

# Popular Annual Financial Report



## **City of Kennewick**

For the year ended  
December 31, 2014

Kennewick, WA

# Letter from City Manager

Dear Citizens of Kennewick,

I am pleased to present the City of Kennewick's sixth Popular Annual Financial Report (PAFR) for the year ended December 31, 2014. The PAFR is an easy-to-read version of the City's Comprehensive Annual Financial Report (CAFR) that is published on an annual basis. The CAFR is a detailed account of the City's financial statements, notes, schedules and statistics prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the City's report is audited by the Washington State Auditor's Office. A copy of the CAFR is available for interested users on the City's internet page at [www.go2kennewick.com](http://www.go2kennewick.com).

The PAFR is designed to provide citizens with an overview of the City's revenue, expenditures, and general information in a simplified interpretation of the CAFR. The PAFR is prepared by the City's Finance Department and is not obligated to be audited under GAAP requirements.

On behalf of the Mayor and City Council, I thank you for taking a moment to pick up and read our PAFR. This report is one of our opportunities to let you know how the City is doing financially.

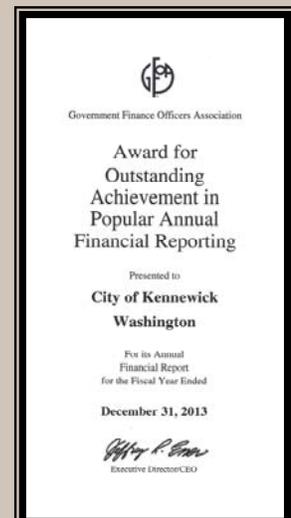
The local economy for the City of Kennewick and Tri-Cities region as a whole continued to be healthy in 2014 and reflects the consistent growth in the City and region that has been present during the last several years. This growth, coupled with a number of critical policy decisions that have been made by the Kennewick City Council during this same time period, has positioned the City very well financially, as demonstrated by the positive financial trends you'll find throughout this report.

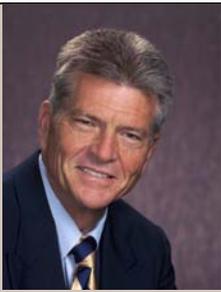
The year ended December 31, 2014, marked the completion of the City's 2013/2014 biennium. As the City now moves into the 2015/2016 biennium, there are a number of exciting new programs that will help the City of Kennewick to meet the growing service level demands of our citizens. In 2014, voters approved a 0.3% criminal justice sales tax in Benton County that will provide for a number of important new public safety programs across the County. In Kennewick, this funding source will be utilized to pay for 3 existing and 12 new police officers and 2 new support positions to enhance the City's public safety programs and combat criminal gang activity. The City will also be constructing a new Fire Station in 2015 that will be financed with general obligation bonds and will help the City's Fire Department to reduce emergency response times considerably. The personnel required to operate the station will be paid for with the funding previously dedicated towards 3 police officer positions that will now be paid for from criminal justice sales tax. Although these are only 2 of many new programs that will be implemented during the biennium, they are great examples of the strategic policy decisions that are being made by the Kennewick City Council in an effort to address the service level priorities of Kennewick's citizens in a fiscally responsible manner.

Thank you for your interest in the City of Kennewick and how it functions. Please contact Dan Legard, Finance Director at [dan.legard@ci.kennewick.wa.us](mailto:dan.legard@ci.kennewick.wa.us), or me at [marie.mosley@ci.kennewick.wa.us](mailto:marie.mosley@ci.kennewick.wa.us) anytime.

Sincerely,

Marie E. Mosley  
City Manager





### Mayor

Steve Young was appointed to the City Council in December 2008, was re-elected to Council in 2009, and again in 2011. He has been Mayor since January of 2009 and was again elected in January 2014 through December 2015. Mayor Young's term expires December 31, 2015, Ward 3.



### Council Members

#### Don Britain—Ward 1

[Don.Britain@ci.kennewick.wa.us](mailto:Don.Britain@ci.kennewick.wa.us)



#### Bob Olson—Ward 1

[Bob.Olson@ci.kennewick.wa.us](mailto:Bob.Olson@ci.kennewick.wa.us)



#### Gregory Jones—Ward 2

[Gregory.jones@ci.kennewick.wa.us](mailto:Gregory.jones@ci.kennewick.wa.us)



#### Paul Parish—Ward 2

[Paul.Parish@ci.kennewick.wa.us](mailto:Paul.Parish@ci.kennewick.wa.us)



#### John Trumbo—Ward 3

[John.Trumbo@ci.kennewick.wa.us](mailto:John.Trumbo@ci.kennewick.wa.us)



#### Bob Parks—At large

[Bob.Parks@ci.kennewick.wa.us](mailto:Bob.Parks@ci.kennewick.wa.us)



### Council Priorities

*"The City of Kennewick's mission is to anticipate and provide for the needs of the community through quality service, innovation and leadership that enhances our quality of life."*



Kennewick City Council meetings are open to the public and are held on the first and third Tuesdays of each month. In addition, Council holds workshop meetings on the second and fourth Tuesdays to discuss items of importance to the City.

The City has a Council-Manager form of government. The City Manager is appointed by the City Council as the chief executive officer of the City and is accountable to the Council for administration of all City business.

The Mayor is elected by Council to serve for two years. Though Chairman of the Council and the presiding member at Council meetings, the Mayor has an equal vote with other Council members. Council members are elected by the citizens of Kennewick to serve a four year term. City Council exercise the legislative power of the City and determine matters of policy.

# About the City

Kennewick is located in southeast Washington at the confluence of the Columbia, Snake and Yakima Rivers, in the heart of the Washington state wine region. With its sister cities of Richland and Pasco, the area is commonly known as the Tri-Cities. Kennewick is 26.77 square miles in size and, with a population of 77,700, is the largest of the Tri-Cities. The Tri-Cities Metropolitan Statistical Area has a population of approximately 274,295. Our history includes that of "Kennewick Man", a 9,200 year old skeleton unearthed in Kennewick's Columbia Park, a discovery that received national attention.

The Tri-Cities is a great place to raise a family, start a new business, continue your education, or retire. Residents enjoy the Tri-Cities' unique local flavor, excellent school system, virtually non-existent traffic congestion, low crime rate, annual precipitation of less than seven inches, diverse outdoor recreational opportunities, and limitless regional attractions. Families have many housing choices from established neighborhoods to new construction developments. Whether you have animals and love the country life, or want to live next to a golf course, on the river, or near shopping and business, there is a home waiting for you in our community.

Fun in the sun is a way of life in the Tri-Cities where river action abounds on the Columbia, Snake, and Yakima rivers. Located in the Heart of Washington Wine Country, the Tri-Cities boasts more than 160 wineries within a one-hour drive, producing some of the finest wines in the world. Recreation and sports enthusiasts will love their time in the Tri-Cities. Visitors can enjoy one of three professional sports teams. And with everything from bicycling to hiking, hunting to fishing, soccer to water-skiing, the recreational opportunities are endless. Due in part to an exceptional climate, golf is one of the Tri-Cities' most popular sports. Ten beautiful courses challenge the most experienced golfer, and offer an enjoyable experience for the beginner as well. Visitors will also enjoy unique shops and restaurants. Kennewick is a great place to visit and an even better place to live, come and check it out!

## Principal Employers in Area

Pacific NW National Laboratory

URS Corp.

Kadlec Medical Center

Bechtel National Labs, Inc.

ConAgra Foods/Lamb Weston

Mission Support Alliance

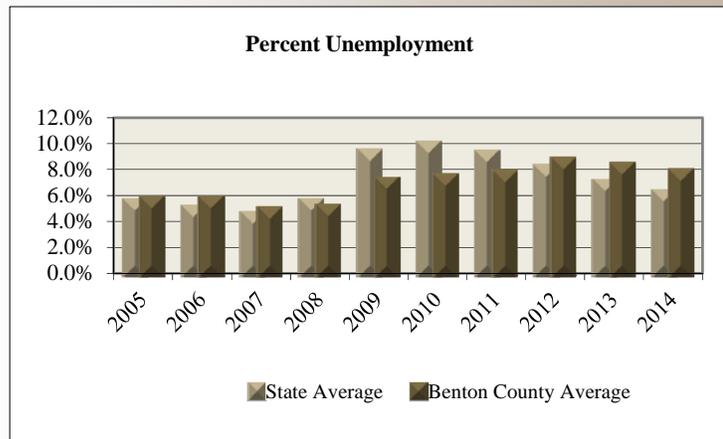
Kennewick School District

Pasco School District

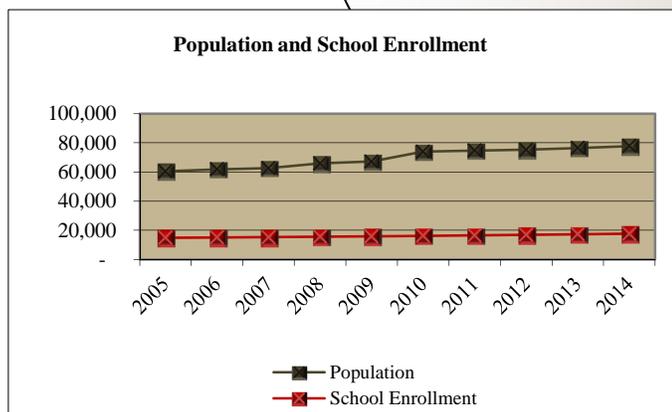
Washington River Protection Solutions

Richland School District

## Percent Unemployment



## Population and School Enrollment



## Facts About Kennewick

Number of high schools.....	3
Number of middle schools (6 <sup>th</sup> , 7 <sup>th</sup> & 8 <sup>th</sup> )....	4
Number of elementary schools.....	14
School enrollment 2014.....	17,648
Population 2014.....	77,700
Median age 2014.....	36.44
Median household income 2014.....	\$63,386
Per capita personal income 2013.....	\$41,746
Benton County Average	
Unemployment Rate.....	7.8%

## Where the Money Comes From...

The following is an overview of the City's financial operations for the fiscal year ended December 31, 2014. The data included in this review is not in accordance with generally accepted accounting principles (GAAP) as only selected information is presented. All data is, however, compiled from the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2014, which is audited by the Washington State Auditor's office. General governmental information includes the general fund (the City's major operating fund) and other governmental funds (generally used to account for tax supported activities) and are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The City's current bond rating from Standard and Poor's is AA, which is considered very favorable and will save the City significant interest costs when issuing debt.

Major sources of revenues include property tax, sales tax and utility tax. Total general governmental revenues for fiscal year 2014 were \$63,356,232.

Taxes are the City's most important source of funding and make up 73% of total operating revenues. They include Sales & Use taxes (25%), Property and Road taxes (19%), Utility taxes (19%), Real Estate Excise taxes (3%), Lodging taxes (2%) and Gambling/Admissions taxes (2%).

Beginning in 2015, most retail sales within the City of Kennewick are subject to an 8.6% sales tax, of which the City of Kennewick directly receives .85%. Retail trade activity is the biggest industry sector of the City's sales tax at 61.75% of total sales tax, construction is 9.96% and service is 9.44%, while miscellaneous other activities make up the remaining balance.

Property taxes are local taxes assessed on property owned, such as real estate, and are measured by the market or assessed value of the property. Property tax revenues increased in 2014 by 3.5%, which was attributable to growth in the City and increased tax rolls for 2014. In total, the City's 2014 property tax levy increased by approximately \$358,000. The majority of this increase was the direct result of \$118.5 million in new construction value that was added to the City's assessed valuation in 2013 for the 2014 levy. The remainder of the growth in the City's 2014 levy was attributable to a 1% increase to the base levy as allowed under state law.

Revenue	General Government (thousands)				
	2014	2013	2012	2011	2010
Taxes	\$44,051	\$43,098	\$41,839	\$41,100	\$38,888
Licenses & Permits	620	569	582	520	501
Intergovernmental	10,871	7,198	9,521	5,935	9,740
Charges for Services	5,748	5,737	5,507	5,149	5,096
Fines & Forfeitures	1,262	1,267	1,192	1,238	1,278
Miscellaneous	804	888	923	1,025	716
	<b>\$63,356</b>	<b>\$58,757</b>	<b>\$59,564</b>	<b>\$54,967</b>	<b>\$56,219</b>

Purchase a Laptop	
Cost	\$1,000.00
Taxes	86.00
<b>Total</b>	<b>\$1,086.00</b>
Tax Distribution	
State	\$65.00
City	8.50
Transit	6.00
County	2.50
Criminal Justice	1.00
Public Safety	3.00
	<b>\$86.00</b>



### Where does your tax dollar go?



**Total 2014 Property Tax - \$11.66**  
(Per \$1,000 of Assessed Valuation)

\*Intergovernmental revenues (including federal and state grants, state entitlements and state shared revenue) increased by \$3.7 million in 2014 compared to 2013. The City received \$1 million of a \$3 million capital grant for the City's Steptoe street extension during 2014. This project is currently in phase 3 and will eventually provide a new link from the City's northwestern retail district to its southern area where 60 percent of the City's future growth is expected to occur. The City also received \$2.9 million in capital grants for the Olympia Street project, and \$900,000 for safety incentive grants. There were also a number of ongoing street projects that received grant revenue during 2014, this revenue source will continue to vary with capital project activity. There was also an increase in state shared revenues due to a partial restoration of liquor excise tax distribution. The amount is still well below what the City has historically received.

## Where the Money Goes...

Actual activity for the City's operating funds (General and Street) during 2014 resulted in an ending fund balance of \$2.42 million, which is in excess of the fund balance needed to meet the City's budgetary policy to maintain an ending fund balance of at least 5% of annual operating expenditures. Additionally, the City also continues to maintain a Cash Reserve Fund for revenue stabilization and contingencies, which was increased in 2014 by the annual percentage change in the consumer price index (CPI) to \$2.72 million pursuant to a City Council budget policy.

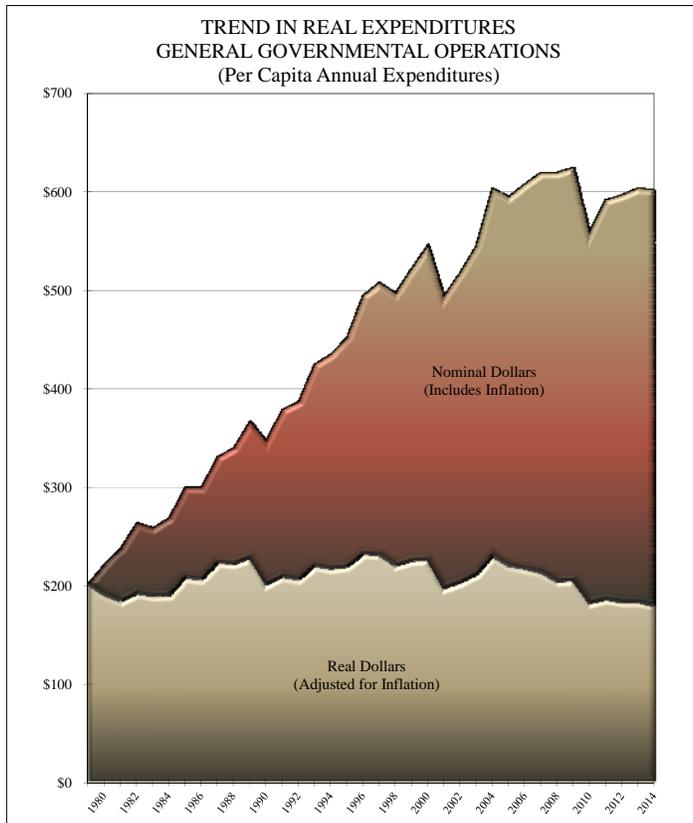
Significant expenditures during 2014 include public safety costs which were 45% of total expenditures. This is not surprising as our public safety divisions have over half (196.75 of 363.1) of the total City's full-time equivalent employees and public safety has been identified as the Kennewick City Council's highest priority.

General Government decreases were primarily attributable to the one-time purchase of 360 computers and migration to an enterprise licensing structure during 2013.

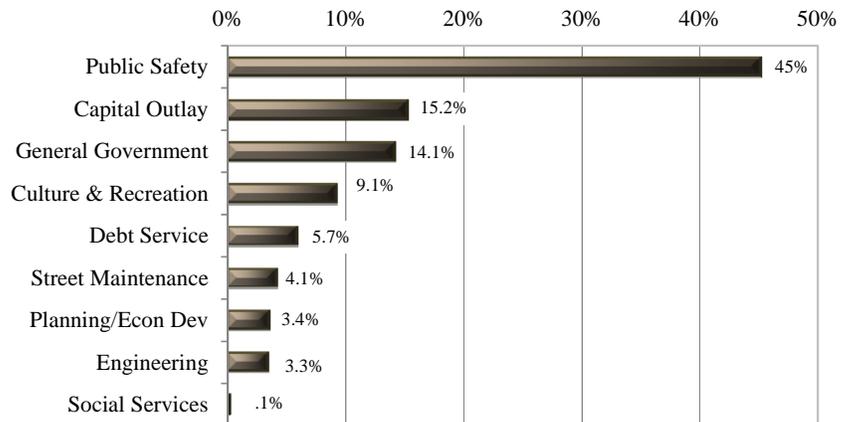
Street Maintenance decreases are mostly attributable to a reduction in street maintenance projects in 2014. These projects vary each year depending on timing of various maintenance projects, including pavement preservation and overlay.

The City's capital outlays in 2014 were for City infrastructure projects including \$5.7 million street construction project to construct a new section of Steptoe St. from Center Parkway to 4th that was completed, a variety of other projects were in progress for street reconstruction, new signal installations, street overlays, storm drainage system upgrades, park improvements, city-wide technology improvements and other information systems purchases.

Increases in the Engineering Division, were attributable to personnel costs that were charged to the Engineering Division related to design work completed on internal capital projects for the City. Because the General Fund is reimbursed for these costs from the City's capital funds, it received additional revenue that offset the additional personnel costs.



### 2014 General Government Expenditures



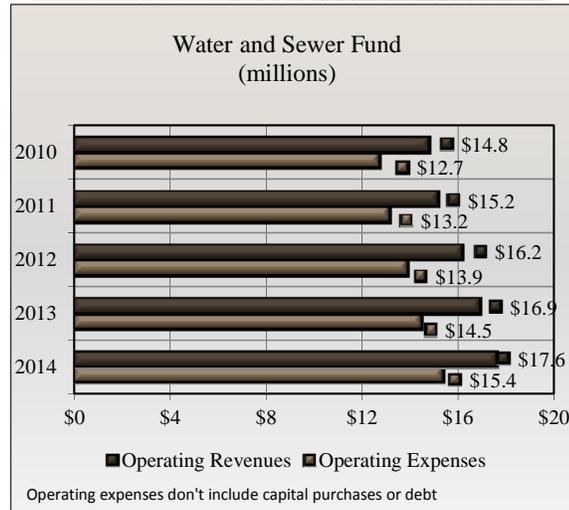
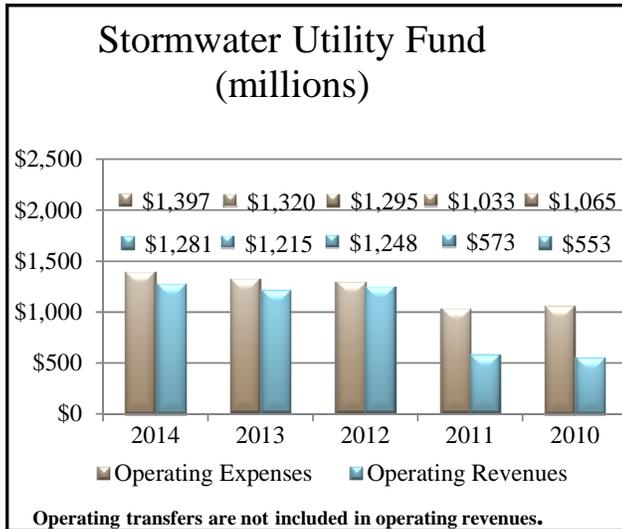
### General Government (thousands)

Expenditures by Function	2014	2013	2012	2011	2010
Public Safety	\$27,441	\$26,984	\$26,012	\$24,384	\$23,518
General Government	8,577	8,907	7,981	8,324	8,155
Culture & Recreation*	5,541	5,128	4,897	4,413	4,267
Street Maintenance	2,498	4,382	5,971	6,051	3,152
Engineering/Meter Reading Svcs	2,020	1,846	2,127	1,903	1,800
Planning/Economic Development	2,054	1,861	2,134	1,238	2,334
Social Services*	50	206	59	-	-
Debt Service (Principal & Interest)	3,488	3,994	4,320	4,476	4,112
Capital Outlays	9,255	5,449	9,135	8,578	10,316
	<b>\$60,924</b>	<b>\$58,757</b>	<b>\$62,636</b>	<b>\$59,367</b>	<b>\$57,654</b>

\*Beginning in 2012, certain expenditures were reclassified to new functions as a result of a state mandated restructuring of the City's account structure.

The City maintains six different enterprise funds. These funds are financially self-sufficient as, over time, they generate enough revenue to cover the cost of operating expenses. The City of Kennewick uses enterprise funds to account for its Water and Sewer Utility, Medical Service Fund (ambulance service), Building Safety Fund (building inspection), Stormwater Utility Fund, Columbia Park Golf Links Course and the Coliseum Fund.

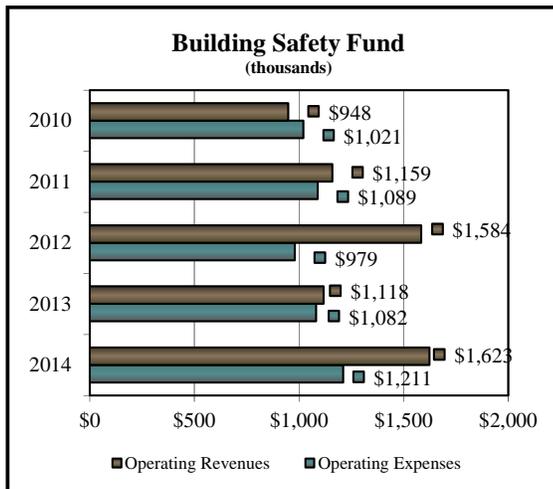
The **Water and Sewer Fund** is by far the biggest enterprise fund. The utility had 22,699 active water accounts and 17,996 active sewer accounts on December 31, 2014. The Fund had a budget of \$55.3 million for the 2013/2014 biennium, including \$21.2 million for capital projects. Current capital projects include a Zone 4 Reservoir and Booster station to support development in the Southridge and urban growth areas. This project is \$5.1 million and financed with a \$4.25 million P WTF loan. The Aquifer Storage & Recovery (ASR) project in the Southridge area is nearing completion. ASR is the use of an aquifer for storage by injecting water underground and later recovery of the water through pumping. The City received a grant through the Washington State Department of Ecology to assist with this project. The project has since been nominated for an ASCE Region 8 2014 Project of the Year Award. Many additional projects in the Southridge area are underway, including Hildebrand, Zone 5 and Zone 6 Booster Stations.



The **Stormwater Utility Fund** was created for maintenance and operation of the City's stormwater runoff on City streets. The primary revenue source for the utility is a monthly charge assessed to all residential, multi-family, commercial, and other non-residential

### New Construction Activity

	Comparative Totals	
	2014	2013
Single Family Permits	\$302	\$284
Commercial Permits	256	213
Other Permits	1496	1492
<b>Total Permits</b>	<b>\$2,054</b>	<b>\$1,989</b>
Permit Valuation	\$181,177,996	\$126,738,304
Building Permit Fees	\$1,623,412	\$1,117,704
Planning Fees	\$35,275	\$35,876

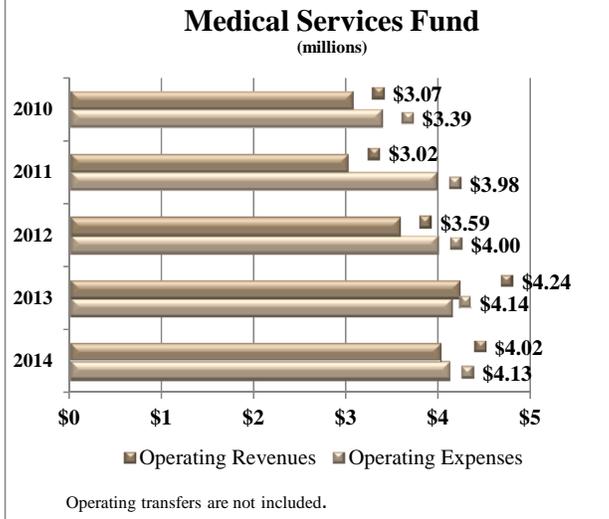


The **Building Safety Fund** is utilized to isolate the costs of providing the building inspection function including equipment replacement charges and administrative costs. The Building Safety Fund's revenue increased by 45% during 2014 when compared to 2013, and the valuation of the City's building permits increased by 43%. The increase is primarily attributable to a \$14 million permit issued for the construction of a new medical office building that will be located adjacent to the Trios Hospital in the City's Southridge area.

# Enterprise Funds



The **Columbia Park Golf Course Fund** was established on January 1, 2011 and accounts for the operating and maintenance, capital and debt service costs related to the operation and management of the Columbia Park Golf Links golf course. The City entered into an agreement with CourseCo, Inc. to manage and operate the golf course on behalf of the City. Operational contributions have been provided through transfers from the general fund since the inception of the contract.



The **Medical Services Fund** is utilized to account for the third-party ambulance billing program as an enterprise operation. 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 of \$5.67 per month to an amount as high as \$9.64 per month. The Kennewick City Council elected to modify the City's ambulance charge to \$6.67 per month effective January 1, 2015 and then to \$7.67 per month effective January 1, 2016, which will significantly reduce the amount of the operating contribution required from the City's General Fund for this program.

## THE TOYOTA CENTER & ARENA

Is home to the:

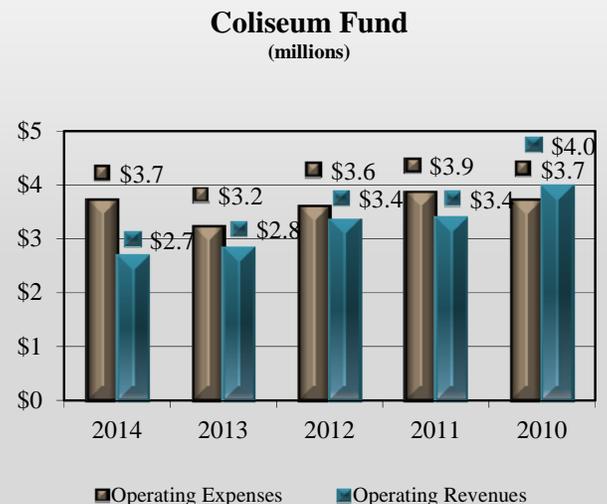


### TRI-CITIES FEVER



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. In May of 2004 the City signed an interlocal agreement with the Kennewick Public Facilities District (KPF) Board to oversee management of the facility in conjunction with its own Convention Center Facility. The KPF is a component unit of the City and is not included in the financial information in the PAFR, but is included in the City's CAFR.

## TRI-CITY AMERICANS



Kennewick continues to be at the forefront for statewide growth in almost every way. The retail hub for Southeastern Washington, the City benefits from a talented labor pool, steady job market and low cost of living. Kennewick's population growth is mainly due to the relocation of families and individuals that are attracted to the region's high quality of life and the tendency of employees from the Hanford Nuclear Reservation and Pacific Northwest National Laboratory (PNNL) to stay in the region after retirement. This population growth has brought increased economic vitality to the region. The increased business and development activity has translated into growing tax revenues for local government entities, with a strong retail base being the most prominent component of Kennewick's economic power.

Kennewick offers a good strategic location, which also makes it an attractive location for business. The region is easily accessible by two major interstates, three ports, an extensive railway system, is within a three-hour drive of Seattle and Portland, and Spokane is just 2 hours away. The Tri-Cities can be reached by commercial aircraft with direct flights from Seattle, Denver, San Francisco, Las Vegas, Los Angeles, Phoenix, Salt Lake City, and Minneapolis. Several new businesses, including the following, have opened in Kennewick during 2014.



# Economic Development

# Carousel of Dreams

The Gesa Carousel of Dreams is located at the Southridge Sports and Events Complex in Kennewick, and opened on September 5, 2014. The Carousel is open year round with a gift shop, concessions and banquet facilities. The Carousel has been a community project and has had support from several local business leaders. The carousel features a 100 year old restoration of hand carved wooden horses. Many parts of the carousel are also freshly carved and display images of our region taken by a local photographer.



Kennewick has continued to focus on the Southridge local revitalization area. There have been several new business's built or are currently under construction including a new hotel, several new restaurants, a coffee house, as well as a new strip mall. From the 20 acre Trios Health campus, new homes, Southridge Sports and Events Complex and the Gesa Carousel of Dreams to other attractions like the farmers market and 9-11 memorial, Southridge is a gateway to our community and has quickly become a destination property.

Priorities for the city include the final Steptoe Street phase which will complete the connection from Hidlebrand to five corners. This completion creates a connection from Highway 240 to Highway 395 and a transportation loop that opens up new economic development opportunities. The city is also working with the state on full access to Ridgeline Drive off Highway 395.



# Southridge LRF

The new TRIOS Southridge Hospital (formerly Kennewick General) opened July 15, 2014. TRIOS is a state-of-the-art hospital equipped with the latest technology to service the evolving needs of a larger and more geographically dispersed patient population. The 168,000 square foot facility includes 74 beds , including 14 in intensive care, as well as a full service emergency room, joint replacement and spine center, physical therapy practice, and the latest diagnostic imaging technology. The hospital serves as the new anchor of the extensive healthcare system Trios Health has worked diligently to become. They are also in the process of building a 7-floor, 160,000 square foot Care Center that will connect to the hospital.

# Current City Projects

BEFORE

AFTER



Columbia Center Blvd Safety Project



Zone 4 Reservoir



Olympia Street



**Cost per gallon...**



**Coca-Cola \$2.64**



**Mocha \$34.00**



**Tide \$23.04**



**Chanel No. 5 \$41,600.40**

**City Tap Water \$0.0016**



The City of Kennewick earned the Well City Award for the fifth consecutive year during 2014. Our commitment to employee health has earned us a 2% premium discount on our Asuris Health medical premiums. The City qualified by meeting nine best practice standards for employee health, saving the City \$130,000 on 2015 premiums.



**What does your \$160 per month get you?**



**For just \$160 per month, the average household in the City of Kennewick received these**

The City provides a full range of services normally associated with a municipality. These include police and fire protection, emergency medical services, street construction and maintenance, planning and zoning, parks and recreation, and general administrative services. In addition, the City operates a water and sewer utility, and a stormwater utility as well as contracts for the management of its coliseum and golf course facilities.



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[www.go2kennewick.com](http://www.go2kennewick.com)