



CITY OF KENNEWICK

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Financial Briefing

Revenue Update

Sales Tax received in March (for taxable sales activity from January) totaled \$1,202,192, which is 9.6% more than the City received in March of 2015. Year-to-date, the City has received \$4,317,529 in sales tax, which is 7.4% 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. It's still early in the year and therefore difficult to project whether the results experienced through the first few months of 2016 will continue for the remainder of the year, but sales tax results are off to a very positive start.

Telephone Utility Tax is the City's second largest source of

utility tax behind only electric utility tax, with a two-year budget of approximately \$5.85 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. In 2015, telephone utility tax received by the City declined by slightly less than 2%. However, revenue collected during the year reflected a one-time payment from a telephone provider for back taxes owed for previous years. Without this one-time payment included, revenue from telephone utility tax would have declined by approximately 10% for the year. At the conclusion of March of 2016, telephone utility tax revenue had increased by a very modest

2%, but still remained well below initial projections for the biennium. Similar to recent years, these trends are attributable to several factors, including the prominence of non-taxable data (internet services as a component of cellular telephone 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 even more prominent, it is likely the City's telephone utility tax revenue will continue to decline.

HIGHLIGHTS

- New construction activity contributing to increase in sales tax receipts over 2015.
- Telephone utility tax revenue less than projected for 2015/2016.
- Key highlights of 2016 Legislative Session.

Expenditure Update

The **2016 Legislative Session** concluded late in March when legislators agreed on a compromise for the state's supplemental operating and capital budgets for their 2015-2017 biennium. The agreement was reached near the conclusion of a 30-day special legislative session, which was necessary after the House and Senate failed to reach an agreement on these items during the regular legislative session. The following are some of the more significant items for cities from the final agreement:

- **Public Works Trust Fund:** The supplemental budget diverts \$154 million in future loan repayments expected to be paid by local governments into the program during the 2017-19 biennium, which was the final remaining funding source for the program.

- **Law enforcement training:** The compromise provides much needed funding for two additional basic law enforcement training classes in FY 2016 and does not increase the direct cost to cities sending cadets to training.

- **Fire Insurance Premium Tax distributions:** Currently, cities with pre-LEOFF retirees (active or retired prior to 1970) share 25% of the state's tax on fire insurance premiums and utilize the funding for pension costs. The final budget agreement limits, or in most cases completely eliminates the amount cities will receive from this revenue source beginning in 2017. In recent years, Kennewick has received approximately \$75,000 annually from this source.

- **Merger of the LEOFF 1 retirement system with the Washington Teachers'**

Retirement System Plan 1 (TRS 1): The compromise does not include a previously proposed merger of the LEOFF 1 and TRS 1 retirement systems. However, it calls for further study into the merger of the two systems and an update to a 2011 merger study of the LEOFF 1 and LEOFF 2 retirement systems.

- **Senate Bill (SB) 5109:** In a huge win for the City of Kennewick, SB 5109 was approved by the Legislature and forwarded to the Governor for signature. This bill modifies the State's Local Revitalization Financing (LRF) statutes to allow for new projects and provides an opportunity for a potential LRF project similar to the City's Southridge LRF project in the Vista Entertainment District.