

INTRODUCTORY
SECTION



615 South 9th Street, Suite 100
Tacoma, Washington 98405-4673
(253) 798-7450 • FAX (253) 798-6699

June 9, 2009

Honorable County Executive,
Members of the County Council,
and *Pierce County* Residents:

TRANSMITTAL LETTER

I. INTRODUCTION

I am pleased to transmit to you the 2008 Comprehensive Annual Financial Report of *Pierce County*, Washington. This report was prepared by the Budget and Finance Department to present the financial position of the county at December 31, 2008, and the results of its operations and the cash flows of its proprietary funds for the year then ended. Responsibility for accuracy of the data presented, and completeness and fairness of presentation, including disclosures, rests with the county.

The report is prepared using the governmental financial reporting model required by Generally Accepted Accounting Principles. This reporting model provides a clear fiscal picture of the county as a single unified entity while continuing to provide traditional fund-based financial statements. Each perspective, government-wide and major fund reporting, allows the reader to address relevant questions; provides a basis for comparison (year-to-year, or government-to-government); and enhances county accountability.

The Office of the State Auditor conducts annual financial and compliance audits as required by state statutes. The 2008 audit of county financial statements was conducted in accordance with generally accepted auditing standards and resulted in an unqualified audit opinion.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet special needs of federal grantor agencies. Standards governing Single Audit engagements require the independent auditor to report not only on fair presentation of the financial statements, but also on the audited government's system of internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. Reports on internal control and compliance with legal requirements are available in the separately issued Single Audit Report.

The county also maintains an internal audit function to insure adequacy of internal accounting controls. The accounting system is structured to facilitate the effectiveness of such internal accounting controls. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded and that financial records are reliable for preparing financial statements and maintaining accountability of assets. In addition, the Performance Audit Division of the County Council conducts operational audits of county agencies.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A compliment this letter of transmittal and should be read in conjunction with it.



II. PROFILE OF THE COUNTY

Pierce County was incorporated in 1852 and operates under a Home Rule Charter adopted by voters in November 1980. The county is organized under the executive-council form of government. Elected administrative officials include the County Executive (the chief executive officer), Prosecuting Attorney, Assessor-Treasurer, and Auditor. The seven-member County Council is elected by district and constitutes the policy-setting legislative body of the county. All elected officials serve four year terms.

This report includes all funds, departments, and entities for which the county is considered financially accountable. While most funds in this report pertain to the entity "*Pierce County Government*", certain *Agency Funds* represent county custodianship of assets belonging to independent governments and special districts. The County Executive is the *ex officio* treasurer for all special purpose districts in *Pierce County*, excluding cities and towns. The Director of Budget and Finance is responsible for duties of the comptroller and treasurer. Monies received from or on behalf of special purpose districts are deposited in a central bank account. The Director of Budget and Finance disburses or invests the monies according to instructions from the respective special purpose district governing body or administrative officer. There are no related organizations which warrant inclusion in the reporting entity.

OVERVIEW

Pierce County is located on scenic Puget Sound and covers 1,794 square miles (1,676 square miles of land and 118 square miles of water). The county boasts ten hospitals, fifteen public school districts, a large number of private schools, two vocational technical colleges, two community colleges, and six four-year colleges or universities.

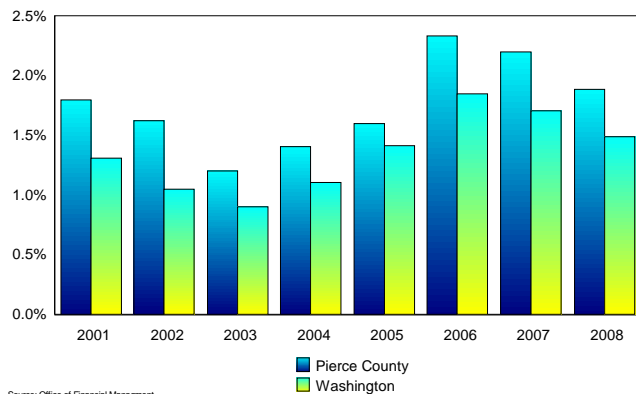
The county provides certain services on a countywide basis and other services only to unincorporated areas of the county. Within the appropriate jurisdictions, the county provides law enforcement, criminal detention, fire prevention, judicial administration, parks and recreation facilities, planning and zoning, road maintenance and construction, a sewage disposal system, human services, tax assessments and collections, community development, and general administrative functions.



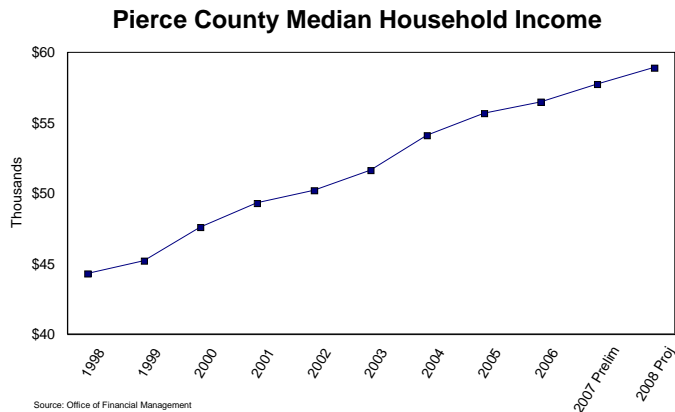
DEMOGRAPHICS

Pierce County is home to an estimated 805,400 people, making it the second largest county in the state. County population increased 11.5% from 713,000 in 2001 at an annual average growth rate of 1.4%. For the past three years *Pierce County* population has been growing at a slightly higher rate, and continues to grow each year more rapidly than the average population growth statewide.

Population Percent Change



Approximately 53% of *Pierce County* residents live in cities and towns. The five largest cities are Tacoma (202,700), Lakewood (58,780), Puyallup (36,930), University Place (31,440), and Bonney Lake (16,220).



Since 1999 the median family income for *Pierce County* residents has increased by approximately 30%, which is about 1% lower than the statewide increase. During this period, the Seattle/Tacoma inflation rate was 27.6%. Accordingly, real median family income for county residents increased nearly three percentage points more than the regional inflation rate.

BUDGET POLICIES

In accordance with the *Pierce County Charter*, the County Council is required to adopt annual budgets for all budgeted funds. Income is periodically estimated, and if projections are less than anticipated, the council may reduce appropriations as necessary to keep expenditures within income. The council may also modify the budget on an emergency basis by appropriating contingency funds, revenues received in excess of budgeted revenues, or funds from any other legally available source.

The legal level of budgetary control, the level at which expenditures may not legally exceed appropriations, is the fund level for all funds except for the *General Fund*, which is budgeted at the department level. Two special revenue funds were not budgeted. The county charter also requires proprietary fund budgets though these are not presented in this report.



III. ECONOMIC CONDITIONS

“The Tacoma-Pierce County economy will most likely avoid the worst impacts from globally contracting housing markets, eroding credit markets, spreading worldwide financial crises, falling consumer confidence levels and now, increasing layoffs. The *Pierce County* economy’s main economic engines—military and health care—will remain fairly strong through this forecast horizon. Other foundational sectors, business services, aerospace support, and trade will be weak, if not anemic.”

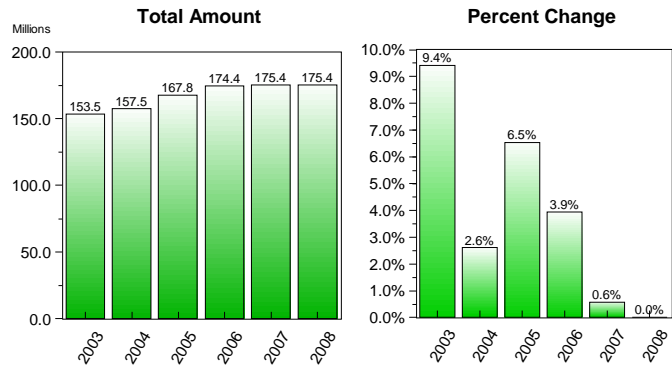
(Quote from Tacoma-Pierce County Chamber, *Pierce County Economic Index Report*, 2008-2009)

The following indicators are key elements for evaluating current economic conditions and are useful when developing projections or economic forecasts.

PROPERTY TAXES

Property taxes and other related taxes are a major revenue source for *Pierce County*. Beginning in 2002, property tax revenue was impacted by the I-747 limit of a 1% increase from existing property. Revenue growth in excess of 1% is due to property taxes from new construction and the settlement of large tax appeal cases in 2003.

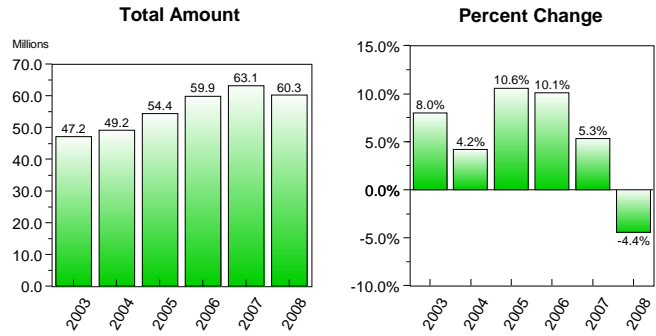
Property and Other Taxes



SALES TAXES

Revenues from sales and use taxes also provide a stable source of funding. Growth occurs in “normal” years simply because of inflation, population increase, and fluctuations in the strength of the local economy. Total sales and use taxes have increased annually, though the average annual rate of growth has decreased each year since 2005, a trend expected to continue into 2009.

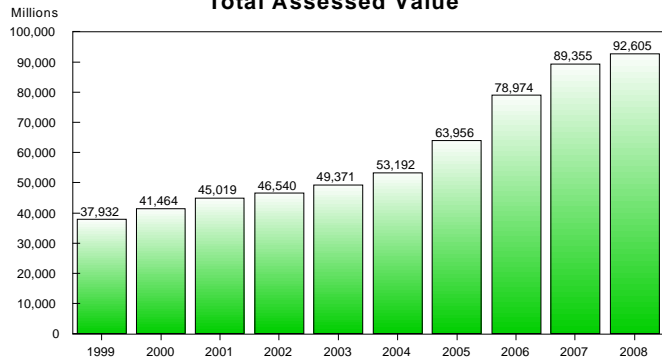
Sales Tax



HOUSING AND REAL ESTATE

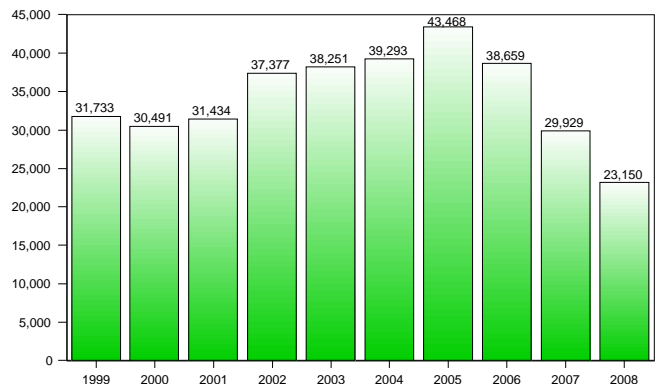
Assessed value provides a relatively stable base for property tax revenues. Like the rest of the state and nation, *Pierce County*, experienced a “hot” housing market until recently. Between 2005 and 2007 assessed values increased at double-digit rates. Assessed value continues to increase, though, the growth rate in 2008 declined to 3.6%.

Real and Personal Property Total Assessed Value



Real estate activity is an important economic indicator that greatly impacts property tax revenues and effects operations and workload in areas such as planning, permits, land services, public works, and public construction. The number of excise tax affidavits processed in 2008 declined 47% following a peak in 2005, indicating a decline in home construction and home sales in general.

Excise Tax Affidavits Processed



Source: Pierce County Auditor

EMPLOYMENT

Historically the county has been a manufacturing and resource based economy. However, local, regional, state and national trends all indicate a shift from manufacturing to trade, services, and construction. The shift in nonagricultural employment is evident in the comparative graph of 1999 and 2008.

Percentage Employment by NAICS Category



Manufacturing. Products manufactured in *Pierce County* include aerospace parts, chemicals, machinery, hardware, food products, and electronics. Based on estimates from the *Economic Development Board* for 2008, the larger manufacturers in the county include:

Company	Industry/Products	Employees
Boeing	Aerospace	1,760
Intel Corporation	Computer Electronics	1,000
Milgard Mfg. Inc	Glass and Windows	817
Simpson Investment Company	Wood Products	614
Atlas Castings & Technology	Steel Castings	517
Toray Composites (America) Inc.	Composite Materials	450
Manke Lumber Co.	Sawmill and Planing Mill	380
Gensco Inc.	Sheet Metal Products	271
Concrete Technology Co.	Prestressed Concrete	263
Precision Aerospace/Precision Pattern	Aerospace	263

Port Facilities. A major gateway to Asia and Alaska, the Port of Tacoma is a leading North American seaport, the seventh largest container port in North America. Located on Commencement Bay, a natural, deep-water harbor in south Puget Sound, the port has 2,400 acres used primarily for shipping terminal activity, warehousing, distributing, and manufacturing. The Port of Tacoma is an independent municipal corporation created by *Pierce County* citizens in 1918 and authorized to operate under state-enabling legislation.



“Reflecting the global recession and its effects on U.S. consumer demand and shipping, cargo volumes fell at the Port of Tacoma in 2008.” (excerpt from the Port News, January 28, 2009). In 2006, the port set a container cargo record with volume of 2.1 million TEU’s (Twenty-foot equivalent container units). In 2007 and 2008, container volume fell to 1.92 million TEU’s and 1.86 million TEU’s, respectively.

Service and Retail. One of the largest components of the service sector is health care. The largest employers include the Multicare Medical System (5,832), Franciscan Health System (4,041), Veteran Affairs Puget Sound Health Care Systems (739), and Group Health Cooperative (595). In addition, DaVita, the nation's second largest provider of dialysis services, employs 856 people.

Fort Lewis Army Base and Madigan Army Medical Center occupy 86,000 acres in southwest *Pierce County*. The adjacent McChord Air Force Base includes 5,000 acres. Together these facilities employ over 50,000 military and civilian personnel. Unlike many military installations across the country, Fort Lewis and McChord have expanded as personnel have transferred to the northwest from closed facilities elsewhere



Financial and insurance services companies are also significant employers in *Pierce County*, including Russell Investment Group (1,144), State Farm Insurance (965), KeyBank (600), Columbia Bank (456), and Regence BlueShield (488).

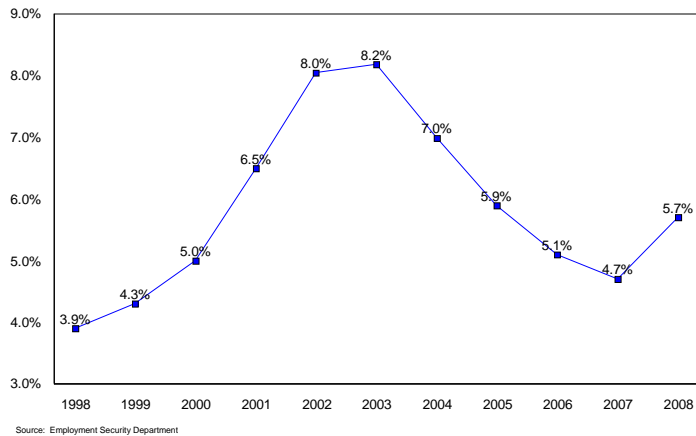
In addition to federal, post office, county, city and local district government employers; The State of Washington employs over 8,000 people in *Pierce County*. Another 3,000 people are employed at community colleges, technical colleges, and the University of Washington, Tacoma.

The larger retail, food service and entertainment employers include Fred Meyer Stores (2,383), Wal-Mart (1,990), Emerald Queen Casino (1,915), Safeway Stores (1,635), Costco (1,081), McDonald's Restaurants (939), and Albertson's Inc. (886).

Transportation, utilities and communications employers include Tacoma Public Utilities (1,313), Longshore Labor Union (976), Pierce Transit (952), Comcast Cable (907), and Gordon Trucking (692).

Unemployment. The average annual unemployment rate for Washington was 5.3% in 2008. Tacoma/Pierce County was 0.4% higher at 5.7% for 2008.

Tacoma/Pierce County Average Annual Unemployment Rate



FUTURE CONCERNS AND DEVELOPMENTS – LONG RANGE PLANNING

Although net asset balances for most county funds remain positive, *Pierce County* faces several challenges that will require earnest attention during the next few years. These issues affect the county long range planning forecasts and add a significant element of uncertainty to those forecasts as follows:

- ✦ **Public Safety.** Workload levels in law enforcement and the judicial system are expected to continue increasing in the near future.
- ✦ **Jail Operations.** The new adult corrections facility opened in 2005. Related annual jail expenses, including both debt service and operations, continue to increase significantly each year. We anticipate additional fiscal pressure in future years as the inmate population continues to grow.
- ✦ **Economic Growth Slowing.** The strong growth in the local economy that we had witnessed over the last several years has recently slowed considerably. This economic slowdown is expected to have a negative effect on General Fund revenues in 2009 and possibly thereafter.
- ✦ **Facilities.** Current facilities are not adequate to house expanding departments providing major services to *Pierce County*. New space must be considered in the near future for additional court facilities and other justice system departments, and to reduce expenses for outside space rentals.
- ✦ **Federal and State Grants.** Budget cutbacks at either the state or federal level could result in reductions in grants that currently provide substantial support for several major county programs.
- ✦ **Transportation.** Growth in the local economy and population increases are placing substantial pressure on the county transportation infrastructure. Several funding proposals are being considered to expand county transportation capacity and relieve congestion.

Pierce County participates in certain long-range planning processes working locally and regionally to develop and implement economic strategies with the goal of ensuring long-term economic prosperity in the central Puget Sound region, including the following:

- ✦ **Prosperity Partnership.** In 2004, the Puget Sound Regional Council (PSRC) created the Prosperity Partnership; a coalition of business, government, academic, labor, and nonprofit organizations from King, Kitsap, Pierce and Snohomish counties dedicated to developing and implementing an economic strategy to ensure long-term regional prosperity. In September 2005 the coalition adopted the Regional Economic Strategy taking a two-pronged approach to both meet the needs of industry clusters, and to strengthen general underpinnings of the regional economy.
- ✦ **Economic Development Goals.** Beginning in 2003, *Pierce County* commissioned a series of studies which evaluated effective ways to help the local economy as an engine of job creation, evaluated how the local economy fits into the regional economy, and defined six goals with action strategies for economic development. An interdepartmental county team developed a work plan and timetable for full implementation of the following six goals:
 - Enhance Economic Development Department's Role and Responsibilities
 - Proactive Infrastructure Planning
 - Strategic Industrial Land Capacity Planning
 - Implement Business Climate Improvements
 - Enhance Infrastructure Investments
 - Enhance Communications to County Departments, Businesses and Jurisdictions

FINANCIAL POLICIES

The county maintains a set of financial policies to guide fiscal and budgetary decision making including:

- ✦ **County Investment Policies and Procedures** provide guidance for investment management.
- ✦ **County Debt Management Policies** outline goals and procedures for financing county operations.
- ✦ **Budget and Finance Department Fiscal Policies** provide guidance in the following areas:
 - Budget Preparation and Monitoring
 - Revenue Sources and Uses
 - Fund Balance Management
 - Expenditure Authorization and Control

MAJOR INITIATIVES

Although several initiatives involving new or expanded programs and services commenced or were in progress in 2008, most will not have a major impact upon the future fiscal position of *Pierce County*. However, a few such initiatives were of major significance in 2008 as follows:

- ✦ **New “Destination” Golf Course.** Chambers Bay Golf Course opened in mid-2007 and was self-supporting through greens fees and other user fees in its first full year of operation in 2008.
- ✦ **New Roads Maintenance Facilities.** A major centralized facility designed to combine several roads shops was completed in 2008, and should reduce long-term roads maintenance expenses.
- ✦ **Emergency Operations Center (EOC).** The construction of a new EOC was completed and placed in operation in 2008.
- ✦ **New Parks and Recreation Facilities.** Several parks construction and improvement projects are currently underway. These projects will be funded by parks related sales taxes and real estate excise taxes. Future operating costs will also be financed by parks sales taxes and additional cooperative funding arrangements with various cities within the county.

CASH MANAGEMENT

At year-end, *Pierce County* managed invested funds with a fair market value of approximately \$1.084 billion (excluding investments held by trustees). Funds invested for the direct benefit of *Pierce County* were valued at \$394 million at year-end. The balance of approximately \$690 million was invested for the direct benefit of other taxing districts for which the county serves as treasurer. At December 31, 2008 the investment portfolio of county operating and trust funds (excluding other taxing districts) included types of investment and related maturities as follows:

Type of Investment	Amount (In Thousands)	Percent of Portfolio
State Investment Pool	\$ 159,100	40.40 %
Certificates of Deposit	127,405	32.35 %
U.S. Government Agencies	107,306	27.25 %
Total	<u>\$ 393,811</u>	<u>100.00 %</u>

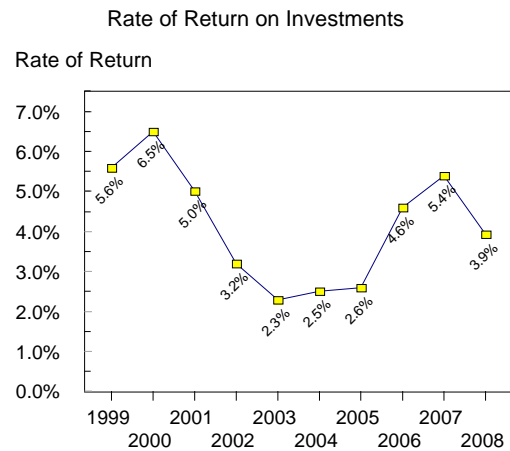
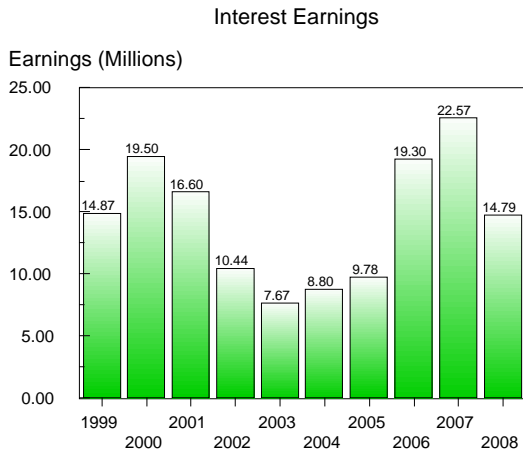
Days to Maturity	Amount (In Thousands)	Percent of Portfolio
1 - 30	\$ 181,100	45.98 %
31 - 90	38,467	9.77 %
91 - 180	52,131	13.24 %
181 - 365	55,047	13.98 %
Over 1 Year	67,066	17.03 %
	<u>\$ 393,811</u>	<u>100.00 %</u>

The average yield on county invested funds for 2008 was approximately 3.93%. Total interest earnings on county funds were \$14.78 million, representing a decrease of \$7.78 million from 2007. Both the yield and total interest earnings include the positive impact of \$1.35 million in increases of fair market value during 2008. However, a net decreased interest earnings resulted from a decrease in average yield on investments (as adjusted for the fair market value gains) and from a decrease of approximately \$38.4 million in the average daily balance of invested funds.

As is evident from the graphs on the following page, interest earnings declined dramatically in 2002 through 2005 due to the sharp drop in short term interest rates. This trend reversed in 2006 and generated significant interest earnings gains in both 2006 and 2007. In 2008 both interest rates and interest earnings again fell due to the actions of the Federal Reserve Board.

Comparative figures for interest earnings and rates of return for county funds invested during the past ten years are presented in the figures shown below:

Interest Earnings and Rates of Return



Investment income includes adjustments to reflect the fair market value of investments. These adjustments (both positive and negative) in fair market value during the current year, however, do not necessarily represent trends that will continue; nor do they indicate that such gains or losses will be realized, especially in the case of investments that the government intends to hold to maturity.

RISK MANAGEMENT

Pierce County maintains an active risk management program emphasizing loss prevention, safety, and coordination of related third party insurance purchases.

The *Self-Insurance Fund* is responsible for managing legal claims for damages asserted, paying any claim settlements, assessing interfund charges to county funds and purchasing related risk insurance policies. Interfund charges are based primarily on the loss experience of the various contributing funds.

The *Workers Compensation Fund* manages and accounts for the workers compensation self-insurance program. The risk management department works with an experienced service company to administer the program. Funding is provided through interfund premium charges to county departments.

The county has established two risk management goals. The first is to maintain a minimum cash and investment balance of at least \$15 million in the *Self-Insurance Fund* and \$1.0 million in the *Workers Compensation Fund*. Such balances are deemed sufficient to fund two very large losses in each program. A second goal is simply to achieve positive net assets for each fund.

(In Thousands)	Self-Insurance		Workers Compensation	
	2001	2008	2001	2008
Cash and Investment Balance	\$ 13,624	\$ 25,099	\$ 1,312	\$ 379
Unrestricted Net Assets	\$ 4,692	\$ 16,055	\$ (270)	\$ (1,684)

As indicated in the comparison above, the cash and investment balance for the *Self-Insurance Fund* and related net assets have increased significantly from 2001 to 2008, and continue to meet the above stated goals. However, cash and investment balances and net assets of the *Workers Compensation Fund* have remained below the goals due to recent negative trends in losses experienced. The *Workers Compensation Fund* continues to actively manage loss prevention and safety programs; and will implement rate increases to eliminate the deficit in net assets.

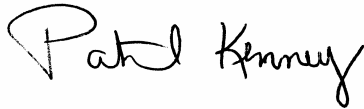
IV. AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to *Pierce County* for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2007. The county has received this award every year since 1983.

To earn the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The current report continues to conform to the Certificate of Achievement program requirements, and is being submitted to GFOA to determine eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of our Chief Accountant, Jim Wahlstrom, and the entire Accounting Division of the Budget and Finance Department. We also wish to express our appreciation to all other county personnel for their assistance and cooperation during the year in implementing financial system enhancements. In particular, we wish to thank the County Executive and the County Council whose interest in, and support of, the financial obligations of *Pierce County* have significantly contributed to a quality financial operation.

Respectfully submitted,

A handwritten signature in black ink that reads "Patrick Kenney". The signature is written in a cursive style with a large, stylized initial "P".

Patrick Kenney
Director of Budget and Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pierce County
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

ELECTED OFFICIALS

December 31, 2008

COUNCIL:

District 1	Shawn Bunney
District 2	Calvin Goings
District 3	Roger Bush
District 4	Tim Farrell
District 5	Barbara Gelman
District 6	Dick Muri
District 7	Terry Lee

COUNTY EXECUTIVE

John Ladenburg

PROSECUTING ATTORNEY

Gerald Horne

AUDITOR

Pat McCarthy

ASSESSOR/TREASURER

Ken Madsen

JUDICIAL:

Superior Court Judges:

Stephanie A. Arend	Thomas P. Larkin
Sergio Armijo	Linda CJ Lee
Rosanne Buckner	John A. McCarthy
Bryan E. Chushcoff	Kathyrn J. Nelson
Ronald Culpepper	James Orlando
Frank E. Cuthbertson	Susan K. Serko
Thomas J. Felnagle	D. Gary Steiner
Frederick W. Fleming	Katherine M. Stolz
Beverly G. Grant	Brian Tollefson
John R. Hickman	Kitty-Ann van Doorninck
Vicki L. Hogan	Lisa Worswick

District Court Judges:

Karla E. Buttorff	David M. Kenworthy
Franklin L. Dacca	Jack F. Nevin
James R. Heller	Pat O'Malley
Judy Rae Jasprica	Margaret Vail Ross

COUNTY-WIDE ORGANIZATIONAL CHART
Pierce County
2008

