



City of Kennewick

2016

2nd Quarter

Financial Report

Issue Date: December 5, 2016

OVERVIEW

As we move into the final six months of the City's 2015/2016 biennium, there is much greater certainty regarding what the City's financial condition will be at the conclusion of the biennium. As has been the case for the last several years, the growth occurring in Kennewick and the Tri-Cities region remains the single biggest factor in the financial health of the City. 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. It would be misleading to imply that the City does not have

potential financial challenges that must be closely monitored and planned for, which is the case for any local government or private enterprise. 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.

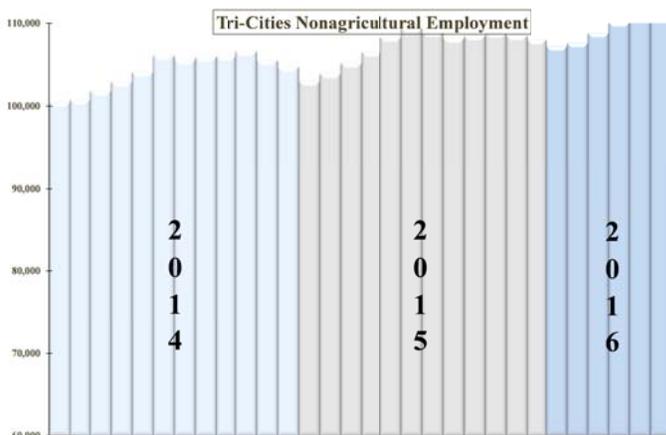
Employment remains the most important indicator of the overall health of the economy in Kennewick and the Tri-Cities region. The preliminary unemployment rate in

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the Kennewick-Pasco-Richland metropolitan statistical area was estimated at 6.3% in June, which is 0.5% higher than a year ago at this same time and the current statewide unemployment rate of 5.8%. However, it is important to note that the June 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 111,300 in June, which is roughly 2,200 jobs higher than reported a year ago and is the high water mark for employment at this



New Construction Activity		
	Comparative Totals	
	2016	2015
Single Family Permits	196	169
Commercial Permits	41	26
Other Permits	923	818
Total Permits	1,160	1,013
Permit Valuation	\$115,887,574	\$140,765,967
Building Permit Fees	\$968,948	\$958,626
Planning Fees	\$58,685	\$74,340

point in the year in the region over 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 6 months of 2016, the Building Safety division issued 1,160 permits with a valuation of approximately \$115.9 million. This represents a 15% increase in the number of permits issued to date relative to the same time period in 2015, but an 18% decrease in the overall valuation of

the permits issued. These trends are primarily attributable to growth in single family dwelling permits, but a significant decrease in the valuation of multi-family and commercial permits. Some of the other significant projects underway during the second quarter of 2016 included construction of the Blue Cougar Properties, Bush Car Wash, FMC Columbia Basin medical office, Excalibur Auto, Almond Orthodontics, Church of the Nazarene building, AAGAARD Fitness, Roasters, Brinkley Building, and Kennewick School District: Westgate Elementary School and multiple portables added at multiple schools. Several remodels are underway as well including Starbucks, Comfort Inn Hotel, Tru-Door, The Crazy Crab Pot, Washington Vision Therapy Center, Joy Massage & Spa, Wendy's, Ice Harbor, Columbia River Electric and Sylvan Learning Center, to name just a few.

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Some of the other significant projects underway during the

Other key indicators also demonstrate that moderate growth is still occurring in the area. The Washington State Office of Financial Management (OFM) estimated the City's population to be 79,120 as of April 1, 2016. This estimate was an increase of 1% over the prior year.

According to the Office of the Superintendent of Public Instruction, full-time enrollment within the Kennewick School District was 17,858 as of May, 2016, which was an increase of 2.7% when compared to May of 2015. 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 424 over the past twelve months to 23,446 total accounts, which represented an increase of 2%.

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

SIGNIFICANT EVENTS

On April 5th Council approved the third budget adjustment of the 2015/2016 biennium. The budget adjustment ordinance provides an opportunity to formally appropriate items previously approved by Council and to bring matters of special interest to Council's attention. Significant items approved by Council included:

- To appropriate for incident management team (IMT) personnel costs from 2015 and reimbursements received from state and federal agencies.

- To appropriate for the East Columbia Park bike/pedestrian improvements project funded 90% by a WSDOT grant.
- To appropriate for the purchase of right of way allowing for the completion of Bob Olson Parkway (formerly Hildebrand).
- To appropriate for the W 7th extension project funded with HUD funding, a contribution from Benton County and land sale proceeds.
- To appropriate for Elliot Lake project water system improve-

- ments funded with a DWSRF loan.
- To appropriate for Waste Water Treatment Plant upgrades funded with a state revolving loan.
- To appropriate for repairs on the Zintel Canyon stormwater pipe.
- To appropriate for 2016 HUD and CDBG grant allocations and program income.

On April 19th Council authorized the Mayor to sign a consulting agreement with FCS Group for

consulting services needed to complete a water and wastewater utility rate study.

On May 3rd Council authorized the Mayor to sign a letter to Governor Inslee in support of a revision to the State’s federal transportation funding distribution formula. Governor Inslee is convening a stakeholder advisory group to address fair and equitable distribution of federal transportation funds.

Congress recently passed the Fixing America’s Surface Transportation (FAST) Act providing new infrastructure investment. The existing formula for allocating federal transportation funds distributes 66% to the state and 34% to local government. The formula needs updated to provide more funding to local agencies.

On June 7th Council authorized the Mayor to sign a DWSRF Loan for the Elliot Lake Water System consolidation. The loan is for \$1,097,342 with a 24 year term, 1% interest rate and 50% forgivable principal. This project will install new potable water distribution piping within the existing public right-of-way and will reconstruct service to the 48 existing residences.

GENERAL GOVERNMENT

Table 1 provides a comparison of major revenue sources for the 2015/2016 biennium compared to the previous 2013/2014 biennium. At the conclusion of June of 2016, general governmental revenue collections totaled \$73.2 million, which represented 75.1% of the adjusted budget.

General governmental receipts from sales taxes totaled approximately \$17.9 million through June of 2016. On a city-wide basis, sales tax receipts have increased 8.1% over the first half 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 factors in these trends.

Receipts from the 1/10% criminal justice sales tax that was implemented in Benton County in 1995 totaled approximately \$2.3 million for the biennium through June of 2016. After experiencing a

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

Revenue Source	2015/2016			2013/2014		
	6/30/16	Budget	Received	6/30/14	Actual	Received
Property Tax	\$18,242	\$23,220	78.6 %	\$17,176	\$22,174	77.5 %
Sales Tax	17,878	22,773	78.5	15,537	21,069	73.7
Criminal Justice Sales Tax	2,273	2,877	79.0	1,977	2,694	73.4
Electric Utility Tax	5,134	7,464	68.8	5,123	6,703	76.4
Telephone Utility Tax	2,765	4,129	67.0	3,105	4,046	76.7
Water/Sewer Utility Tax	2,245	3,118	72.0	2,122	2,918	72.7
Cable TV Utility Tax	1,119	1,526	73.4	1,066	1,429	74.6
Garbage Utility Tax	977	1,263	77.3	872	1,174	74.3
Natural Gas Utility Tax	795	1,135	70.1	1,167	1,088	107.3
Ambulance Utility Tax	71	91	77.9	58	78	74.0
Gambling Tax	1,122	1,527	73.5	1,082	1,473	73.4
Other Taxes	558	988	56.5	632	876	72.2
Total Taxes	\$53,181	\$70,110	75.9 %	\$49,917	\$65,722	76.0 %
Licenses & Permits	1,392	1,414	98.4	1,065	1,189	89.6
State Shared Revenue	1,440	1,326	108.6	1,377	1,377	100.0
State Entitlements	4,146	5,473	75.8	3,785	5,072	74.6
Other Intergovernmental	174	112	155.0	220	311	70.7
Charges for Services:						
Interfund	3,117	4,406	70.7	2,949	3,893	75.8
Environment	1,479	3,130	47.3	2,763	3,423	80.7
Culture & Recreation	724	995	72.8	823	1,041	79.1
Other	1,241	1,406	88.3	995	1,364	73.0
Fines & Forfeitures	1,707	2,782	61.3	1,943	2,529	76.8
Operating Transfers:						
From Public Safety	3,636	5,303	68.6	3,920	4,941	79.3
From Capital Improvement	-	-	-	-	-	-
Others	-	-	-	-	35	-
Interest/Misc.	970	1,051	92.2	828	1,018	81.4
TOTAL REVENUES	\$73,206	\$97,508	75.1 %	70,585	\$91,913	76.8 %

12% increase in 2015, the amount the City has received from this revenue source has increased by another 7% during the first 6 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 \$13.1 million during the first 18 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 juncture of 2016, utility tax revenues have decreased by 2.5% when compared to the same timeframe in 2015. The City has experienced declines in utility tax revenue received from water and sewer services, natural gas and telephone services, which were partially offset by increases in utility tax revenue received from garbage services, cable and electric.

Utility tax generated from rate revenue associated with the City's water and sewer services has decreased by 0.2% through June, which is attributable to a moderate decrease in billable water consumption for the year.

Utility tax generated from sales of natural gas has decreased by 13.3% thus far in 2016, which was attributable to a rate reduction implemented by the primary natural gas provider in Kennewick in late 2015 and unusually mild weather conditions during the first three months of the year, which reduced natural gas consumption.

Utility tax revenue derived from telephone services has decreased by

18.2% during the first six months of 2016. In large part, this decline can be attributed to a one-time tax payment received from a telephone provider in June of 2015 for back taxes, penalties, and interest owed after an audit of the provider was completed. If this one-time payment is backed out of 2015 revenue results, the actual decrease experienced thus far in 2016 would be a reduction of approximately 2%. However, it is also important to note that this tax revenue source has declined in each of the past 5 years due to a reduction in 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 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 7.9% 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.

Utility tax generated from cable television services has increased by a very modest 0.4% so far in 2016, primarily as a result of rate increases implemented by the local cable provider.

Finally, utility tax revenue received from the sale of electricity, which is the largest individual source of utility tax for the City, has increased by 5.8% through June of 2016, primarily due to a 3.9% rate increase implemented by Benton PUD in September of 2015.

Revenue for the 2015/2016 biennium from licenses & permits

totaled approximately \$1.4 million through June of 2016. The predominant sources of revenue within this category are business license fees and construction engineering permits. Revenue from both of these sources is well above initial projections for the biennium at this stage.

The City has received approximately \$1.4 million in state-shared revenues through June 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 has now received both annual payments from these agencies for the biennium. In total \$842,427 has been received from the Benton PUD and \$597,404 was received from Energy Northwest.

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 \$4.1 million through the first 18 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 a 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 license and weight fees, cities will receive new distributions totaling \$187.5 million over a 16-year period. The City received the 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 now received three "normal" liquor excise tax distributions in October of 2015 and January and April 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 \$1.7 million through June of 2016, which is only 61.3% 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 staffing levels within the Traffic Division of the Police Department as well as the timing of collection and distribution of traffic fines through Benton

Country 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 June of 2016, total expenditures were approximately \$70 million, or 71.8% 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 18 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

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

Category	2015/2016			2013/2014		
	6/30/16	Budget	Spent	6/30/14	Actual	Spent
Salaries & Benefits	\$49,791	\$70,443	70.7 %	\$49,796	\$67,240	74.1 %
Supplies	2,096	2,801	74.8	1,869	2,567	72.8
Other Services & Charges	5,876	8,060	72.9	5,908	7,717	76.6
Intergov't Services & Taxes	7,831	9,920	78.9	8,413	11,317	74.3
Interfund Transfers	4,377	5,941	73.7	2,513	3,846	65.3
Capital Outlay	18	272	0.0	75	124	-
TOTAL EXPENDITURES	\$69,989	\$97,437	71.8 %	\$68,574	\$92,810	73.9 %
Department						
City Council	\$399	\$540	73.9 %	\$388	\$521	74.4 %
City Manager	529	720	73.5	487	657	74.1
Finance	2,488	3,408	73.0	2,679	3,605	
Management Services	4,456	6,301	70.7	4,345	5,602	77.6
City Attorney	1,036	1,470	70.5	976	1,330	73.4
Civil Service	46	47	97.9	21	34	61.3
Economic Development/Planning	1,948	2,762	70.5	1,565	2,104	74.4
Police	27,230	39,144	69.6	27,556	37,496	73.5
Fire	11,129	15,547	71.6	11,735	15,970	73.5
Engineering	2,608	3,675	71.0	2,438	3,345	72.9
Employee & Community Relations	2,641	4,129	64.0	2,767	3,744	73.9
Parks & Facilities	5,044	7,121	70.8	4,939	6,463	76.4
Non-Departmental	7,536	8,490	88.8	5,870	8,149	72.0
Street Maintenance	2,899	4,083	71.0	2,807	3,790	74.1
TOTAL EXPENDITURES	\$69,989	\$97,436	71.8 %	\$68,573	\$92,810	73.9 %

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.

A comparison of actual expenditures through June 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 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 eighteen 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 continue planning for the 2017/2018 biennium.

- The Washington State Legislature concluded the 2016

legislative session on March 29th near the end of 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 proposals 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 measurable 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 are the single largest

contracted service expenditure for the City within the General Fund, 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. Additionally, the current contract between Benton County and the cities within the County that utilize the jail is also set to expire at the conclusion of 2016. To date, the agencies involved have not yet began negotiations on a new contract.

- The City's labor contracts with all five of its collective bargaining units are set to expire at the conclusion of 2016. The

employees represented by these five bargaining units represent approximately two-thirds of the City's regular full and part-time employees and also make up a similar portion of the City's personnel costs. The City is actively negotiating with all five union groups currently and

hopes to reach agreements with each by the conclusion of 2016.

As we conclude the final 6 months of 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	\$70,379	\$67,090	\$5,712
Street	-	2,827	2,827	-
Subtotal	2,424	73,206	69,918	5,712
CAPITAL FUNDS:				
Arterial Street	9	0	-	9
Urban Arterial Street	1,031	7,197	7,462	766
Capital Improvement	7,425	23,760	15,655	15,530
Subtotal	8,465	30,958	23,117	16,306
PROPRIETARY FUNDS:				
Water & Sewer	8,193	27,499	27,036	8,656
Medical Services	395	8,617	8,364	648
Building Safety	1,061	2,534	1,896	1,699
Coliseum	(641)	5,732	5,603	(512)
Stormwater	718	2,036	2,591	162
Columbia Park Golf Course	(1)	407	439	(33)
Equipment Rental	3,739	4,166	3,506	4,399
Risk Management	497	2,336	2,436	397
Central Stores	218	351	393	176
Subtotal	14,179	53,677	52,264	15,592
DESIGNATED FUNDS:				
Cash Reserve Fund	2,716	-	-	2,716
Debt Service	5	10,294	10,101	198
BI-PIN Fund	-	555	546	9
Community Development	335	1,031	1,197	169
Asset Forfeiture Fund	110	34	49	95
Lodging Tax	124	2,301	2,152	273
Public Safety	-	3,636	3,636	-
Criminal Justice Sales Tax	-	3,019	2,051	968
LID Guaranty	35	-	-	35
Subtotal	3,324	20,871	19,733	4,462
TOTAL	\$28,392	\$178,712	\$165,032	\$42,071

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 included 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 three times 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 June of 2016 were only \$13.3 million within the City's capital funds and \$4 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 of 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 West 10th Ave. to Sherman Street will construct a five lane roadway. The remaining phase of the project is scheduled to be advertised in June of 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 acquisition for the Clearwater and Union improvements are 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 June of 2016, revenues from water and sewer rates were 72.1% 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 the mid-point of 2016, revenue from both water and sewer sales has remained essentially unchanged from the amount collected during the first half of 2015, which is directly attributable to a similar trend in water consumption thus far in 2016.

Revenue collected for other fees and charges was at 78.9% of the adjusted budget through June, which is 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 had already exceeded the adjusted budget at the conclusion of June. 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 \$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), once the project is completed the City will receive approximately \$480,000 from the KID towards the project. Through June, the utility had received approximately \$262,000 in proceeds from the state revolving fund loan and \$47,000 in contributions from other agencies towards joint projects.

As of June 30, 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, after completing injection in May, we began withdrawing in mid-June and will draw down to 95% of the 150 million injected. The purpose is to more accurately reflect actual operating parameters for future permitting considerations.
- Hildebrand Blvd. – under construction. Now Bob Olsen Parkway, still under construction with the next phase beginning in August.
- Columbia Gardens Winery Waste Treatment Facility – in ground pretreatment system for PH selected, consultant is essentially done with the design, awaiting building construction by the Port of Kennewick to proceed to bidding.

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

	2015/2016			2013/2014		
	6/30/16	Budget	%	6/30/14	Actual	%
Revenues						
Revenue from Rates	24,975	34,648	72.1 %	23,606	32,423	72.8 %
Other Fees & Charges	2,056	2,607	78.9	1,767	2,422	73.0
Intergovernmental	21	30	-	-	-	-
Interest & Miscellaneous	138	133	103.4	117	186	62.9
Other Financing Sources	309	8,448	3.7	2,050	6,051	33.9
TOTAL	\$27,499	\$45,865	60.0 %	\$27,540	\$41,082	67.0 %
Expenditures						
Salaries & Benefits	\$6,193	\$9,271	66.8 %	\$5,505	\$7,455	73.8 %
Supplies	462	622	74.3	347	525	66.1
Other Services & Charges	11,108	15,563	71.4	9,762	13,341	73.2
Transfers:						
General Fund	-	-	-	-	17	-
CIP Fund - Facilities/Capital	221	221	100.0	133	127	104.9
Fleet	23	554	-	-	-	-
Other	-	-	-	-	7	-
Debt Service	5,477	6,529	83.9	5,034	6,113	82.3
Capital Outlay	3,245	10,965	29.6	11,185	15,235	73.4
Sewer Area Charge	306	7,164	-	235	383	-
TOTAL	\$27,036	\$50,889	53.1 %	\$32,201	\$43,203	74.5 %

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

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

	2015/2016			2013/2014		
	6/30/16	Budget	%	6/30/14	Actual	%
Revenues						
Revenue from Transports	\$3,124	\$4,327	72.2 %	\$3,034	\$4,045	75.0 %
Household Ambulance	4,013	5,480	73.2	3,144	4,210	-
Intergovernmental Revenue	-	-	-	18	18	-
Interest & Miscellaneous	(1)	-	-	1	1	-
Transfer from General Fund	1,479	1,825	-	-	-	-
Other Financing Sources	3	-	-	12	12	-
TOTAL	\$8,617	\$11,632	74.1 %	6,209	\$8,286	74.9 %
Expenditures						
Salaries & Benefits	\$6,361	\$8,974	70.9 %	\$4,292	\$5,794	74.1 %
Supplies	246	293	84.2	221	322	68.7
Other Services & Charges	1,546	2,182	70.9	1,465	2,012	72.8
Operating Transfer/CIP Fund	80	80	-	87	-	-
Intergov't Services & Taxes	131	160	82.1	137	177	77.2
Capital Outlay	-	-	-	21	31	-
TOTAL	\$8,364	\$11,688	71.6 %	\$6,223	\$8,336	74.7 %

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% in 2015 and by another 3% thus far in 2016. The net monthly revenue recognized from transports during the biennium through June was approximately \$174,000, 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 significantly higher. 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 brought the City's monthly charge to an amount that is more consistent with the neighboring cities of Richland and Pasco and significantly reduced 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 June of 2016, the Medical Services Fund has received just over \$4 million from this source, which is consistent with budget projections.

At the conclusion of June, expenses within the Medical Services Fund were 71.6% of the adjusted budget for the 2015/2016 biennium, which is in line with budget projections overall. 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 6: Building Safety Fund (in \$1,000's)

	2015/2016			2013/2014		
	6/30/16	Budget	%	6/30/14	Actual	%
Revenues						
Licenses & Permits	\$2,519	\$2,485	101.3 %	\$1,901	\$2,741	69.4 %
Interest & Miscellaneous	16	8	-	6	9	66.7
TOTAL	\$2,534	\$2,493	101.7 %	\$1,907	\$2,750	69.3 %
Expenditures						
Salaries & Benefits	\$1,443	\$2,077	69.5 %	\$1,342	\$1,801	74.5 %
Supplies	25	26	94.8	19	25	76.0
Other Services & Charges	364	519	70.2	307	432	71.1
Operating Transfer/CIP Fund	64	64	-	17	17	100
TOTAL	\$1,896	\$2,686	70.6 %	\$1,685	\$2,275	74.1 %

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.

At the half-way point of 2016, building permit revenue has increased by approximately 1%. As explained earlier in this report, the number of permits issued to date in 2016 has increased by 15%, while the overall valuation of permits has decreased by 18%, primarily as a result of a decline

in valuation from multi-family and commercial permits.

Operating expenses for the Building Safety Fund were 70.6% of the adjusted budget for the 2015/2016 at the conclusion of June, 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		
	6/30/16	Budget	%	6/30/14	Actual	%
Revenues						
Operating Revenue	\$4,278	\$6,250	68.4 %	\$4,222	\$5,519	76.5 %
Debt Proceeds	-	-	-	339	369	91.9
Transfers In	1,454	2,378	61.2	1,595	2,320	68.8
TOTAL	\$5,732	\$8,628	66.4 %	\$6,156	\$8,208	75.0 %
Expenditures						
Cost of Operations	\$4,816	\$6,950	69.3 %	\$4,886	\$6,400	76.3 %
Interfund Loan Repayment	563	1,098	51.3	514	1,100	46.7
Capital Outlay	224	400	56.0	880	895	98.3
TOTAL	\$5,603	\$8,448	66.3 %	\$6,280	\$8,395	74.8 %

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 provides 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 annual-

ly) 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.

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 operating contribution budgeted for the 2015/2016 biennium. Through June of 2016, the net operating loss for the facilities was \$109,650, which is \$63,033 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 recognize that events at the Toyota Center & Arena generate admissions tax that is receipted 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,

including additional sales tax for the City as well.

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

	2015/2016			2013/2014		
	6/30/16	Budget	%	6/30/14	Actual	%
Revenues						
Revenue from Rates	\$1,757	\$2,333	75.3 %	\$1,677	\$2,245	74.7 %
Interest & Miscellaneous	5	4	-	4	6	-
Other Financing Sources	273	2,134	-	407	597	68.2
TOTAL	\$2,036	4,471	45.5 %	2,088	2,848	73.3 %
Expenditures						
Salaries & Benefits	\$913	\$1,044	87.4 %	\$780	\$1,012	77.1 %
Supplies	29	53	54.6	25	34	73.5
Other Services & Charges	1,225	1,343	91.2	734	1,000	73.4
Operating Transfer	50	76	-	74	75	98.7
Debt Service	152	344	44.2	-	7	-
Capital Outlay	224	2,962	-	350	397	88.2
TOTAL	\$2,591	\$5,821	44.5 %	\$1,963	\$2,525	77.7 %

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 June of 2016, revenue collected from the monthly stormwater charge was approximately \$1,757,000, or 75.3% 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 through June of 2016 were 44.5% 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 at this juncture of the biennium, which skews the comparison of actual expenditures to the adjusted budget through June.

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

	2015/2016			2013/2014		
	6/30/16	Budget	%	6/30/14	Actual	%
Revenues						
Charges for Services	\$292	\$506	57.7 %	\$281	\$362	77.6 %
Concessions & Miscellaneous	35	58	60.3	24	39	61.5
Transfers In	80	577	13.9	145	185	78.4
TOTAL	\$407	\$1,141	35.7 %	\$450	\$586	76.8 %
Expenditures						
General & Administrative	\$126	\$212	59.4 %	\$158	\$210	75.2 %
Maintenance	146	185	78.9	128	172	74.4
Operations	167	252	66.3	149	194	76.8
Capital Outlay	-	474	-	11	11	100.0
TOTAL	\$439	\$1,123	39.1 %	\$446	\$587	76.0 %

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 originally entered into an agreement with CourseCo, Inc. in 2010 to manage and operate the golf course on behalf of the City. This agreement was renewed through 2020 at the conclusion of 2015. 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, while the actual number of paid rounds in 2015 was only 14,575, which equates to a shortfall of 18%. 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.

At the midway point of 2016, the course had a net operating loss of \$28,916, which was \$22,477 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 late 2015, City staff recommended a new clubhouse at the course to replace the temporary trailer currently being used, which will 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 of 2015 to fund the new clubhouse during the current biennium, with the goal of completing the clubhouse prior to the beginning of 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 second quarter of 2016 include:

- The 2016 Annual Action Plan was approved by HUD and signed contracts have been returned.
- The \$425,000 7th Pl. / Jean Pl. infrastructure project is well underway with storm drainage basically completed and water

and sewer extensions in progress.

- As the Responsible Entity, the City completed an environmental review for Kennewick Housing Authority remodeling projects slated to be completed this summer.
- To date, there have been 16 home loan applications received, with 14 meeting the required income and property standard qualifications. The loans expended \$139,000 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 SpringHill Suites and Hampton Inn hotels in June. Through the first half of 2016, lodging tax receipts have increased again by 9.5%. Results for 2016 thus far can be attributed to the impact of the two new hotels outlined above and continued growth 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 marketing 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 helps 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 six months of 2016, the City has received and remitted \$261,696 to Visit Tri-Cities, which represents an increase of 4.9% compared to the same time period in 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 June of 2016, the City had received \$1,234,195, which was an overall decrease of 4.4% when compared to this same time period in 2015. As described in more detail earlier in this report, the overall decrease was attributable to declines of 13% and 18% in natural gas and telephone utility taxes, respectively, which were partially offset by an increase of 6% in electric utility tax revenue.

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 in 2015. 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 16 distributions. At the conclusion of June, the City had received \$3,013,651 from this source, which is higher than what was originally projected for this period.

FUTURE OUTLOOK

As we complete the final six months of the 2015/2016 biennium, the City of Kennewick appears to be relatively well positioned financially. 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 dividends and has been the catalyst for the growth we are currently experiencing. As has been outlined many times before in this report, the revenue generated from this growth is critical to the City's ability to fund its ongoing priority

programs and services. And due to the many opportunities the City has to continue the economic expansion we're currently enjoying, there is clearly a basis for enthusiasm and optimism as we turn our focus towards developing the budget for the upcoming 2017/2018 biennium.

CASH MANAGEMENT

The Federal Open Market Committee remains cautious on whether financial and economic conditions in the U.S. and worldwide will allow an increase in the federal funds rate this year. During their June meeting the Committee voted unanimously to leave the target rate range unchanged at 0.25% to 0.50%. The result was the same after the July meeting with one dissenting vote. Given what has happened so far this year – or rather failed to happen, it may be questionable whether the earlier projected two rate increases will materialize. Given the financial volatility in Europe and the uncertainty gripping investors from the political and economic arenas, the conditions needed for a rate hike appear less likely at this point than they did at the start of 2016.

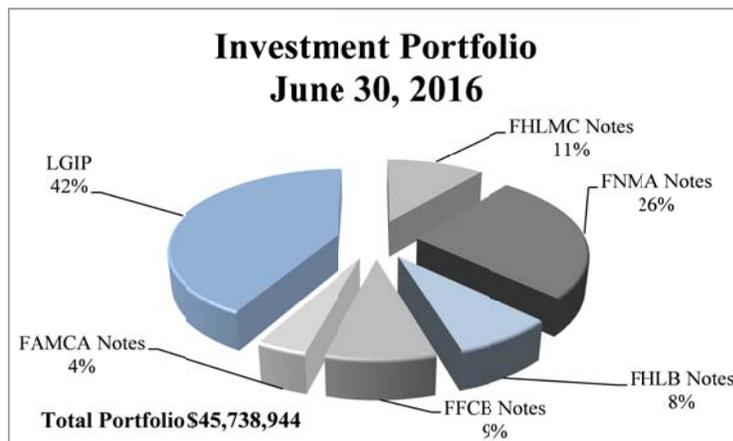
Two agency securities were added to the investment portfolio in April. Both items were new issues by the

Federal Home Loan Mortgage Corporation and each had a principal cost of \$2 million. Additional details about these purchases are shown in the *Cash & Investment Summary* schedule. During May, a \$2 million agency security was called by FHLMC just 6 months into its 5-year term. The percentage ownership by issuer at June 30 is shown in the pie chart titled *Investment Portfolio*.

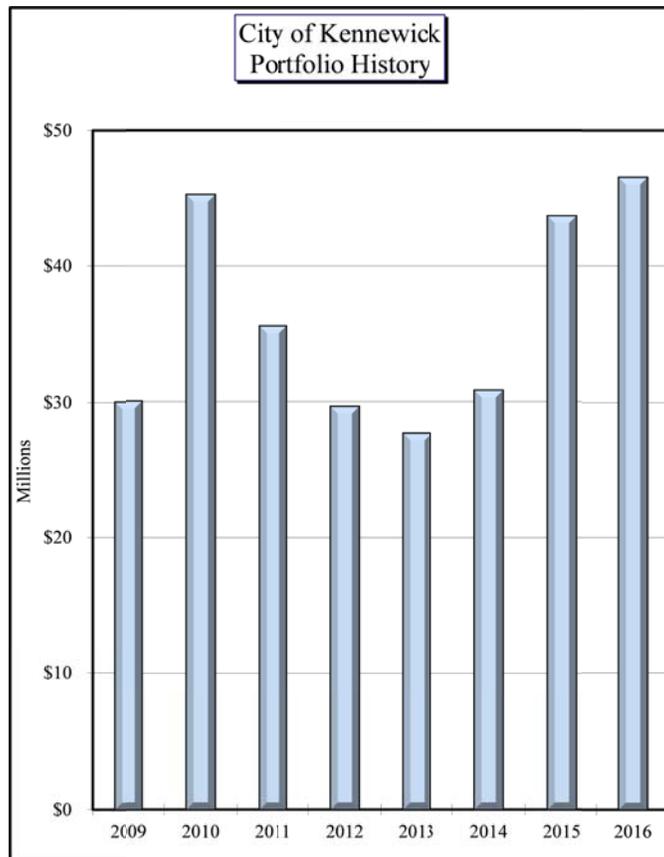
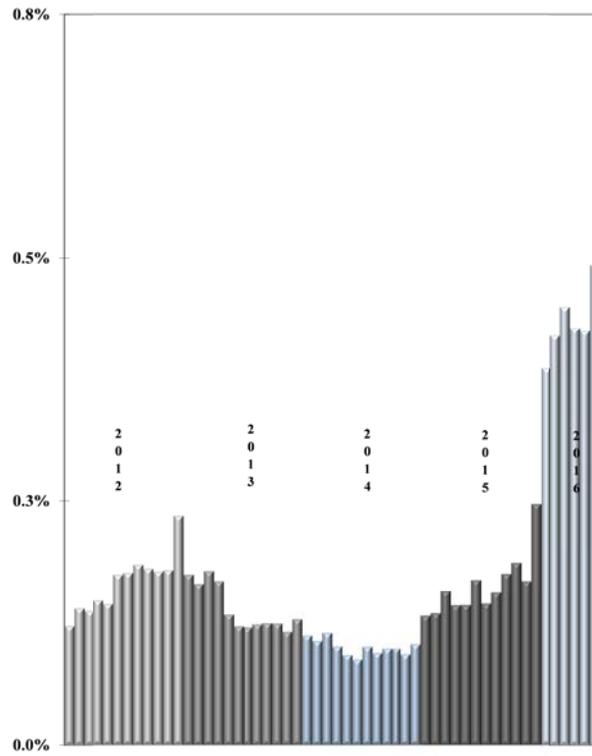
The balance in the City's State Pool account began and ended the 2nd quarter at \$19.2 million. The average balance in the account was \$18.2 million during the same period. The largest sources of activity were deposits related to property tax distributions from Benton County and outflows for bond debt and Public Works Trust Fund loan payments.

Highlights for the 2nd quarter 2016:

- The City's agency securities portfolio averaged a 1.33% rate of return at June 30th and earned interest of \$82,519 during the quarter.
- The average net yield for city balances invested at the State Pool was .45%. Interest earned during the quarter for Pool balances was \$20,271.
- The market value of agency investments at June 30 was \$26,840,697 or \$269,860 higher than the principal cost. The unrealized gain 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 \$26,668,060.



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



CASH & INVESTMENT SUMMARY

June 30, 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
26-Apr-19	FHLMC One time call 10/26/17	Vining Sparks	1.100%	26-Apr-16	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
28-Dec-20	FNMA	Wells Fargo Securities	1.801%	03-Dec-15	2,007,140
28-Apr-21	FHLMC Quarterly calls beginning 10/28/16	Multi-Bank Securities	2.453%	28-Apr-16	2,000,000
SUBTOTAL AGENCY INVESTMENTS					26,570,837
LOCAL GOV'T INVESTMENT POOL State Treasurer's Office			0.493%		19,168,107
TOTAL INVESTMENTS					45,738,944
CASH BALANCE					828,754
TOTAL CASH & INVESTMENTS					\$46,567,698

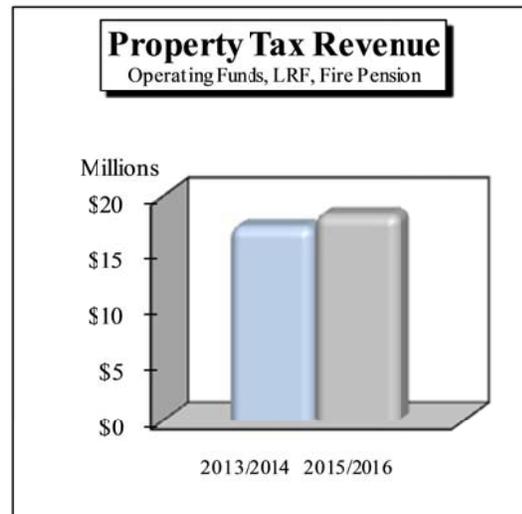
WEIGHTED AVERAGE YIELD
0.98%

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	5,613,938	5,937,072
	Jul-Sep		
	Oct-Dec		
Total		\$17,319,902	\$18,385,664

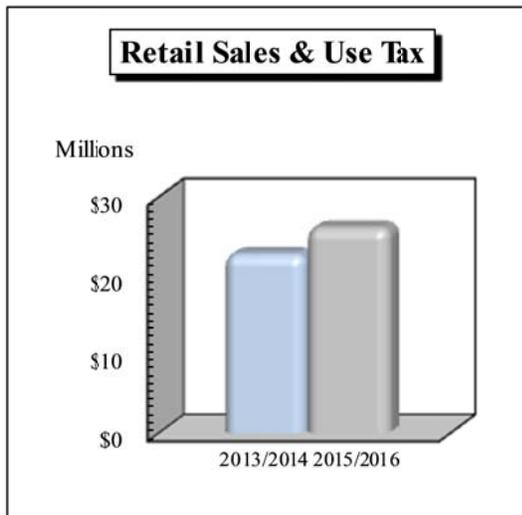
15/16 Biennial Budget \$23,895,699
 Actual vs Budget 77%



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	3,202,865	4,251,127
	Jul-Sep		
	Oct-Dec		
Total		\$22,701,933	\$26,060,155

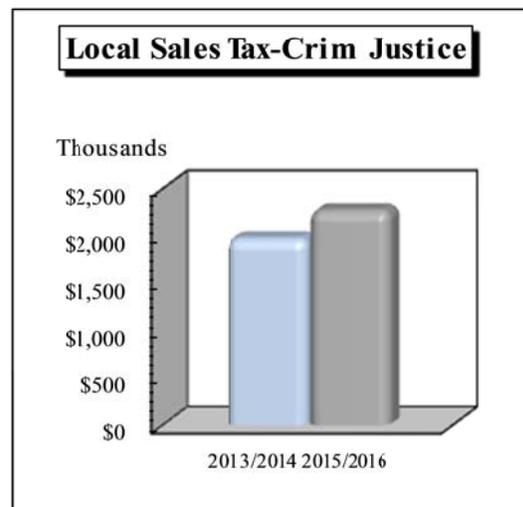
15/16 Biennial Budget \$32,768,600
 Actual vs Budget 80%



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	316,065	379,127
	Jul-Sep		
	Oct-Dec		
Total		\$1,977,043	\$2,273,084

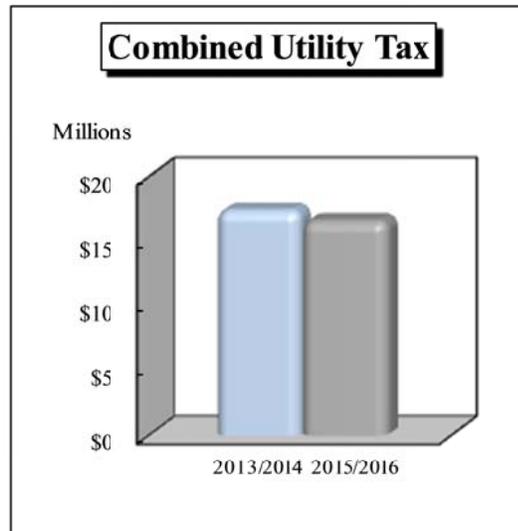
15/16 Biennial Budget \$2,877,100
 Actual vs Budget 79%



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	2,764,484	2,571,888
	Jul-Sep		
	Oct-Dec		
Total		\$17,423,740	\$16,617,468

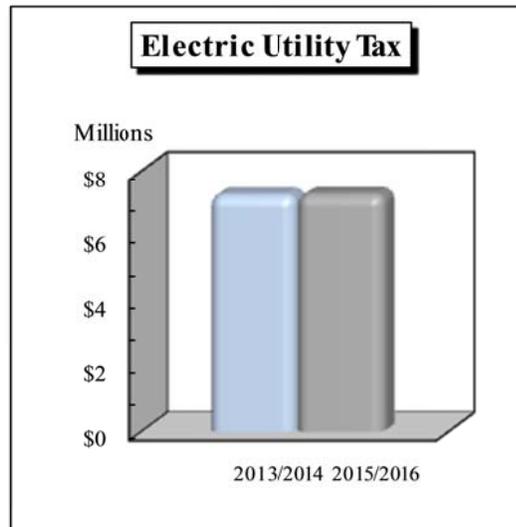
15/16 Biennial Budget \$29,332,698
 Actual vs Budget 57%



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	1,060,256	1,065,623
	Jul-Sep		
	Oct-Dec		
Total		\$7,257,334	\$7,273,365

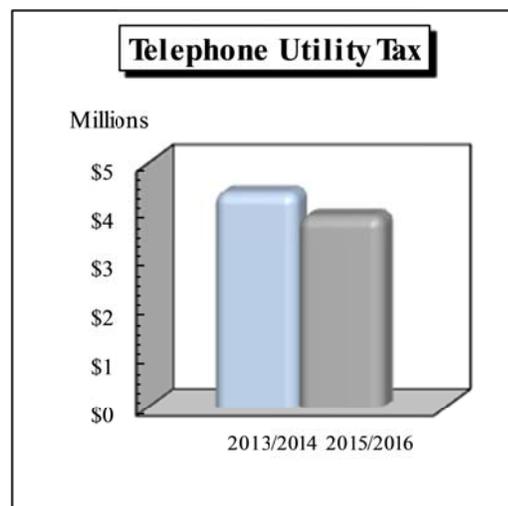
15/16 Biennial Budget \$10,574,000
 Actual vs Budget 69%



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	697,939	593,044
	Jul-Sep		
	Oct-Dec		
Total		\$4,398,155	\$3,917,779

15/16 Biennial Budget \$5,848,849
 Actual vs Budget 67%

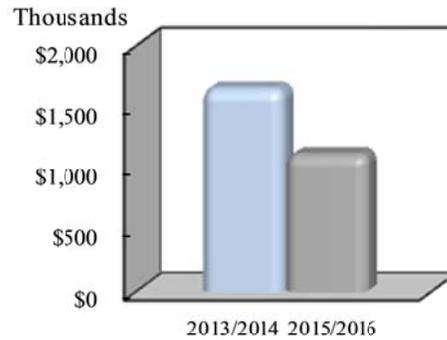


Natural Gas Utility Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$345,858	\$354,432
	Apr-Jun	229,802	161,678
	Jul-Sep	123,500	74,113
	Oct-Dec	184,444	77,792
Year 2	Jan-Mar	482,405	303,161
	Apr-Jun	286,933	149,660
	Jul-Sep		
	Oct-Dec		
Total		\$1,652,942	\$1,120,836

15/16 Biennial Budget \$1,607,917
 Actual vs Budget 70%

Natural Gas Utility Tax

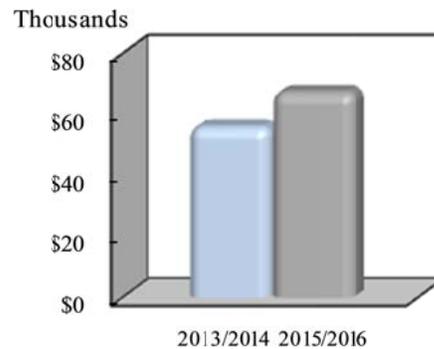


Ambulance Utility Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$9,429	\$7,133
	Apr-Jun	9,494	12,279
	Jul-Sep	10,136	12,650
	Oct-Dec	11,050	12,144
Year 2	Jan-Mar	8,489	11,889
	Apr-Jun	7,071	10,906
	Jul-Sep		
	Oct-Dec		
Total		\$55,669	\$67,001

15/16 Biennial Budget \$91,000
 Actual vs Budget 74%

Ambulance Utility Tax

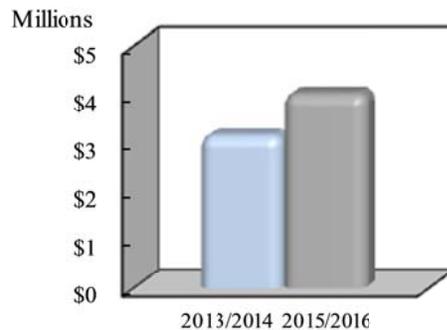


Household Ambulance Tax

		2013/2014	2015/2016
Year 1	Jan-Mar	\$521,936	\$630,508
	Apr-Jun	515,556	629,138
	Jul-Sep	528,650	634,975
	Oct-Dec	521,631	636,248
Year 2	Jan-Mar	529,750	736,646
	Apr-Jun	526,517	745,172
	Jul-Sep		
	Oct-Dec		
Total		\$3,144,040	\$4,012,688

15/16 Biennial Budget \$5,480,000
 Actual vs Budget 73%

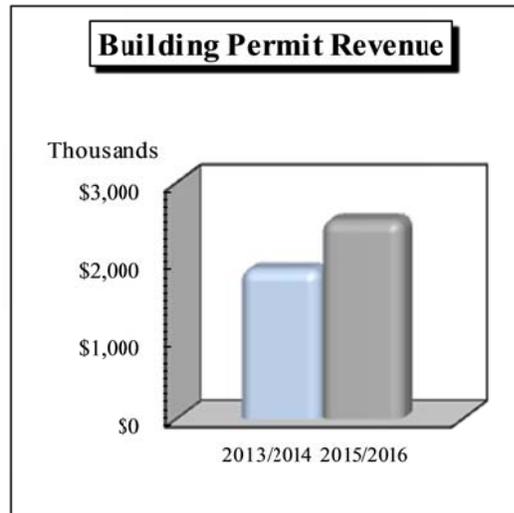
Household Ambulance Charge



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	408,605	562,232
	Jul-Sep		
	Oct-Dec		
Total		\$1,900,740	\$2,518,506

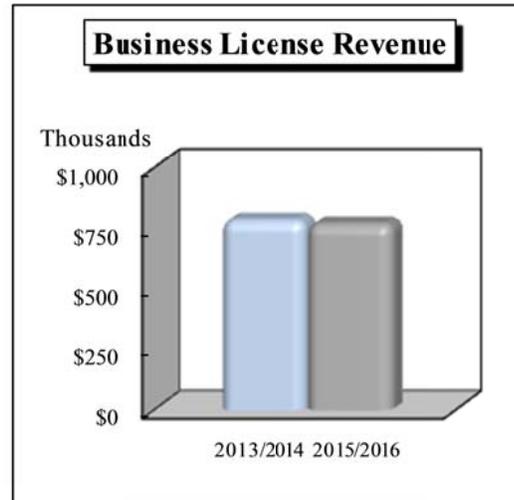
15/16 Biennial Budget \$2,485,000
 Actual vs Budget 101%



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	32,168	70,647
	Jul-Sep		
	Oct-Dec		
Total		\$783,061	\$768,315

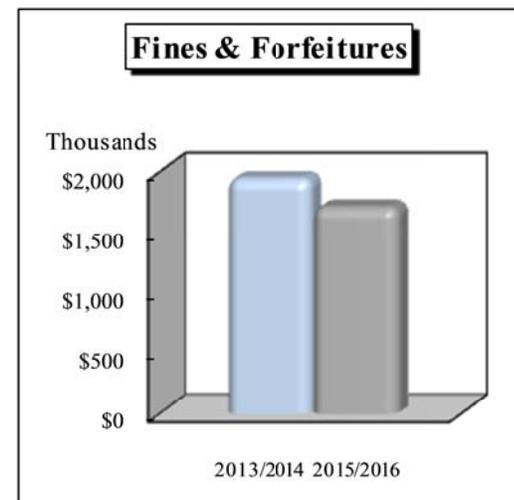
15/16 Biennial Budget \$859,000
 Actual vs Budget 89%



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	325,055	242,751
	Jul-Sep		
	Oct-Dec		
Total		\$1,943,028	\$1,706,511

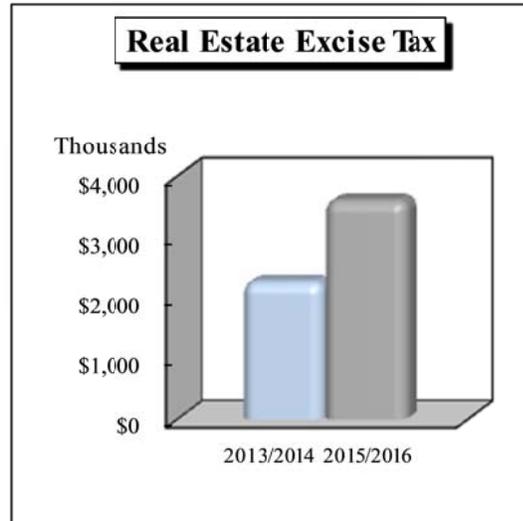
15/16 Biennial Budget \$2,780,600
 Actual vs Budget 61%



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	409,307	697,718
	Jul-Sep		
	Oct-Dec		
Total		\$2,259,533	\$3,594,230

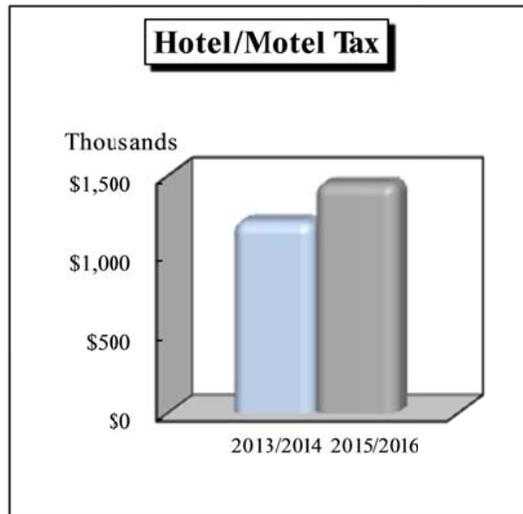
15/16 Biennial Budget \$3,892,000
 Actual vs Budget 92%



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	215,690	249,475
	Jul-Sep		
	Oct-Dec		
Total		\$1,206,349	\$1,447,290

15/16 Biennial Budget \$2,025,500
 Actual vs Budget 71%



Tourism Promotion Area

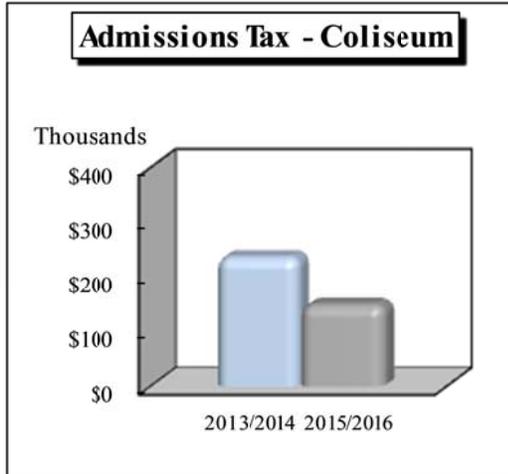
		2013/2014	2015/2016
Year 1	Jan-Mar	\$73,260	\$110,183
	Apr-Jun	92,482	139,897
	Jul-Sep	111,978	184,568
	Oct-Dec	104,710	158,993
Year 2	Jan-Mar	78,854	114,871
	Apr-Jun	131,495	146,825
	Jul-Sep		
	Oct-Dec		
Total		\$592,779	\$855,337

15/16 Biennial Budget \$1,197,000
 Actual vs Budget 71%



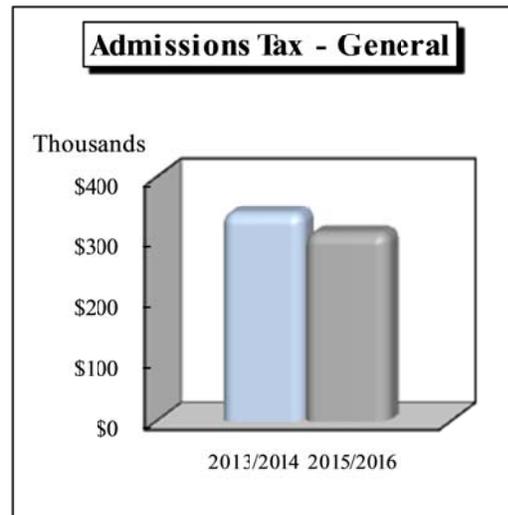
Admissions Tax - Coliseum

		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	39,149	
	Jul-Sep		
	Oct-Dec		
Total		\$236,269	\$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	51,620	36,172
	Jul-Sep		
	Oct-Dec		
Total		\$340,646	\$308,307
15/16 Biennial Budget			\$509,000
Actual vs Budget			61%



“Be yourself; everyone else is already taken.”

Oscar Wilde