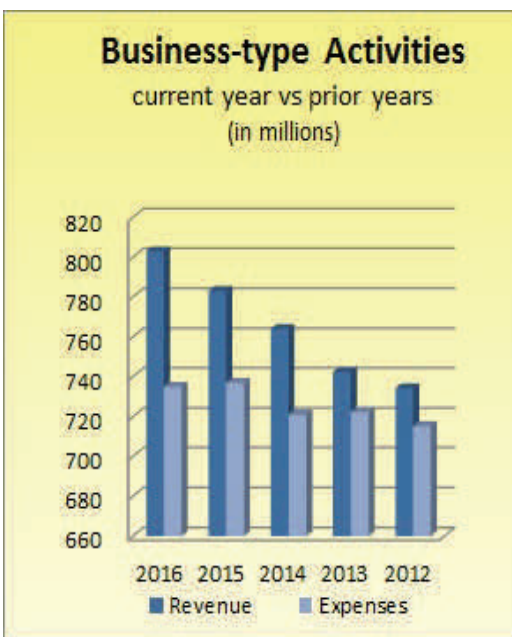
At the end of fiscal year 2016, the net position of the primary government, which is the combination of governmental activities and business-type activities, increased by \$100 million compared to last fiscal year. By far the largest portion of the City's net position, \$1.9 billion, reflects its investment in capital assets (land, buildings, equipment, infrastructure, etc), less any related debt. While capital assets are used to provide services to citizens, these assets are not available for future spending. Included in the city's net position is \$115.4 million that are subject to external restrictions on use. The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. There is a \$55.4 million deficit in unrestricted net position due to recording of unfunded pension liabilities.

(In Millions)	2016	2015	2014	2013	2012
Governmental activities					
Net investment in capital assets *	1,272.4	1,275.4	1,204.8	1,212.5	1,204.0
Restricted	66.1	47.8	48.0	28.2	41.6
Unrestricted	(134.1)	(149.4)	(94.0)	92.2	89.2
Total governmental activities net position	1,204.4	1,173.8	1,158.8	1,332.9	1,334.8
Business-type activities					
Net investment in capital assets *	590.8	603.0	573.9	537.0	527.6
Restricted	49.2	69.4	46.6	45.0	30.7
Unrestricted	78.7	(23.1)	(14.0)	(10.3)	3.5
Total business-type activities net position	718.7	649.3	606.5	571.7	561.8
Primary government					
Net investment in capital assets *	1,863.2	1,878.4	1,778.7	1,749.5	1,731.6
Restricted	115.3	117.2	94.6	73.2	72.3
Unrestricted	(55.4)	(172.5)	(108.0)	81.9	92.7
Total primary government net position	1,923.1	1,823.1	1,765.3	1,904.6	1,896.6
* Net of related debt					

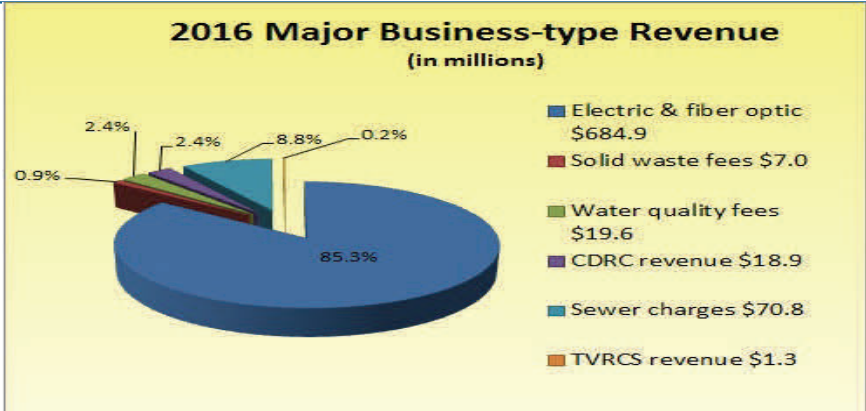
Business-type Activities

Revenue for the City's business-type activities was \$804.3 million for fiscal year 2016, a \$21.2 million or 2.7% increase. During the same time, expenses were \$734.9 million, a \$2.4 million or 0.3% decrease. Here we will focus our discussion on the major business-type activities.

The largest portion of the Business-type activities is Electric Power Board (EPB). EPB is a city owned company that provides electric utility and fiber optic service for residential and commercial uses in Chattanooga and surrounding areas. EPB is managed as an enterprise operation by a board appointed by the Mayor and City Council. This year the total net position increased \$32.0 million or 10.6% to \$334.2 million, mainly due to an increase in Utility Plant of \$14.4 million. Operating revenues are up \$12.8 million or 1.9%. Due to the continued success of the residential service offerings, fiber optics sales increased by \$15.8 million or 14.8%. For more information on the fiscal year 2016 annual report, please visit www.epb.net/about/annual-reports/.



These activities operate like private businesses with their own self-supporting revenue sources. They are not supported by taxes.



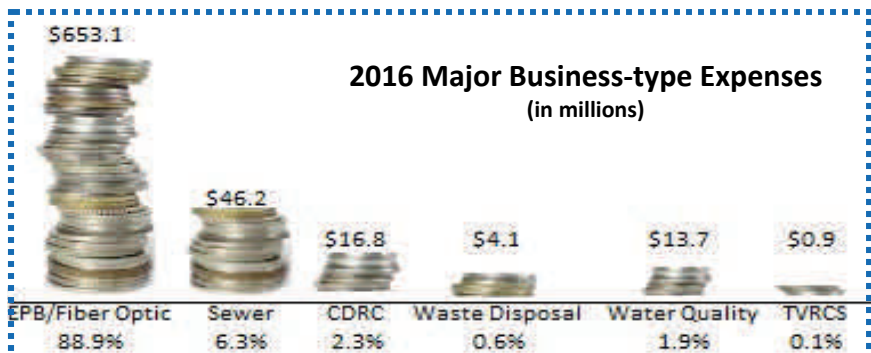
Net position of the Interceptor Sewer System increased \$25.3 million or 8.8%, to \$311.3 million. Unrestricted net position (available to finance on-going operations) increased \$37.7 million or 209.9% to \$55.6 million. An additional \$34.3 million is restricted for future capital spending, a decrease of \$14.0 million due to less outstanding contract commitments at year end.

Chattanooga Downtown Redevelopment Corporation (CDRC) accounts for redevelopment financing, operations of The Chattanooga Hotel and the Southside Parking Garage. It remains in a negative net asset position of \$0.5 million. However, during the fiscal year net position increased \$2.8 million following a continual improvement trend.

The City operates a municipal solid waste landfill. The primary customer is city government. The fund has a net position of \$4.7 million. To date the City has accrued liabilities of \$5.4 million for closure and post closure care costs with adequate investments earmarked to cover these costs.

The water quality management program was established to comply with EPA guidelines. It currently has \$67.7 million in net position, an increase of \$6.0 million or 9.8% from last year. Net investment in capital is \$26.9 million leaving the amount available to fund day-to-day operations at \$38.8 million. Unrestricted net position increased 42.4%, \$11.6 million.

The Tennessee Valley Regional Communication System Fund was established in fiscal year 2016 to account for a regional communication system that services multi-county/multi-state region. It currently has a net position of \$1.3 million.



Capital Assets & Long Term Debt



Capital Assets Net of Depreciation

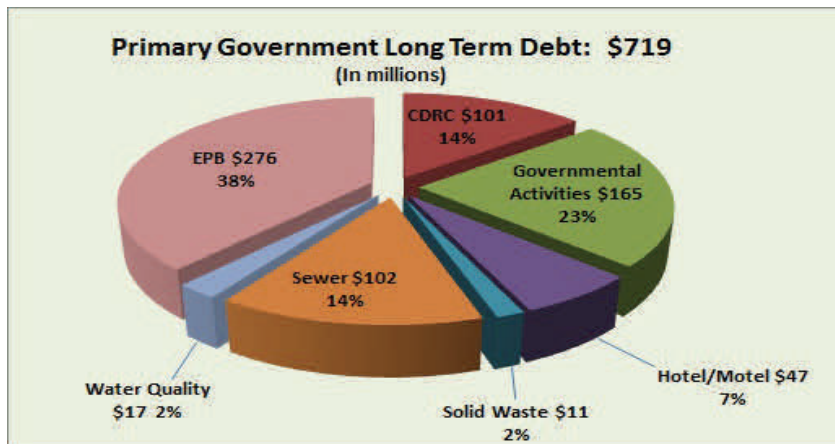
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Non-depreciable:						
Land & Easements	\$1,064	\$1,046	\$21	\$20	\$1,085	\$1,066
Construction in progress	85	77	91	66	176	143
Depreciable:						
Buildings & Improvements	104	107	82	83	186	190
Vehicles & Machinery	29	25	90	90	119	115
Infrastructure	205	217	726	705	931	922
Total	\$1,487	\$1,472	\$1,010	\$964	\$2,497	\$2,436

At the end of fiscal year 2016, the City had \$2.5 billion net investment in capital assets (net of accumulated depreciation) an increase of \$60.1 million or 2.5% from last year. This investment includes land, buildings, utility system, machinery and equipment, park facilities, infrastructure, and construction in progress.

For more transparency and better measurement of the City's finances, the City Council has prudently 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 and changes are made as needed to meet the desired goals.

City Charter limits the amount of net general obligation debt the City can issue to 10% of the assessed value of all taxable property within the City's corporate limits. For the current fiscal year that limit is \$511.1 million. The City's general obligation debt, net of self-supporting debt of \$174.6 million is 34.2% of that limit. As of year end, EPB had \$276.1 million in revenue bond debt outstanding compared to \$263.9 million last year. These bonds are rated "AA+" by Standard & Poor's and by Fitch.



During the year, the City issued the following new debt:

- ◇ \$36.3 million in new bonds.
- ◇ \$19.0 million in refunding bonds to refund \$19.5 million.
- ◇ EPB issued \$41.2 million in new revenue bonds in addition to \$218.9 million in revenue bonds to refund \$239.9 million.
- ◇ \$33.8 million were drawn down by the Interceptor Sewer System from a state revolving fund loan for consent decree projects.
- ◇ \$39.4 million in debt was retired during the fiscal year; \$32.2 million in bond principal payments were made with an additional \$7.1 million in note repayment.

Below is a closer look at the five-year comparison of the General Obligation Debt which is supported by tax payers.

General Obligation Debt - Governmental Activities

(in millions)

	2016	2015	2014	2013	2012
Beginning Balance	\$202	\$221	\$207 ²	\$209	\$298
Debt issued	47	18	27	0	44
Principal repaid	17	19	13	13	33
Refunded	20	18	0	0	0
Ending Balance	212	202	221	196 ¹	309
Outstanding Debt per Capita	\$1,202	\$1,161	\$1,278	\$1,144	\$1,817

The City of Chattanooga maintains an "AAA" rating from Standard & Poor's and "AA+" from Fitch Inc. for general obligation debt. "AAA" is the highest rating that can be awarded to any entity.

According to credit rating agencies, any entity receives "AAA" rating means that it has an extremely strong capacity to meet its financial commitments.

¹ The decrease in 2013 is due to a change in accounting requirements whereby \$109 million in Southside lease is no longer being reported as part of the governmental activities.
² The increase is a prior period adjustment of \$11.8 million payable to Hamilton County Dept of Education.

This report and the Comprehensive Annual Financial Report, as well as a variety of other information, can be obtained by visiting the City's web-site:

<http://www.chattanooga.gov/finance/finance-division>



Questions, comments, or suggestions regarding this report can be directed to

City of Chattanooga
Finance & Administration Department
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Chattanooga, TN 37402