

# City of Kennewick

## 2015 4th Quarter

### Financial Report

Issue Date: March 23, 2016

#### OVERVIEW

At the conclusion of the first year of its 2015/2016 biennium, there are a number of positive items to report for the City of Kennewick that demonstrate a healthy economy and strong financial condition for the City. Consistent with the theme in many of the recent financial updates for the City, low unemployment, coupled with significant economic development and growth in the City, have served as the primary catalysts for the positive financial results the City is experiencing. Though there are certainly many ongoing financial challenges that remain for the City, there are also numerous opportunities available to help sustain the growth and economic development the City has experienced in recent years, which will be critical in order for the City to remain in the strong financial position it is in currently.

Employment is likely the single most important underlying factor in 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 7.8% in December, which is approximately 1.4% lower than a year ago at this same time and 2% higher than the statewide unemployment rate of 5.8%. However, it is important to

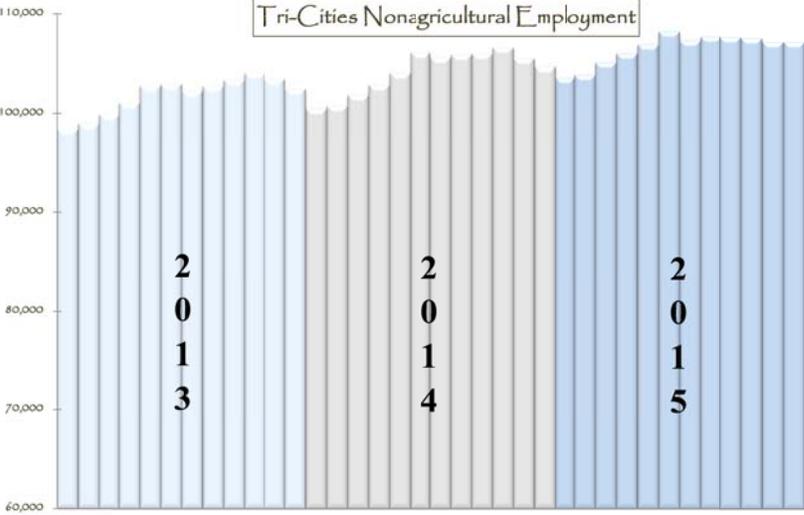
note that the December unemployment rate for the Kennewick-Pasco-Richland metropolitan statistical area has not been seasonally adjusted as of the release of this report, whereas the State unemployment rate has been.

According to the most recent labor data issued by the Bureau of Labor Statistics, total non-farm employment in the Tri-Cities was approximately 108,000 in December, 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

*In This Report*

Overview	1
Significant Events	2
General Government	3
Revenues	3
Expenditures	5
Capital Funds	8
Proprietary Funds	8
Designated Funds	13
Future Outlook	14
Cash Management/ Investments	15
Major Revenue Sources	18

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, indicates that a great deal of growth is still occurring within the community. In 2015, the Building Safety division issued 2,005 permits with a valuation of approximately \$206.7 million. This activity represents a 2% decrease in the number of permits issued, but is an increase of nearly 14% in the valuation of those permits when compared to activity in 2014. The increase in valuation is primarily attributable to the issuance of permits for construction of a new elementary and middle school in the Southridge area and growth in commercial and multi-family permits.

Some of the other more significant projects underway at the conclusion of 2015 include construction of the Kennewick Irrigation District building, City of Kennewick Master Gardeners, Legacy Management, Kennewick School District: Canyon View Elementary, Washington Elementary and Edison Elementary, Tesla Motors, Vision Clinic, The Living Room Church, Boulder Heights Plaza, Medina Building and Brinkley Building. Several remodels are underway as well including Costco, Columbia Industries, Papa

New Construction Activity		
	Comparative Totals	
	2015	2014
Single Family Permits	277	302
Commercial Permits	253	256
Other Permits	1,475	1,496
<b>Total Permits</b>	<b>2,005</b>	<b>2,054</b>
Permit Valuation	\$206,675,665	\$181,177,996
Building Permit Fees	\$1,549,559	\$1,623,412
Planning Fees	\$144,605	\$35,275

Johns, Pizza Hut, Goodwill Industries, Pixel Soft, Old Navy, Kadlec Rheumatology, Bank of America, Peak Mortgage and Luke's Carpet, to name just a few.

Other key indicators also demonstrate that moderate growth is still occurring in the area. According to the state's Office of Financial Management (OFM), the City's most recent official population estimate as of April 1, 2015 increased to 78,290, which is an increase of slightly less than 1% over the prior year. The number of

active water/sewer utility accounts for the City increased by 410 over the past twelve months to 23,176 total accounts, which represented an increase of 2%. Lastly, 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 November 17<sup>th</sup> City Council approved the mid-biennium budget adjustment. State law requires a mid-biennium review and modification of the biennial budget. Significant items included:

- Appropriate for the implementation of criminal justice sales tax programs.
- Appropriate for 2015 HUD Block Grant, Housing Rehab, DPA, CDBG and HOME program allocation.
- Appropriate for replacement of Stormwater vactor with DOE grant and replacement reserves.

- Appropriate for new sewer vactor and 2 new Equipment Operator positions.
- Appropriate for additional gas tax revenue resulting from the 2015 State Transportation Package.
- Appropriate for remodel/relocation old recreation building for a new Columbia Park Golf Links clubhouse.
- Appropriate for increased real estate excise tax revenue estimates for the 2015/2016 biennium.
- Appropriate for revised lodging

tax revenue projections and 2016 Lodging Tax Advisory Committee recommendations.

On November 17<sup>th</sup> Council authorized the Mayor to sign a 5-year management agreement for the operation of Columbia Park Golf Links golf course from 2016-2020 with Kennewick Golf Corp., which is wholly owned by CourseCo, Inc.

On November 17<sup>th</sup> Council awarded the City-Wide Safety Improvement project contract to Sierra Electric in the amount of \$147,529. This contract is for the installation of countdown pedestrian heads, audible pedestrian pushbuttons, and back-

side flashing school beacons at various City locations.

Allstar Construction Group, Inc. was awarded the Arthur Street and Clearwater Intersection Improvements project in the amount of \$124,454 at the same meeting.

The City adopted the property tax levy for 2016 on November 24, 2015. The total operating levy for 2016 was estimated at \$12,128,582, of which \$67,000 is allocated to the Firemen's Pension Fund based on the recommendation of the most recent

actuarial study and \$234,000 will be allocated to the Capital Improvement Fund per the requirements of the local revitalization financing (LRF) program. An excess levy of \$403,000 will provide for the debt service on the City's voter approved library bonds. The 2016 levy includes a 1% increase to the City's base levy as allowed under state law. The levy also reflects increases in assessed valuation of \$135.5 million for new construction (including \$46.3 million in the LRF area) and an \$89.6 million increase in AV from revaluation of existing pro-

perties, which increases the City's total AV to \$5.63 billion overall.

On December 1<sup>st</sup> City Council awarded the Edison Street Widening project to Granite Construction Company in the amount of \$2,046,539. This contract is for the improvement of approximately .43 miles of N. Edison St. from W. Clearwater Ave. to W. Hood Ave. and from Okanogan Ave. to W. Canal Dr.

## GENERAL GOVERNMENT

Table 1 provides a comparison of major revenue sources for the 2015/2016 biennium compared to the previous biennium (2013/2014). After completing the first full year of the 2015/2016 biennium, general governmental revenue collections totaled \$47.8 million, which represented 49.2% of the adjusted budget.

General governmental receipts from sales taxes totaled approximately \$11.8 million in 2015. On a city-wide basis, sales tax receipts increased by 9% during this time-frame when compared to this same time period in 2014, which is higher than what was anticipated. Low unemployment, coupled with continued economic development and significant residential and commercial growth within Kennewick, were the primary factors in this overall increase.

Receipts from the 1/10% criminal justice sales tax that was implemented in Benton County in 1995 totaled approximately \$1.5 million in 2015, which represented an increase of 12% when compared to the prior year. 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 in 2015 totaled \$8.7 million, which was an increase of only 0.2% when compared to results for 2014. The City receives utility taxes from natural gas, garbage collection, cable television, telephone, electric, ambulance, stormwater and water/sewer services excluding irrigation. The slight increase experienced in utility tax revenue overall for 2015 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.

Utility tax generated from the sale of the City's water and sewer services increased by 4% in 2015, which was the result of two main factors. First, the City implemented a 1.5% increase to water and sewer rates in 2015 in accordance with its policy to modify rates annually based on the previous year's change in the consumer price index (CPI). Additionally, the City experienced an increase in water rate revenue during 2015 as the result of restrictions placed on the use of irrigation water during drought conditions experienced in the

summer and early fall, which caused many customers to utilize potable water for irrigation purposes.

Utility tax generated from the sale of natural gas increased by 2% in 2015, primarily as a result of 5.6% rate increase implemented by Cascade Natural Gas in November of 2014. The impact of this rate increases was partially offset by a reduction in natural gas consumption early in 2015 due to unusually mild weather conditions.

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 increased by 7% in 2015, 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 increased by 2% in 2015, primarily as a result of rate increases implemented by the local cable provider.

The increases in utility tax revenue for the City in 2015 outlined above were almost entirely offset by decreases in tax revenue from the City's two largest sources of utility tax, which are electric and telephone. Utility tax revenue received from the sale of electricity decreased by 2% in 2015, despite an average rate increase of 3.9% implemented by Benton PUD in September. The overall decrease in electric utility tax was attributable to a very mild weather conditions during the first 4 months of the year that reduced overall electricity consumption.

Utility tax revenue derived from telephone services decreased by 2% in 2015. However, this result is somewhat misleading due to a one-time payment the City received from a telephone provider during the year for back taxes owed from 2010

through May of 2015. Without this one-time payment, telephone utility tax revenue would have declined by approximately 10% in 2015. This result is attributable to many of the same factors that have led to similar declines from this revenue source over the last several years, including 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.

Revenue for the first half of the 2015/2016 biennium from licenses & permits totaled approximately

\$829,000. The predominant sources of revenue within this category are business license fees and construction engineering permits. In 2015, revenue from business licenses increased by approximately 7%, which was attributable to a 6% increase in the number of licenses processed during this period. Revenue generated from civil permits for residential and commercial construction projects increased by nearly 82% in 2015, or approximately \$120,000, when compared to this same timeframe in 2014. Although the City modified its fee schedule in 2015 for civil permits in an effort to simplify the administration of these permit fees, the vast majority of the increase in permit revenue for 2015 is the result of an increase in the number of permits issued.

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

Revenue Source	2015/2016			2013/2014		
	12/31/15	Budget	Received	12/31/13	Actual	Received
Property Tax	\$11,564	\$23,220	49.8 %	\$10,898	\$22,174	49.1 %
Sales Tax	11,783	22,773	51.7	10,295	21,069	48.9
Criminal Justice Sales Tax	1,521	2,877	52.9	1,336	2,694	49.6
Electric Utility Tax	3,337	7,464	44.7	3,283	6,703	49.0
Telephone Utility Tax	1,920	4,129	46.5	2,094	4,046	51.8
Water/Sewer Utility Tax	1,538	3,118	49.3	1,433	2,918	49.1
Cable TV Utility Tax	745	1,526	48.9	701	1,429	49.0
Garbage Utility Tax	639	1,263	50.6	577	1,174	49.2
Natural Gas Utility Tax	476	1,135	41.9	624	1,088	57.3
Ambulance Utility Tax	48	91	52.9	40	78	51.2
Gambling Tax	697	1,527	45.6	727	1,473	49.3
Other Taxes	452	988	45.8	444	876	50.7
<b>Total Taxes</b>	<b>\$34,720</b>	<b>\$70,110</b>	<b>49.5 %</b>	<b>\$32,452</b>	<b>\$65,722</b>	<b>49.4 %</b>
Licenses & Permits	829	1,350	61.4	567	1,189	47.7
State Shared Revenue	740	1,326	55.8	673	1,377	48.9
State Entitlements	2,654	5,473	48.5	2,472	5,072	48.7
Other Intergovernmental	111	112	99.0	195	311	62.7
Charges for Services:						
Interfund	2,039	4,406	46.3	1,973	3,893	50.7
Environment	958	3,130	30.6	1,778	3,423	52.0
Culture & Recreation	476	995	47.9	516	1,041	49.6
Other	960	1,049	91.6	680	1,364	49.9
Fines & Forfeitures	1,200	2,782	43.1	1,267	2,529	50.1
Operating Transfers:						
From Public Safety	2,397	5,303	45.2	2,501	4,941	50.6
From Capital Improvement	-	-	-	-	-	-
Others	-	-	-	-	35	-
Interest/Misc.	671	1,051	63.9	578	1,018	56.8
<b>TOTAL REVENUES</b>	<b>\$47,758</b>	<b>\$97,086</b>	<b>49.2 %</b>	<b>45,653</b>	<b>\$91,913</b>	<b>49.7 %</b>

The City received approximately \$740,000 in state-shared revenues in 2015, 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, 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 \$2.7 million in 2015, which was an increase of 2% compared to 2014.

The majority of the increase in revenue experienced in 2015 from state entitlements was 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. As part of this new plan that raises the state gas tax by 11.9¢ over a two-year period as well as raising vehicle and weight fees, cities will receive new distributions totaling \$187.5 million over the 16-year period. The City received the first new monthly distribution in September.

A small portion of the overall increase in state entitlement revenues for 2015 was also attributable to the partial restoration of liquor excise tax revenue received by the City beginning in July. 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 received one "normal" liquor excise tax distribution in October of 2015, 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 \$1.2 million in 2015, which equates to a decrease of 5%. This decline was primarily attributable to a decrease in revenue from traffic infraction and criminal traffic penalties for the year. Trends in this revenue category are influenced by both staffing levels within 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 2015, total expenditures were approximately \$47.3 million, or 48.8% of the adjusted operating budget.

A review of expenditures at this junction 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 at the mid-point of the biennium, but this is actually attributable to the fact that the 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 only 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 conclusion of the biennium.

A comparison of actual expenditures in 2015 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 hiring 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 half 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 during the remainder of the 2015/2016 biennium.

- Agencies from Benton and Franklin Counties continue to work in partnership towards a bi-county dispatch program for public safety personnel. In early 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.

- 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.

- As of the writing of this report, the Washington State Legislature is currently in a special session to adopt a

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

Category	2015/2016			2013/2014		
	12/31/15	Budget	Spent	12/31/13	Actual	Spent
Salaries & Benefits	\$33,270	\$70,034	47.5 %	\$33,144	\$67,240	49.3 %
Supplies	1,280	2,713	47.2	1,165	2,567	45.4
Other Services & Charges	3,781	8,133	46.5	4,012	7,717	52.0
Intergov't Services & Taxes	5,394	9,924	54.4	5,764	11,317	50.9
Interfund Transfers	3,595	5,941	60.5	1,928	3,846	50.1
Capital Outlay	14	272	0.0	74	124	-
<b>TOTAL EXPENDITURES</b>	<b>\$47,334</b>	<b>\$97,016</b>	<b>48.8 %</b>	<b>\$46,085</b>	<b>\$92,810</b>	<b>49.7 %</b>
<b>Department</b>						
City Council	\$260	\$540	48.1 %	\$259	\$521	49.7 %
City Manager	351	720	48.8	323	657	49.2
Finance	1,661	3,408	48.7	1,770	3,605	
Management Services	2,770	6,315	43.9	2,896	5,602	51.7
City Attorney	691	1,470	47.0	652	1,330	49.0
Civil Service	43	47	90.1	17	34	48.6
Economic Development/Planning	1,265	2,766	45.7	1,094	2,104	52.0
Police	18,502	39,224	47.2	18,491	37,496	49.3
Fire	7,450	15,094	49.4	7,882	15,970	49.4
Engineering	1,738	3,604	48.2	1,592	3,345	47.6
Employee & Community Relations	1,745	4,126	42.3	1,835	3,744	49.0
Parks & Facilities	3,304	7,156	46.2	3,284	6,463	50.8
Non-Departmental	5,712	8,490	67.3	4,127	8,149	50.7
Street Maintenance	1,843	4,056	45.4	1,862	3,790	49.1
<b>TOTAL EXPENDITURES</b>	<b>\$47,334</b>	<b>\$97,016</b>	<b>48.8 %</b>	<b>\$46,085</b>	<b>\$92,810</b>	<b>49.7 %</b>

supplemental operating and capital budget for the State. Proposals under consideration from both the House and Senate contain items that would have a negative impact on cities, including further reductions to state-shared revenues, increases to state fees assessed to local governments, the complete elimination of the Public Works Trust Fund low-interest loan program utilized for local infrastructure projects that was

already on life support, and the potential merger of an underfunded teachers retirement system with an overfunded public safety pension that was paid for by local governments. Needless to say, local governments continue to monitor the status of the special legislative session with a great deal of trepidation about the final outcome.

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)**

<b>FUND</b>	<b>Beginning Balance</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Ending Balance</b>
<b>GENERAL GOV'T:</b>				
General Fund	\$2,424	\$45,915	\$45,494	\$2,844
Street	-	1,843	1,843	-
Subtotal	2,424	47,758	47,337	2,844
<b>CAPITAL FUNDS:</b>				
Arterial Street	9	0	-	9
Urban Arterial Street	1,031	5,044	5,273	803
Capital Improvement	7,425	18,877	9,182	17,121
Subtotal	8,465	23,922	14,454	17,932
<b>PROPRIETARY FUNDS:</b>				
Water & Sewer	8,193	18,822	18,284	8,731
Medical Services	395	5,930	5,620	705
Building Safety	1,061	1,558	1,197	1,421
Coliseum	(641)	3,886	3,982	(737)
Stormwater	718	1,417	1,500	635
Columbia Park Golf Course	(1)	271	302	(32)
Equipment Rental	3,739	2,801	2,054	4,485
Risk Management	497	1,242	1,332	406
Central Stores	218	231	225	223
Subtotal	14,179	36,156	34,497	15,838
<b>DESIGNATED FUNDS:</b>				
Cash Reserve Fund	2,716	-	-	2,716
Debt Service	5	9,494	9,494	5
BI-PIN Fund	-	320	320	-
Community Development	335	907	986	256
MPD Asst Operations Fund*	10	23	33	0
Asset Forfeiture Fund	110	25	43	92
Lodging Tax	124	1,603	1,492	235
Public Safety	-	2,397	2,397	-
Criminal Justice Sales Tax	-	1,896	1,270	626
LID Guaranty	35	-	-	35
Subtotal	3,334	16,665	16,035	3,964
<b>TOTAL</b>	<b>\$28,401</b>	<b>\$124,500</b>	<b>\$112,323</b>	<b>\$40,579</b>

## 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 2015. In total, the adjusted capital budget for the 2015/2016 biennium is approximately \$31.5 million. In

addition, \$12.8 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. In 2015, there was \$8 million in actual project expenditures within the City's capital funds and \$3.2 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 will begin in February 2016 and will be completed in October 2016.

**Steptoe Phase III/ West 4<sup>th</sup> 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 10<sup>th</sup> Ave. and complete subgrade to Sherman, was awarded on July 1, 2014 and is scheduled to be completed in February 2016. Plans for the portion of the project from West 10<sup>th</sup> Ave. to Sherman St. have been completed by HDR Engineering, Inc. Right-of-way acquisition for a remaining parcel is in progress. Phase 3 B is scheduled to be advertised for construction in the summer of 2016.

**Clearwater Ave. – Leslie to US395** – This project completed an access management analysis study and stakeholder involvement meetings. Construction of improvements at the intersection of Clearwater and Arthur began in January 2016 and will be 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.

## PROPRIETARY FUNDS

The **Water and Sewer Fund** budget for the 2015/2016 biennium is \$46.7 million, including \$3.3 million in budgeted ending working capital and \$10.7 million for capital expenditures.

At the conclusion of 2015, revenues from water and sewer rates were 49.3% of the adjusted budget for this revenue source, which is slightly ahead of projections for the biennium. 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 are 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 water by customers for irrigation purposes during the summer and early fall months.

Revenue collected for other fees and charges was 53.6% of the adjusted budget in 2015, which is slightly higher than what would be anticipated for this period of time and is attributable to revenue from meter set and sewer connection fees primarily associated with new development.

Interest and other miscellaneous revenues collected were 61.4% of the adjusted budget at the conclusion of 2015. 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 only \$1.1 million, which includes a \$331,000 state revolving fund loan for improvements at the City's wastewater treatment plant that

was carried forward from the 2013/2014 biennium and \$750,000 in anticipated developer contributions associated with development projects that will occur in the City during the biennium including projects occurring in the City's Southridge area. Through December, the utility had received approximately \$188,000 in proceeds from the state revolving fund loan.

After completing the first year of the 2015/2016 biennium, 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 02 Cycle testing completed in 2015. Phase 03 Cycle testing to proceed in 2016 at anticipated full operating capacity for the first time. Temporary Authorization Permit has been received from Department of Ecology.
- 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		
	12/31/15	Budget	%	12/31/13	Actual	%
<b>Revenues</b>						
Revenue from Rates	17,094	34,648	49.3 %	15,931	32,423	49.1 %
Other Fees & Charges	1,397	2,607	53.6	1,093	2,422	45.1
Intergovernmental	-	30	-	-	-	-
Interest & Miscellaneous	82	133	61.4	95	186	51.1
Other Financing Sources	250	1,108	22.6	1,748	6,051	28.9
<b>TOTAL</b>	<b>\$18,822</b>	<b>\$38,525</b>	<b>48.9 %</b>	<b>\$18,867</b>	<b>\$41,082</b>	<b>45.9 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$4,065	\$9,271	43.8 %	\$3,625	\$7,455	48.6 %
Supplies	331	622	53.2	257	525	49.0
Other Services & Charges	7,676	15,542	49.4	6,489	13,341	48.6
Transfers:						
General Fund	-	-	-		17	-
CIP Fund - Facilities/Capital	81	221	36.5	93	127	73.3
Fleet	23	554	-	-	-	-
Other	-	-	-	7	7	-
Debt Service	3,274	6,529	50.1	3,067	6,113	50.2
Capital Outlay	2,650	9,722	27.3	6,137	15,235	40.3
Sewer Area Charge	184	932	-	79	383	-
<b>TOTAL</b>	<b>\$18,284</b>	<b>\$43,393</b>	<b>42.1 %</b>	<b>\$19,754</b>	<b>\$43,203</b>	<b>45.7 %</b>

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 during the prior biennium, the number of billable ambulance transports has also increased again by approximately 3% in 2015. The net monthly revenue recognized from transports during the

year was approximately \$171,000, which is lower than the net monthly revenue of approximately \$180,000 projected in the 2015/2016 adopted budget. Staff will continue to monitor this area closely as we progress further into the biennium.

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. In 2015, the Medical Services Fund received just over \$2.5 million from this source, which is consistent with budget

projections.

After the first year of the biennium, expenses within the Medical Services Fund were 50.9% of the adjusted budget for the 2015/2016 biennium, which is slightly higher than what would be anticipated with only half of the biennium complete. There appears 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		
	12/31/15	Budget	%	12/31/13	Actual	%
<b>Revenues</b>						
Revenue from Transports	\$2,048	\$4,327	47.3 %	\$2,148	\$4,045	53.1 %
Household Ambulance	2,531	5,480	46.2	2,088	4,210	-
Intergovernmental Revenue	-	-	-	17	18	-
Interest & Miscellaneous	(1)	-	-	1	1	-
Transfer from General Fund	1,350	1,825	-	-	-	-
Other Financing Sources	1	-	-	12	12	-
<b>TOTAL</b>	<b>\$5,930</b>	<b>\$11,632</b>	<b>51.0 %</b>	<b>4,266</b>	<b>\$8,286</b>	<b>51.5 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$4,279	\$8,974	47.7 %	\$2,907	\$5,794	50.2 %
Supplies	172	293	58.9	159	322	49.4
Other Services & Charges	1,037	2,182	47.5	976	2,012	48.5
Operating Transfer/CIP Fund	47	80	-	87	-	-
Intergov't Services & Taxes	85	160	53.1	96	177	54.1
Capital Outlay	-	-	-	21	31	-
<b>TOTAL</b>	<b>\$5,620</b>	<b>\$11,688</b>	<b>48.1 %</b>	<b>\$4,246</b>	<b>\$8,336</b>	<b>50.9 %</b>

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 2014, building permit revenues increased by 45% when compared to 2013. This increase was attributable to a 3% increase in the number of building permits issued during the year, coupled with a 43% increase in

the valuation of permits issued. The increase in valuation was primarily attributable to a \$14 million permit issued for the construction of a new medical office building that will be located adjacent to the Trios Hospital in the City's Southridge area.

As outlined earlier in this report, the number of building permits issued during 2015 actually decreased by 2% when compared to 2014. However, the valuation of those permits has increased by 14%, primarily due to an overall increase in commercial and multi-family permit valuation. As a result of these factors, building permit revenue recognized during 2015 decreased by approximately 4.5%. However, it is important to remember

that building permit revenue recognized in 2014 was at the highest amount recorded in the last ten years.

Operating expenses for the Building Safety Fund were 45.1% of the adjusted budget for the 2015/2016 at the conclusion of 2015, with no material 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 6: Building Safety Fund (in \$1,000's)**

	2015/2016			2013/2014		
	12/31/15	Budget	%	12/31/13	Actual	%
<b>Revenues</b>						
Licenses & Permits	\$1,550	\$2,485	62.4 %	\$1,159	\$2,741	42.3 %
Interest & Miscellaneous	8	8	-	-	9	-
Transfer from General Fund	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$1,558</b>	<b>\$2,493</b>	<b>62.5 %</b>	<b>\$1,159</b>	<b>\$2,750</b>	<b>42.1 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$924	\$2,077	44.5 %	\$912	\$1,801	50.6 %
Supplies	16	26	62.0	6	25	24.0
Other Services & Charges	234	490	47.7	173	432	40.0
Operating Transfer/CIP Fund	23	64	-	59	17	347
<b>TOTAL</b>	<b>\$1,197</b>	<b>\$2,658</b>	<b>45.1 %</b>	<b>\$1,150</b>	<b>\$2,275</b>	<b>50.5 %</b>

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 operations expenses that largely offset this revenue shortfall.

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

	2015/2016			2013/2014		
	12/31/15	Budget	%	12/31/13	Actual	%
<b>Revenues</b>						
Operating Revenue	\$2,787	\$6,250	44.6 %	\$2,835	\$5,519	51.4 %
Debt Proceeds	-	400	0.0	339	369	-
Transfers In	1,099	1,798	61.1	1,297	2,320	55.9
<b>TOTAL</b>	<b>\$3,886</b>	<b>\$8,448</b>	<b>46.0 %</b>	<b>\$4,471</b>	<b>\$8,208</b>	<b>54.5 %</b>
<b>Expenditures</b>						
Cost of Operations	\$3,225	\$6,950	46.4 %	\$3,270	\$6,400	51.1 %
Interfund Loan Repayment	552	1,098	50.3	514	1,100	46.7
Capital Outlay	205	400	51.3	854	895	95.4
<b>TOTAL</b>	<b>\$3,982</b>	<b>\$8,448</b>	<b>47.1 %</b>	<b>\$4,638</b>	<b>\$8,395</b>	<b>55.2 %</b>

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 2015, revenue collected from the monthly stormwater charge was approximately \$1,163,000, or 49.9% of the biennial budget of \$2.33 million, which is slightly higher than anticipated at this juncture of the biennium.

Total expenditures for the Stormwater Utility Fund during the first

year of the 2015/2016 biennium were 31.5% of the adjusted budget overall, which is lower than what might be expected at the mid-point of 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 at the conclusion of the year. City staff will be monitoring the operational expenditure categories closely as we move into 2016 to assess whether any budget adjustments may need to be considered in these other areas.

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

	2015/2016			2013/2014		
	12/31/15	Budget	%	12/31/13	Actual	%
<b>Revenues</b>						
Revenue from Rates	\$1,163	\$2,333	49.9 %	\$1,110	\$2,245	49.4 %
Interest & Miscellaneous	3	4	-	2	6	-
Other Financing Sources	250	2,134	-	163	597	27.3
<b>TOTAL</b>	<b>\$1,417</b>	<b>4,471</b>	<b>31.7 %</b>	<b>1,275</b>	<b>2,848</b>	<b>44.8 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$595	\$1,166	51.1 %	\$506	\$1,012	50.0 %
Supplies	22	43	52.2	13	34	38.2
Other Services & Charges	576	982	58.6	471	1,000	47.1
Operating Transfer	33	75	-	74	75	98.7
Debt Service	59	354	16.7	-	7	-
Capital Outlay	214	2,136	-	62	397	15.6
<b>TOTAL</b>	<b>\$1,500</b>	<b>\$4,756</b>	<b>31.5 %</b>	<b>\$1,126</b>	<b>\$2,525</b>	<b>44.6 %</b>

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. As reported earlier in this report, 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 has a budgeted net operating loss of \$39,382. At the conclusion of the year, the course had a net operating loss of \$67,248, which

is 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.

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

	2015/2016			2013/2014		
	12/31/15	Budget	%	12/31/13	Actual	%
<b>Revenues</b>						
Charges for Services	\$193	\$506	38.1 %	\$180	\$362	49.7 %
Concessions & Miscellaneous	26	58	44.8	15	39	38.5
Transfers In	52	577	9.0	103	185	55.7
<b>TOTAL</b>	<b>\$271</b>	<b>\$1,141</b>	<b>23.8 %</b>	<b>\$298</b>	<b>\$586</b>	<b>50.9 %</b>
<b>Expenditures</b>						
General & Administrative	\$86	\$212	40.6 %	\$105	\$210	50.0 %
Maintenance	101	185	54.6	89	172	51.7
Operations	115	252	45.6	97	194	50.0
Capital Outlay	-	474	-	4	11	36.4
<b>TOTAL</b>	<b>\$302</b>	<b>\$1,123</b>	<b>26.9 %</b>	<b>\$295</b>	<b>\$587</b>	<b>50.3 %</b>

At a City Council workshop in the late summer, staff provided a progress update on the Columbia Park Golf Links golf course including an overview of the operating results for the first half of 2015 and several recommendations for the future of the course. Specifically, city staff recommended further expanding the use of the course to allow for disc

golf in addition to traditional golf and foot golf, which will hopefully 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 enhance opportunities to generate revenue at the facility including an

expansion of food and beverage services. 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 fourth quarter of 2015 include:

- Council approved the 2016 Annual Action Plan which includes funding for the following projects:
  - \$425,000 – W. 7<sup>th</sup> Pl. & S. Jean Pl. infrastructure completion
  - \$50,000 – HDKP façade improvements
  - \$34,000 – Youth Recreation Scholarships
  - \$18,500 – Meals on Wheels
- Work was completed on the W. 5<sup>th</sup> Ave/Quincy St. to Rainier St. revitalization pro-

ject. The project was completed on time and within budget.

- The 2015 Pedestrian Ramp project was completed in December.
- A NEPA environmental review was started for the W. 7<sup>th</sup> Pl. / S. Jean Pl. infrastructure project – hopefully the review will return a Finding of No Significant Impact so that a Request for Release of Funds can be approved by HUD.
- 33 First Time Homebuyer Downpayment Assistance loans were completed in 2015 totaling \$318,000.

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 adopted budget included a two-year projection of \$1,782,000 in hotel/motel tax revenue based on an assumption of 2% annual growth in this tax revenue source each year of the biennium. Through the first year of the biennium, receipts of lodging tax have been much higher than anticipated, increasing by 12% when compared to this same timeframe in 2014. The growth experienced in 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.

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 marketing tourism in the region and are remitted to the Tri-Cities Visitor & Convention Bureau (TCVCB) 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 had received and remitted \$593,641 to the TCVCB from the TPA charge, which was an increase of 14% compared to 2014. However, this comparison is 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.

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 adopted budget for the Public Safety Fund included an estimate of \$5,232,083 in utility tax revenue for the biennium. At the conclusion of 2015, the City had collected \$2,397,396, which was 2% less than the amount collected in 2014. As described in more detail earlier in this report, the overall decrease was attributable to a 2% decrease in electric utility tax and a 2% decrease in telephone utility tax, which were partially offset by a 2% increase in natural gas utility tax during the year.

Revenues collected in the criminal justice sales tax fund represent 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 support position in both 2015 and 2016. Additionally, Kennewick City Council authorized the addition of 1 new Assistant City Attorney in 2016 during the winter 2015 budget adjustment that will be funded from this revenue source. 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 5<sup>th</sup> Fire Station in 2016.

The City projected criminal justice sales tax revenue of \$3,785,000 for the biennium in the 2015/2015 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 received a total of 10 distributions in 2015. The amount received in 2015 was \$1,894,290, which is higher than what was originally anticipated based on the seasonality of sales tax revenue.

## FUTURE OUTLOOK

At the mid-point of the 2015/2016 biennium, the City is in a relatively healthy and stable financial position. A strong local economy and continued growth in the area resulted in positive gains in many of the City's major tax revenue sources and other growth-related revenues in 2015. Without question,

the revenue generated from growth is critical to the City's budget model and ability to fund its ongoing priority programs and services.

With many great opportunities to sustain the economic expansion that is currently occurring in the City, there is reason for excitement as the City

moves into the final year of the 2015/2016 biennial budget and begins planning for the upcoming 2017/2018 biennium. Although many challenges remain, there is certainly reason for great optimism about the future for the City of Kennewick.

## CASH MANAGEMENT

During December, the Federal Open Market Committee voted unanimously to raise the Fed Funds target rate range by 25 basis points from 0.00% to 0.25% to a range of 0.25% to 0.50%. It was the first rate hike in 9 years. At least the overnight interest rate is no longer zero, however, the environment may not be all that different in the new year compared to 2015.

The impact of this move on the net earnings rate for balances in the State Pool is illustrated in the *Local Government Investment Pool Net Earnings Rate* bar chart. City balances in the State Pool began the quarter at \$21.6 million and ended the year at \$14.8 million. For details on the reduction, see below. Of the yearend balance, \$6.7 million consists of bond proceeds designated for Fire Station 5 construction. Interest earned during the quarter on Pool balances was \$11,140.

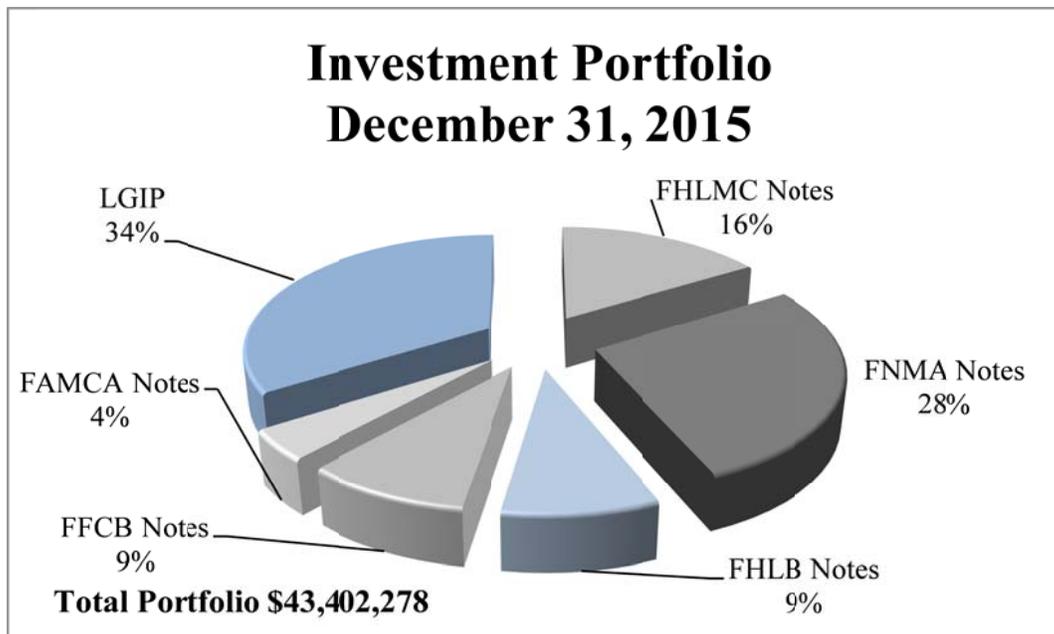
The Investment Committee met twice during the 4<sup>th</sup> quarter. Seven agency securities were purchased at a principal cost of \$13.8 million. The

activity was in response to a \$2 million security maturing in October and another being called during the same month. In addition, the purchases were made to invest State Pool balances in longer-term items with higher interest rates. The new mix of investments by issuer at December 31 is shown in the pie chart *Investment Portfolio*.

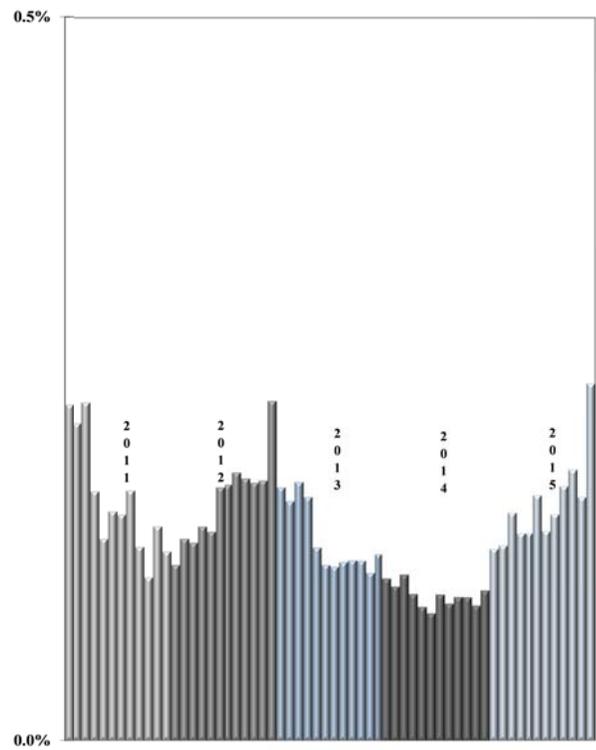
- The market value of agency investments at December 31 was \$28,469,805 or \$101,032 lower than the principal cost. The unrealized loss associated with this difference will not be recorded because the investments will be held until call or maturity date. The book value for the same items was \$28,652,114.

### Highlights for 2015:

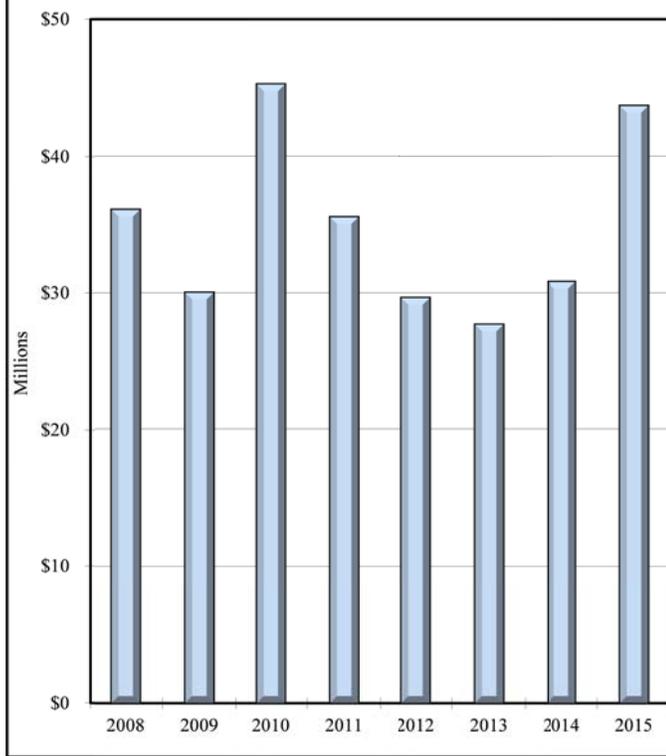
- The annualized rate of return for City balances invested at the State Pool was .16% compared to .10% the prior year.
- Interest earned during the year for Pool balances was \$29,146.
- The City's agency securities portfolio annualized rate of return was 1.0%. Interest of \$197,752 was earned during the year.



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



**City of Kennewick  
Portfolio History**



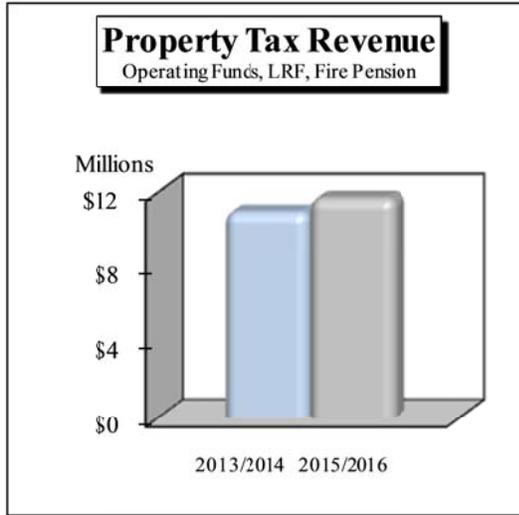
**Cash & Investment Summary**  
As of 12/31/2015

<b>Maturity Date</b>	<b>CUSIP/Ticker</b>	<b>Description</b>	<b>Broker/Dealer</b>	<b>YTM @ Cost</b>	<b>Trade Date</b>	<b>Cost Value</b>
3/6/2020	31315PQT9	FAMC 1.41 3/6/2020	Vining Sparks	1.449	10/21/2015	1,819,011.92
10/28/2019	3133EFKY2	FFCB 1.36 10/28/2019-16	Time Value Investments	1.391	10/21/2015	1,997,600.00
9/9/2019	3133EFCP0	FFCB 1.45 9/9/2019	Wells Fargo Securities	1.49	9/9/2015	1,996,900.00
1/8/2018	3130A4WB4	FHLB 0.875 1/8/2018	Wells Fargo Securities	0.875	4/2/2015	1,000,000.00
6/29/2018	3130A6UM7	FHLB 1.18 6/29/2018-16	Vining Sparks	1.18	12/2/2015	2,000,000.00
6/20/2018	313383EP2	FHLB 1.25 6/20/2018-13	Time Value Investments	1.25	5/23/2013	743,944.02
6/28/2019	3134G8CJ6	FHLMC 1.625 6/28/2019-16	Multi-Bank Securities Inc	1.625	12/2/2015	2,000,000.00
9/25/2020	3134G3K90	FHLMC 1.7 9/25/2020	Wells Fargo Securities	1.75	9/9/2015	997,590.00
12/30/2019	3134G86X2	FHLMC 1.75 12/30/2019-16	Multi-Bank Securities Inc	1.75	12/2/2015	2,000,000.00
11/25/2020	3134G73P4	FHLMC 1.8 11/25/2020-16	Multi-Bank Securities Inc	1.8	10/21/2015	2,000,000.00
6/1/2017	31359MEL3	FNMA 0 6/1/2017	Time Value Investments	0.83	10/11/2012	1,999,715.51
6/1/2017	31359MEL3	FNMA 0 6/1/2017	Wells Fargo Securities	0.869	5/22/2014	2,001,775.50
7/28/2017	3135G0ZF3	FNMA 1.07 7/28/2017-16	Vining Sparks	0.865	4/2/2015	2,009,360.00
5/25/2018	3135G0XM0	FNMA 1.125 5/25/2018-13	Wells Fargo Securities	1.148	5/23/2013	1,997,800.00
3/29/2019	3136G2LP0	FNMA 1.4 3/29/2019-16	Multi-Bank Securities Inc	1.4	9/9/2015	2,000,000.00
12/28/2020	3135G0H55	FNMA 1.875 12/28/2020	Wells Fargo Securities	1.801	12/2/2015	2,007,140.00
N/A	LGIP	State of Washington LGIP		0.247		<u>14,831,440.93</u>
		Total Investments				43,402,277.88
N/A	CASH	US Bank Operating Account				291,709.29
<b>Total / Average</b>				<b>0.965</b>		<b>43,693,987.17</b>

# MAJOR REVENUE SOURCES

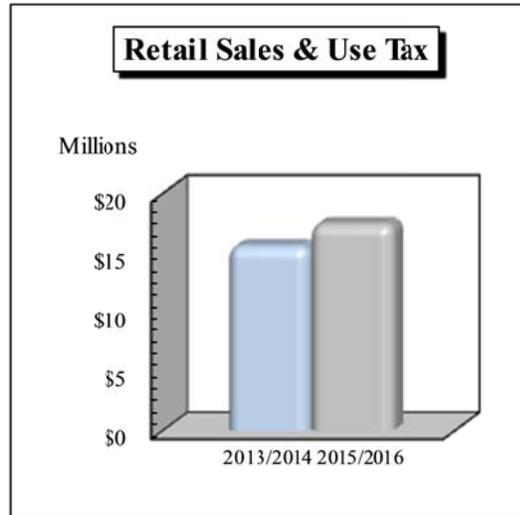
## *Property Tax Revenue*

		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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$10,956,831</b>	<b>\$11,688,280</b>
15/16 Biennial Budget			\$23,895,699
Actual vs Budget			49%



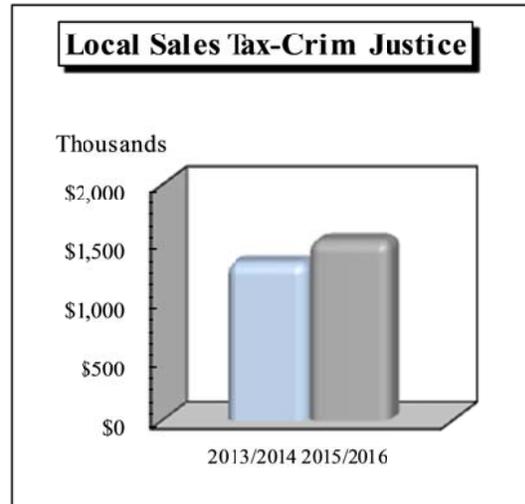
## *Retail Sales & Use Tax*

		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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$15,575,808</b>	<b>\$17,444,379</b>
15/16 Biennial Budget			\$32,768,600
Actual vs Budget			53%



## *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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$1,335,715</b>	<b>\$1,521,085</b>
15/16 Biennial Budget			\$2,877,100
Actual vs Budget			53%

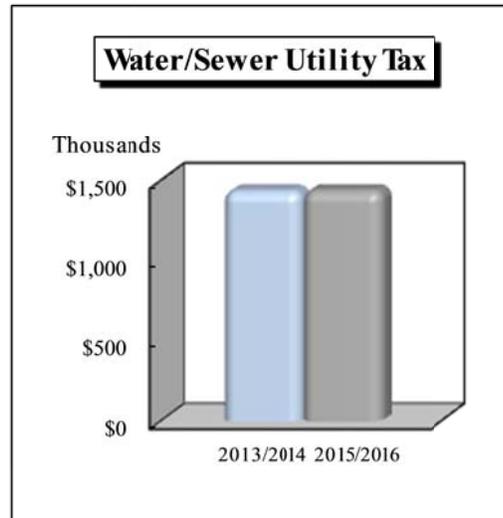




**Water/Sewer Utility Tax**

		2013/2014	2015/2016
Year 1	Jan-Mar	\$306,155	\$215,506
	Apr-Jun	362,587	390,292
	Jul-Sep	410,356	448,352
	Oct-Dec	354,299	381,136
Year 2	Jan-Mar		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>	<b>\$1,433,397</b>	<b>\$1,435,286</b>	

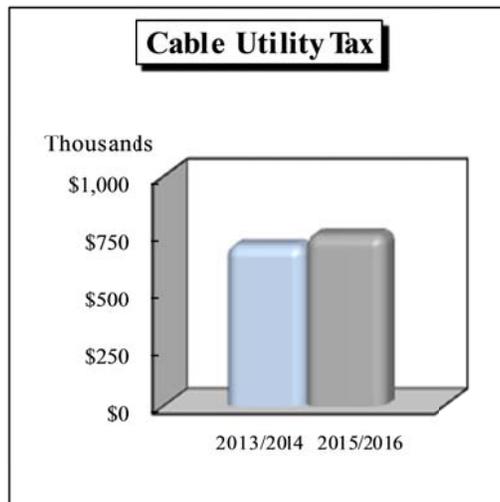
15/16 Biennial Budget \$2,941,932  
 Actual vs Budget 49%



**Cable TV Utility Tax**

		2013/2014	2015/2016
Year 1	Jan-Mar	\$172,351	\$184,390
	Apr-Jun	177,600	188,037
	Jul-Sep	175,160	184,685
	Oct-Dec	175,480	188,356
Year 2	Jan-Mar		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>	<b>\$700,591</b>	<b>\$745,468</b>	

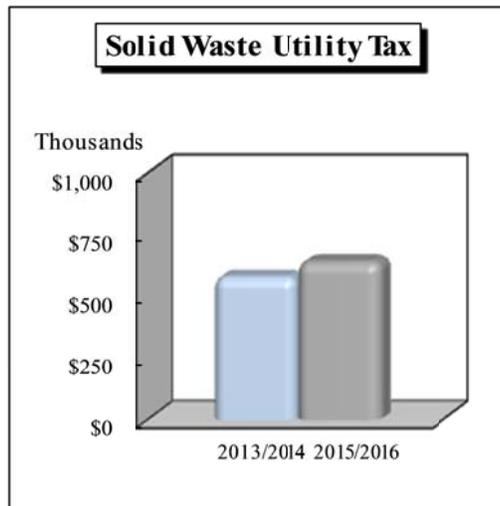
15/16 Biennial Budget \$1,526,000  
 Actual vs Budget 49%



**Solid Waste Utility Tax**

		2013/2014	2015/2016
Year 1	Jan-Mar	\$140,716	\$153,271
	Apr-Jun	146,420	159,795
	Jul-Sep	144,433	163,328
	Oct-Dec	145,816	162,442
Year 2	Jan-Mar		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>	<b>\$577,385</b>	<b>\$638,835</b>	

15/16 Biennial Budget \$1,263,000  
 Actual vs Budget 51%

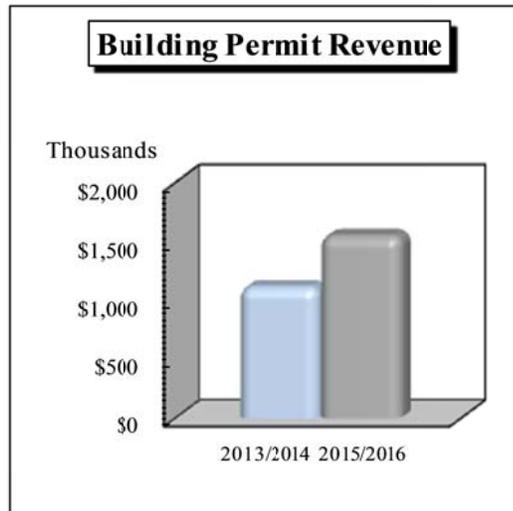




***Building Permit Revenue***

		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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$1,117,704</b>	<b>\$1,549,558</b>

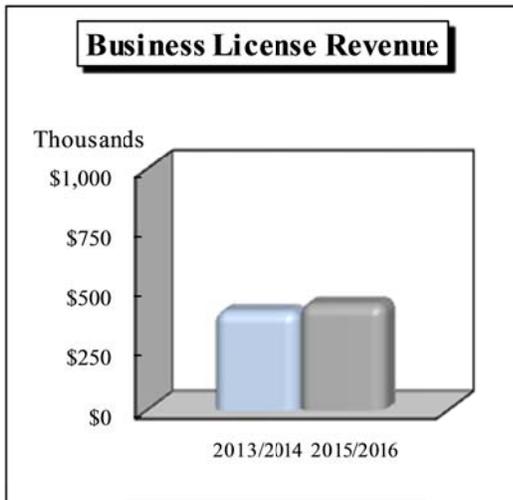
15/16 Biennial Budget \$2,485,000  
 Actual vs Budget 62%



***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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$408,491</b>	<b>\$439,149</b>

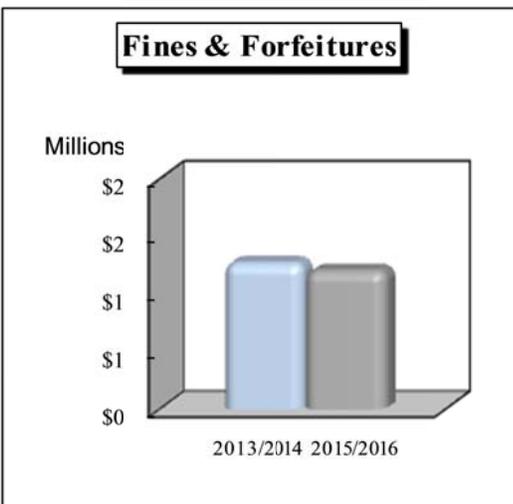
15/16 Biennial Budget \$859,000  
 Actual vs Budget 51%



***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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$1,267,127</b>	<b>\$1,200,188</b>

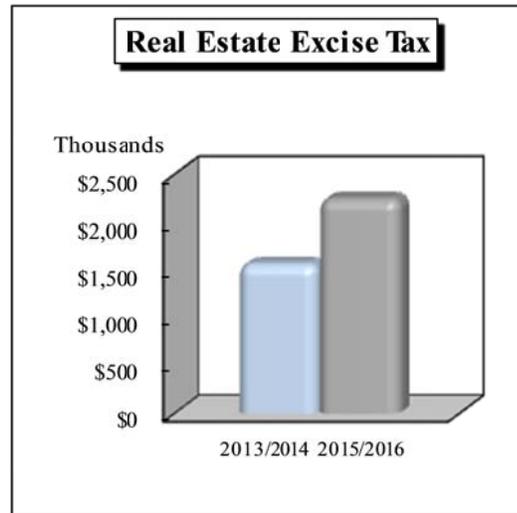
15/16 Biennial Budget \$2,780,600  
 Actual vs Budget 43%



**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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$1,566,341</b>	<b>\$2,241,627</b>

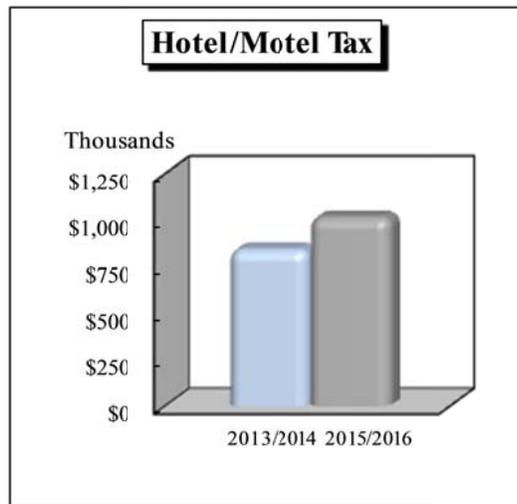
15/16 Biennial Budget \$3,892,000  
 Actual vs Budget 58%



**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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$839,201</b>	<b>\$1,011,931</b>

15/16 Biennial Budget \$2,025,500  
 Actual vs Budget 50%



**Tourism Promotion Area**

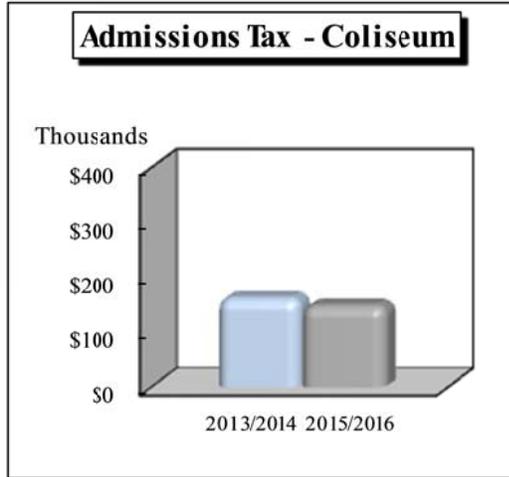
		2013/2014	2015/2016
Year 1	Jan-Mar	\$73,260	\$110,183
	Apr-Jun	92,482	139,897
	Jul-Sep	111,978	184,568
	Oct-Dec	104,710	158,993
Year 2	Jan-Mar		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$382,430</b>	<b>\$593,641</b>

15/16 Biennial Budget \$1,197,000  
 Actual vs Budget 50%



***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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$161,213</b>	<b>\$147,370</b>
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		
	Apr-Jun		
	Jul-Sep		
	Oct-Dec		
<b>Total</b>		<b>\$242,059</b>	<b>\$235,457</b>
15/16 Biennial Budget			\$509,000
Actual vs Budget			46%



“The future starts today, not tomorrow.”

*Pope John Paul II*