



# City of Kennewick

2017

3rd Quarter

## Financial Report

*Issue Date: December 20, 2016*

### OVERVIEW

With the conclusion of the 2015/2016 only three short months away, the City now has much greater certainty regarding what its financial results will be at the conclusion of the biennium. The consistent growth that has occurred in Kennewick and the Tri-Cities region as a whole over this period remains as the single biggest factor in the financial condition of the City. Not only does this growth generate new taxes, user fees and rate revenues for the City, but it also is a major factor in the low unemployment we are experiencing in the area and overall strength in the regional economy. Even with the consistent growth we are experiencing and positive financial trends that have

accompanied it, there are still many financial challenges for the City that must be closely monitored and planned for, which will be discussed in more depth throughout this report. At the same time, 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 all of this in mind, the City continues to monitor its growth indicators closely to ensure we are planning appropriately for our future.

Employment remains the most important indicator of the overall health of the economy in Kennewick

### In This Report

Overview	1
Significant Events	2
General Government	
Revenues	3
Expenditures	5
Capital Funds	7
Proprietary Funds	8
Designated Funds	13
Future Outlook	15
Cash Management/ Investments	15
Major Revenue Sources	18

and the Tri-Cities region. The preliminary unemployment rate in the Kennewick-Pasco-Richland metropolitan statistical area was estimated at 5.9% for September, which is 0.4% higher than a year ago at this same time and 0.3% higher than the statewide unemployment rate of 5.6%. However, it is important to note that the September 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, 700 in September,



New Construction Activity		
	Comparative Totals	
	2016	2015
Single Family Permits	264	231
Commercial Permits	64	50
Other Permits	1,420	1,290
<b>Total Permits</b>	<b>1,748</b>	<b>1,571</b>
Permit Valuation	\$158,058,181	\$173,349,405
Building Permit Fees	\$1,343,891	\$1,254,725
Planning Fees	\$75,095	\$106,090

which is roughly 3,200 jobs higher than reported a year ago and is the high water mark for employment at this point in the year for the region in the last ten years, even exceeding previous peak levels experienced in 2011 when the Hanford area was at its highest levels of employment to complete projects funded with \$2 billion in one-time stimulus funding the site received starting in 2009.

Building permit activity, which is another key indicator of growth in the City, signifies that growth is still occurring at a high rate within the community. Through the first nine months of 2016, the Building Safety Division issued 1,748 permits with a valuation of approximately \$158.1 million. This represents an 11%

increase in the number of permits issued to date relative to the same time period in 2015, but a 9% decrease in the overall valuation of the permits issued. These trends were primarily attributable to growth in single family dwelling permits, offset by a significant decrease in the valuation of commercial permits.

Some of the other significant projects underway during the third quarter of 2016 included; construction of the A to Z Rentals, Original Pancake House, Pro Build Storage, Taco Bell, Bruchi's Cheesesteak & Sub, and Kennewick School District: Highlands Middle School and multiple portables added at various schools. Several remodels are underway as well including Sun River Vintners, Starbucks, The Walking Co., McCurley Mercedes, Columbia River Endodontics, Toyota of Tri-Cities, Marineland Plaza Exterior, to name just a few.

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 is 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 17<sup>th</sup> largest district in the State of Washington.

The number of active water/sewer utility accounts for the City increased by 478 over the past twelve months to 23,545 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 in the last 25 years.

## SIGNIFICANT EVENTS

On July 5<sup>th</sup> Council awarded the Elliot Lake Water System project to C & E Trenching, LLC in the amount \$832,932. This project is for the installation of water mains and related construction, new water services, hydrants etc.

On July 19<sup>th</sup> Council awarded the Bob Olson Parkway & Hildebrand Blvd. project to Inland Asphalt Co. in the amount of \$6,537,924. This project is for the construction of a five lane arterial roadway and widening of an existing roadway. The project includes roadway excavation and embankment, regrading and compaction of a previously prepared roadway sub-

grade and ditches, water line, sewer pipe, storm drain pipe, finish grading, crushed surfacing, curb and gutter, sidewalk, asphalt paving, and other items.

Council also approved Resolution 16-17 authorizing the reimbursement of expenditures associated with the construction of a five lane roadway to complete Bob Olson Parkway/Hildebrand including irrigation and landscaping with future bond proceeds.

On July 19<sup>th</sup> Council authorized the Mayor to sign an agreement for professional engineering services with David Evans & Associates for

preliminary design of the US395/Ridgeline Drive interchange project in the amount of \$699,440.

On August 16<sup>th</sup> Council awarded the Columbia Dr. streetscape project to 2F Enterprises in the amount of \$320,360. This project is for the construction of a bus pullout, curb and gutter, sidewalk, landscaping, and decorative street lighting along Columbia Dr.

On August 18<sup>th</sup> Council authorized the Mayor to sign a Local Agency Agreement Supplement #3 for a Highway Safety Improvement Program Grant for construction funds in the amount of \$1,222,275 for the

Clearwater Avenue, Leslie Road to US395 construction project.

On September 6th, Council authorized a five year contract for banking services with US Bank effective February 1, 2017. US Bank has been the City's primary banking services provider since March 2002. The second extension of the current contract will expire January 31, 2017. The last competitive procurement process for this service was in 2006. For this reason, staff issued a Request for Proposals (RFP) on June 1 which required responses by June 30. After completing the RFP process, staff recommended awarding the contract to US Bank.

As part of the 2015/2016 biennial budget, staff recommended and received Council approval to conduct an updated rate study for the City's water and sewer utility. The City of Kennewick's last Water-Sewer rate study was completed over 20 years ago in 1995. After completing a competitive selection process, the City selected FCS Group to complete the study. The primary purpose of the study is to determine whether the utility's current rate structure will provide funding to adequately meet the utility's financial obligations and capital improvements required to maintain the current system and meet additional needs required to

serve new growth. The new rate study is a multi-year financial plan that will provide revenue requirements to meet the following obligations.

- Operating Expenses
- Debt Service
- Capital Expenditures
- Fiscal Policy Achievement

The rate study will also evaluate the sufficiency of the current rates on a stand-alone basis and develop a rate implementation strategy based upon the findings.

## 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 September of

2016, general governmental revenue collections totaled \$82.6 million, which represented 84.7% of the adjusted budget.

General governmental receipts from sales taxes totaled approximately \$21.1 million through September of 2016. On a city-wide basis, sales tax receipts have increased 4.2%

Revenue Source	2015/2016			2013/2014		
	9/30/16	Budget	Received	9/30/14	Actual	Received
Property Tax	\$18,574	\$23,220	80.0 %	\$17,509	\$22,174	79.0 %
Sales Tax	21,075	22,773	92.5	18,331	21,069	87.0
Criminal Justice Sales Tax	2,700	2,877	93.8	2,336	2,694	86.7
Electric Utility Tax	5,975	7,464	80.1	5,950	6,703	88.8
Telephone Utility Tax	3,161	4,129	76.6	3,579	4,046	88.5
Water/Sewer Utility Tax	2,657	3,118	85.2	2,546	2,918	87.3
Cable TV Utility Tax	1,302	1,526	85.3	1,246	1,429	87.1
Garbage Utility Tax	1,178	1,263	93.3	1,023	1,174	87.2
Natural Gas Utility Tax	845	1,135	74.5	1,218	1,088	111.9
Ambulance Utility Tax	83	91	90.8	68	78	86.9
Gambling Tax	1,343	1,527	87.9	1,316	1,473	89.3
Other Taxes	718	988	72.7	730	876	83.3
<b>Total Taxes</b>	<b>\$59,611</b>	<b>\$70,110</b>	<b>85.0 %</b>	<b>\$55,851</b>	<b>\$65,722</b>	<b>85.0 %</b>
Licenses & Permits	1,567	1,414	110.8	1,127	1,189	94.8
State Shared Revenue	1,440	1,326	108.6	1,377	1,377	100.0
State Entitlements	4,902	5,473	89.6	4,423	5,072	87.2
Other Intergovernmental	224	112	200.1	258	311	82.9
Charges for Services:						
Interfund	3,650	4,406	82.8	3,429	3,893	88.1
Environment	1,768	3,130	56.5	3,007	3,423	87.9
Culture & Recreation	858	995	86.2	990	1,041	95.1
Other	1,409	1,406	100.2	1,198	1,364	87.9
Fines & Forfeitures	1,915	2,782	68.8	2,229	2,529	88.1
Operating Transfers:						
From Public Safety	4,174	5,303	78.7	4,485	4,941	90.8
From Capital Improvement	-	-	-	-	-	-
Others	-	-	-	-	35	-
Interest/Misc.	1,086	1,051	103.3	974	1,018	95.7
<b>TOTAL REVENUES</b>	<b>\$82,603</b>	<b>\$97,508</b>	<b>84.7 %</b>	<b>\$79,348</b>	<b>\$91,913</b>	<b>86.3 %</b>

over the first nine months of 2016 after experiencing a 9% increase in 2015. Low unemployment, coupled with continued economic development and significant residential and commercial growth within Kennewick have been the primary factors in these trends.

Receipts from the 1/10% criminal justice sales tax that was implemented in Benton County in 1995 totaled approximately \$2.7 million for the biennium through September of 2016. After experiencing a 12% increase in 2015, the amount the City has received from this revenue source has increased by another 3% thus far in 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 \$15.2 million for the biennium at the conclusion of September. 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% overall, 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 2.9% when compared to the same timeframe in 2015. The City has experienced declines in water and sewer, natural gas and telephone utility taxes, which were partially offset by increases in garbage, cable and electric utility tax.

Utility tax generated from rate revenue associated with the City's water and sewer services has decreased by 3.3% through September, 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 12.2% 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 early in the year, which reduced natural gas consumption.

Utility tax revenue derived from telephone services has decreased by 15.6% during the first nine months of 2016. In large part, this decline is attributable 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 4%. However, it is also important to note that this tax revenue source has declined in each of the past 5 years due to the loss of taxable revenue resulting from the expansion of non-taxable data services by cellular phone service providers, bundling of services by providers that reduces taxable revenue for telephone services, and a reduction of taxable revenue from land lines as a larger number of individuals are eliminating their home phone in favor of using their cell phone as their primary phone.

The 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 13.3% 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 0.1% 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, has increased by 2.4% through September 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 \$1.6 million through September 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 September 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 received 2 payments totaling \$842,427 from the Benton PUD for its 2015 and 2016 privilege tax payments as well as \$597,404 from Energy Northwest for its 2015 and 2016 tax payments.

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 \$4.9 million at the conclusion of September, which is higher than originally projected for the biennium at this juncture. The majority of the increase in revenue from state entitlements thus far in the biennium is the result of an increase in gas tax revenue distributed to the City under the new statewide transportation package that was approved by the Washington State Legislature in July of 2015. As part of this new plan that raises

the state gas tax by 11.9¢ over a two-year period as well as raising certain vehicle 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.

Another factor in the overall increase in state entitlement revenues thus far in the biennium has been 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 \$1.9 million through September of 2016, which is only 68.8% of the 2015/2016 adjusted budget and lower than what would be expected at this juncture of the biennium. Trends in this revenue

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

Table 2 provides an expenditure summary by category and department for the City's general governmental operations for the 2015/2016 biennium. At the conclusion of September of 2016, total expenditures were approximately \$81.2 million, or 83.3% 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 through twenty-one months of the twenty-four month biennium, but this is actually attributable to the fact that the adjusted budget for this category includes a \$1.6 million allowance for under-expenditures. This allowance is a negative expenditure budgeted by the City each biennium, primarily as an estimate of expenditure savings the City will have in salaries and benefits associated with vacant positions. However, because the budgeted allowance is actually not specific to any one department and may actually impact other expenditure categories, it is budgeted as a reduction to the Intergovernmental Services & Taxes category within the non-departmental section of the budget. As a result, comparisons of actual expenditures to the adjusted budget in this category can be skewed.

A comparison of actual expenditures through September of 2016 to the adjusted 2015/2016 biennial budget from a departmental standpoint indicates that an adjustment to the civil service budget may 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 September of 2016. As outlined earlier, 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 are also budgeted within 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 29<sup>th</sup>, 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 a large portion of the jail's costs are 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, a successor contract has not been agreed upon.

- The City's labor contracts with four of its five collective bargaining units are set to expire at

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

Category	2015/2016			2013/2014		
	9/30/16	Budget	Spent	9/30/14	Actual	Spent
Salaries & Benefits	\$58,150	\$70,443	82.5 %	\$58,371	\$67,240	86.8 %
Supplies	2,391	2,801	85.4	2,110	2,567	82.2
Other Services & Charges	6,842	8,060	84.9	6,844	7,717	88.7
Intergov't Services & Taxes	8,995	9,920	90.7	9,983	11,317	88.2
Interfund Transfers	4,717	5,941	79.4	2,908	3,846	75.6
Capital Outlay	71	272	0.0	73	124	-
<b>TOTAL EXPENDITURES</b>	<b>\$81,165</b>	<b>\$97,436</b>	<b>83.3 %</b>	<b>\$80,289</b>	<b>\$92,810</b>	<b>86.5 %</b>
<b>Department</b>						
City Council	\$467	\$540	86.5 %	\$451	\$521	86.5 %
City Manager	617	720	85.8	571	657	86.9
Finance	2,922	3,408	85.7	3,151	3,605	88.8
Management Services	5,175	6,301	82.1	4,972	5,602	87.1
City Attorney	1,208	1,470	82.2	1,159	1,330	87.1
Civil Service	47	47	99.1	26	34	75.9
Economic Development/Planning	1,753	2,762	63.4	1,840	2,104	87.5
Police	31,329	39,144	80.0	32,388	37,496	86.4
Fire	13,007	15,547	83.7	13,829	15,970	86.6
Engineering	3,091	3,675	84.1	2,879	3,345	86.1
Employee & Community Relations	1,376	4,129	33.3	3,318	3,744	88.6
Parks & Facilities	8,334	7,121	117.0	5,744	6,463	88.9
Non-Departmental	8,430	8,490	99.3	6,721	8,149	82.5
Street Maintenance	3,408	4,083	83.5	3,240	3,790	85.5
<b>TOTAL EXPENDITURES</b>	<b>\$81,165</b>	<b>\$97,436</b>	<b>83.3 %</b>	<b>\$80,289</b>	<b>\$92,810</b>	<b>86.5 %</b>

the conclusion of 2016. The employees represented by these 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 four union groups currently and hopes to reach

agreements with each by the conclusion of 2016.

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.

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 presents the cash flows and

**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	\$79,195	\$77,757	\$3,862
Street	-	3,408	3,408	-
Subtotal	2,424	82,603	81,165	3,862
<b>CAPITAL FUNDS:</b>				
Arterial Street	9	1	-	10
Urban Arterial Street	1,031	8,307	8,426	912
Capital Improvement	7,425	26,380	19,604	14,201
Subtotal	8,465	34,688	28,030	15,123
<b>PROPRIETARY FUNDS:</b>				
Water & Sewer	8,193	32,731	31,956	8,968
Medical Services	395	10,046	9,724	717
Building Safety	1,061	2,913	2,225	1,749
Coliseum	(641)	7,085	6,961	(517)
Stormwater	718	2,335	2,927	127
Columbia Park Golf Course	(1)	490	515	(26)
Equipment Rental	3,739	5,565	4,988	4,316
Risk Management	497	2,537	2,683	350
Central Stores	218	415	457	176
Subtotal	14,179	64,117	62,435	15,860
<b>DESIGNATED FUNDS:</b>				
Cash Reserve Fund	2,716	-	-	2,716
Debt Service	5	10,294	10,102	198
BI-PIN Fund	-	605	596	9
Community Development	335	1,031	1,264	102
Asset Forfeiture Fund	110	34	74	70
Lodging Tax	124	2,847	2,949	23
Public Safety	-	3,636	4,174	-
Criminal Justice Sales Tax	-	3,019	2,702	317
LID Guaranty	35	-	-	35
Subtotal	3,324	21,467	21,860	3,469
<b>TOTAL</b>	<b>\$28,392</b>	<b>\$202,875</b>	<b>\$193,490</b>	<b>\$38,314</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 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 September of 2016 were only \$17.9 million within the City's capital funds and \$4.3 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 Street widening project. The project added a center turn lane and bike lanes to the length of Edison Street. Design, permit applications, and right of way acquisition were completed in 2015. The project was awarded by Council on December 1, 2015. Work on the project began in February 2016 and was completed in September 2016.

**Bob Olson Parkway and Hildebrand Boulevard** – This project will complete the portion of Robert Olson Parkway from West 10<sup>th</sup> Avenue to Sherman Street and will widen Hildebrand from Sherman Street to a five lane roadway. The project also includes landscaping of the entire corridor. City staff completed the design of the portion of the project from West 10<sup>th</sup> Avenue to Section 7. MacKay and Sposito, Inc. designed the portion of the project from Section 7 to Grant Street. The construction contract was awarded to Inland Asphalt on July 19, 2016. The project is scheduled to be completed in the spring of 2017.

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

ments at the intersection of Clearwater and Arthur began in January 2016 and were completed in March 2016. Design and right of way for the Clearwater and Union improvements is complete. The project is scheduled to be constructed early in 2017. 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 and representatives from the Washington State Department of Transportation are working with consultant David Evans and Associates, Inc. to complete 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 September of 2016, revenues from water and sewer rates were 86.2% 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.

Through nine months of 2016, revenue from water sales has decreased slightly, while sewer sales have increased by slightly less than 1%. As discussed earlier in this section, 2015 water sales were influenced by a statewide drought that resulted in the use of potable water for irrigation purposes. As a result, consumption is down in 2016, as is overall water revenue.

Revenue collected for other fees and

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 City standards and transitioned from the Kennewick Irrigation District to the City.

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

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

	2015/2016			2013/2014		
	9/30/16	Budget	%	9/30/14	Actual	%
<b>Revenues</b>						
Revenue from Rates	29,865	34,648	86.2 %	1/12	32,423	0.0 %
Other Fees & Charges	2,264	2,607	86.9	2,105	2,422	86.9
Intergovernmental	30	30	-	-	-	-
Interest & Miscellaneous	172	133	129.6	1,488	186	800.0
Other Financing Sources	399	8,448	4.7	5,195	6,051	85.9
<b>TOTAL</b>	<b>\$32,731</b>	<b>\$45,865</b>	<b>71.4 %</b>	<b>\$8,788</b>	<b>\$41,082</b>	<b>21.4 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$7,295	\$9,271	78.7 %	\$6,499	\$7,455	87.2 %
Supplies	533	622	85.7	460	525	87.6
Other Services & Charges	13,008	15,563	83.6	11,575	13,341	86.8
Transfers:						
General Fund	-	-	-	-	17	-
CIP Fund - Facilities/Capital	221	221	100.0	133	127	104.9
Fleet	525	554	-	-	-	-
Other	-	-	-	-	7	-
Debt Service	6,541	6,529	100.2	6,113	6,113	100.0
Capital Outlay	3,477	10,965	31.7	12,990	15,235	85.3
Sewer Area Charge	355	7,164	-	352	383	-
<b>TOTAL</b>	<b>\$31,956</b>	<b>\$50,889</b>	<b>62.8 %</b>	<b>\$38,122</b>	<b>\$43,203</b>	<b>88.2 %</b>

charges was at 86.9% of the adjusted budget through September, which is consistent with projections for this period of time.

Interest and other miscellaneous revenues collected had already exceeded the adjusted budget at the conclusion of September. 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 loans for improvements at the City's wastewater treatment plant, \$750,000 in

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 September, the utility had received approximately \$312,000 in proceeds from the state revolving fund loan and \$79,000 in contributions from other agencies towards joint projects.

As of September 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

and finished our draw down to 95% of the 150 million injected in early October. We are currently awaiting the final report from the consultant and will work with DOE on permitting beyond this year.

- Hildebrand Boulevard/Bob Olson Parkway water and sewer improvements – under construction.
- Columbia Gardens Winery Waste Treatment Facility – in ground pretreatment system for PH selected and consultant has essentially completed design. Awaiting building construction by the Port of Kennewick to proceed to bidding.

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

	2015/2016			2013/2014		
	9/30/16	Budget	%	9/30/14	Actual	%
<b>Revenues</b>						
Revenue from Transports	\$3,640	\$4,327	84.1 %	\$3,565	\$4,045	88.1 %
Household Ambulance	4,760	5,480	86.9	3,678	4,210	-
Intergovernmental Revenue	-	-	-	18	18	-
Interest & Miscellaneous	-	-	-	1	1	-
Transfer from General Fund	1,644	1,825	-	-	-	-
Other Financing Sources	3	-	-	12	12	-
<b>TOTAL</b>	<b>\$10,046</b>	<b>\$11,632</b>	<b>86.4 %</b>	<b>7,274</b>	<b>\$8,286</b>	<b>87.8 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$7,412	\$8,974	82.6 %	\$4,971	\$5,794	85.8 %
Supplies	285	293	97.5	264	322	82.0
Other Services & Charges	1,792	2,182	82.2	1,724	2,012	85.7
Operating Transfer/CIP Fund	80	80	-	87	-	-
Intergov't Services & Taxes	154	160	96.5	157	177	88.5
Capital Outlay	-	-	-	21	31	-
<b>TOTAL</b>	<b>\$9,724</b>	<b>\$11,688</b>	<b>83.2 %</b>	<b>\$7,224</b>	<b>\$8,336</b>	<b>86.7 %</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 in recent years, the number of billable ambulance transports increased by 3% in 2015 and by another 2% thus far in 2016. The net monthly revenue recognized from transports during the biennium through September was approximately \$173,000, which is lower than the net monthly revenue of approx-

imately \$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 September of 2016, the Medical Services Fund has received just under \$4.8 million from this source, which is consistent with budget projections.

At the conclusion of September, expenses within the Medical Services Fund were 83.2% of the adjusted budget for the 2015/2016 biennium, with no unanticipated variances to report.

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

	2015/2016			2013/2014		
	9/30/16	Budget	%	9/30/14	Actual	%
<b>Revenues</b>						
Licenses & Permits	\$2,893	\$2,485	116.4 %	\$2,252	\$2,741	82.2 %
Interest & Miscellaneous	20	8	-	7	9	77.8
<b>TOTAL</b>	<b>\$2,913</b>	<b>\$2,493</b>	<b>116.8 %</b>	<b>\$2,259</b>	<b>\$2,750</b>	<b>82.1 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$1,712	\$2,077	82.4 %	\$1,572	\$1,801	87.3 %
Supplies	26	26	99.9	22	25	88.0
Other Services & Charges	423	519	81.5	360	432	83.3
Operating Transfer/CIP Fund	64	64	-	17	17	100
<b>TOTAL</b>	<b>\$2,225</b>	<b>\$2,686</b>	<b>82.8 %</b>	<b>\$1,971</b>	<b>\$2,275</b>	<b>86.6 %</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 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 conclusion of the first nine months of 2016, building permit revenue has increased by approximately 7%. As explained

earlier in this report, the number of permits issued to date in 2016 has increased by 11%, while the overall valuation of permits has decreased by 9%, primarily as a result of a decline in valuation from commercial permits issued.

Operating expenses for the Building Safety Fund were 82.8% of the adjusted budget for the 2015/2016 biennium at the conclusion of September, with no significant unanticipated variances to report.

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

	2015/2016			2013/2014		
	9/30/16	Budget	%	9/30/14	Actual	%
<b>Revenues</b>						
Operating Revenue	\$4,803	\$6,250	76.8 %	\$4,605	\$5,519	83.4 %
Debt Proceeds	-	-	-	369	369	100.0
Transfers In	2,282	2,378	96.0	2,294	2,320	98.9
<b>TOTAL</b>	<b>\$7,085</b>	<b>\$8,628</b>	<b>82.1 %</b>	<b>\$7,268</b>	<b>\$8,208</b>	<b>88.5 %</b>
<b>Expenditures</b>						
Cost of Operations	\$5,517	\$6,950	79.4 %	\$5,512	\$6,400	86.1 %
Interfund Loan Repayment	1,099	1,098	100.1	1,083	1,100	98.5
Capital Outlay	345	400	86.3	893	895	99.8
<b>TOTAL</b>	<b>\$6,961</b>	<b>\$8,448</b>	<b>82.4 %</b>	<b>\$7,488</b>	<b>\$8,395</b>	<b>89.2 %</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 agree-

ment 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 provide 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.

For 2016, VenuWorks and the KPF D have developed an operating budget that they believe will allow them to

make-up the budget shortfall from 2015 and remain within the two-year total budgeted for the 2015/2016 biennium. Through September of 2016, the net operating loss for the facilities was \$286,633, which is \$73,531 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, which generates additional sales tax for the City as well.

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

	2015/2016			2013/2014		
	9/30/16	Budget	%	9/30/14	Actual	%
<b>Revenues</b>						
Revenue from Rates	\$2,053	\$2,333	88.0 %	\$1,960	\$2,245	87.3 %
Interest & Miscellaneous	5	4	-	5	6	-
Other Financing Sources	276	2,134	-	438	597	73.4
<b>TOTAL</b>	<b>\$2,335</b>	<b>4,471</b>	<b>52.2 %</b>	<b>2,403</b>	<b>2,848</b>	<b>84.4 %</b>
<b>Expenditures</b>						
Salaries & Benefits	\$1,061	\$1,044	101.6 %	\$904	\$1,012	89.3 %
Supplies	31	53	58.7	30	34	88.2
Other Services & Charges	1,345	1,343	100.2	895	1,000	89.5
Operating Transfer	50	76	-	74	75	98.7
Debt Service	211	344	61.4	-	7	-
Capital Outlay	229	2,962	-	376	397	94.7
<b>TOTAL</b>	<b>\$2,927</b>	<b>\$5,821</b>	<b>50.3 %</b>	<b>\$2,279</b>	<b>\$2,525</b>	<b>90.3 %</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 September of 2016, revenue collected from the monthly storm-water charge was approximately \$2,053,000, or 88% 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 September of 2016 were only 50.3% 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 for the biennium.

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

	2015/2016			2013/2014		
	9/30/16	Budget	%	9/30/14	Actual	%
<b>Revenues</b>						
Charges for Services	\$360	\$506	71.1 %	\$350	\$362	96.7 %
Concessions & Miscellaneous	41	58	70.7	29	39	74.4
Transfers In	89	577	15.4	145	185	78.4
<b>TOTAL</b>	<b>\$490</b>	<b>\$1,141</b>	<b>42.9 %</b>	<b>\$524</b>	<b>\$586</b>	<b>89.4 %</b>
<b>Expenditures</b>						
General & Administrative	\$147	\$212	69.3 %	\$184	\$210	87.6 %
Maintenance	172	185	93.0	155	172	90.1
Operations	196	252	77.8	176	194	90.7
Capital Outlay	-	474	-	11	11	100.0
<b>TOTAL</b>	<b>\$515</b>	<b>\$1,123</b>	<b>45.9 %</b>	<b>\$526</b>	<b>\$587</b>	<b>89.6 %</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 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.

After nine months in 2016, the course had a net operating loss of \$28,856, which was \$20,255 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 relocation and remodel of a modular building previously used by the City’s Parke & Recreation Department to serve as the new clubhouse for the course. This project will begin in late 2016, with the goal of completing the new clubhouse prior to the beginning of the 2017 golf season starting in March.

## DESIGNATED FUNDS

**D**esignated 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 third quarter of 2016 include:

- The 2017 Annual Action Plan was approved by City Council and will be sent to HUD when the final allocation amounts are known in the spring of 2017.
- The \$425,000 W. 7<sup>th</sup> Place/S. Jean Place infrastructure project was completed on time and within budget allowing for the construction of a new youth oriented facility and additional low-income Habitat for Humanity housing projects.
- To date, there have been 23 home loan applications received, with 21 meeting the required income and property standard qualifications. The loans expended just under \$200,000 in HUD HOME funds.

Receipts of the basic 2% hotel/motel tax in the Lodging Tax Fund are allocated to Visit Tri-Cities (formerly the Tri-Cities Visitor and Convention Bureau) 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 who elected to stay in hotels, and

the opening of the new Spring Hill Suites and Hampton Inn hotels in June.

Through nine months of 2016, lodging tax receipts have increased again by 6.4%. This increase can be attributed to the impact of the two new hotels outlined above and further 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 in each of the three cities. All funds collected are dedicated to marketing tourism in the region and are remitted to Visit Tri-Cities 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 to a level 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 September of 2016, the City has received and remitted \$456,393 to Visit Tri-Cities, which represents an increase of 5% when 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 September of 2016, the City had received \$1,770,288, which was an overall decrease of 4.9% 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 12% and 16% in natural gas and telephone utility taxes, respectively, which were partially offset by an increase of 2% 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 during the 2015/2016 mid-biennium budget adjustment in 2015 that will be funded from this revenue source. The City has also used the funding freed up from the 3 Police Officer positions hired in 2013 to pay for 3 new Captain

positions within the Fire Department that were required when the City opened its 5<sup>th</sup> Fire Station in August of this year.

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 19 distributions. At the conclusion of September, the City had received \$3,647,072 from this source, which is higher than what was originally projected for this period.

## FUTURE OUTLOOK

As we near the conclusion of the 2015/2016 biennium and work to finalize planning efforts and adopt a budget for the upcoming 2017/2018 biennium, the City of Kennewick appears to be in a solid financial position. The regional emphasis to enhance economic

development efforts and diversify the local economy seems to be paying off and has spurred a great deal of the growth we are currently experiencing in the community. As was outlined earlier in the introductory section of this report, the revenue generated from the growth occurring in our

community is critical to the City's ability to fund its ongoing priority programs and services. And as a result of the opportunities the City has to continue the economic expansion we're currently enjoying, there is reason to believe we can sustain the current rate of growth into the future.

## CASH MANAGEMENT

During the third quarter the Committee met once in August to purchase \$5 million in agency securities. The three agency securities were comprised of \$3.95 million issued by FNMA and the remainder issued by FHLMC. Additional details about these purchases are shown in the *Cash & Investment Summary* schedule. Investments from the City's portfolio with a cost value of \$6 million were called or matured during the quarter. From a broader investment perspective, August 17th was a massive callable redemption day in which \$2.9 billion in securities were called vs. \$965 million issued which resulted in negative supply.

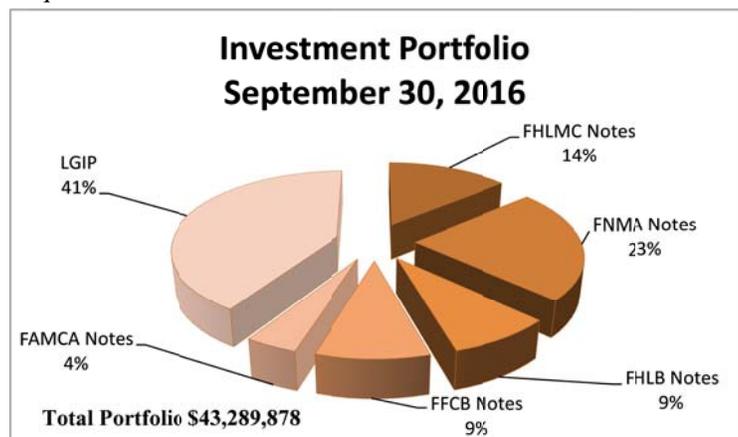
As depicted in the *Investment Portfolio* pie chart, State Pool balances comprised 41% of the City's investments at September 30th. The monthly average balance of deposits in the Pool ranged from \$15.3 million to \$20.1 million between July 1 and September 30.

- The average net rate for city balances invested at the State Pool was .50%. Interest earned during the quarter for Pool balances was \$22,822.

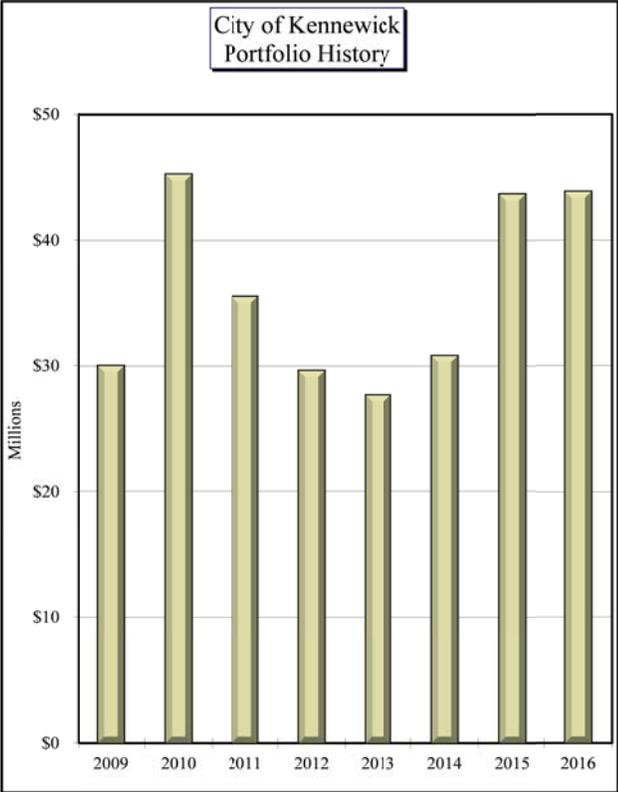
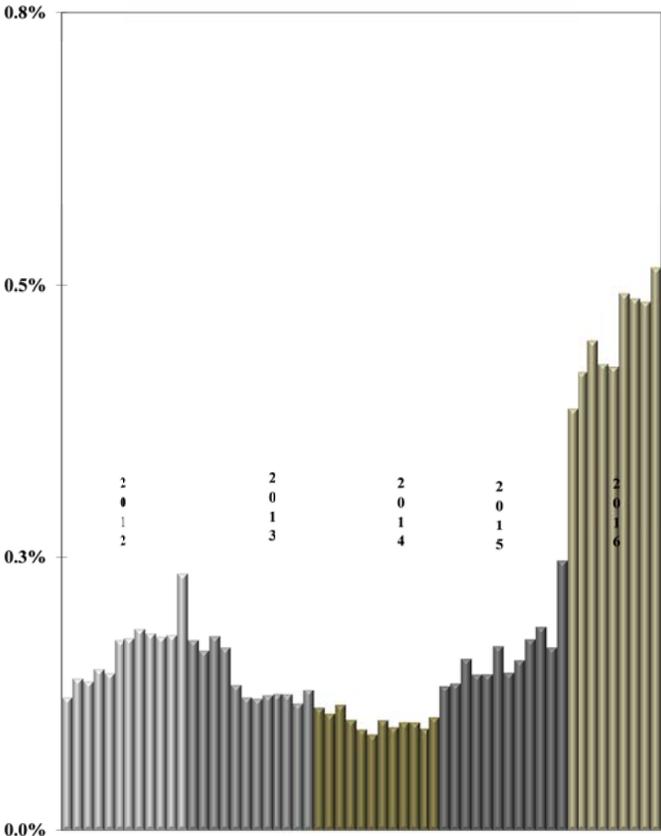
Highlights for the 3rd quarter 2016:

- The City's agency securities portfolio had a weighted average yield of 1.39% at September 30th and earned interest of \$77,916 during the quarter.

In July, the State Investment Pool celebrated its 30<sup>th</sup> year as an investment option for public entities, including educational institutions, state agencies and federally recognized tribes in addition to cities and towns. At less than one basis point, the State Pool holds the lowest costs nationally for an investment pool.



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



**CASH & INVESTMENT SUMMARY**

September 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
08-Jan-18	FHLB	Wells Fargo Securities	0.875%	08-Apr-15	1,000,000
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
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
28-Aug-20	FNMA One time call 8/28/17	Vining Sparks	1.254%	30-Aug-16	2,949,558
28-Aug-20	FNMA One time call 8/28/17	Vining Sparks	1.250%	30-Aug-16	1,000,000
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
24-Aug-21	FHLMC Quarterly calls beginning 2/24/17	Multi-Bank Securities	2.066%	24-Aug-16	1,035,000
<b>SUBTOTAL AGENCY INVESTMENTS</b>					<b>25,548,234</b>
LOCAL GOV'T INVESTMENT POOL State Treasurer's Office			0.516%		<u>17,741,644</u>
<b>TOTAL INVESTMENTS</b>					<b>43,289,878</b>
<b>CASH BALANCE</b>					<u>616,809</u>
<b>TOTAL CASH &amp; INVESTMENTS</b>					<u><u>\$43,906,687</u></u>

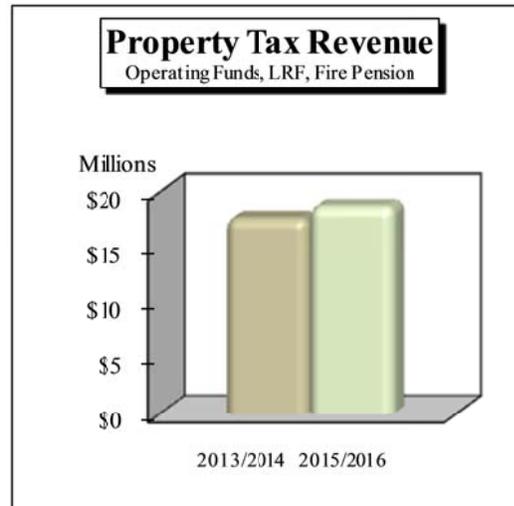
<b>WEIGHTED AVERAGE YIELD</b>
1.03%

## 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	333,270	331,643
	Oct-Dec		
<b>Total</b>		<b>\$17,653,172</b>	<b>\$18,717,307</b>

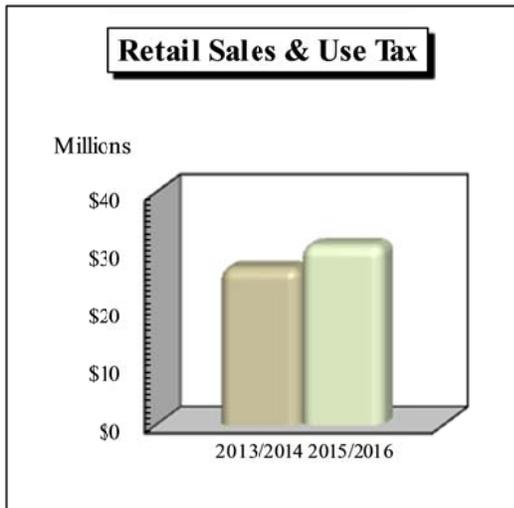
15/16 Biennial Budget \$23,895,699  
 Actual vs Budget 78%



### *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	4,308,194	4,834,360
	Oct-Dec		
<b>Total</b>		<b>\$27,010,127</b>	<b>\$30,894,515</b>

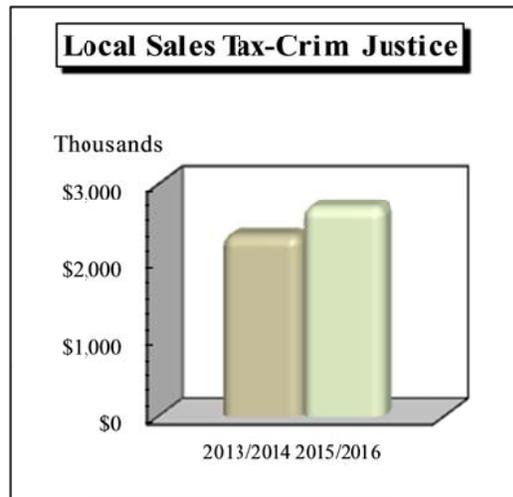
15/16 Biennial Budget \$32,768,600  
 Actual vs Budget 94%



### *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	358,632	426,553
	Oct-Dec		
<b>Total</b>		<b>\$2,335,675</b>	<b>\$2,699,637</b>

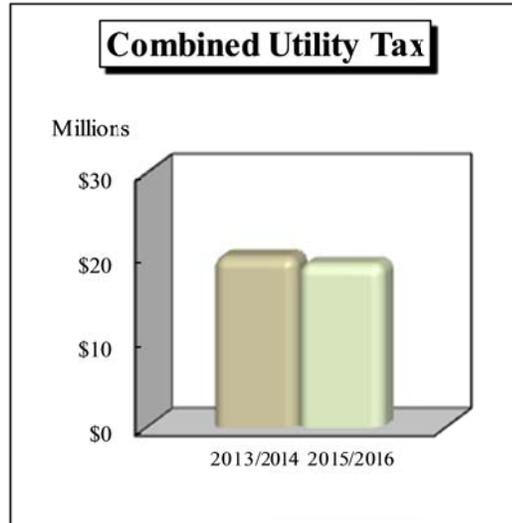
15/16 Biennial Budget \$2,877,100  
 Actual vs Budget 94%



**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	2,681,385	2,630,623
	Oct-Dec		
<b>Total</b>		<b>\$20,105,125</b>	<b>\$19,248,091</b>

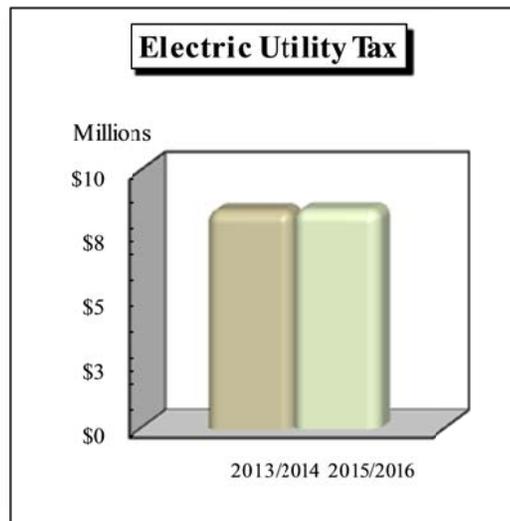
15/16 Biennial Budget \$29,332,698  
 Actual vs Budget 66%



**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	1,171,719	1,191,618
	Oct-Dec		
<b>Total</b>		<b>\$8,429,053</b>	<b>\$8,464,983</b>

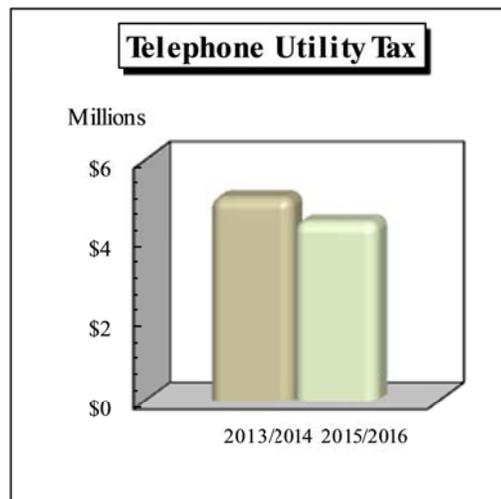
15/16 Biennial Budget \$10,574,000  
 Actual vs Budget 80%



**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	672,400	560,197
	Oct-Dec		
<b>Total</b>		<b>\$5,070,555</b>	<b>\$4,477,976</b>

15/16 Biennial Budget \$5,848,849  
 Actual vs Budget 77%



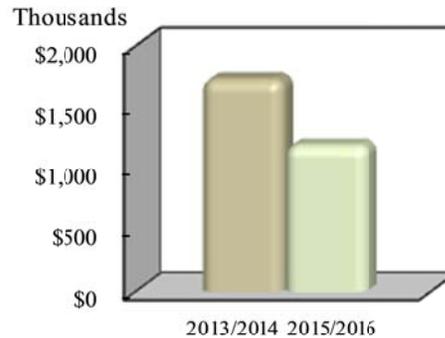


### Natural Gas Utility Tax

		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	71,945	70,897
	Oct-Dec		
<b>Total</b>		<b>\$1,724,887</b>	<b>\$1,191,733</b>

15/16 Biennial Budget \$1,607,917  
 Actual vs Budget 74%

### **Natural Gas Utility Tax**

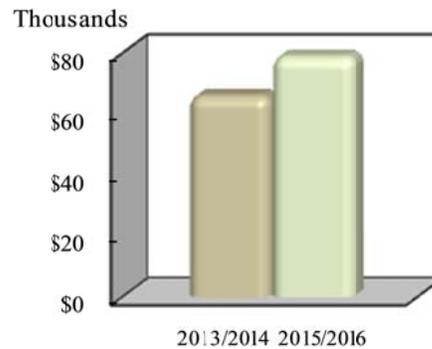


### Ambulance Utility Tax

		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	9,912	11,747
	Oct-Dec		
<b>Total</b>		<b>\$65,581</b>	<b>\$78,748</b>

15/16 Biennial Budget \$91,000  
 Actual vs Budget 87%

### **Ambulance Utility Tax**

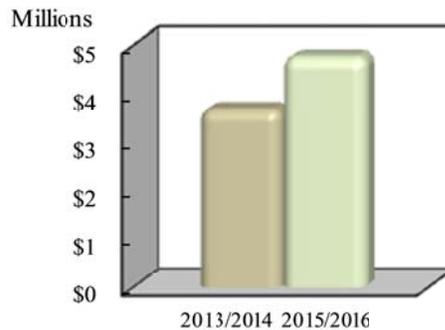


### Household Ambulance Tax

		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	533,730	747,040
	Oct-Dec		
<b>Total</b>		<b>\$3,677,770</b>	<b>\$4,759,728</b>

15/16 Biennial Budget \$5,480,000  
 Actual vs Budget 87%

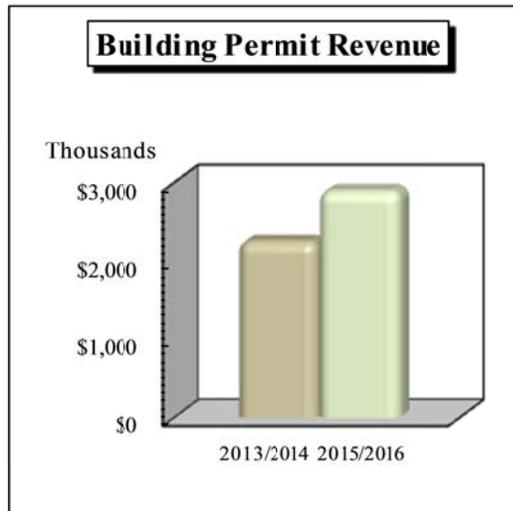
### **Household Ambulance Charge**



***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	351,038	374,943
	Oct-Dec		
<b>Total</b>		<b>\$2,251,778</b>	<b>\$2,893,449</b>

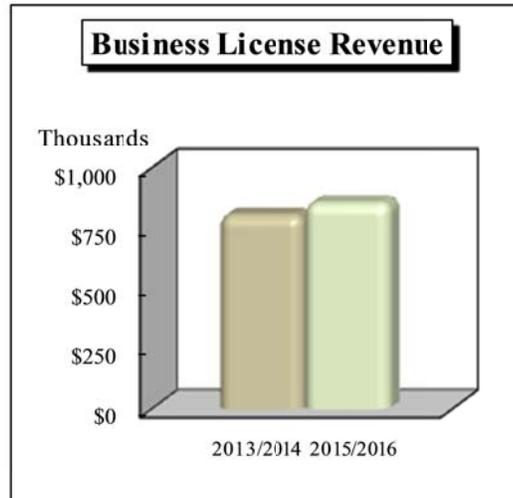
15/16 Biennial Budget \$2,485,000  
 Actual vs Budget 116%



***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	21,260	85,857
	Oct-Dec		
<b>Total</b>		<b>\$804,321</b>	<b>\$854,172</b>

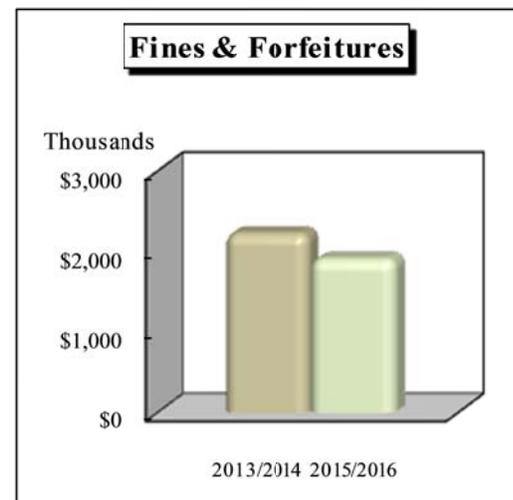
15/16 Biennial Budget \$859,000  
 Actual vs Budget 99%



***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	286,407	208,119
	Oct-Dec		
<b>Total</b>		<b>\$2,229,435</b>	<b>\$1,914,630</b>

15/16 Biennial Budget \$2,780,600  
 Actual vs Budget 69%

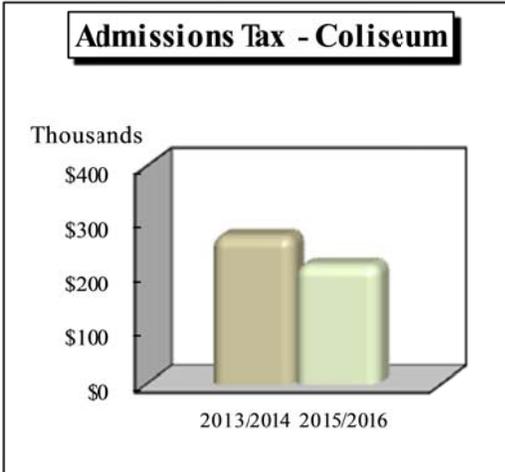




***Admissions Tax - Coliseum***

		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	37,143	72,881
	Oct-Dec		
<b>Total</b>		<b>\$273,412</b>	<b>\$220,251</b>

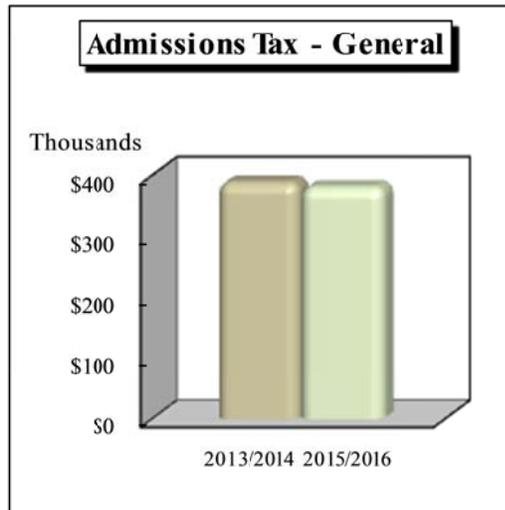
15/16 Biennial Budget \$339,000  
 Actual vs Budget 65%



***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	47,476	72,127
	Oct-Dec		
<b>Total</b>		<b>\$388,122</b>	<b>\$380,434</b>

15/16 Biennial Budget \$509,000  
 Actual vs Budget 75%



“Problems are not stop signs, they are guidelines.”

*Robert H. Schuller*