

Happy Spring



CITY OF KENNEWICK

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Financial Briefing

Revenue Update

HIGHLIGHTS

- Sales Tax receipts increase over 2014 activity to-date.
- City issues bonds for new fire station, land purchases, and bond refinancing.
- Savings from vacant positions will decline as positions funded by criminal justice sales tax are filled.
- Main Street Tax Credit application approved.

Sales Tax received in April (for sales made in February) totaled \$1,247,228, which is 9% more than the City received in April of 2014. Year-to-date, the City has received \$5,269,104 in sales tax, which is 6.4% more than this same time period in 2014. Year-to-date results are somewhat skewed by the sales tax received from the construction of the Trios Health facility during this time period in 2014. Without this activity, results through April would be an increase of 9.9%. Through the first four months of the year, 3 of the City's top 10 taxpayers have experienced a decline when compared to this same time period last year. Similar results were experienced with the City's other top 50 taxpayers. Although results through April are very positive overall, it is important to remember that sales tax can be a relatively volatile revenue source, and

that the results from only four months of activity do not necessarily indicate a long-term trend.

On April 9th, the City completed pricing for its **2015 bond issue**. In total, the City issued \$13.255 million in bonds to finance the construction of Fire Station #5, to acquire land near the Southridge Sports & Events Complex and adjacent to the Toyota Center & Arena, and to refinance approximately \$6 million of its outstanding bonds from 2006 issued for the construction of the City's Police Station. To take advantage of certain provisions of the federal tax code and ultimately reduce the interest rate paid on the bonds, the City issued \$10 million of tax-exempt bonds designated as "bank qualified" bonds and \$3.255 million of taxable bonds. The taxable bonds will

primarily be utilized to make the land purchases outlined above, while the tax-exempt bonds will be utilized to construct the fire station and refinance the City's 2006 bonds. The City was able to take advantage of historically low interest rates for this bond issue, with an overall true interest cost (TIC) of 2.48% for the transaction. The taxable portion of the transaction had a TIC of 2.59%, while the tax-exempt bonds issued to refinance the City's 2006 bonds had a TIC of 1.82%. The fire station bonds had a slightly higher TIC of 2.9% due to the fact that the bonds have a longer duration than the other bonds issued (20 years). As a result of the refinancing portion of the transaction, the City had a net present value savings of approximately \$483,000, which represents the present value savings on future debt service payments over the remaining life of the bonds.

Expenditure Update

At the conclusion of April, the City had **23 Vacant Positions**, 17 of which are at least partially funded from the City's General or Street Fund (Operating Funds). A number of these vacant positions are related to the implementation of the City's new criminal justice sales tax funding that began in March of this year. The projected savings from these vacant positions currently equates to roughly \$167,500 per month citywide, with \$118,800 of that amount coming from the Operating Funds. In total, the estimated net savings from vacant

positions through the first four months of the biennium was \$384,000, with approximately \$280,000 of that amount representing savings within the Operating Funds. The budget for the City's Operating Funds included a projected allowance for under-expenditures of just under \$1.5 million for the 2015/2016 biennium, which is expected to consist primarily of salary and benefit savings from vacant positions.

The City recently received notification from the State of Washington that its

2015 Main Street Tax Credit application was approved. Under the terms of the Main Street Tax Credit program, the City receives a credit that it can utilize in the following year from the Washington State Department of Revenue for 75% of the amount it contributes to a qualified main street organization. The City contributes \$37,500 annually to the Historic Downtown Kennewick Partnership and in turn receives a credit back from DOR of \$28,125, which results in a net cost to the City of \$9,375 for its annual contribution. The City has participated in the program since 2012.