

*Our mission is to break down the barriers that prevent people from living the lives they want in our community.*

# City of Chattanooga

## PAFR

• 2017 •

**Popular Annual Financial Report for the Year Ended June 30, 2017**  
**Chattanooga, Tennessee**

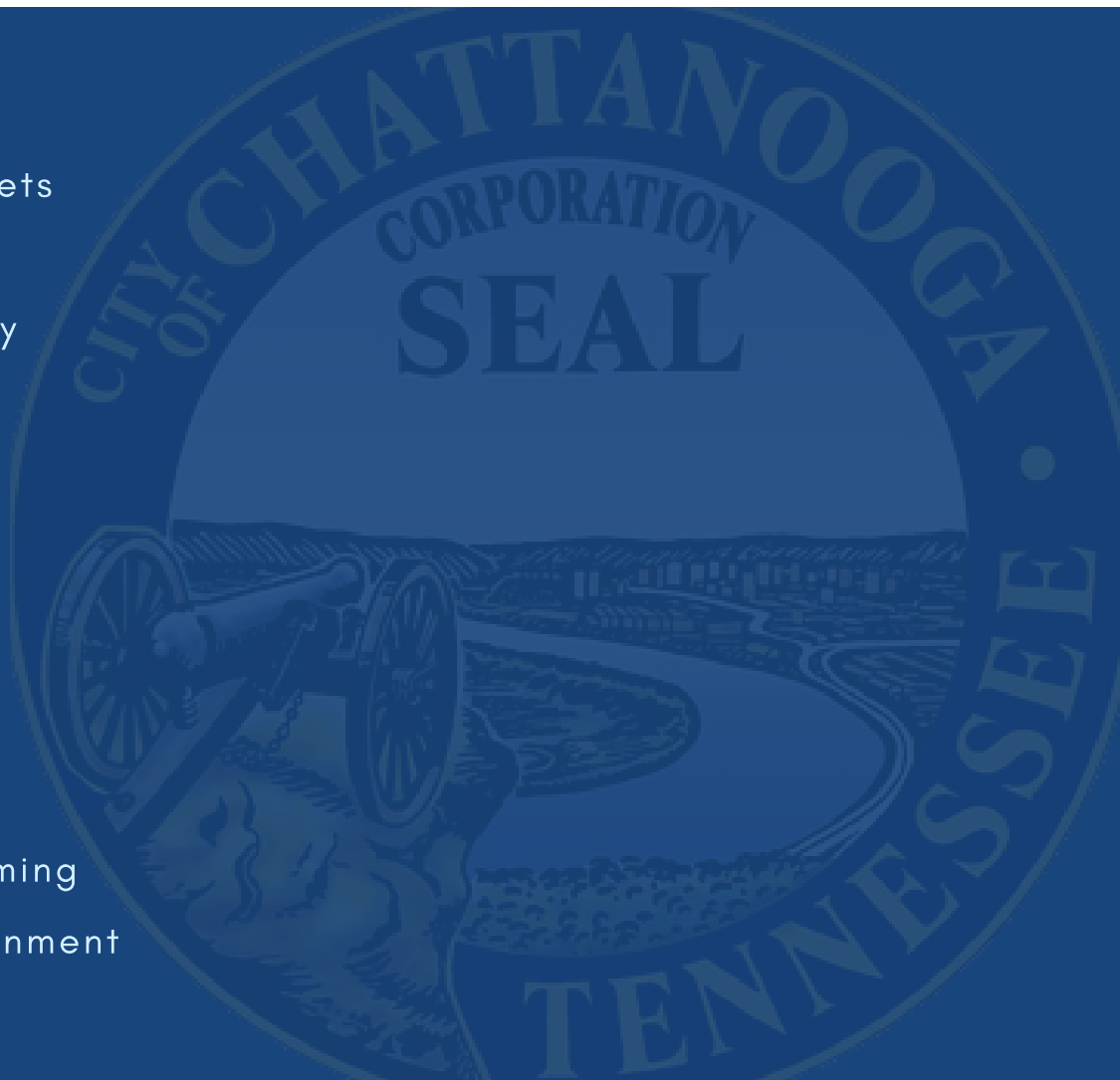
Safer Streets

Growing Economy

Smarter Students

Stronger  
Neighborhoods

High Performing  
Government



## Mayor's Letter



**City of Chattanooga  
Office of the Mayor  
City Hall, 101 E. 11th St., Chattanooga, TN 37402**

Dec. 20, 2017



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, 2017. We are focused on removing the barriers that keep people from leading the life they want in our community, and that begins with empowering Chattanoogaans. Looking back over the past year, we can see improvements in safety, neighborhoods, and our economy. From education and the Office of Early Learning to safety and the Real Time Intelligence Center, we are concentrating our efforts on our community's priorities to ensure the best outcomes for our citizens.

Reviewing the past year, our economy is strong. We graduated our first class of Chattanooga's Manufacturing Excellence Program, a partnership in workforce development between Chattanooga State, Volkswagen, and multiple community organizations. As those students graduate, we know there are jobs for them. This year, Tennessee hit the lowest unemployment level in recorded history. That means more jobs for Chattanoogaans and more money in the pockets of families.

Technology is helping us increase safety and curb violence like never before. By putting the right tools in the hands of officers, we are helping them predict trends and investigate crimes to make our neighborhoods safer. At our Family Justice Center, we are providing coordinated services for survivors of domestic and family violence and empowering them to pursue the best life possible.

To build stronger neighborhoods, we've invested more in infrastructure like sidewalks and crosswalks as well as public art and affordable housing. Our investment in paving is an all time high to ensure smooth and safe passage to school, home, and work. We are improving spaces in neighborhoods through new parks like the Southside Community Park and the construction of a new Avondale Youth and Family Development Center.

For families to be successful, we must start early with our youngest citizens. Over the past year, we've made advancements in early childhood education by expanding Baby University and unifying our efforts under the Office of Early Learning. To support Chattanooga families, we have also invested in our City employees, ensuring a sustainable pay scale for police and fire and benefits for all employees.

When we break down barriers, we can empower Chattanoogaans to live the life of their choosing. From creating safer routes in neighborhoods to increasing early learning and supporting local businesses, we are building a stronger Chattanooga and leading citizens to a higher quality of life.

Sincerely,

A handwritten signature in cursive that reads "Andy Berke".

Mayor Andy Berke  
City of Chattanooga



## *In This Report*

- 1 Message from the City Mayor
- 2 Message from the CFO
- 3 City council
- 4 City organizational chart
- 5 What is happening in our City
- 7 Performance measures
- 8 Annual "physical"
- 9 Where the money comes from
- 10 How the money is spent
- 11 Net position
- 12 Business-type activities
- 13 Capital assets & long-term debt

## 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, 2017. 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](http://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, 2016. 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 sixth 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 25 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**

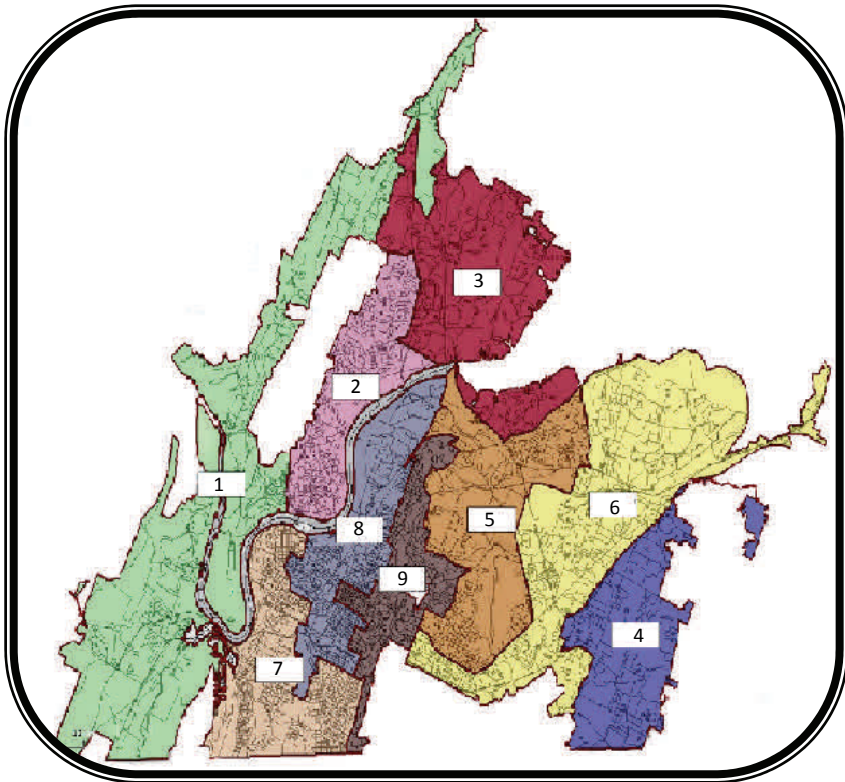
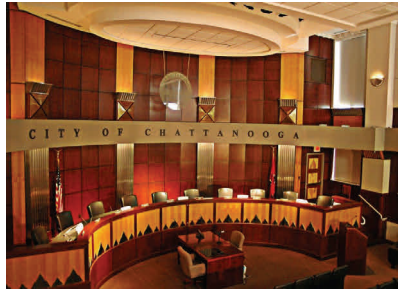
Presented to

**City of Chattanooga  
Tennessee**

For its Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

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. 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 most recent Census Bureau data shows the city with a population estimated of 177,571. 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.

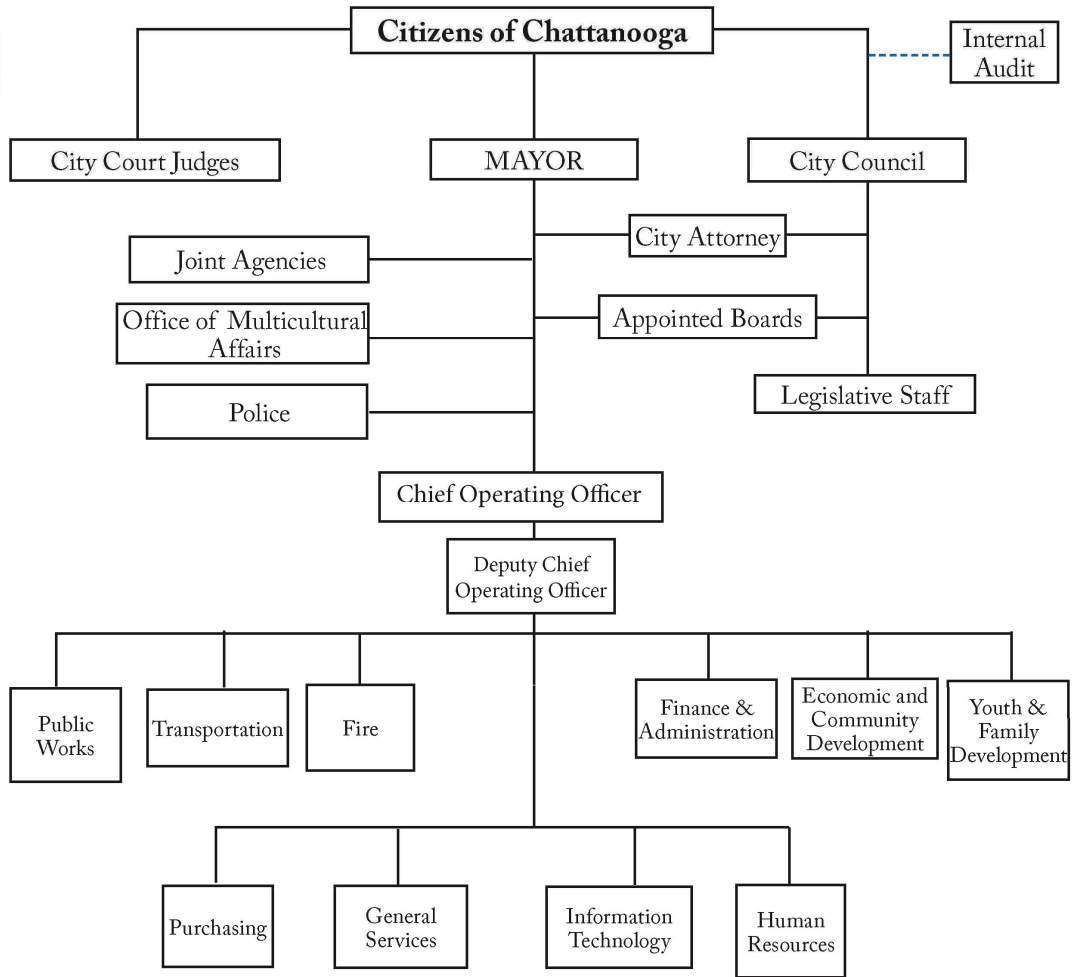
### City Council

Meets each Tuesday at 6:00 p.m.

Chair person: Jerry Mitchell  
District 2 (423) 643-7187

District 1	Chip Henderson	(423) 643-7186
District 3	Ken Smith	(423) 643-7188
District 4	Darrin Ledford	(423) 643-7184
District 5	Russell Gilbert	(423) 643-7183
District 6	Carol Berz	(423) 643-7181
District 7	Ersine Oglesby Jr	(423) 643-7180
District 8	Anthony Byrd	(423) 643-7182
District 9	Demetrus Coonrod	(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.

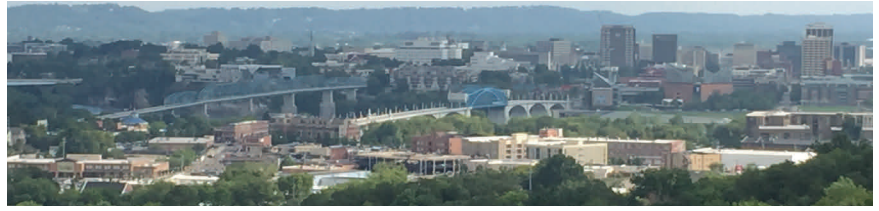


### City Government Department Contacts:

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 Services	(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) 643-6702	City Attorney Office	(423) 643-8250
Police Department	(423) 643-5000	Public Library	(423) 643-7700
Public Works	(423) 643-6311	Purchasing	(423) 643-7230
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. The new SUV, designed and built specifically for the U.S. market, began production last December. 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. R. Linn

## CHATTANOOGA LARGEST EMPLOYERS

Source: Chattanooga Chamber of Commerce

BlueCross BlueShield of Tennessee	5,970
Hamilton Co. Dept. of Education	4,548
Erlanger Health System	4,451
Tennessee Valley Authority	3,519
Volkswagen Chattanooga	3,100
McKee Foods	2,900
Unum	2,800
CHI Memorial	2,516
Amazon	2,289
City of Chattanooga	2,279

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	21%
Government	15%
Manufacturing	13%
Professionals & business services	18%
Education & health	13%
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 July 2017, 4,067 new jobs were created, private investment reached \$304.5 million and new payroll income exceeded \$194.4 million.

### June 2017 Unemployment Rates

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

Year	U.S	TN	Chattanooga MSA
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%
2017	4.4%	3.6%	4.3%

Downtown continues to add hotels, housing and office space. An extension of M. L. King Blvd. west to the Tennessee River has won approval. Plans for the immediate area include a medical office building and 180 new apartments. Miller Park, located in downtown Chattanooga, has begun an approximate \$8.5 million renovation in the M. L. King district. Plans include a pedestrian-friendly connection between Miller Park and Miller Plaza, an amphitheater, a garden walk and a rocky outcropping for people to sit or climb.



Proposed Design of Miller Park

The “Gold Building”, former headquarters of Blue Cross Blue Shield of Tennessee, has reopened as a 260 room luxury hotel with a ballroom and meeting rooms. Two other projects, valued at over \$25 million, include the historic McClellan Building and the First Tennessee Building, which will each offer apartments and commercial space. A new entertainment destination was recently constructed in Chattanooga’s Southside neighborhood next to the Choo-Choo. Station Street boasts micro brews, craft cocktails, great food and comedy and music.

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.

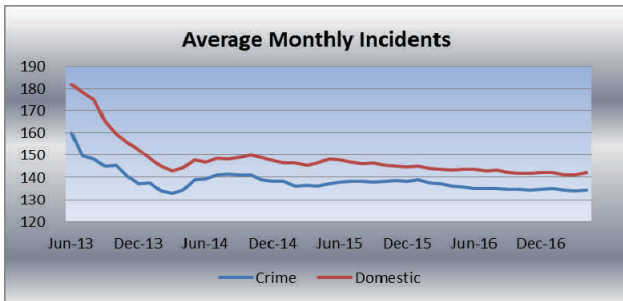
Chattanooga plays host to numerous national events. Major events which took place over the past year include the Chattanooga Marathon, the Head of the Hooch rowing competition, Ironman and Ironman 70.3 World Championship.

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 April 2017, the average monthly incidents have fallen to 134.



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 opened its very own Family Justice Center, which provides 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 April 2017, the average monthly incidents have fallen to 142. The City of Chattanooga will continue to work with every possible resource in order to ensure that every Chattanoogaan feels safe.

**MISSION**  
TO KEEP YOU, YOUR FAMILY AND OUR COMMUNITY SAFE.

**VISION**  
RESPECTED & TRUSTED BY ALL SEGMENTS OF CHATTANOOGA'S DIVERSE COMMUNITY.

**VALUES**  
RESPONSIVENESS  
ETHICAL CONDUCT  
SELFLESS SERVICE  
PROGRESSIVENESS  
EQUALITY  
COMMUNITY  
TRUST

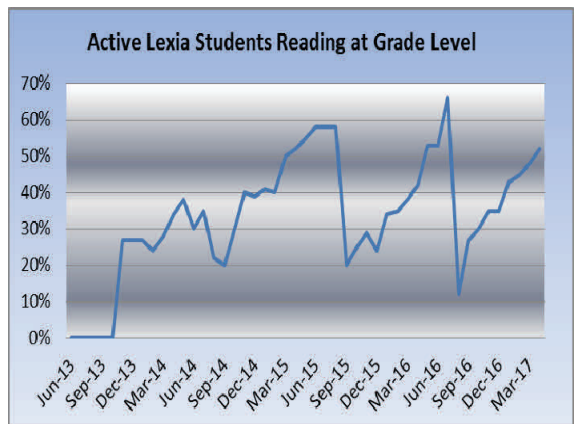
## YFD Reading

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 Comprehension. 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 each school year since 2013 reaching an all time high in November 2016 at 66%.





# 2017 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	<sup>(1)</sup>	2.73
Blood Pressure	Property Tax Rate - City & County	5.07	7.77	4.52	5.05
Cholesterol	Tax Levy Per Capita - City only	\$679	\$606	\$1,403	\$687
Height	Income Per Capita <sup>(2)</sup>	\$42,601	\$43,498	\$52,450	\$42,102
Temperature	Population <sup>(3)</sup>	177,571	652,717	660,388	186,239
Stress Test	Unemployment Rate <sup>(4)</sup>	4.3%	4.9%	3.3%	4.1%
Pulse	Gross Debt Per Capita	\$2,031	\$3,152	\$5,648	\$584
Blood Sugar	Gross Debt as % of Personal Income	5.08%	4.96%	9.48% <sup>(5)</sup>	2.32%

(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 2016

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

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

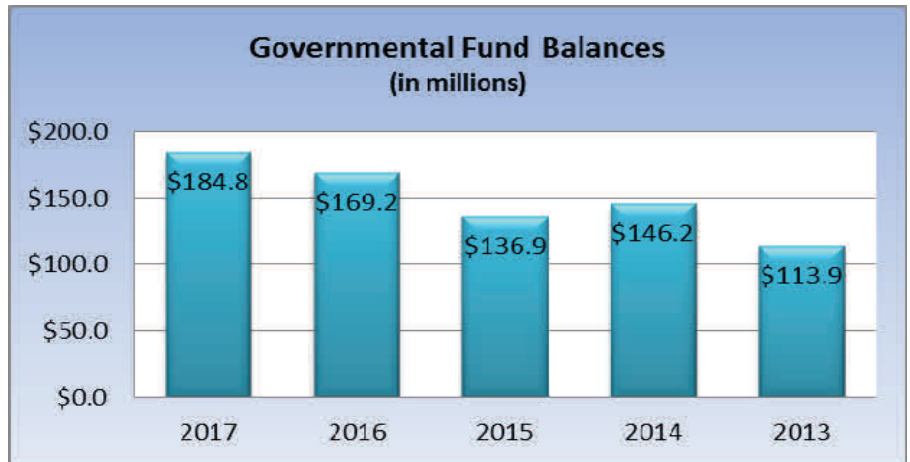
(5) 2016 rate; 2017 rate not available

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 \$184.8 million which increased \$15.6 million, or 9.2% 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 42.1% of the fund balance, or \$77.8 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

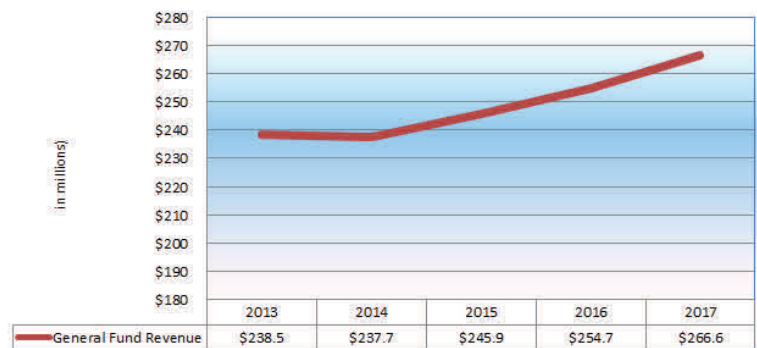
This year's general fund revenue increased \$11.9 million or 4.7% from the prior year. The primary contributing factors are the growth in property taxes and the increase in local option sales tax. Both are positive signs of healthy economy in Chattanooga area.

### Tax Revenue Sources (in millions)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
Property tax	\$136.7	\$130.4	\$6.3
Franchise taxes	\$4.5	\$4.4	\$0.1
Liquor & Beer taxes	9.4	8.7	0.7
Gross receipts tax	5.9	5.6	0.3
<b>Total</b>	<b>\$156.5</b>	<b>\$149.1</b>	<b>\$7.4</b>

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 2017, tax revenue increased by \$7.3 million or 4.9% over the last year. This includes a \$6.3 million or 4.8% increase in property tax and payments in lieu of tax (PILOT). \$3.7 million of the growth is in property taxes and \$2.6 million in PILOT revenue. The increase in PILOT revenue is almost entirely from a one-time settlement of \$3.3 million.

## GENERAL FUND REVENUE



Licenses, fees and charges are revenues received for services provided by city government. \$22.7 million was collected in fiscal year 2017, which is a \$500,000 or 2.3% increase from the prior year. Licenses and permits increased \$141,000 or 2.1% and building related permits increased \$383,400 or 13.3%. Both highlight the health of the local economy. Fines, forfeitures and penalties decreased \$470,000 or 18.5%. The reduction includes \$168,600 or 25.0% in city court fines and \$298,900 or 17.5% in automated traffic enforcement. Investment income increased \$504,000 or 26.7%.

Licenses, fees, and charges \$22.7 million or 8.5%



Taxes \$156.5 million or 58.7%

Intergovernmental revenues \$87.5 million or 32.8%

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 2017, intergovernmental revenue increased \$4.1 million, or 4.9% over the prior year. This is primarily resulting from receipt of TDZ incremental sales tax of \$3.3 million state share and \$1.0 million local option. Overall increases in sales tax is an indicator of the health of the local economy.

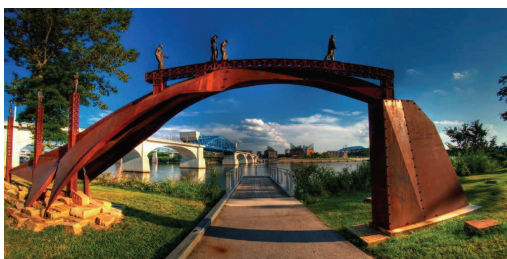
### Intergovernmental Revenue Sources (in millions)

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Change</u>
State of TN	\$22.1	\$21.7	\$0.4
Hamilton County	1.3	1.1	0.2
County-wide sales tax	57.8	58.4	(0.6)
Others	6.2	2.1	4.1
<b>Total</b>	<b>\$87.5</b>	<b>\$83.4</b>	<b>\$4.1</b>

## How The Money Is Spent

To ensure the priorities of City Government are aligned with those established by the community, fiscal year 2017 general fund spending was allocated according to Mayor Andy Berke's five strategic priority areas:

- ◇ **Safer Streets 51%** - The City actively implements smart policing strategies, effective prevention programs for our youth, and high-quality response.
- ◇ **Stronger Neighborhoods 16%** - 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 9%** - 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 13%** - 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

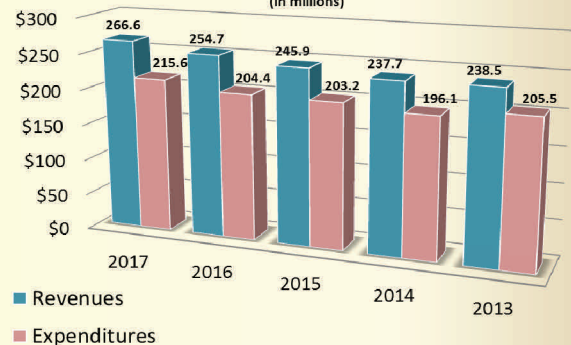
(in million)

	FY 2017	FY 2016	Change
General Government	\$60.1	\$57.4	\$2.6
Economic & Community Development	6.5	6.8	(0.2)
Public Safety	103.3	96.0	7.3
Public Works & Transportation	35.5	34.3	1.2
Youth & Family Development	10.3	9.8	0.5
<b>Total</b>	<b>\$215.6</b>	<b>\$204.4</b>	<b>\$11.3</b>

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 2017, total expenditures increased \$11.3 million or 5.5% from the previous year. Major changes are discussed below:

- ◆ In fiscal year 2017, employee compensation increased by \$3.0 million or 2.4%. Civilian personnel making under \$50,000 received a lump sum increase of \$1,000 while all other civilians received a 2.0% increase in base pay. Sworn personnel increases were provided based on a career ladder program. The largest increase in personnel costs relates to pension costs. The General Pension contribution increase was \$858,100 or 18.4% and the Fire and Police contribution increase was a \$934,600 or 7.7%.
- ◆ In the operations area, costs increased by \$8.3 million or 10.5%. The largest increases include: IT costs \$1.8 million or 156.2%, on-the-job injuries (OJI) \$1.2 million or 62.1% and \$1.3 million or 855.2% for fire protective gear and body worn cameras. IT began hosting the ERP system and using managed services during fiscal year 2017. There was a single heart and lung OJI that resulted in this increase.

**General Fund Revenues & Expenditures Comparison**  
(in millions)



## Governmental & Business-type

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

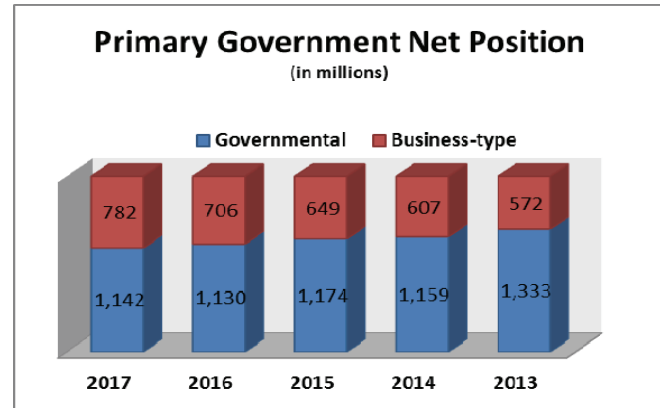
- Governmental activities:** primarily supported by taxes and inter-governmental revenues. Activities include General Government, Economic and Community Development, Public Safety, Public Works, Transportation, Youth and Family Development.
- Business – type activities:** costs are supported by user 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](http://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 2017, the net position of the primary government, which is the combination of governmental activities and business-type activities, increased by \$87.7 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 \$136.8 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 \$143.0 million deficit in unrestricted net position due to recording of unfunded OPEB liabilities during the current year and unfunded pension liabilities in fiscal year 2014.

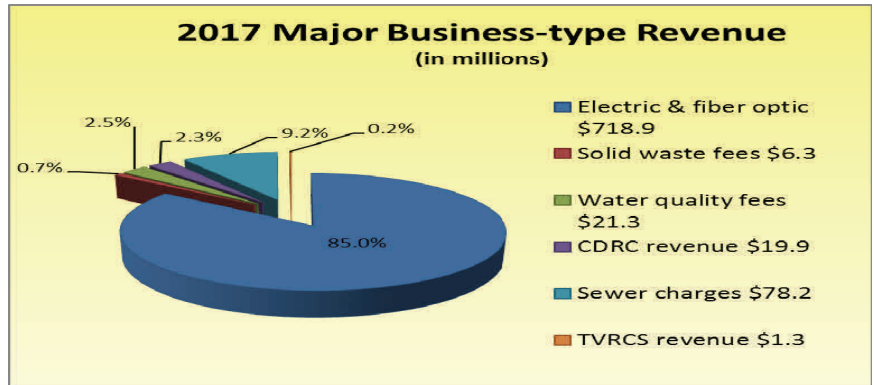
(In Millions)	2017	2016	2015	2014	2013
<b>Governmental activities</b>					
Net investment in capital assets *	1,278.0	1,272.4	1,275.4	1,204.8	1,212.5
Restricted	60.7	66.1	47.8	48.0	28.2
Unrestricted	(196.3)	(208.3)	(149.4)	(94.0)	92.2
<b>Total governmental activities net position</b>	<b>1,142.4</b>	<b>1,130.2</b>	<b>1,173.8</b>	<b>1,158.8</b>	<b>1,332.9</b>
<b>Business-type activities</b>					
Net investment in capital assets *	652.0	590.8	603.0	573.9	537.0
Restricted	76.1	49.2	69.4	46.6	45.0
Unrestricted	53.4	65.9	(23.1)	(14.0)	(10.3)
<b>Total business-type activities net position</b>	<b>781.5</b>	<b>705.9</b>	<b>649.3</b>	<b>606.5</b>	<b>571.7</b>
<b>Primary government</b>					
Net investment in capital assets *	1,930.0	1,863.2	1,878.4	1,778.7	1,749.5
Restricted	136.8	115.3	117.2	94.6	73.2
Unrestricted	(142.9)	(142.4)	(172.5)	(108.0)	81.9
<b>Total primary government net position</b>	<b>1,923.9</b>	<b>1,836.1</b>	<b>1,823.1</b>	<b>1,765.3</b>	<b>1,904.6</b>
* Net of related debt					

# Business-type Activities

Revenue for the City's business-type activities was \$847.8 million for fiscal year 2017, a \$43.5 million or 5.4% increase. During the same time, expenses were \$772.3 million, a \$37.4 million or 5.1% increase. 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 \$35.3 million or 10.6% to \$369.5 million, mainly due to decreases of \$30.6 million in bonds outstanding and other debt and an increase in Utility Plant of \$18.5 million. Operating revenues are up \$32.8 million or 4.8%. Fiber optics sales increased by \$13.8 million or 11.3%. For more information on the fiscal year 2017 annual report, please visit [www.epb.net/about/annual-reports/](http://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.



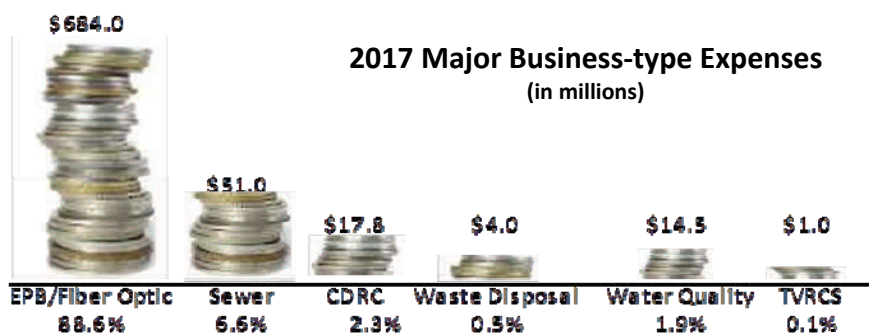
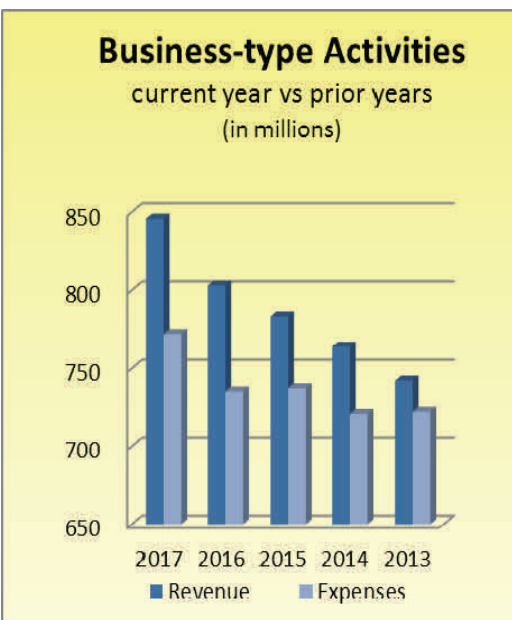
Net position of the Interceptor Sewer System increased \$28.0 million or 9.2%, to \$332.8 million. Unrestricted net position (available to finance on-going operations) decreased \$16.5 million or 29.7% to \$39.1 million. An additional \$54.0 million is restricted for future capital spending, an increase of \$19.7 million due to increased commitments for consent decree projects.

Chattanooga Downtown Redevelopment Corporation (CDRC) accounts for redevelopment financing, operations of The Chattanooga Hotel and the Southside Parking Garage. It has a net position of \$2.1 million, an increase of \$2.5 million from last year.

The City operates a municipal solid waste landfill. The primary customer is city government. The fund has a net position of \$6.5 million. To date the City has accrued liabilities of \$5.2 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 \$69.4 million in net position, an increase of \$6.9 million or 11.0% from last year. Net investment in capital is \$29.7 million leaving the amount available to fund day-to-day operations at \$19.9 million. Unrestricted net position decreased 40.9% or \$13.7 million as a result of increased spending and commitments for water quality infrastructure.

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 \$1.2 million.



# Capital Assets & Long Term Debt



## Capital Assets Net of Depreciation

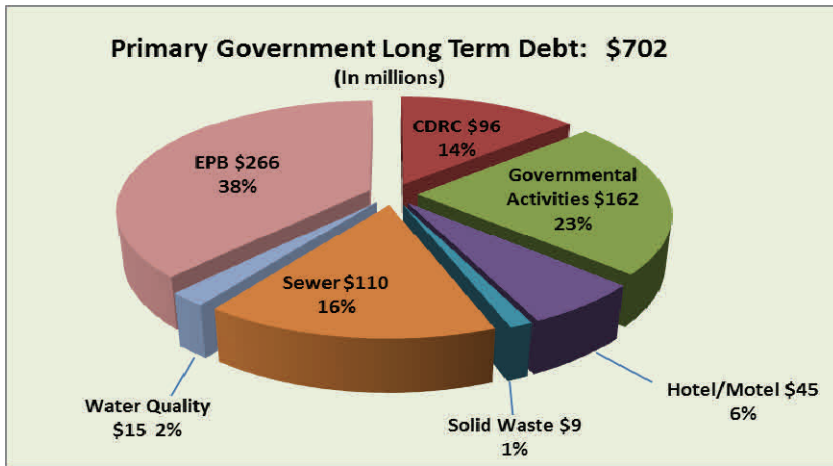
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Non-depreciable:</b>						
Land & Easements	\$1,068	\$1,064	\$21	\$21	\$1,089	\$1,085
Constructor in progress	69	85	14	91	183	176
<b>Depreciable:</b>						
Buildings & Improvements	104	104	83	82	187	186
Vehicles & Machinery	37	29	82	90	119	119
Infrastructure	207	205	765	726	972	931
<b>Total</b>	<b>\$1,485</b>	<b>\$1,487</b>	<b>\$1,065</b>	<b>\$1,010</b>	<b>\$2,550</b>	<b>\$2,497</b>

At the end of fiscal year 2017, the City had \$2.6 billion net investment in capital assets (net of accumulated depreciation) an increase of \$54.0 million or 2.2% 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 \$522.6 million. The City's general obligation debt, net of self-supporting debt of \$167.7 million is 32.1% of that limit. As of year end, EPB had \$266.5 million in revenue bond debt outstanding compared to \$276.1 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:

- ◇ \$8.2 million in new bonds.
- ◇ \$15.4 million in refunding bonds to refund \$17.8 million.
- ◇ \$6.0 million lease for regional communication equipment.
- ◇ \$14.8 million were drawn down by the Interceptor Sewer System from a state revolving fund loan for consent decree projects.
- ◇ \$42.9 million in debt was retired during the fiscal year; \$35.7 million in bond principal payments were made with an additional \$7.3 million in note and lease repayments.

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)

	2017	2016	2015	2014	2013
Beginning Balance	\$212	\$202	\$221	\$207 <sup>2</sup>	\$209
Debt issued	27	47	18	27	0
Principal repaid	18	17	19	13	13
Refunded	15	20	18	0	0
<b>Ending Balance</b>	<b>206</b>	<b>212</b>	<b>202</b>	<b>221</b>	<b>196</b>
<b>Outstanding Debt per Capita</b>	<b>\$1,163</b>	<b>\$1,202</b>	<b>\$1,161</b>	<b>\$1,275</b>	<b>\$1,144</b>

<sup>2</sup> The increase is a prior period adjustment of \$11.8 million payable to Hamilton County Dept of Education.

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.

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  
101 East 11th Street  
Chattanooga, TN 37402