



## CITY OF KENNEWICK

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# Financial Briefing

## Revenue Update

### Highlights

- Sales tax receipts through August up 6.9% compared to the same period last year.
- 0.3% sales and use tax for public safety remains slightly higher than projections.
- Telephone Utility Tax base continues to decline.
- City receives clean audit opinion for 2014 financial statement and single audits from State Auditor's Office.

**Sales Tax** received in August (for sales made in July) totaled \$1,541,615, which is 10.5% more than the City received in August of 2014. Year-to-date, the City has received \$10,861,694 in sales tax, which is 6.9% 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 2014. Without this activity, results through August of 2015 would have been an increase closer to 9%. At the conclusion of August, all of the City's top taxpayers had experienced at least a slight increase when compared to this same time period last year.

In August, the City also received \$258,881 for its sixth monthly distribution of its share of the voter-approved 0.3% **sales and use tax for public safety** (also known as criminal justice sales tax). To date, the City has received \$1,116,038, which is slightly higher than initial projections

for these first six distributions when considering the seasonality of sales tax activity. Under state statute, Benton County receives 60% of the total sales tax proceeds generated from this source with cities in the County sharing the remaining 40% based on population. Under this formula, the City anticipated that it would receive approximately \$2.05 million in criminal justice sales from its first twelve monthly distributions.

**Telephone Utility Tax** is the City's second largest source of utility tax behind only electric utility tax, with an adopted budget of approximately \$5.6 million for the 2015/2016 biennium. This projection assumed that the City's telephone utility tax would remain flat in both 2015 and 2016 after experiencing declines in recent years. Through August of 2015, telephone utility tax received by the City was in line with budget projections overall. However, revenue collected

from this source to date in 2015 reflects a one-time payment from a telephone provider for back taxes owed. Without this one-time payment included, revenue from telephone utility tax would have declined by approximately 9% through August. Similar to recent years, this decline is attributable to several factors, including the increasing prominence of non-taxable data (internet) services as a component of cellular telephone service bills, the elimination of home land lines in favor of utilizing only a personal cell phone, and an overall decline in taxable telephone service revenue as a result of providers bundling multiple services for customers at a reduced rate for each. Unfortunately, as new technologies continue to emerge and non-taxable internet based services become a larger component of the services that customers demand, it is likely the City's telephone utility tax revenue will continue to decline.

## Expenditure Update

On August 4<sup>th</sup>, the City held an exit conference with the Washington State Auditor's Office to review the results of the City's **2014 financial statement and single audits**. The City's financial statement audit is an independent audit completed to assure users and stakeholders that the City's financial statements are free of material misstatement and are presented in compliance with generally accepted accounting principles (GAAP). A single

audit, otherwise known as an OMB A-133 audit, is required each year for agencies that expend more than \$500,000 in federal assistance (grants). The purpose of the single audit is to verify compliance with the requirements established for each type of federal assistance program and review the adequacy of the City's internal controls.

The City of Kennewick received a clean (unmodified) audit opinion for both its

financial statement and single audits for 2014, which indicates that the City's financial statements were prepared properly and were free from material misstatement and that there were no significant deficiencies, questioned costs, or material weaknesses identified during the State Auditors review of the City's \$4.7 million in expenditures of federal assistance for the year.