



City of Kennewick
2016
1st Quarter
Financial Report

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OVERVIEW

As we move into the second half of the City's 2015/2016 biennium, the financial picture for the remainder of the City's 2015/2016 biennium is becoming much clearer. Without question, the single biggest factor in the financial results for the City to date during the biennium has been the considerable growth our community continues to enjoy. Not only does this growth contribute directly to the financial health of the City in the form of new taxes, user fees and utility rate revenues, but it also is a significant factor in the low unemployment in the area and overall strength in the regional economy. As will be described in greater detail throughout this report, there are certainly financial challenges that remain for the City. However, there are also a number of opportunities for the City that could help to further diversify and grow the local economy and allow the City to remain in the strong financial position it is currently in. With that in mind, the City continues to monitor its growth indicators closely to ensure we are planning appropriately for the future.

Employment is one of the most important indicators of the overall health of the economy in Kennewick and the Tri-Cities region. The preliminary unemployment rate in the Kennewick-Pasco-Richland metropolitan statistical area was estimated at 7.4% in March, which is the same as a year ago at this same time and 1.6% higher than the statewide unemployment rate of 5.8%. However, it is important to note that the March unemployment rate for the Kennewick-Pasco-Richland metropolitan statistical

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area has not been seasonally adjusted as of the release of this report, whereas the State unemployment rate has been.

According to the most recent labor data issued by the Bureau of Labor Statistics, total non-farm employment in the Tri-Cities was approximately 108,800 in March, which is roughly 3,600 jobs higher than reported a year ago and is the high water mark for employment at this point in the year in the region in the last ten years, even exceeding previous peak levels experienced in 2011 when the Hanford area was at its highest levels of employment to complete projects funded with \$2 billion in one-time stimulus funding the site received starting in 2009.

Building permit activity, which is another key indicator of growth in the City, signifies that growth is still occurring at a high rate within the community. Through the first 3 months of 2016, the Building Safety division issued 513 permits with a valuation of approximately \$45.4 million. This represents a 13.5% increase in the number of permits issued to date relative to the same time period in 2015 and a 5.8% increase in the overall valuation of the permits issued. These trends were primarily attributable to growth in single family residential permits.

Some of the other significant projects underway during the first

New Construction Activity		
	Comparative Totals	
	2016	2015
Single Family Permits	95	69
Commercial Permits	59	57
Other Permits	359	326
Total Permits	513	452
Permit Valuation	\$45,361,938	\$42,853,815
Building Permit Fees	\$406,716	\$447,199
Planning Fees	\$35,985	\$27,465

quarter of 2016 include construction of the Homegoods, Murillo Trustees American Wheel, Boyds Tree Service, High Desert Maintenance, Washington Securities & Investments Corp., Badger Canyon Apartments Community Building, and Kennewick School District: Chinook Middle School. Several remodels are underway as well including Starbucks, Sun Mart, Kennewick School District Office, Family First Dental, KFFX Fox 11, American National Red Cross, and Edison Village Green Apartments, to name just a few.

Full-time enrollment within the Kennewick School District was 17,461 on average for the 2015-2016 school year at the conclusion of March, which was an increase of

4.7% when compared to the average for the 2014-2015 school year. Kennewick School District is now the 17th largest district in the State of Washington.

The number of active water/sewer utility accounts for the City increased by 391 over the past twelve months to 23,290 total accounts, which represented an increase of 2%.

Finally, the City processed 4,860 business licenses in 2015, which is an increase of approximately 6.4% and represents the largest single year increase the City has experienced in business licenses in the last 25 years.

SIGNIFICANT EVENTS

On January 5th Council awarded the Amon Wasteway Sewer Interceptor project contract to Culbert Construction in the amount of \$184,998. This contract is for the construction of a 12-foot wide access road, 1,340 linear feet of 24-inch main line and related work. This sewer main provides service to the Southridge area.

On January 19th Council authorized the City Manager to sign the agreement with CivicPlus for the

redesign and hosting of the city website, Southridge website and intranet page. One of the projects identified with the IT Strategic Plan was the replacement of the City website with a more current, user friendly and mobile friendly design, and simplified backend to streamline maintenance efforts.

On January 19th Council authorized the City Manager to sign an agreement with McBride Public Affairs, LLC for lobbying services.

On February 16th Council awarded the Zintel Canyon Pipe Sediment Removal project contract to Harry Johnson Plumbing & Excavation for \$361,083. This contract is for the cleaning of an existing underground 78 inch concrete pipe by removing, de-watering and disposing of approximately 700 cubic yards of the sediment build-up.

On February 16th Council adopted a resolution to support the Kennewick Public Facility District (KPFDD) efforts to pursue voter approval for a

0.2% sales tax to fund a new Broadway-caliber theater, expand the Three Rivers Convention Center (adding a 2,300 seat Broadway quality theatre including approximately 110,000 square feet) and link it to the Toyota Center. The resolution also provides consent from the Kennewick City Council to

the KPFD to issue bonds to finance the projects outlined contingent on voter approval of the .2% sales tax and that completion of the project does not require the City to utilize any of its non-voted debt capacity or issue its own bonds to finance the project.

On March 15th Council awarded the Lawrence Scott Park project to Allstar Construction Group for \$204,054. This contract is for the repair and resurfacing project of the basketball and tennis courts, repairing sidewalks, removal and replacement of fencing and park benches.

GENERAL GOVERNMENT

Table 1 provides a comparison of major revenue sources for the 2015/2016 biennium compared to the previous biennium (2013/2014). At the conclusion of March of 2016, general governmental revenue collections totaled \$57.7 million, which represented 59.2% of the adjusted budget.

sales taxes totaled approximately \$14.8 million through March of 2016. On a city-wide basis, sales tax receipts have increased 7.4% over the first three months of 2016 after experiencing a 9% increase in 2015. Low unemployment, coupled with continued economic development and significant residential and commercial growth within Kennewick have been the

primary catalyst for these trends.

Receipts from the 1/10% criminal justice sales tax that was implemented in Benton County in 1995 totaled approximately \$1.9 million for the biennium through March of 2016. After experiencing a 12% increase in 2015, the amount the City has received from this revenue source has increased by

General governmental receipts from

Table 1: General Governmental Revenues (in \$1,000's)

Revenue Source	2015/2016			2013/2014		
	3/31/16	Budget	Received	3/31/14	Actual	Received
Property Tax	\$12,409	\$23,220	53.4 %	\$11,647	\$22,174	52.5 %
Sales Tax	14,840	22,773	65.2	12,926	21,069	61.4
Criminal Justice Sales Tax	1,894	2,877	65.8	1,661	2,694	61.7
Electric Utility Tax	4,382	7,464	58.7	4,374	6,703	65.3
Telephone Utility Tax	2,347	4,129	56.8	2,612	4,046	64.6
Water/Sewer Utility Tax	1,856	3,118	59.5	1,748	2,918	59.9
Cable TV Utility Tax	933	1,526	61.2	881	1,429	61.6
Garbage Utility Tax	799	1,263	63.3	719	1,174	61.3
Natural Gas Utility Tax	690	1,135	60.8	964	1,088	88.6
Ambulance Utility Tax	60	91	65.9	49	78	62.5
Gambling Tax	906	1,527	59.3	923	1,473	62.7
Other Taxes	499	988	50.6	530	876	60.5
Total Taxes	\$41,615	\$70,110	59.4 %	\$39,034	\$65,722	59.4 %
Licenses & Permits	1,196	1,414	84.6	963	1,189	81.0
State Shared Revenue	740	1,326	55.8	673	1,377	48.9
State Entitlements	3,361	5,473	61.4	3,144	5,072	62.0
Other Intergovernmental	140	112	124.7	206	311	66.2
Charges for Services:						
Interfund	2,575	4,406	58.4	2,445	3,893	62.8
Environment	1,211	3,130	38.7	2,247	3,423	65.6
Culture & Recreation	571	995	57.4	612	1,041	58.8
Other	905	1,406	64.3	838	1,364	61.5
Fines & Forfeitures	1,464	2,782	52.6	1,618	2,529	64.0
Operating Transfers:						
From Public Safety	3,103	5,303	58.5	3,316	4,941	67.1
From Capital Improvement	-	-	-	-	-	-
Others	-	-	-	-	35	-
Interest/Misc.	835	1,051	79.4	695	1,018	68.3
TOTAL REVENUES	\$57,715	\$97,508	59.2 %	55,791	\$91,913	60.7 %

another 5% during the first 3 months of 2016. The first 10% of this 1/10% sales tax is distributed to Benton County, with the remainder being distributed to the County and Cities within the County based on population.

Utility tax receipts totaled \$11.1 million during the first 15 months of the biennium. The City receives utility taxes from natural gas, garbage collection, cable television, telephone, electric, ambulance, stormwater and water/sewer services excluding irrigation. For 2015, utility taxes increased by only 0.2%, which was attributable to increases in revenue from each of these sources, with the exception of electric and telephone, which are the two largest sources of utility tax for the City.

At this early stage of 2016, overall utility tax revenue has increased again by 1.5% when compared to the same timeframe in 2015. Through only 3 months, each source of utility has experienced at least a moderate gain with the exception of natural gas utility tax.

Utility tax revenue received from the sale of electricity, which is the largest individual source of utility tax, has increased by 5.3% thus far in 2016, primarily due to a 3.9% rate increase implemented by Benton PUD in September of 2015.

Utility tax revenue derived from telephone services has increased by 1.8% during the first three months of 2016. However, it is important to note that this tax revenue source has declined in each of the past 5 years due to the loss of taxable revenue resulting from the expansion of non-taxable data services by cellular phone service providers, bundling of services by providers that reduces taxable revenue for telephone services, and a reduction of taxable revenue from land lines as a larger number of individuals are eliminating their home phone in favor of using their cell phone as their primary phone. The moderate increase experienced to date in 2016

is likely attributable to rate increases by telephone service providers.

Utility tax generated from the sale of the City's water and sewer services has increased by less than 1% through March, which is attributable to a moderate increase in water consumption for the year.

The City receives utility tax for garbage services from Waste Management as they provide these services to Kennewick's citizens under a franchise agreement with the City. Utility tax receipts from garbage services have increased by 4.7% thus far in 2016, which reflects growth in Waste Management's customer base and a minor rate increase based on the annual percentage change in the consumer price index as authorized under the terms of their franchise agreement.

Finally, utility tax generated from cable television services has increased by 1.8% so far in 2016, primarily as a result of rate increases implemented by the local cable provider.

The increases outlined above were partially offset by a 14.5% reduction in utility tax generated from the sale of natural gas during the first quarter of 2016. This decrease was primarily attributable to unusually mild weather conditions during the first three months of the year, which reduced natural gas consumption.

Revenue for the 2015/2016 biennium from licenses & permits totaled approximately \$1.2 million through March of 2016. The predominant sources of revenue within this category are business license fees and construction engineering permits. Revenue from both of these sources are well above initial projections for the biennium at this stage.

The City received approximately \$740,000 in state-shared revenues through March of 2016, which consisted of privilege tax payments from the Benton PUD and Energy Northwest. Privilege tax payments are made in lieu of property taxes

since these agencies are exempt from property taxes. The City received payments of \$425,033 and \$314,963 from these agencies in 2015, respectively, based on the 2014 rate revenue for each.

State Entitlements, which are also commonly referred to as state-shared revenues, include receipts from the criminal justice programs, liquor excise taxes, liquor board profits, DUI assistance and motor vehicle fuel taxes. Receipts for this category totaled roughly \$3.4 million through the first 15 months of the biennium, which is higher than originally projected for the biennium at this juncture.

The majority of the increase in revenue from state entitlements thus far in the biennium is the result of an increase in gas tax revenue distributed to the City under the new statewide transportation package that was approved by the Washington State Legislature in July of 2015. As part of this new plan that raises the state gas tax by 11.9¢ over a two-year period as well as raising certain vehicle and weight fees, cities will receive new distributions totaling \$187.5 million over the 16-year period. The City of Kennewick received its first new monthly distribution in September of 2015.

A smaller portion of the overall increase in state entitlement revenues thus far in the biennium is attributable to the partial restoration of liquor excise tax revenue received by the City beginning in July of 2015. In the fall of 2011, voters approved Initiative 1183 privatizing liquor sales. That initiative also included language guaranteeing an additional distribution to cities of at least \$10 million more each year in liquor profits generated from new licensing revenue to address the local impacts on public safety resulting from liquor privatization. The following year, the State Legislature approved legislation that permanently reduced liquor excise tax distributions to cities by \$10 million each year to offset the increase in revenue guaranteed under Initiative 1183 and completely

eliminated all city liquor profit distributions during the State's 2013 fiscal year (July 2012 – June 2013). Unfortunately, during the 2013 legislative session, additional legislation was passed that again reduced liquor excise tax payments to cities by 50% for the entirety of the State's 2013 – 2015 biennium, which concluded in June of 2015. As a result, the City has received two "normal" liquor excise tax distributions in October of 2015 and January of 2016, although the amount received is still well below what the City had historically received prior to the permanent reductions implemented by the State in 2012.

Revenue from fines and forfeitures received by the City primarily through District Court totaled approximately \$1.5 million through March of 2016, which is only 52.6% of the 2015/2016 adjusted budget and lower than what would be expected at this juncture of the biennium. Trends in this revenue category are influenced by both

staffing levels within the Traffic Division of the Police Department as well as the timing of collection and distribution of traffic fines through Benton County District Court.

Table 2 provides an expenditure summary by category and department for the City's general governmental operations for the 2015/2016 biennium. At the conclusion of March of 2016, total expenditures were approximately \$58.9 million, or 60.4% of the adjusted operating budget.

A review of expenditures at this juncture of the biennium from a categorical standpoint indicates that there were no major unanticipated variances. The expenditure category of Intergovernmental Services & Taxes appears to have a minor variance in terms of the percentage of the adjusted budget expended through fifteen months of the biennium, but this is actually attributable to the fact that the adjusted budget for this category

includes a \$1.6 million allowance for under-expenditures. This allowance is a negative expenditure budgeted by the City each biennium, primarily as an estimate of expenditure savings the City will have in salaries and benefits associated with vacant positions. However, because the budgeted allowance is actually not specific to any one department and may actually impact other expenditure categories, it is budgeted as a reduction to the Intergovernmental Services & Taxes category within the non-departmental section of the budget. As a result, comparisons of actual expenditures to the adjusted budget in this category can be skewed. Additionally, a budget variance appears to exist for Interfund Transfers. However, this apparent variance is simply a timing issue related to when transfers occur between the two years of the biennium. At this juncture, it is anticipated that interfund transfers will be within budget at the

Table 2: General Governmental Expenditures (in \$1,000's)

Category	2015/2016			2013/2014		
	3/31/16	Budget	Spent	3/31/14	Actual	Spent
Salaries & Benefits	\$41,542	\$70,443	59.0 %	\$41,505	\$67,240	61.7 %
Supplies	1,651	2,801	59.0	1,432	2,567	55.8
Other Services & Charges	4,861	8,060	60.3	5,039	7,717	65.3
Intergov't Services & Taxes	6,748	9,920	68.0	6,584	11,317	58.2
Interfund Transfers	4,053	5,941	68.2	2,463	3,846	64.0
Capital Outlay	18	272	0.0	73	124	-
TOTAL EXPENDITURES	\$58,872	\$97,437	60.4 %	\$57,096	\$92,810	61.5 %
Department						
City Council	\$329	\$540	61.0 %	\$328	\$521	62.9 %
City Manager	441	720	61.2	402	657	61.2
Finance	2,051	3,408	60.2	2,222	3,605	
Management Services	3,720	6,301	59.0	3,678	5,602	65.7
City Attorney	864	1,470	58.8	810	1,330	60.9
Civil Service	45	47	96.0	21	34	61.3
Economic Development/Planning	1,560	2,762	56.5	1,324	2,104	62.9
Police	22,997	39,144	58.7	22,655	37,496	60.4
Fire	9,337	15,547	60.1	9,894	15,970	62.0
Engineering	2,150	3,675	58.5	2,008	3,345	60.0
Employee & Community Relations	2,195	4,129	53.2	2,261	3,744	60.4
Parks & Facilities	4,082	7,121	57.3	4,018	6,463	62.2
Non-Departmental	6,758	8,490	79.6	5,213	8,149	64.0
Street Maintenance	2,342	4,083	57.4	2,262	3,790	59.7
TOTAL EXPENDITURES	\$58,872	\$97,436	60.4 %	\$57,096	\$92,810	61.5 %

conclusion of the biennium.

A comparison of actual expenditures through March of 2016 to the adjusted 2015/2016 biennial budget from a departmental standpoint indicates that an adjustment to the civil service budget will likely be required. Due to a significant number of vacant public safety positions during 2015, the City incurred higher than anticipated costs for background checks, psychological testing, and other costs associated with the hiring process for these positions.

A budget variance also appears to exist in the non-departmental budget based on the percentage of the adjusted budget that had been spent through the first fifteen months of the biennium. As described earlier in this report, a comparison of actual expenditures to the adjusted budget in this section of the City's General Fund is skewed due to the City's budgeted allowance for under-expenditures and the timing of interfund transfers, which also fall under this department.

In addition to the revenue and expenditure trends for the City's general governmental operations outlined above, there are several vulnerabilities and opportunities associated with the City's budget to report on that may impact the City as we complete the second year of the biennium and begin planning for the 2017/2018 biennium.

- The Washington State Legislature concluded the 2016 legislative session on March 29th during a 30-day special session after reaching an agreement on a supplemental operating and capital budget for the State's 2015-2017 biennium. The agreed upon budget included several provisions that negatively impacted cities and other local governments, which continued a trend from the last several state budget agreements approved by the Legislature. Fortunately, Governor Inslee vetoed two of the most damaging aspects of the budget

proposal for cities. Despite this partial reprieve in 2016, the 2017 legislative session is likely to be one of the most daunting in the history of the State.

In 2012, the Washington State Supreme Court issued a decision in *McCleary vs. the State of Washington* that the State was violating its own constitution by failing to adequately fund K-12 education. The decision also mandated that the State Legislature begin making measureable progress towards meeting its obligation to adequately fund basic education. In response to this decision, legislation was passed committing the State to fully meet its funding requirements by 2018. As the 2018 deadline approaches, the State is still well short of meeting its obligations to fund basic education. Although estimates vary, most agree the State will need to allocate several billion dollars more in its 2017-2019 biennial budget for basic education, which leaves cities extremely vulnerable to further reductions in state-shared revenues, higher fees and charges for state mandated licenses and permits, and reductions in cost sharing for joint programs administered in partnership with the State.

- Jail costs continue to be one of the largest contracted service expenses for the City, with a projected cost of \$5.85 million for the 2015/2016 biennium (including work crew services). This projection assumed moderate increases to the bed day rate during the biennium, along with utilization of the facility during these years at similar levels to the prior biennium.

The City received the final 2015 year-end report for the jail from the Benton County Sheriff's Office shortly after the

conclusion of the year, which reported that the actual bed day rate for 2015 was \$69.25. This rate was \$3.30 higher than the billing rate of \$65.95 originally estimated for the year and utilized for 2015 billings by the Sheriff's Office. However, the City's jail usage declined by nearly 10% in 2015, which minimized the budgetary impact of the higher bed day rate for the year.

Local use of the Benton County Jail is likely to continue to decline in 2016 as a result of a decision made by Benton County to discontinue the practice of requiring individuals to "sit out" delinquent fines in jail. Because the costs of the jail are largely fixed, this means the bed day rate for the facility is likely to increase significantly in 2016 unless the Sheriff's Office is successful in obtaining contracts with outside agencies to utilize excess capacity in the jail.

- Agencies from Benton and Franklin Counties continue to work in partnership towards a bi-county dispatch program for public safety personnel. In 2015, agencies from these counties passed a resolution related to the formation of the Multi-Agency Three Rivers Information and Communications Services (MATRICS) entity, which will be followed by a series of interlocal agreements to establish the by-laws and operating parameters for the new agency. The implementation of MATRICS will mean a significant improvement to the level of service offered for the area's public safety departments and may also have a positive long-term impact on the operating costs for dispatch services.

As we move further into the 2015/2016 biennium, City staff will continue to monitor these and other issues that may have an impact on the City's budget.

Table 3 presents the cash flows and fund balances for the biennium for all funds summarized by fund groups – general governmental, capital, proprietary, and designated.

The following sections of this report provide highlights for each fund group.

Table 3: Biennial Working Capital and Fund Balances for All Funds (in \$1,000's)

FUND	Beginning Balance	Revenues	Expenditures	Ending Balance
GENERAL GOV'T:				
General Fund	\$2,424	\$55,372	\$56,530	\$1,266
Street	-	2,342	2,342	-
Subtotal	2,424	57,715	58,872	1,266
CAPITAL FUNDS:				
Arterial Street	9	0	-	9
Urban Arterial Street	1,031	6,591	5,768	1,853
Capital Improvement	7,425	21,043	11,814	16,654
Subtotal	8,465	27,634	17,582	18,517
PROPRIETARY FUNDS:				
Water & Sewer	8,193	22,692	21,823	9,063
Medical Services	395	7,206	6,989	613
Building Safety	1,061	1,968	1,530	1,499
Coliseum	(641)	5,025	4,956	(572)
Stormwater	718	1,712	1,852	578
Columbia Park Golf Course	(1)	324	358	(35)
Equipment Rental	3,739	3,405	2,396	4,748
Risk Management	497	2,015	2,190	321
Central Stores	218	275	324	169
Subtotal	14,179	44,623	42,418	16,384
DESIGNATED FUNDS:				
Cash Reserve Fund	2,716	-	-	2,716
Debt Service	5	9,494	9,494	5
BI-PIN Fund	-	495	489	6
Community Development	335	913	1,052	197
Asset Forfeiture Fund	110	27	46	91
Lodging Tax	124	1,904	1,823	206
Public Safety	-	3,103	3,103	-
Criminal Justice Sales Tax	-	2,455	1,647	808
LID Guaranty	35	-	-	35
Subtotal	3,324	18,391	17,652	4,063
TOTAL	\$28,392	\$148,362	\$136,525	\$40,230

CAPITAL FUNDS

The capital budget is comprised of those funds designated for capital projects or major capital purchases. Included in this category are the Arterial and Urban Arterial Street Funds, and the Capital Improvement Fund.

The capital improvement program (CIP) forms the basis for the City's capital budget. Kennewick City Council formally adopted an update to the CIP extending from 2015 through 2020 in conjunction with its adoption of the 2015/2016 biennial

budget in November of 2014. This update includes a wide variety of new capital improvement projects such as infrastructure improvements in the City's Southridge Local Revitalization Area, street reconstruction, new signal installations,

street overlays, storm drainage system upgrades, park improvements, city-wide technology improvements and other information systems purchases. In addition, the 2015/2016 biennial budget has now been adjusted twice in May and November to reflect the carryover of capital projects that began during the last biennium, but were not completed, and any new capital projects or scope changes to existing projects that have arisen during the course of the biennium. In total, the adjusted capital budget for the 2015/2016 biennium is approximately \$32.6 million. In addition, \$20.3 million is budgeted from the Water and Sewer and Stormwater Funds for new water, sewer and storm drainage system infrastructure improvements and upgrades, some of which coincide with major street projects. Actual capital expenditures through March of 2016 were only \$9.4 million within the City's capital funds and \$3.5 million in the Water and Sewer and Stormwater Funds.

Major street projects budgeted for the 2015/2016 biennium currently underway include:

Edison St. – Clearwater Ave. to Canal Dr. – The City received a \$1,170,000 State Transportation Improvement Board grant and a \$928,000 Federal Surface Transportation Program grant for the

\$3,100,000 Edison St. Widening project. The project will add a center turn lane and bike lanes to the length of Edison. Design, permit applications, and right of way acquisition are complete. The project was awarded by Council on December 1, 2015. Work on the project began in February and will be completed in August 2016.

Steptoe Phase III/ West 4th to Sherman St. – The City received a State Transportation Improvement Board grant in the amount of \$3,120,000 for the construction of this project. Phase 3 A and B interim, which will complete the roadway to West 10th Ave. and complete subgrade to Sherman, was awarded on July 1, 2014 and is scheduled to be completed in May 2016. Plans for the portion of the project from West 10th Ave. to Sherman St. are being completed by City staff and MacKay and Sposito, Inc. The portion of Robert Olson Parkway from W 10th Ave. to Sherman Street will construct a five lane roadway. The remaining phase of the project is scheduled to be advertised in June 2016 with construction completed in early in 2017.

Clearwater Ave. – Leslie to US395 – This project was initiated with an access management analysis study and stakeholder involvement meetings. Construction of improvements

at the intersection of Clearwater and Arthur began in January 2016 and were completed in March 2016. Design and right of way for the Clearwater and Union improvements is in progress. The project is being funded in part by a \$2,120,000 Federal Safety grant.

US 395/Ridgeline Intersection – This project will construct a new interchange at US 395 to provide full access to Ridgeline Drive. The City received a \$648,950 Federal Surface Transportation Program grant to develop preliminary design and right of way documents for the interchange. City Staff are working with representatives from the Washington State Department of Transportation and have selected David Evans and Associates, Inc. to develop a scope of work for the Phase I – Alternatives Analysis and Preliminary Design. David Evans and Associates is scheduled to complete the Basis of Design Memorandum late in 2016, with right of way acquisition beginning in 2017.

PROPRIETARY FUNDS

The Water and Sewer Fund budget for the 2015/2016 biennium is \$54.1 million, including \$3.2 million in budgeted ending working capital and \$18.1 million for capital expenditures.

Through March of 2016, revenues from water and sewer rates were 59.6% of the adjusted budget for this revenue source, which is in line with budget projections for the biennium considering the seasonality of water consumption. The adjusted budget was developed based on an

assumption of 4% revenue growth each year of the biennium resulting from moderate increases in water consumption and anticipated rate changes tied to the annual change to the consumer price index. During 2015, actual revenue from water sales increased by 4.5%, while sewer revenue increased by only 2.6%. These increases were due in part to moderate growth in accounts within the City and a 1.5% increase to rates implemented in 2015 pursuant to the City's policy to modify rates based on the previous year's change in the

consumer price index (CPI). Additionally, water revenue increased in 2015 due to restrictions put in place on the use of irrigation water by the Kennewick Irrigation District during a statewide drought, which resulted in greater use of the City's potable water by customers for irrigation purposes during the summer and early fall months.

At this early stage of 2016, revenue from both water and sewer sales has declined by approximately 1%, which

is attributable to a moderate decline in consumption for the year.

Revenue collected for other fees and charges was at 64.9% of the adjusted budget through March, which is higher than what would be anticipated for this period of time and is attributable to revenue from meter set and connection fees primarily associated with new development.

Interest and other miscellaneous revenues collected were 83% of the adjusted budget through the first fifteen months of the biennium. This revenue category consists primarily of interest earnings and other minor revenue sources.

The revenue category of other financing sources has an adjusted budget of \$8.4 million, which includes \$6.6 million in state revolving fund loan for improvements at the City's wastewater treatment plant, \$750,000 in anticipated developer contributions associated

with development projects that are expected to occur during the biennium, and \$1.1 million for a Department of Health loan to finance improvements to the Elliott Lake water system. The loan associated with Elliot Lake water system improvements includes a 50% forgiveness clause once the system is brought up to City standards and transitioned from the Kennewick Irrigation District to the City. Additionally, under an interlocal agreement with the Kennewick Irrigation District (KID), the City will receive approximately \$480,000 from the KID towards the project once it is completed and the City takes ownership of the system. Through December, the utility had received approximately \$188,000 in proceeds from the state revolving fund loan.

As of March 31, 2016, total operating expenses for the water and sewer fund were in line with budget projections, with no material variances to report at this time. Additionally, there were no

unanticipated variances to report in the non-operating expenditure categories.

Major capital projects for the Water and Sewer Fund currently underway include:

- ASR Feasibility Study – project construction completed; Phase 2 Cycle testing completed in 2015. The 2016 Phase 3 Cycle testing is underway with injection quantity at 118 million gallons with a target of 150 million gallons of storage in place prior to retrieval. The purpose is to more accurately reflect actual operating parameters for future permitting considerations.
- Hildebrand Blvd. – under construction.
- Columbia Gardens Winery Waste Treatment Facility – in ground pretreatment system for PH selected, consultant in design phase.

Table 4: Water and Sewer Fund (in \$1,000's)

	2015/2016			2013/2014		
	3/31/16	Budget	%	3/31/14	Actual	%
Revenues						
Revenue from Rates	20,639	34,648	59.6 %	19,433	32,423	59.9 %
Other Fees & Charges	1,693	2,607	64.9	1,417	2,422	58.5
Intergovernmental	-	30	-	-	-	-
Interest & Miscellaneous	110	133	83.0	106	186	57.0
Other Financing Sources	250	8,448	3.0	1,929	6,051	31.9
TOTAL	\$22,692	\$45,865	49.5 %	\$22,885	\$41,082	55.7 %
Expenditures						
Salaries & Benefits	\$5,157	\$9,271	55.6 %	\$4,548	\$7,455	61.0 %
Supplies	377	622	60.5	295	525	56.2
Other Services & Charges	9,336	15,563	60.0	8,051	13,341	60.3
Transfers:						
General Fund	-	-	-	-	17	-
CIP Fund - Facilities/Capital	81	221	36.5	127	127	100.1
Fleet	23	554	-	-	-	-
Other	-	-	-	7	7	-
Debt Service	3,681	6,529	56.4	3,473	6,113	56.8
Capital Outlay	2,935	10,965	26.8	7,503	15,235	49.2
Sewer Area Charge	233	7,164	-	138	383	-
TOTAL	\$21,823	\$50,889	42.9 %	\$24,142	\$43,203	55.9 %

The **Medical Services Fund** is utilized to account for the City's ambulance utility and the third-party ambulance billing program as an enterprise operation. Table 5 provides a comparison of the 2015/2016

adopted budget to actual revenues for the biennium, as well as a comparison of these same items for the utility during the 2013/2014 biennium.

The primary revenue source for the Medical Services Fund is the net revenue received from ambulance transports. After experiencing significant growth in the number of billable transports in recent years, the

number of billable ambulance transports increased by 3.3% in 2015 and moderately again thus far in 2016. The net monthly revenue recognized from transports during the biennium through March was approximately \$171,000, which is lower than the net monthly revenue of approximately \$180,000 projected in the 2015/2016 adopted budget.

In addition to transport revenues, the 2015/2016 biennial budget for the Medical Services Fund also includes a two-year projection of \$5.5 million for revenue from the City's monthly ambulance utility charge. As required under State law, the City completed a comprehensive cost of service study for the ambulance program in 2014 in conjunction with the development of the 2015/2016 biennial budget. The results of that study indicated that the

City had capacity to increase its monthly ambulance availability charge assessed to all residential, commercial and multi-family units from its current level at that time of \$5.67 per month to an amount as high as \$9.64 per month. The Kennewick City Council elected to modify the City's ambulance charge to \$6.67 per month effective January 1, 2015 and then to \$7.67 per month effective January 1, 2016, which will bring the City's monthly charge to an amount that is more consistent with the neighboring cities of Richland and Pasco and significantly reduce the amount of the operating contribution required from the City's General Fund for this program. Additionally, the remaining capacity available for the monthly ambulance charge provides a potential funding source for the future needs of the City's

ambulance program. Through March of 2016, the Medical Services Fund has received just under \$3.3 million from this source, which is consistent with budget projections.

At the conclusion of March, expenses within the Medical Services Fund were 60% of the adjusted budget for the 2015/2016 biennium, which is lower than what would be anticipated with only half of the biennium complete. There does appear to be two slight categorical budget variances in the categories of supplies and intergovernmental services, which staff will be monitoring closely during 2016 to determine if a budget adjustment may be required prior to the conclusion of the 2015/2016 biennium.

Table 5: Medical Services Fund (in \$1,000's)

	2015/2016			2013/2014		
	3/31/16	Budget	%	3/31/14	Actual	%
Revenues						
Revenue from Transports	\$2,559	\$4,327	59.1 %	\$2,693	\$4,045	66.6 %
Household Ambulance	3,268	5,480	59.6	2,618	4,210	-
Intergovernmental Revenue	-	-	-	17	18	-
Interest & Miscellaneous	(1)	-	-	1	1	-
Transfer from General Fund	1,380	1,825	-	-	-	-
Other Financing Sources	1	-	-	12	12	-
TOTAL	\$7,206	\$11,632	62.0 %	5,341	\$8,286	64.5 %
Expenditures						
Salaries & Benefits	\$5,312	\$8,974	59.2 %	\$3,632	\$5,794	62.7 %
Supplies	213	293	72.9	191	322	59.4
Other Services & Charges	1,312	2,182	60.1	1,234	2,012	61.3
Operating Transfer/CIP Fund	47	80	-	87	-	-
Intergov't Services & Taxes	108	160	67.6	116	177	65.4
Capital Outlay	-	-	-	21	31	-
TOTAL	\$6,992	\$11,688	59.8 %	\$5,281	\$8,336	63.4 %

The **Building Safety Fund** is utilized to isolate the costs of providing the City's building inspection function, including equipment replacement charges and administrative costs. Table 6 provides a comparison of the budgeted and actual revenues and expenditures for the 2015/2016 biennium, as well as a comparison of

these items at the same juncture of the prior biennium.

Building permit fees provide the primary revenue source for this fund. In 2015, building permit revenues decreased by 4.5% when compared to 2014. This decrease was attributable to a 2% decrease in the number of

building permits issued during the year, coupled with a 14% increase in the valuation of permits issued. It is important to note that 2014 was one of the top years in the history of the City both in terms of the number of building permits issued and permit valuation.

Table 6: Building Safety Fund (in \$1,000's)

	2015/2016			2013/2014		
	3/31/16	Budget	%	3/31/14	Actual	%
Revenues						
Licenses & Permits	\$1,550	\$2,485	62.4 %	\$1,492	\$2,741	54.4 %
Interest & Miscellaneous	8	8	-	5	9	55.6
TOTAL	\$1,558	\$2,493	62.5 %	\$1,497	\$2,750	54.4 %
Expenditures						
Salaries & Benefits	\$1,178	\$2,077	56.7 %	\$1,105	\$1,801	61.4 %
Supplies	22	26	83.3	16	25	64.0
Other Services & Charges	307	519	59.2	261	432	60.4
Operating Transfer/CIP Fund	23	64	-	17	17	100
TOTAL	\$1,530	\$2,686	57.0 %	\$1,399	\$2,275	61.5 %

At this early juncture of 2016, building permit revenue has declined by approximately 9%. However, as reported earlier, both the number of permits issued to date in 2016 and the valuation of those permits has increased, which is indicative that building activity is still occurring at a high rate in Kennewick.

Operating expenses for the Building Safety Fund were 57% of the adjusted budget for the 2015/2016 at the conclusion of March, with no significant variances to report. Similar to the discussion earlier in this report within the Medical Services Fund, City staff will be

monitoring a potential budget variance within the supplies category during 2016 to determine if a future budget adjustment may be required.

Table 7: Coliseum Fund (in \$1,000's)

	2015/2016			2013/2014		
	3/31/16	Budget	%	3/31/14	Actual	%
Revenues						
Operating Revenue	\$3,746	\$6,250	59.9 %	\$3,766	\$5,519	68.2 %
Debt Proceeds	-	-	-	339	369	91.9
Transfers In	1,279	2,378	53.8	1,335	2,320	57.5
TOTAL	\$5,025	\$8,628	58.2 %	\$5,440	\$8,208	66.3 %
Expenditures						
Cost of Operations	\$4,185	\$6,950	60.2 %	\$4,257	\$6,400	66.5 %
Interfund Loan Repayment	557	1,098	50.7	514	1,100	46.7
Capital Outlay	214	400	53.5	854	895	95.4
TOTAL	\$4,956	\$8,448	58.7 %	\$5,625	\$8,395	67.0 %

The **Coliseum Fund** accounts for the operating activity of the City's coliseum facility, known as the Toyota Center & Arena, as a separate enterprise including debt service associated with the acquisition of the facility. The City assumed full ownership of the facility and a second sheet of ice in August of 2000. Since 2004, the facilities have been operated under an interlocal agreement with the Kennewick Public Facilities District Board to oversee management of the facilities in conjunction with its own convention center facility.

The 2015/2016 adopted budget for the Toyota Center & Arena provided for

a two-year operating contribution of \$700,000, or approximately \$350,000 annually. This contribution consists of a \$400,000 transfer (\$200,000 annually) from the General Fund and a \$300,000 transfer (\$150,000 annually) from the City's Lodging Tax Fund using lodging tax proceeds as the funding source.

For 2015, the net operating loss approved by the Kennewick Public Facilities District for the Toyota Center and Arena facilities was \$375,000. The actual net operating loss for the facilities in 2015 was \$437,987, which is approximately \$63,000 more than the net operating loss approved for the facilities for this

period. Although the facilities generated approximately \$292,000 less in net revenue than anticipated for the year, there was also a reduction in variable event and operational expenses that partially offset this revenue shortfall.

For 2016, VenuWorks and the KPFD have developed an operating budget that they believe will allow them to make-up the budget shortfall from 2015 and remain within the two-year total budgeted for the 2015/2016 biennium. Through March of 2016, the net operating loss for the facilities was \$661, which is \$14,272 lower than the operating loss projected for this period.

In addition to the fact that a portion of the Toyota Center & Arena's required operating contribution is funded with lodging tax proceeds, it is also important to acknowledge that events at the Toyota Center & Arena generate admissions tax that is received into the City's General Fund

and is dedicated under a City Council budget policy to help offset the contribution provided to the facilities from the General Fund. For example, in 2015, the City received approximately \$147,000 in admissions tax from events held at the Toyota Center & Arena. The City and its local

businesses also receive a great deal of other ancillary revenue generated as a result of these events, which generates additional sales tax for the City as well.

Table 8: Stormwater Utility Fund (in \$1,000's)

	2015/2016			2013/2014		
	3/31/16	Budget	%	3/31/14	Actual	%
Revenues						
Revenue from Rates	\$1,457	\$2,333	62.4 %	\$1,393	\$2,245	62.0 %
Interest & Miscellaneous	5	4	-	4	6	-
Other Financing Sources	250	2,134	-	165	597	27.6
TOTAL	\$1,712	4,471	38.3 %	1,562	2,848	54.8 %
Expenditures						
Salaries & Benefits	\$743	\$1,044	71.2 %	\$653	\$1,012	64.5 %
Supplies	24	53	45.1	21	34	61.8
Other Services & Charges	719	1,343	53.5	605	1,000	60.5
Operating Transfer	33	76	-	74	75	98.7
Debt Service	119	344	34.5	-	7	-
Capital Outlay	214	2,962	-	285	397	71.8
TOTAL	\$1,852	\$5,821	31.8 %	\$1,638	\$2,525	64.9 %

The **Stormwater Utility Fund** was established in June of 2009 and accounts for the operating activity of the City's stormwater utility program. The primary revenue source for the stormwater utility is a monthly charge assessed to all residential, multi-family, commercial, and other non-residential customers on their bi-monthly water and sewer bill. Expenses of the utility include the costs associated with operating and maintaining the City's stormwater system in compliance with the Phase II municipal permit requirements established by the Washington State Department of Ecology, as well as

any necessary capital improvements made to the system and any related debt service requirements.

Table 8 provides a comparison of the budgeted and actual revenues and expenditures for the 2015/2016 biennium and a comparison of these same items for the 2013/2014 biennium. At the conclusion of March of 2016, revenue collected from the monthly storm-water charge was approximately \$1,457,000, or 62.2% of the biennial budget of \$2.33 million, which is consistent with projections for this revenue source at this juncture of the biennium.

Total expenditures for the Stormwater Utility Fund during the first fifteen months the 2015/2016 biennium were 31.8% of the adjusted budget overall, which is lower than what might be expected at this point in the biennium. However, there are multiple capital projects within the utility that are funded through grants or state loans that have not been started yet at this juncture of the biennium, which skews the comparison of actual expenditures to the adjusted budget through March.

Table 9: Columbia Park Golf Course Fund (in \$1,000's)

	2015/2016			2013/2014		
	3/31/16	Budget	%	3/31/14	Actual	%
Revenues						
Charges for Services	\$216	\$506	42.7 %	\$199	\$362	55.0 %
Concessions & Miscellaneous	28	58	48.3	17	39	43.6
Transfers In	80	577	13.9	145	185	78.4
TOTAL	\$324	\$1,141	28.4 %	\$361	\$586	61.6 %
Expenditures						
General & Administrative	\$106	\$212	50.0 %	\$130	\$210	61.9 %
Maintenance	119	185	64.3	104	172	60.5
Operations	133	252	52.8	112	194	57.7
Capital Outlay	-	474	-	11	11	100.0
TOTAL	\$358	\$1,123	31.9 %	\$357	\$587	60.8 %

The **Columbia Park Golf Course Fund**, an enterprise fund, was established beginning on January 1, 2011 and accounts for the operating and maintenance, capital and debt service costs related to the operation and management of the Columbia Park Golf Links golf course. The City entered into an agreement with CourseCo, Inc. in 2010 to manage and operate the golf course on behalf of the City. The City entered into a new agreement with CourseCo late in 2015 to manage and operate the course through 2020. CourseCo also manages Richland's Columbia Point golf course and Pasco's Sun Willows golf course, which has allowed for a unique partnership opportunity between the cities in terms of our ability to better leverage the resources of these facilities and operate the courses in a more efficient manner.

Table 9 provides a comparison of the budgeted and actual revenues and expenditures for the Columbia Park Golf Course Fund for the 2015/2016 biennium, as well as a comparison of these same items for the course during the 2013/2014 biennium. The primary sources of revenue for the golf course are greens fees, range fees, merchandise sales, food and beverage sales and other ancillary revenue associated with the operation of the course. Expenses for the

course consist of costs associated with operating and maintaining the golf course as well as capital outlay for improvements and upgrades to the course and its facilities.

For 2015, the course had a budgeted net operating loss of \$39,382. Actual results for the year were a net operating loss of \$67,248, which was approximately \$28,000 higher than the net operating loss projected for the year. However, it should be noted that the operating loss for 2015 was approximately \$11,000 lower than what was experienced in 2014. The operating shortfall experienced in 2015 was almost entirely attributable to the number of rounds of golf played at the course relative to what was projected when the 2015 budget was prepared. The course's budget for 2015 reflected an assumption of 17,701 paid rounds. The actual number of paid rounds in 2015 was 14,575, which equates to a shortfall of 18% compared to the number of budgeted rounds. However, it is also noteworthy that the number of actual rounds played during this period was an increase of over 13% compared to the prior year.

Through only three months of 2016, which represents the slowest period of the year for the course in terms of golf activity, the course had a net

operating loss of \$30,521, which was \$6,374 higher than the amount projected for this period. City staff continues to work closely with CourseCo to further increase utilization of the course and minimize the operating contribution required to operate the facility.

At a City Council workshop in the late summer of 2015, staff provided a progress update on the Columbia Park Golf Links golf course including an overview of operating results and several recommendations for the future of the course. Specifically, city staff recommended expanding the use of the course to allow for disc golf in addition to traditional golf and foot golf, which will enhance revenue opportunities for the course as well as increasing activity at the facility. Additionally, staff recommended a new clubhouse at the course to replace the temporary trailer currently being used, which would also create more opportunities to generate revenue at the facility. City Council authorized a budget adjustment during the City's mid-biennium budget adjustment in November to fund the new clubhouse during the current biennium, with the goal of completing the clubhouse prior to the 2017 golf season.

DESIGNATED FUNDS

Designated funds are restricted to uses outlined in grants, contractual, or statutory agreements.

Significant events taking place in the **Community Development Block Grant / HOME** program during the first quarter of 2016 include:

- The 2016 Annual Action Plan was completed and will be submitted to HUD for approval prior to April 15th.

- The 2016 CDBG allocation is \$542,619 a small increase from 2015's allocation.
- Environmental reviews have been completed for the 2016 CDBG projects and the City's \$425,000 W. 7th Pl./S. Jean Pl. infrastructure project will be going out for bid in May. The project connects a dead-end street and a cul-de-sac through undeveloped city-owned property. The project will allow

for the development of single-family low-income residences as well as a pro-posed youth oriented facility.

- As the Responsible Entity, the City will be working with Kennewick Housing Authority on additional environmental projects that will be undertaken by the Housing Authority in FY 2016.
- To date, there have been eight home loan applications re-

ceived, with seven meeting the required income and property standard qualifications. The loans expended \$69,500 in HUD HOME funds.

Receipts of the basic 2% hotel/motel tax in the Lodging Tax Fund are allocated to the Tri-Cities Visitor and Convention Bureau and to support event promotion. Proceeds from the additional 2% are transferred to the Coliseum Fund for debt service on an inter-fund loan made from the City's Capital Improvement Fund. Also, \$150,000 is transferred annually from a combination of the basic 2% and the additional 2% tax to the Coliseum Fund to cover a portion of the Toyota Center's annual operating contribution.

The 2015/2016 adjusted budget includes a two-year projection of \$2,025,500 in hotel/motel tax. In 2015, the City received \$1,007,931 in hotel/motel tax, which represented 49.8% of the adjusted budget and was an increase of 12% compared to the amount received in 2014. The growth experienced in 2015 for this revenue source was attributable to several factors, including increased tourism in the area, an outage at Energy Northwest that brought many temporary workers into the region that elect to stay in hotels, and the opening of the new Spring Hill Suites and Hampton Inn hotels in June. Through the first 3 months of 2016, lodging tax receipts have increased again by 10.2%. Results for 2016 thus far can be attributed to the impact of the two new hotels outlined above and continued increases in tourism activity.

In addition to hotel/motel tax, the Lodging Tax Fund also receives proceeds from the regional Tourism Promotion Area (TPA) established under an agreement with the cities of Richland and Pasco. Under this agreement, the TPA assesses a flat fee per guest room in hotels of each of the three cities. All funds collected are dedicated to market-

ing tourism in the region and are remitted to Visit Tri-Cities (formerly the Tri-Cities Visitor & Convention Bureau) as the administrator of this program. Effective January 1, 2014, the TPA assessment was increased from \$1.50 to \$2.00 per room night in each of the Tri-Cities. The additional revenue generated from this assessment will help to bring tourism funding in the Tri-Cities on par with other comparable regions in the state.

In 2015, the City received and remitted \$593,641 to Visit Tri-Cities from the TPA charge, which was an increase of 14% compared to 2014. However, this comparison was skewed as a result of the two month lag that exists between the date a TPA charge is collected at a hotel and the date it is distributed to the City through the Department of Revenue. Because of this lag, the first two months of TPA charges received by the City in 2014 were based on hotel nights occurring in November and December of 2013, at which time the previous rate of \$1.50 per room night was still in effect. Through the first quarter of 2016, the City has received and remitted \$185,884 to Visit Tri-Cities, which represents an increase of 4.3% compared to the first quarter of 2015.

Revenues collected in the public safety fund of the voted 2½% utility tax on natural gas, telephone and electricity are transferred to the general fund to reimburse fire and police personnel costs. 21 positions in the Police Department and 11 positions in the Fire Department were created and are partially maintained through this funding source.

The 2015/2016 adjusted budget for the Public Safety Fund reflects an estimate of \$5,303,166 in utility tax revenue for the biennium. In 2015, the City received \$2,397,396, which represented only 45% of the adjusted budget and was 2% less than the amount collected in 2014.

Through March of 2016, the City had received \$705,202, which was an overall increase of 1.3% when compared to this same time period in 2015. As described in more detail earlier in this report, the overall increase was attributable to a 5.3% increase in electric utility tax and a 1.8% increase in telephone utility tax, which were partially offset by a 14.5% decrease in natural gas utility tax during the first three months of the year.

Revenues collected in the criminal justice sales tax fund consist of the City's portion of the voter-approved 0.3% criminal justice (public safety) sales tax that was passed in August of 2014 in Benton County and became effective on January 1, 2015. Under state law, the proceeds of this tax are split 60/40 between the County and the cities located within the County. The portion of the tax allocated to cities is then distributed based on population. Based on this formula, the City of Kennewick anticipates receiving approximately half of the city portion of the tax, or approximately 20% of the total amount collected. With its share of the proceeds, the City of Kennewick will pay for 3 Police Officer positions that were hired in 2013, as well as hiring 4 new Police Officer positions each year in 2015, 2016 and 2017, and a new police support position in both 2015 and 2016. Additionally, Kennewick City Council authorized the addition of 1 new Assistant City Attorney beginning in 2016 that will be funded from this revenue source during the 2015/2016 mid-biennium budget adjustment. The City will also use the funding freed up from the 3 Police Officer positions hired in 2013 to pay for 3 new Fire Captain positions that will be required when the City opens its 5th Fire Station in 2016.

The City projected criminal justice sales tax revenue of \$3,785,000 for the biennium in the 2015/2016 adopted budget. Due to the two-

month lag that exists between the time sales tax is collected by a retailer and the time the City actually receives its portion of the sales tax from the Department of Revenue, the City received its first

distribution of criminal justice sales tax in March of 2015 (for January activity) and has now received a total of 13 distributions at the conclusion of March of 2016. At the conclusion of March, the City

had received \$2,451,217 from this source, which is higher than what was originally projected for this period.

FUTURE OUTLOOK

As we move further into the second half of the 2015/2016 biennium, the City of Kennewick seems to be positioned well for the future. Although there are many contributing factors, the strategic focus that our region has placed on economic development and

diversification of our economy seems to be paying off and is integral to the growth we are currently experiencing. As has been articulated many times before in this report, the revenue generated from this growth is critical to the City's budget model and ability to fund its ongoing priority programs

and services. And with several future opportunities to continue the economic expansion we're currently enjoying, there is clearly a basis for enthusiasm and optimism as we complete the 2015/2016 biennium and begin developing the budget for the upcoming 2017/2018 biennium.

CASH MANAGEMENT

Economic data has been somewhat mixed after the Federal Open Market Committee raised rates in December 2015, but economic and financial developments haven't materially changed the outlook for the next couple years. Meeting objectives for employment and inflation will likely require a lower path for the federal funds rate than what was anticipated at the beginning of 2016. In March, the FOMC announced their decision to leave the Federal Funds rate unchanged. Any future interest rate hikes for the year are expected to decrease to two in 2016 vs the four anticipated from their December statement.

higher than the start of the quarter due to the timing of the investment transactions discussed in the previous paragraph. At March 31, the net earnings rate for the State Pool was 20 basis points higher than it was at the end of 2015. The increase in the net earnings rate for balances in the State Pool is illustrated in the *Local Government Investment Pool Net Earnings Rate* bar chart.

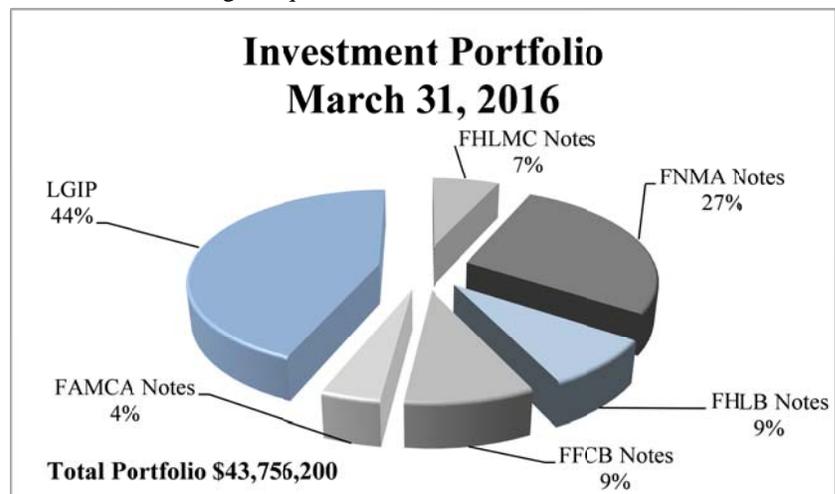
- The average net yield for city balances invested at the State Pool was .42%. Interest earned during the quarter for Pool balances was \$14,643.
- The market value of agency investments at March 31 was \$24,752,157 or \$181,320 lower than the principal cost. The unrealized loss associated with this difference will not be recorded because the investments will be held until call or maturity date. The book value for the same items was \$24,660,087.

Highlights for the 1st quarter 2016:

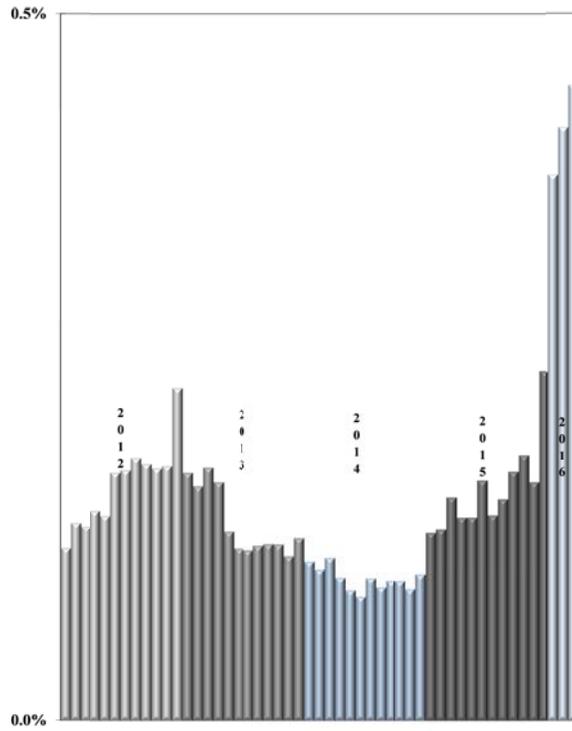
- The City's agency securities portfolio averaged a 1.24% rate of return at March 31st and earned interest of \$95,991 during the quarter.

In March a rally of more than 30 basis points sharply increased the incidence of call risk in the agency market. The most active caller of debt was Freddie Mac. The City had two FHLMC securities valued at a combined \$4 million called prior to their maturity dates. The Investment Committee met in March to reinvest that same amount. Two securities were purchased, however, they did not settle until April. The mix of investments by issuer at March 31 is shown in the pie chart *Investment Portfolio*.

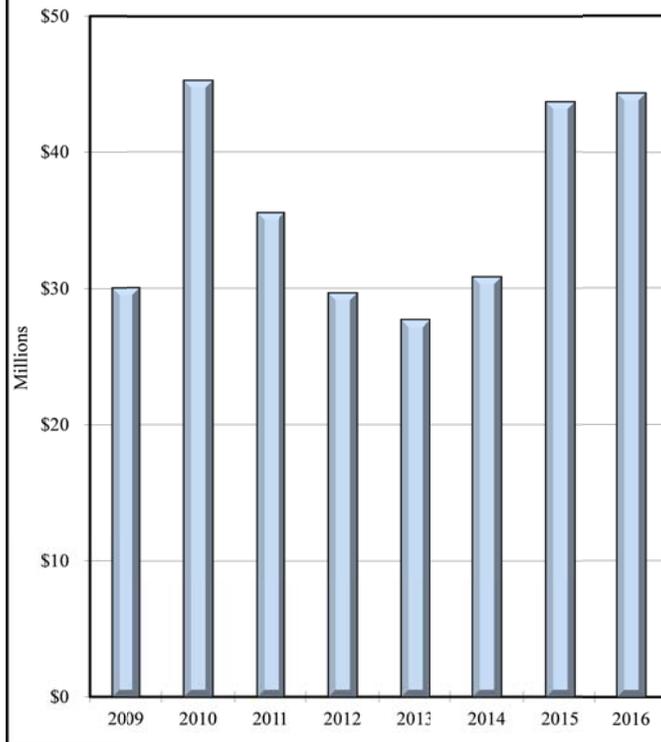
The balance in the City's State Pool account at March 31 was \$4 million



**LOCAL GOV'T INVESTMENT POOL
NET EARNINGS RATE**



**City of Kennewick
Portfolio History**



CASH & INVESTMENT SUMMARY

March 31, 2016

Maturity Date	Investment Instrument	Financial Institution	Yield	Investment Date	Amount
01-Jun-17	FNMA Zero Coupon Bond	Time Value Investments	0.830%	12-Oct-12	1,999,716
01-Jun-17	FNMA Zero Coupon Bond	Wells Fargo Securities	0.869%	23-May-14	2,001,776
28-Jul-17	FNMA One time call 7/28/16	Vining Sparks	0.865%	06-Apr-15	2,009,360
08-Jan-18	FHLB	Wells Fargo Securities	0.875%	08-Apr-15	1,000,000
25-May-18	FNMA Quarterly calls beginning 5/24/13	Wells Fargo Securities	1.148%	30-May-13	1,997,800
20-Jun-18	FHLB Quarterly calls beginning 9/20/13	Time Value Investments	1.250%	20-Jun-13	743,944
29-Jun-18	FHLB One time call 12/29/16	Vining Sparks	1.180%	29-Dec-15	2,000,000
29-Mar-19	FNMA One time call 9/29/16	Multi-Bank Securities	1.400%	29-Sep-15	2,000,000
09-Sep-19	FFCB	Wells Fargo Securities	1.490%	10-Sep-15	1,996,900
28-Oct-19	FFCB Continuous call after 10/28/16	Time Value Investments	1.391%	28-Oct-15	1,997,600
06-Mar-20	FAMCA	Vining Sparks	1.449%	22-Oct-15	1,819,012
25-Sep-20	FHLMC	Wells Fargo Securities	1.750%	10-Sep-15	997,590
25-Nov-20	FHLMC	Multi-Bank Securities	1.800%	25-Nov-15	2,000,000
28-Dec-20	FNMA	Wells Fargo Securities	1.801%	03-Dec-15	2,007,140
SUBTOTAL AGENCY INVESTMENTS					<u>24,570,837</u>
LOCAL GOV'T INVESTMENT POOL State Treasurer's Office			0.450%		<u>19,185,363</u>
TOTAL INVESTMENTS					<u>43,756,200</u>
CASH BALANCE					<u>608,159</u>
TOTAL CASH & INVESTMENTS					<u><u>\$44,364,358</u></u>

WEIGHTED AVERAGE YIELD
0.92%

MAJOR REVENUE SOURCES

Property Tax Revenue

		2013/2014	2015/2016
Year 1	Jan-Mar	\$740,886	\$869,905
	Apr-Jun	5,286,678	5,679,048
	Jul-Sep	440,895	249,641
	Oct-Dec	4,488,372	4,889,686
Year 2	Jan-Mar	749,133	760,312
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$11,705,964	\$12,448,592

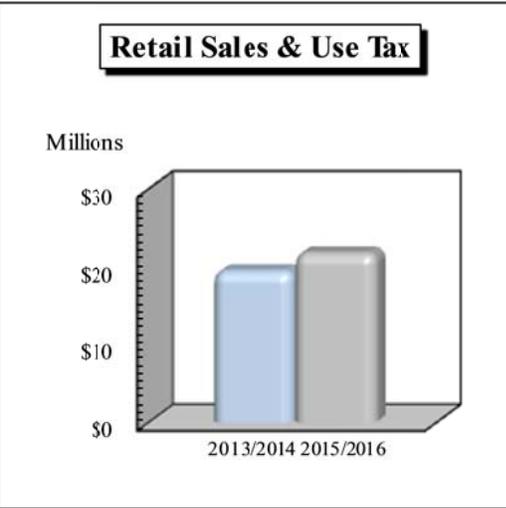
15/16 Biennial Budget \$23,895,699
 Actual vs Budget 52%



Retail Sales & Use Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$3,923,276	\$4,127,346
	Apr-Jun	3,537,338	3,936,663
	Jul-Sep	3,970,129	4,972,086
	Oct-Dec	4,145,065	4,408,284
Year 2	Jan-Mar	3,923,260	4,364,649
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$19,499,068	\$21,809,028

15/16 Biennial Budget \$32,768,600
 Actual vs Budget 67%



Local Sales Tax-Criminal Justice

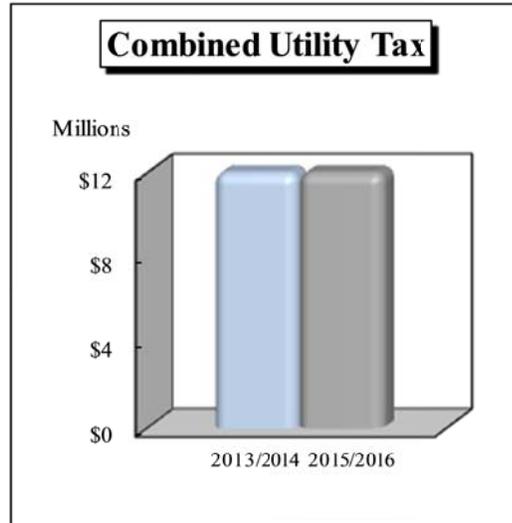
		2013/2014	2015/2016
Year 1	Jan-Mar	\$321,544	\$354,963
	Apr-Jun	318,048	345,849
	Jul-Sep	359,300	443,398
	Oct-Dec	336,823	376,876
Year 2	Jan-Mar	325,263	372,872
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$1,660,978	\$1,893,957

15/16 Biennial Budget \$2,877,100
 Actual vs Budget 66%



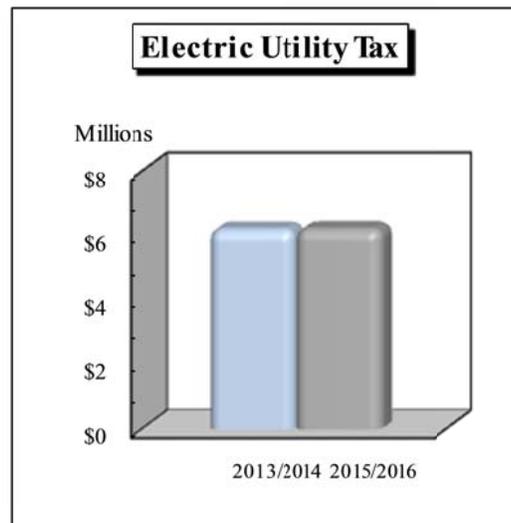
Combined Utility Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$3,098,329	\$2,914,806
	Apr-Jun	2,732,493	2,780,909
	Jul-Sep	2,717,018	2,745,596
	Oct-Dec	2,704,610	2,538,206
Year 2	Jan-Mar	3,406,806	3,066,063
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$14,659,256	\$14,045,580
15/16 Biennial Budget			\$29,332,698
Actual vs Budget			48%



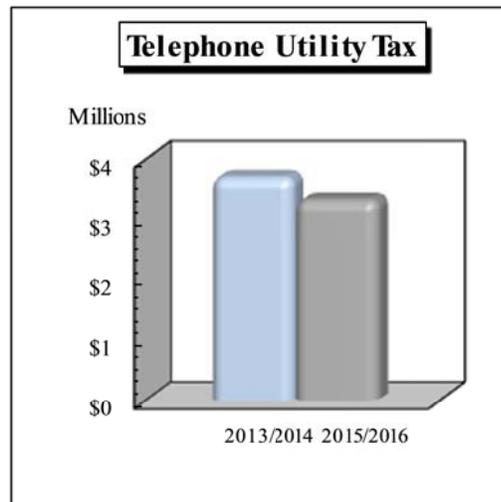
Electric Utility Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$1,363,149	\$1,405,732
	Apr-Jun	1,049,449	999,248
	Jul-Sep	1,143,064	1,243,418
	Oct-Dec	1,095,566	1,079,591
Year 2	Jan-Mar	1,545,850	1,479,754
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$6,197,078	\$6,207,742
15/16 Biennial Budget			\$10,574,000
Actual vs Budget			59%



Telephone Utility Tax

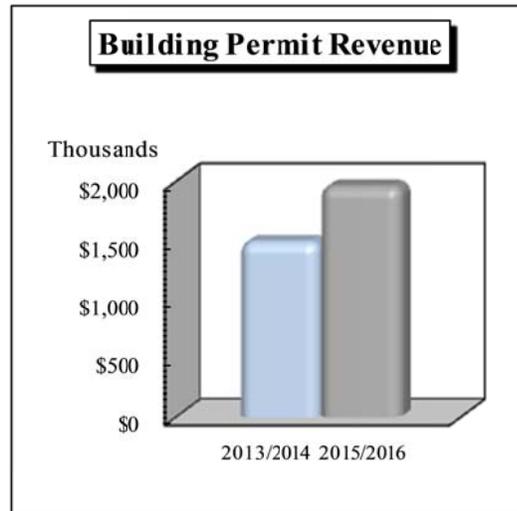
		2013/2014	2015/2016
Year 1	Jan-Mar	\$760,671	\$594,342
	Apr-Jun	757,141	869,580
	Jul-Sep	710,369	619,050
	Oct-Dec	737,955	636,747
Year 2	Jan-Mar	734,080	605,017
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$3,700,216	\$3,324,735
15/16 Biennial Budget			\$5,848,849
Actual vs Budget			57%



Building Permit Revenue

		2013/2014	2015/2016
Year 1	Jan-Mar	\$270,292	\$447,199
	Apr-Jun	339,599	511,428
	Jul-Sep	288,313	296,098
	Oct-Dec	219,500	294,834
Year 2	Jan-Mar	374,431	406,716
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$1,492,135	\$1,956,274

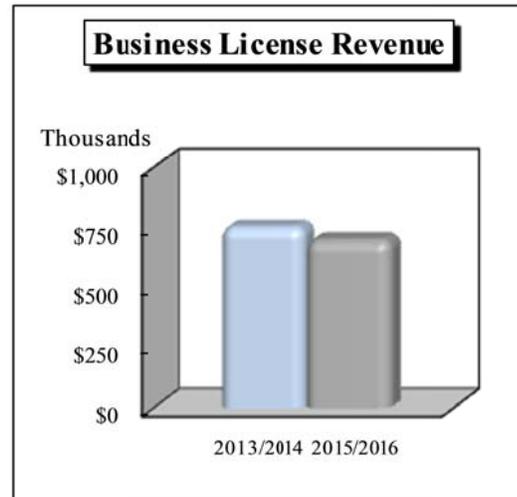
15/16 Biennial Budget \$2,485,000
 Actual vs Budget 79%



Business License Revenue

		2013/2014	2015/2016
Year 1	Jan-Mar	\$350,142	\$347,325
	Apr-Jun	28,998	38,460
	Jul-Sep	20,833	28,055
	Oct-Dec	8,518	25,309
Year 2	Jan-Mar	342,403	258,519
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$750,894	\$697,668

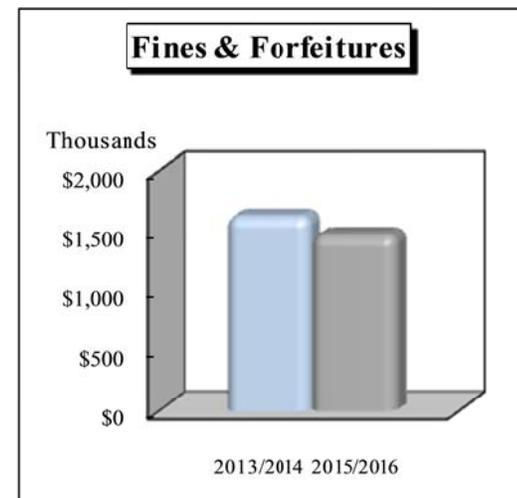
15/16 Biennial Budget \$859,000
 Actual vs Budget 81%



Fines & Forfeitures

		2013/2014	2015/2016
Year 1	Jan-Mar	\$329,622	\$327,767
	Apr-Jun	339,543	298,098
	Jul-Sep	296,623	289,352
	Oct-Dec	301,339	284,971
Year 2	Jan-Mar	350,845	263,572
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$1,617,972	\$1,463,760

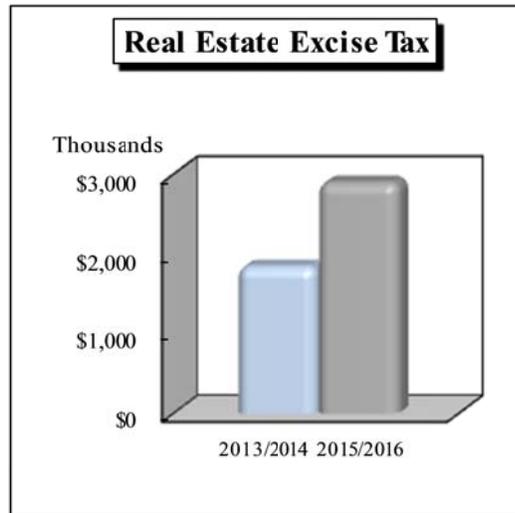
15/16 Biennial Budget \$2,780,600
 Actual vs Budget 53%



Real Estate Excise Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$295,652	\$460,297
	Apr-Jun	396,382	566,537
	Jul-Sep	417,881	494,503
	Oct-Dec	456,426	720,290
Year 2	Jan-Mar	283,886	654,885
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$1,850,227	\$2,896,512

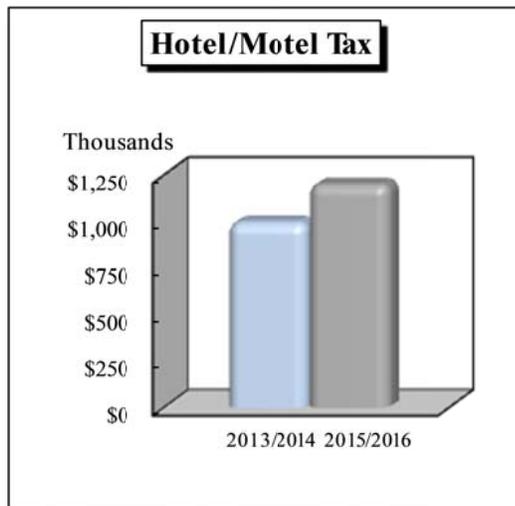
15/16 Biennial Budget \$3,892,000
 Actual vs Budget 74%



Hotel/Motel Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$152,809	\$168,699
	Apr-Jun	199,615	232,836
	Jul-Sep	254,523	341,844
	Oct-Dec	232,254	268,552
Year 2	Jan-Mar	151,458	185,884
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$990,659	\$1,197,815

15/16 Biennial Budget \$2,025,500
 Actual vs Budget 59%



Tourism Promotion Area

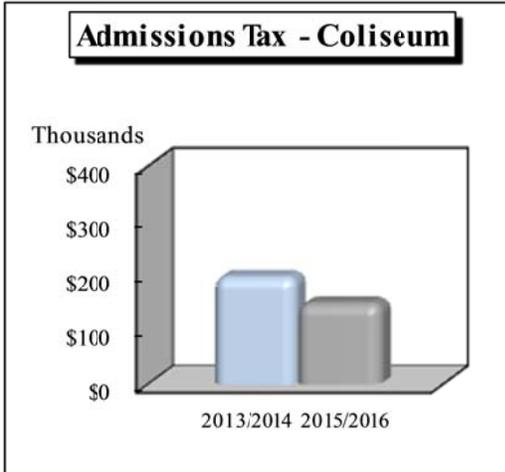
		2013/2014	2015/2016
Year 1	Jan-Mar	\$73,260	\$110,183
	Apr-Jun	92,482	139,897
	Jul-Sep	111,978	184,568
	Oct-Dec	104,710	158,993
Year 2	Jan-Mar	78,854	114,871
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$461,284	\$708,512

15/16 Biennial Budget \$1,197,000
 Actual vs Budget 59%



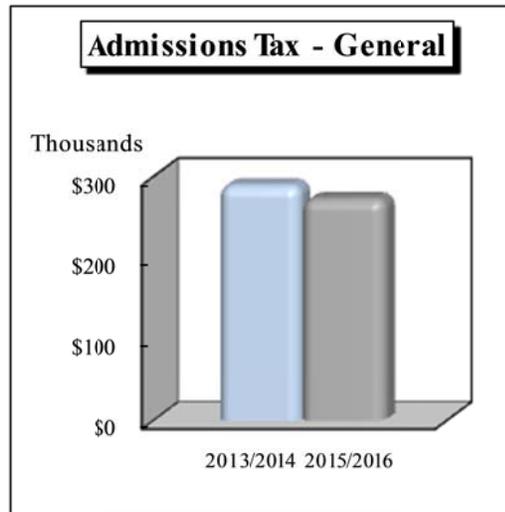
Admissions Tax - Coliseum

		2013/2014	2015/2016
Year 1	Jan-Mar		
	Apr-Jun		71,579
	Jul-Sep	81,678	4,810
	Oct-Dec	79,535	70,981
Year 2	Jan-Mar	35,907	
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$197,120	\$147,370
15/16 Biennial Budget			\$339,000
Actual vs Budget			43%



Admissions Tax - General

		2013/2014	2015/2016
Year 1	Jan-Mar	\$45,474	\$49,516
	Apr-Jun	50,593	52,573
	Jul-Sep	87,763	83,286
	Oct-Dec	58,229	50,083
Year 2	Jan-Mar	46,967	36,678
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
Total		\$289,026	\$272,135
15/16 Biennial Budget			\$509,000
Actual vs Budget			53%



“Be yourself; everyone else is already taken.”

Oscar Wilde