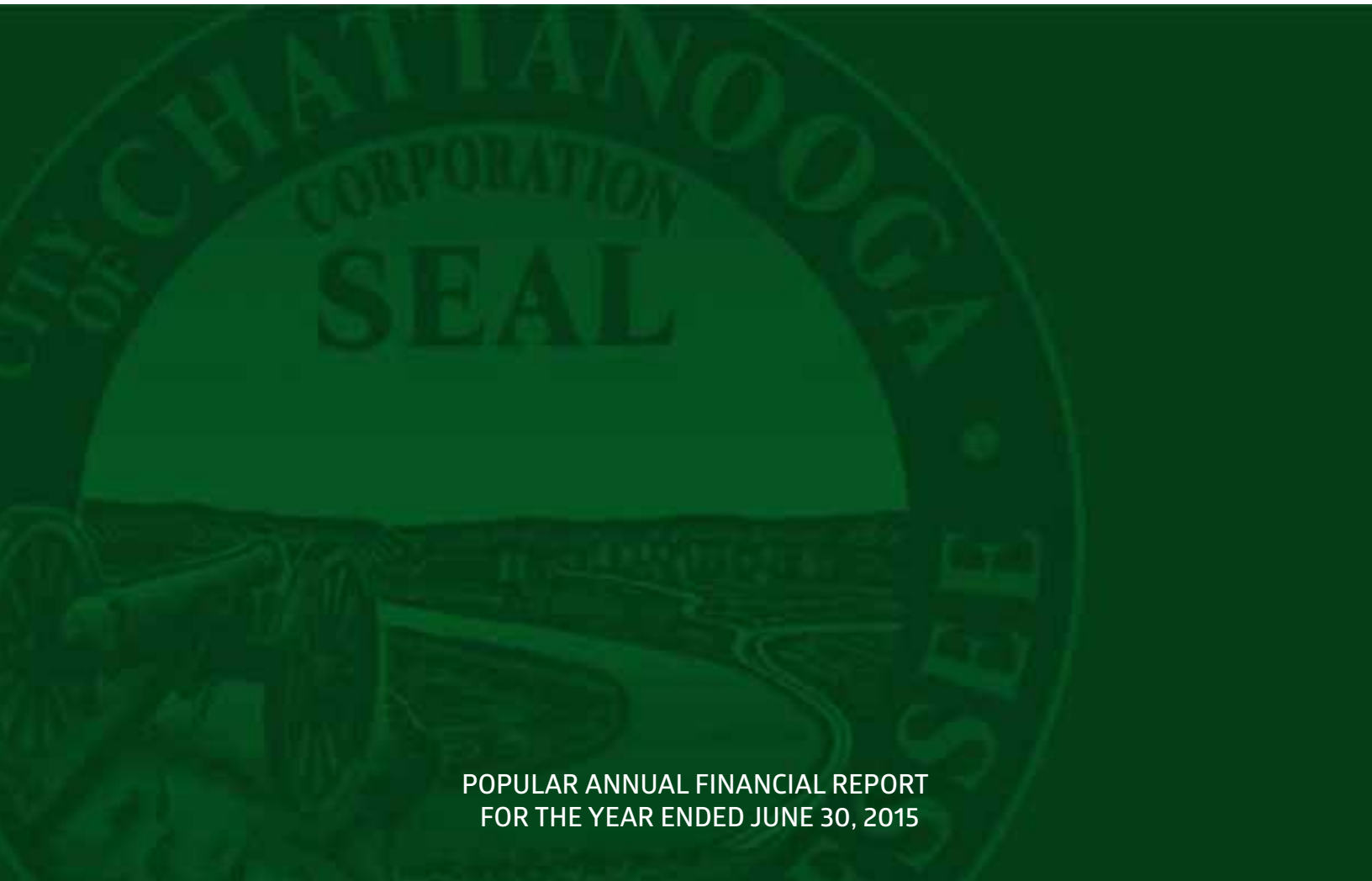
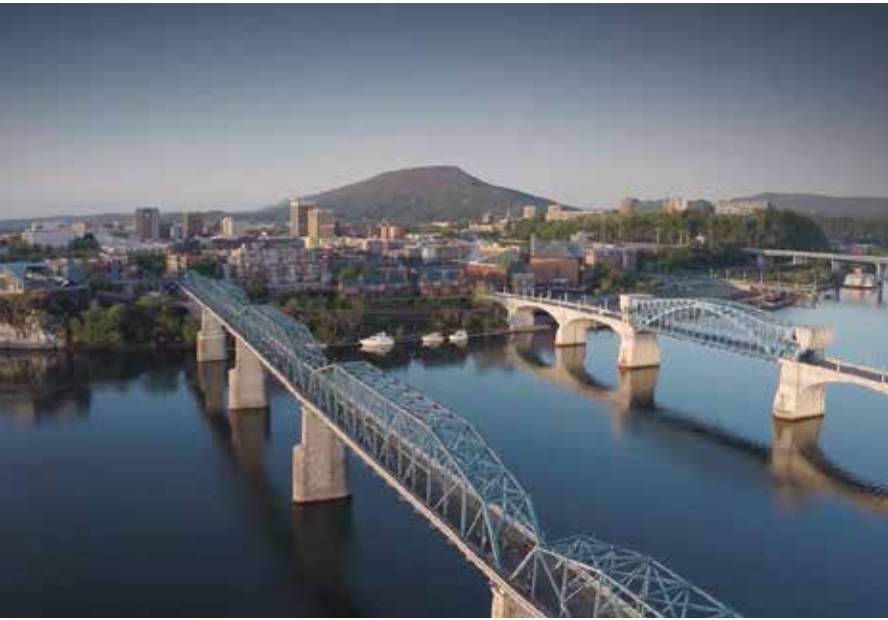


City of Chattanooga, Tennessee

PAFR 2015



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, 2015. Every day, my Administration ensures city government's actions match our community priorities of safer streets, smarter students and stronger families, a growing economy, stronger neighborhoods, and high performing government. We are committed to addressing these important priorities – and we are seeing clear results.

Over the past year, we have made our streets safer for more Chattanoogaans. Robberies are at a five-year low, property crime is down 22%, and violent crime is down 4.75%. While the rate of violence is rising in cities across the country, Chattanooga has seen a slight but steady decrease in shootings and homicides. In addition, our police department is making strides with our Community Police Response to Victims of Violence (CPRVV) initiative. Recognized as a national best practice, CPRVV is building relationships between law enforcement and victims to ensure cooperation and trust during the investigative process.

We know local government is most effective when we partner with businesses, nonprofits, and local organizations to move the needle in a variety of ways, including growing our economy. To that end, Chattanooga's unemployment rate has declined from 7.8% on April 2013 to 5.4% today. Last year, 3,341 new jobs were created and we experienced the third fastest wage growth of any mid-sized city in the country. This focus on our local economy and high quality of life puts Chattanooga on the "Best Of" lists throughout the year, from one of the Best Cities to Start a Business and a Best Place to Retire to Outside Magazine's designation of Best Town Ever.

Chattanooga's focus on innovation and technology can be seen throughout our community. Whether visiting a new startup located in our downtown Innovation District to dropping in on an award-winning Tech Goes Home class at a neighborhood church, we are working to ensure everyone has an opportunity to participate in the 21st Century. And while access to technology like the Internet is critical, we also know that the foundation for future success must be established early on. That's why the City has invested in our families like never before, from teaching students how to read at one of our 18 Youth & Family Development Centers to teaching parents how to be their child's first educator at Baby University, which provides important resources to some of our most underserved families.

All of this work is to ensure every Chattanoogaan can live the life of their choosing. That means streets safe from the threat of violence and more job opportunities, especially those that build our middle class. It means thriving neighborhoods where families are strong and kids have access to opportunity. And it means a local government committed to using taxpayer dollars efficiently and effectively to provide the best services possible and enhance the quality of life for all Chattanoogaans.

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



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 Capital assets & long-term debt
- 13 Business-type activities

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, 2015. 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, 2014. 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 believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

We are proud to say this was the fourth year we published this report and received the award. The City has also been awarded a Certificate of Achievement for Excellence in Financial Reporting by the GFOA each of the past 23 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**

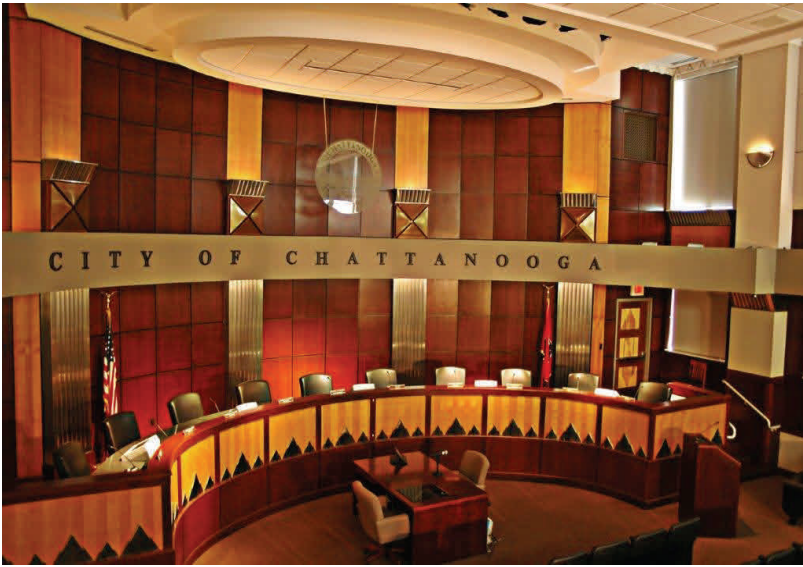
Presented to

City of Chattanooga
Tennessee

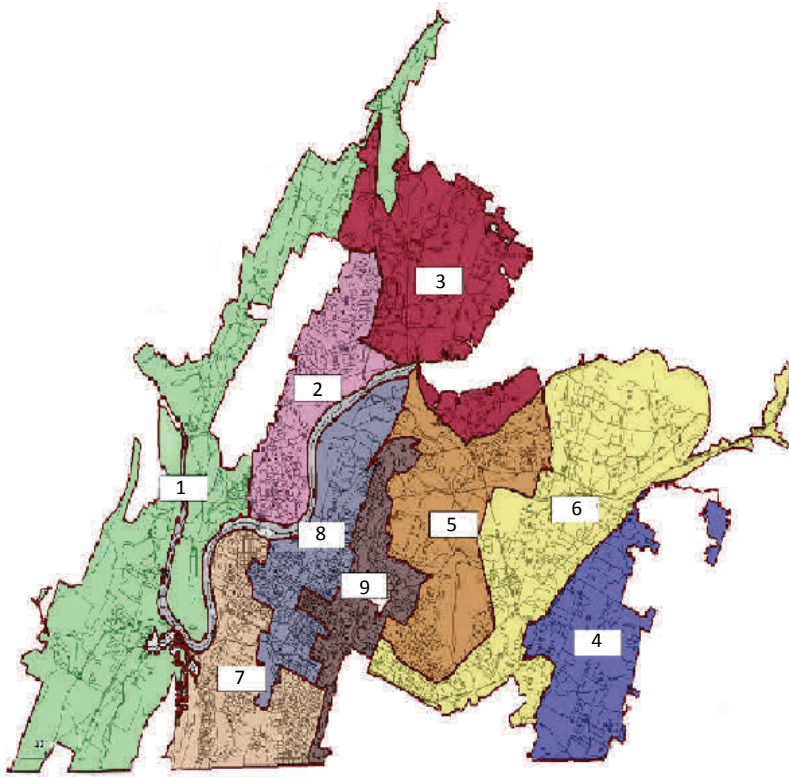
For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

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 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

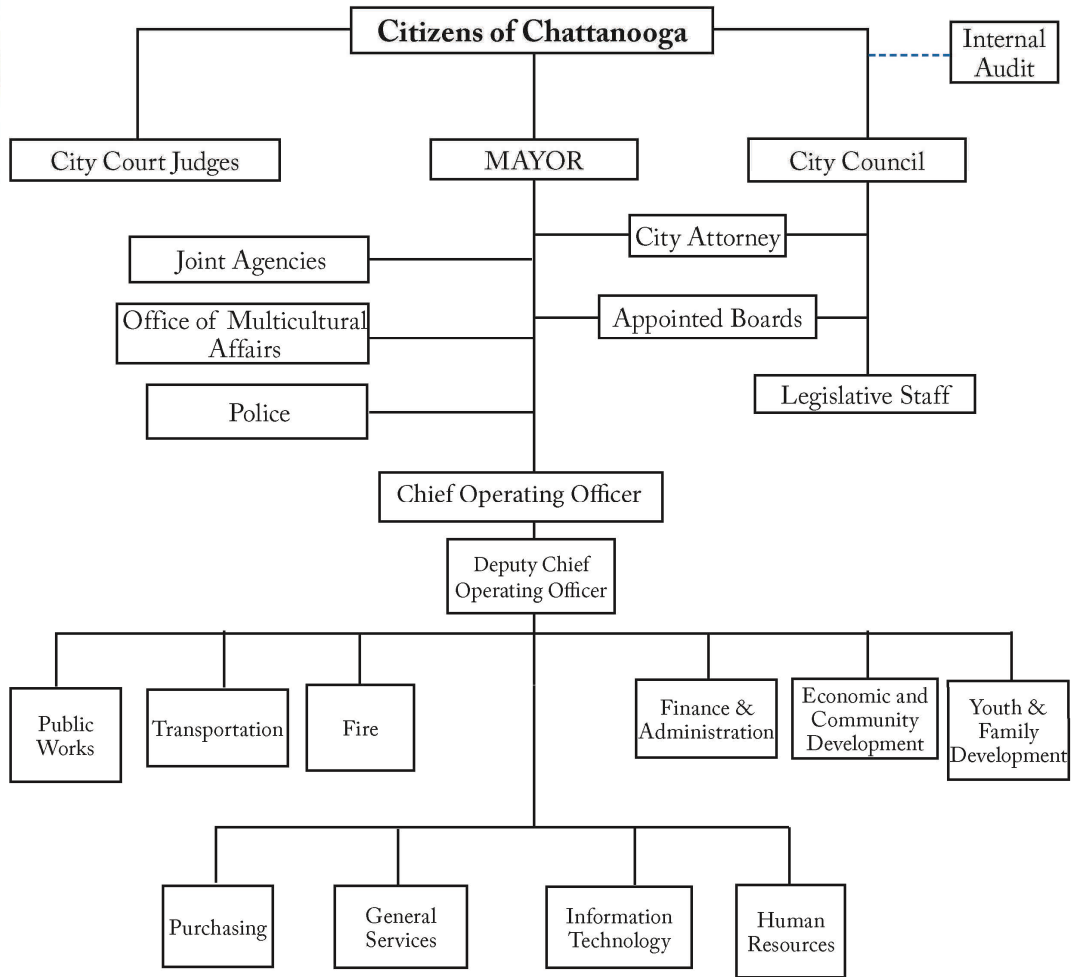
Meets each Tuesday at 6:00 p.m.

Chair person: Carol B. Berz,
District 6 (423) 643-7181

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 7	Chris Anderson	(423) 643-7180
District 8	Moses Freeman	(423) 643-7182
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) 757-5310
Public Works	(423) 643-6000	Purchasing	(423) 643-7230

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 share 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 500 jobs. Plastic Omnium Auto Exterior has located a \$65 million factory to furnish exterior automotive parts, adding up to 300 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. We have now become the first city to offer a ten-gigabit connection to all customers in the 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. Approval has been received from the FCC to offer service outside the existing service area, and EPB anticipates final regulatory changes by the State of Tennessee that would enable them to carry out those expansion plans. To date, over \$300 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.





CHATTANOOGA LARGEST EMPLOYERS

Source: Chattanooga Chamber of Commerce

Hamilton Co. Dept. of Education	4,504
BlueCross BlueShield of Tennessee	4,437
Tennessee Valley Authority	3,737
Erlanger Health System	3,604
Memorial Health Care System	2,832
Unum	2,800
McKee Foods Corporation	2,750
Amazon.com.dedc LLC	2,473
Volkswagen Chattanooga	2,372
City of Chattanooga	2,230

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	13%
Manufacturing	13%
Professionals & business services	19%
Education & health	14%
Leisure & hospitality	12%

“Building Tomorrow Today”

As a part of the “Chattanooga Can Do” campaign, community leaders and elected officials set goals from July 2011 – June 2015: increase regional employment by 15,121, increase private investment by \$500 million and create \$427 million in new payroll income. As of June 2015, 17,536 new jobs were created, private investment reached \$1.08 billion and new payroll income exceeded \$810.5 million!

June 2015 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%

Downtown continues to add hotels, housing and office space. The first phase of a proposed \$100 million housing and commercial project on the west side of downtown along the river is nearing completion. It will include 39 homes and luxury townhomes along Riverfront Parkway expected to range upward from \$319,000 each. A \$19 million hotel, with 140 rooms, and a 90-room boutique hotel near the Tennessee Aquarium are both currently near completion. The historic Chattanooga Choo Choo is in the process of completing an \$8 million renovation, which will include two new restaurants and a small music venue.



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.

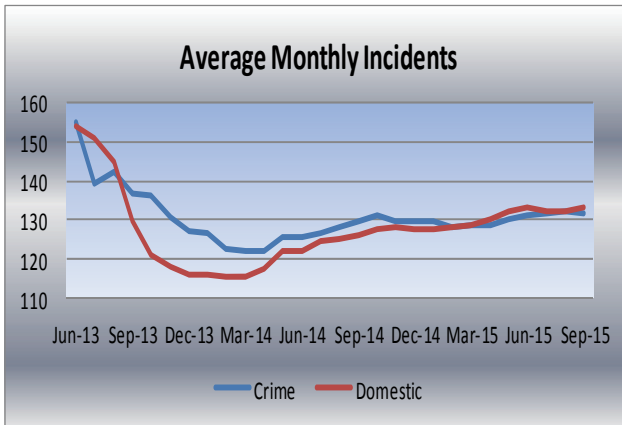
Chattanooga is host for numerous national events. Major events which took place over the past year include the Head of the Hooch rowing competition, The USA Cycling Pro Championships, Ironman and Ironman 70.3. In March 2016, the city will host the inaugural Chattanooga Marathon.

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 September 2015, the average monthly incidents have fallen to 132.



Chattanooga is also committed to reducing domestic violence crimes in order to protect families throughout the city. In July 2015, the City of Chattanooga opened the Family Justice Center, which provides free services for victims of domestic violence. 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 September 2015, the average monthly incidents have fallen to 133.

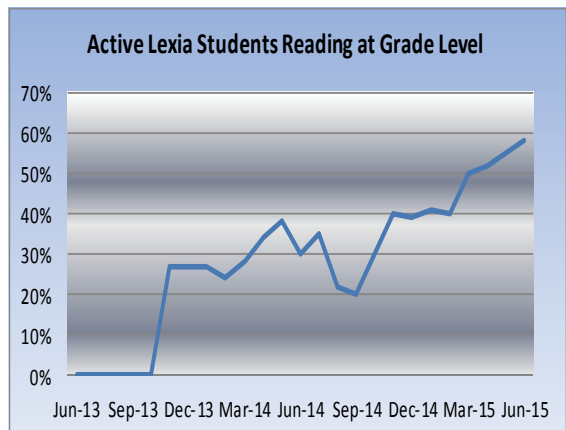


YFD Reading

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 since the program began in 2013. As of June 2015, the percentage is the highest it has ever been at 58%.



2015 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	\$592	\$1,374	\$676
Height	Income Per Capita ⁽²⁾	\$39,260	\$41,935	\$47,392	\$39,530
Temperature	Population ⁽³⁾	173,778	656,861	644,014	184,281
Stress Test	Unemployment Rate ⁽⁴⁾	6.2%	7.0%	5.1%	5.9%
Pulse	Gross Debt Per Capita	\$1,778	\$3,486	\$4,868	\$987
Blood Sugar	Gross Debt as % of Personal Income	4.71%	5.64%	10.10% ⁽⁵⁾	4.10%

(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 2014

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

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

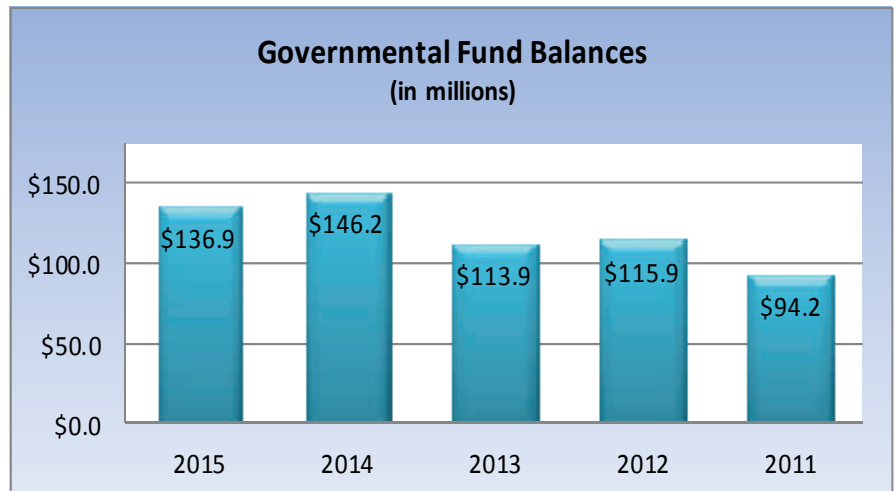
(5) 2014 rate; 2015 rate not available



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 that provided 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 \$136.9 million which decreased \$9.3 million, 6.4% compared to last year. The decrease is mainly due to increase spending in capital outlay. Over 40.2% of the fund balance, or \$55.1 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-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

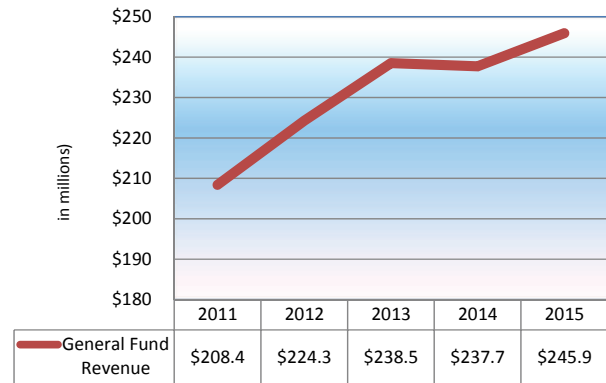
This year's general fund revenue increased \$8.3 million or 3.5% from the prior year. The primary contributing factors are the growth in property taxes and the increase in local option sales tax. Both are positive signs of healthy economy in Chattanooga area.

Tax Revenue Sources (in million)

	FY 2015	FY 2014	Change
Property tax	\$127.9	\$125.2	\$2.7
Franchise taxes	\$4.7	\$4.1	\$0.6
Liquor & Beer taxes	8.2	8.0	0.2
Gross receipts tax	4.9	4.8	0.1
Total	\$145.7	\$142.1	\$3.6

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 2015, tax revenue increased by \$3.6 million, or 2.6% over the last year. This includes a \$2.8 million, or 2.2% increase in property tax as the city experiences some growth in property taxes. Additionally, there is a \$700,000, or 17.5% increase in franchise taxes which primarily comes from the gas company whose agreement included a one-percent increase beginning in 2015.

GENERAL FUND REVENUE



Licenses, fees and charges are revenues received for services provided by city government. \$21.4 million is collected in fiscal year 2015 which is a \$1.3 million or 6.5% increase from the last year. Licenses and permits are increased \$191,000, or 3.3% and building related permits also increased \$166,600, or 6.5%. Both highlight the health of the local economy. Fines, forfeitures and penalties increased \$645,000, or 32% primarily due to increased fine collection from automated traffic enforcement. Interest income increased \$279,000 or 45.2% resulting from an effort to search out alternative investment vehicles available per the City's investment policy to maximize return while safeguarding assets.

Licenses, fees, and charges \$21.4 million or 8.7%



Taxes \$145.7 million or 59.2%

Intergovernmental revenues \$78.8 million or 32.0%

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 2015, revenue increased \$3.3 million, or 4.4% over the prior year. This is primary resulting from a \$3.4 million or 6.7% increase in local option sales tax, another indicator of the health of the local economy.

Intergovernmental Revenue Sources (in million)

	FY 2015	FY 2014	Change
State of TN	\$21.2	\$19.9	\$1.3
Hamilton County	1.0	1.1	(0.1)
County-wide sales tax	54.5	51.1	3.4
Others	2.1	3.4	(1.3)
Total	\$78.8	\$75.5	\$3.3

How The Money Is Spent

To ensure the priorities of City Government are aligned with those established by the community, fiscal year 2015 general fund spending was allocated according to Mayor Andy Berke's five strategic priority areas.

- ◇ **Safer Streets 49%** - City actively implements smart policing strategies, effective prevention programs for our youth, and high-quality response.
- ◇ **Stronger Neighborhoods 20%** - 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 residents have the skills to compete, and strengthening our infrastructure to support business expansion.
- ◇ **High Performing Government 10%** - 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.

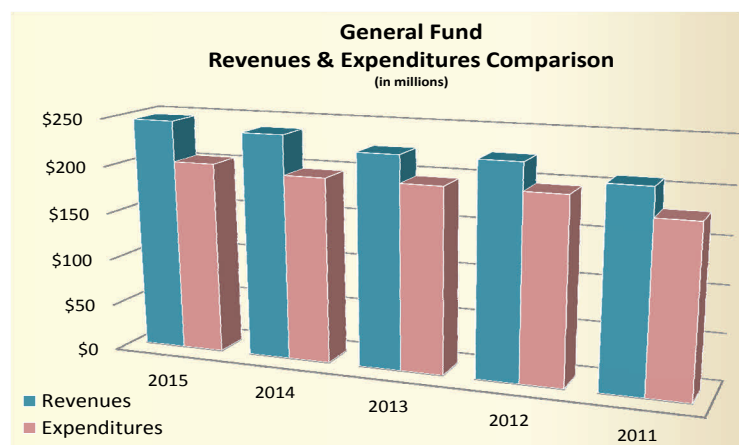
General Fund Expenditures

(in million)

	FY 2015	FY 2014	Change
General Government	\$60.1	\$55.4	\$4.7
Economic & Community Development	6.8	5.4	1.4
Public Safety	93.2	92.7	0.5
Public Works & Transportation	34.0	34.3	(0.3)
Youth & Family Development	9.0	8.3	0.7
Total	\$203.2	\$196.1	\$7.0

Here we will only focus on the chief operating fund of the City, general fund. According to the reporting requirement of the GFOA, general fund expenditures are categorized by type of service provided. In fiscal year 2015, total expenditures increased \$7.0 million or 3.6% from the previous year. Major changes are discussed below:

- ◆ Salaries for full-time employees increased \$1.7 million or 2.8%; civilian employees received a 1.5% increase while sworn employees now have a career ladder program fully in place. Healthcare costs for active employees increased \$655,500 or 5.2% while other post employment benefits for healthcare increased \$479,000 or 4.5%. These increases were offset by a \$3.2 million decrease in fire and police pension costs resulting from plan changes which reduced by the City's contribution rate from 35.86% to 26.19% for the year. There was also a \$1.1 million reduction resulting from the final payment in the prior year for construction of the wellness center.
- ◆ In the operations area, technology related costs increased \$480,000 or 19.9%, and liability insurance premium increased \$700,000 or 87.5% due to increased claims payout. Two unusual items relating to the vehicle lease program and debt payment also occurred in 2015. Restoration of the capital component of the vehicle lease which had been suspended in the prior year increased vehicle lease costs by \$3.6 million or 112.5%. 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 as part of a settlement.



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, as well as solid waste disposal and the Chattanooga Downtown Re-development Corporation (CDRC).
- Component Units:** these entities are not part of the primary government. They are legally separate from the City of Chattanooga but City is still has oversight responsibility. These units include: The Chattanooga Metropolitan Airport Authority and the Chattanooga Area Regional Transportation Authority (CARTA).

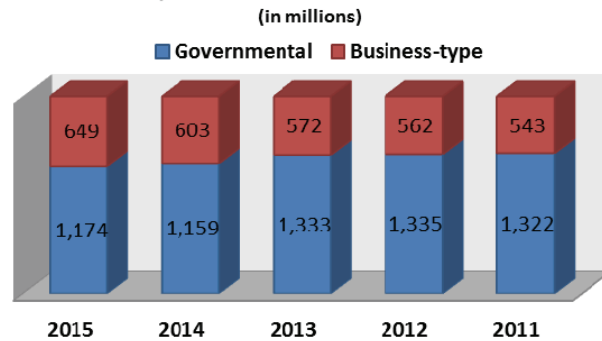
Information in this PAFR is limited to the governmental activities and business-type activities as these are considered the primary government. Component Units are not included in this report.

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.

Primary Government Net Position



At the end of fiscal year 2015, the net position of the primary government which is the combination of governmental activities and business-type activities increased by \$60.9 million compared to last fiscal year. Pension expense in the prior year was offset by a \$65.3 million savings due to Fire and Police pension reform. 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 \$117.2 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 \$172.5 million deficit in unrestricted net position due to recording of unfunded pension liabilities.

City of Chattanooga Five-Year Net Position Comparison

(In Millions)	2015	2014	2013	2012	2011
Governmental activities					
Net investment in capital assets *	1,275.4	1,204.8	1,212.5	1,204.0	1,231.4
Restricted	47.8	48.0	28.2	41.6	27.1
Unrestricted	(149.4)	(94.0)	92.2	89.2	63.7
Total governmental activities net position	1,173.8	1,158.8	1,332.9	1,334.8	1,322.2
Business-type activities					
Net investment in capital assets *	603.0	573.9	537.0	527.6	568.2
Restricted	69.4	43.5	45.0	30.7	18.1
Unrestricted	(23.1)	(14.0)	(10.3)	3.5	(43.5)
Total business-type activities net position	649.3	603.4	571.7	561.8	542.8
Primary government					
Net investment in capital assets *	1,878.4	1,778.7	1,749.5	1,731.6	1,799.6
Restricted	117.2	91.5	73.2	72.3	45.2
Unrestricted	(172.5)	(108.0)	81.9	92.7	20.2
Total primary government net position	1,823.1	1,762.2	1,904.6	1,896.6	1,865.0
* Net of related debt					

Capital Assets & Long Term Debt



Capital Assets Net of Depreciation

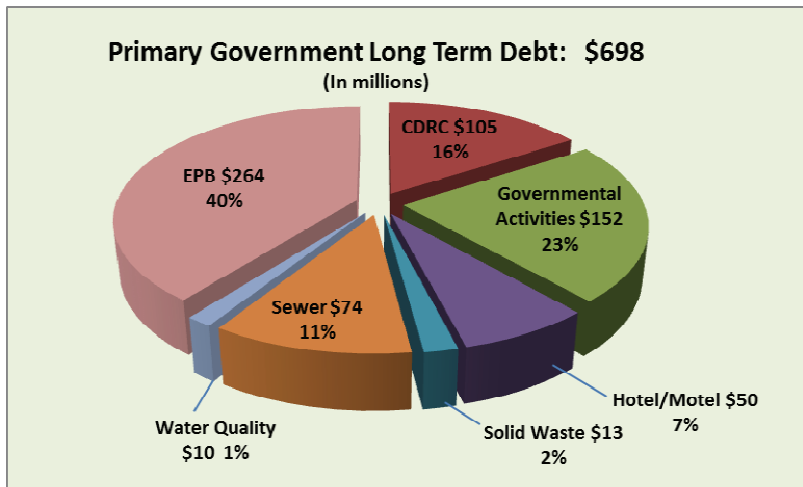
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Non-depreciable:						
Land & Easements	\$1,046	\$1,041	\$20	\$20	\$1,066	\$1,061
Construction in progress	77	69	66	47	143	116
Depreciable:						
Buildings & Improvements	107	114	83	83	190	197
Vehicles & Machinery	25	29	90	90	115	119
Infrastructure	217	236	705	696	922	932
Total	\$1,472	\$1,489	\$964	\$936	\$2,436	\$2,425

At the end of fiscal year 2015, the City had \$2.4 billion net investment in capital assets (net of accumulated depreciation) a increase of \$11.4 million or 0.5% 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 \$504.5 million. The City's general obligation debt, net of self-supporting debt of \$153.3 million is 30.4% of that limit. As of year end, EPB had \$263.9 million in revenue bond debt outstanding compared to \$270.1 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:

- ◇ \$25.9 million in refunding bonds to refund \$26.7 million.
- ◇ \$17.1 million were drawn down by the Interceptor Sewer System from a state revolving fund loan for consent decree projects.
- ◇ \$46.6 million in debt was retired during the fiscal year; \$32.1 million in bond principal payments were made with an additional \$14.5 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)

	2015	2014	2013	2012	2011
Beginning Balance	\$221	\$207 ²	\$209	\$298	\$314
Debt issued	18	27	0	44	0
Principal repaid	19	13	13	33	16
Refunded	18	0	0	0	0
Ending Balance	202	221	196	309	298

Outstanding Debt per Capita \$1,161 \$1,278 \$1,144 \$1,817 \$1,778

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.

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.

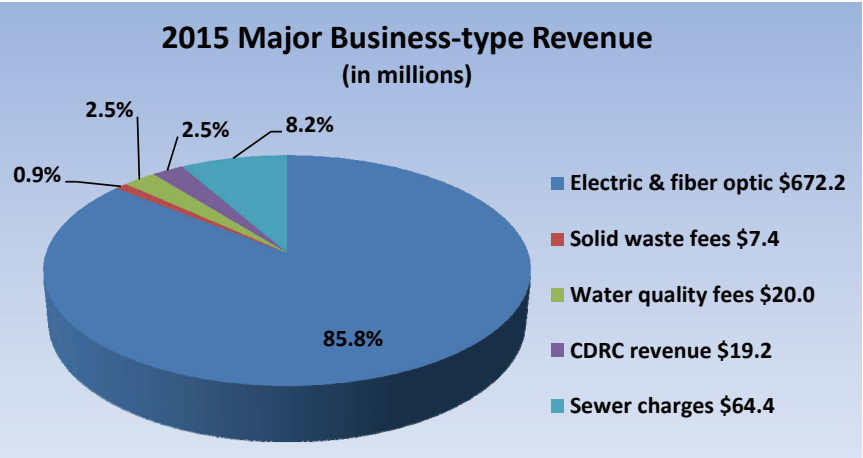
According to credit rating agencies, any entity receives "AAA" rating means that it has an extremely strong capacity to meet its financial commitments.

Business-type Activities

Revenue for the City's business-type activities is \$783.2 million for fiscal year 2015, a \$19.1 million or 2.5% increase. During the same time, expense is \$737.2 million, a \$15.8 million or 2.2% 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 increase \$17.1 million or 6.0% to \$302.2 million, mainly due to a reduction in electric bond liabilities of \$7.4 millions as well as a reduction of fiber optics debt of \$14.2 million. Operating revenues are up \$16.4 million or 2.5%. Due to the continued success of the residential service offerings, fiber optics sales increased by \$16.8 million or 18.7%. For more information or the fiscal year 2015 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.

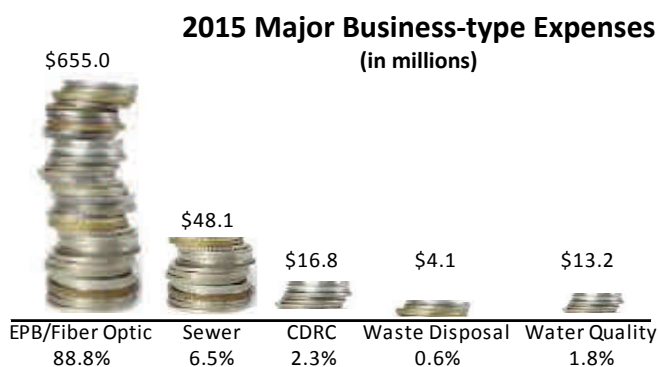
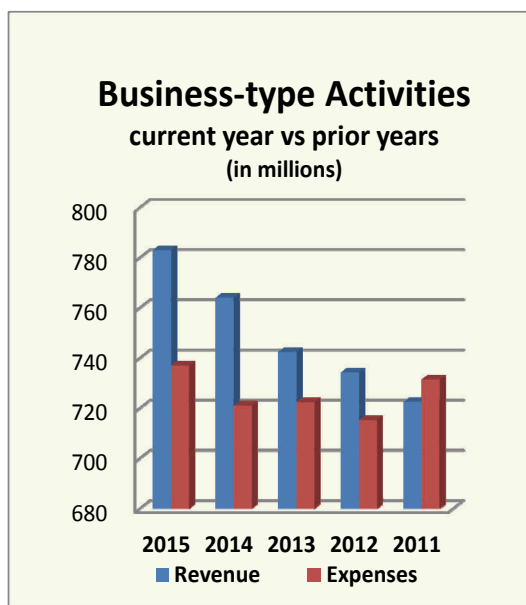


Net position of the Interceptor Sewer System increased \$16.3 million or 6.0%, to \$286.0 million. Unrestricted net position (available to finance on-going operations) decreased \$5.9 million or 24.8% to \$17.9 million. An additional \$48.3 million is restricted for future capital spending, an increase of \$24.6 million; this increase is the result of contracts issued in compliance with an Environmental Protection Agency (EPA) order.

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 \$3.2 million. However, during the fiscal year net position increased \$2.4 million following a continual improvement trend.

The City operates a municipal solid waste landfill. The primary customer is city government. During the current fiscal year, net position again increased which brought the fund out of a deficit position. To date the City accrued liabilities of \$5.7 million for closure and post closure care costs with \$9.0 million in investments to cover the costs.

The water quality management program was established to comply with EPA guidelines. It currently has \$61.7 million in net position, an increase of \$6.8 million or 12.4% from last year. Net investment in capital is \$33.6 million leaving the amount available to fund day-to-day operations at \$27.2 million. Unrestricted net position increased 21.9%, \$4.9 million.



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