



CITY OF KENNEWICK

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Financial Briefing



HIGHLIGHTS

- Sales tax receipts increase over 2015 year-to-date.
- Governor vetoes two items from supplemental budget that would have negatively impacted cities.
- Jail services are largest contracted service expense for the City.
- Spring 2016 budget adjustment approved by City Council.

Revenue Update

Sales Tax received in April (for taxable sales activity from February) totaled \$1,328,769, which is 6.5% more than the City received in April of 2015. Year-to-date, the City has received \$5,646,298 in sales tax, which is 7.2% more than this same time period in 2015. Sales tax received from new construction activity has significantly influenced results so far this year and makes up roughly 2% of the growth in sales tax experienced to date.

As reported in the March Financial Briefing report, the **2016 Legislative Session** concluded in late March in the midst of a special legislative session when a compromise for the state's supplemental operating and capital budgets for the 2015-2017 biennium was reached. The final budget approved by the Legislature contained a number of

provisions that were detrimental to cities. In mid-April, after hearing the concerns of local officials and the Association of Washington Cities (AWC), the Governor elected to veto two items that were particularly alarming for cities. First, the Governor vetoed a section of the supplemental budget that would have imposed new eligibility requirements for the 44 cities like Kennewick with pre-LEOFF retirees that receive a share of the state's Fire Insurance Premium Tax. Had this section of the budget not been vetoed, the City would likely have lost \$75,000 annually beginning in 2017. Additionally, the Governor vetoed a section of the budget containing additional sweeps to the Public Works Trust Fund loan program during the 2017-2019 biennium, which would have eliminated the final remaining funding source for this

program that has already been severely diminished in recent years.

Although the Governor's decision to veto these items was very helpful for cities, the state will be facing an extremely daunting challenge when it convenes for its next legislative session in early 2017 to adopt a budget for the its 2017-2019 biennium, at which point the Legislature will be required to address its court-mandated obligation to adequately fund basic education under the 2012 McCleary decision issued by the State Supreme Court. Most experts estimate that the state will have to allocate several billion dollars more towards basic education during the biennium to meet its requirements, which undoubtedly will also have significant impacts on state funding provided to local government programs as well.

Expenditure Update

Jail Services are the largest contracted service expense for the City, with projected expenditures of \$5.85 million for the 2015/2016 biennium (including work crew services). Recently, City staff met with the Benton County Sheriff's Office to review the final 2015 year-end report for the jail, which indicated that the actual bed day rate for the year was \$69.25. This rate is \$3.30 higher than the rate of \$65.95 originally estimated for the year. However, the City's jail usage declined by nearly 10% in 2015, which minimized the budgetary impact of the higher bed day rate. Local use of the

Benton County Jail is likely to continue to decline further in 2016 as the result of a decision made by Benton County to discontinue its past practice of requiring individuals to "sit out" delinquent fines in jail. Because the costs of the jail are largely fixed, a lower local jail population means the bed day rate for the facility is likely to increase in 2016 unless the Sheriff's Office is able to fill excess jail capacity through contracts with agencies outside of Benton County.

The **Spring 2016 Budget Adjustment** was approved by City Council on April 5,

2016. This was the third budget adjustment of the 2015/2016 biennium and included an overall increase in appropriations of \$9,258,505, which increased the City's 2015/2016 adjusted budget in total to \$289.1 million. The spring 2016 budget adjustment consisted primarily of adjustments to the City's capital projects, including \$1.7 million in the Capital Improvement and Urban Arterial funds and \$7.3 million in the Water/Sewer fund. A significant portion of these capital projects will be funded with state and federal grants or low-interest state loans.