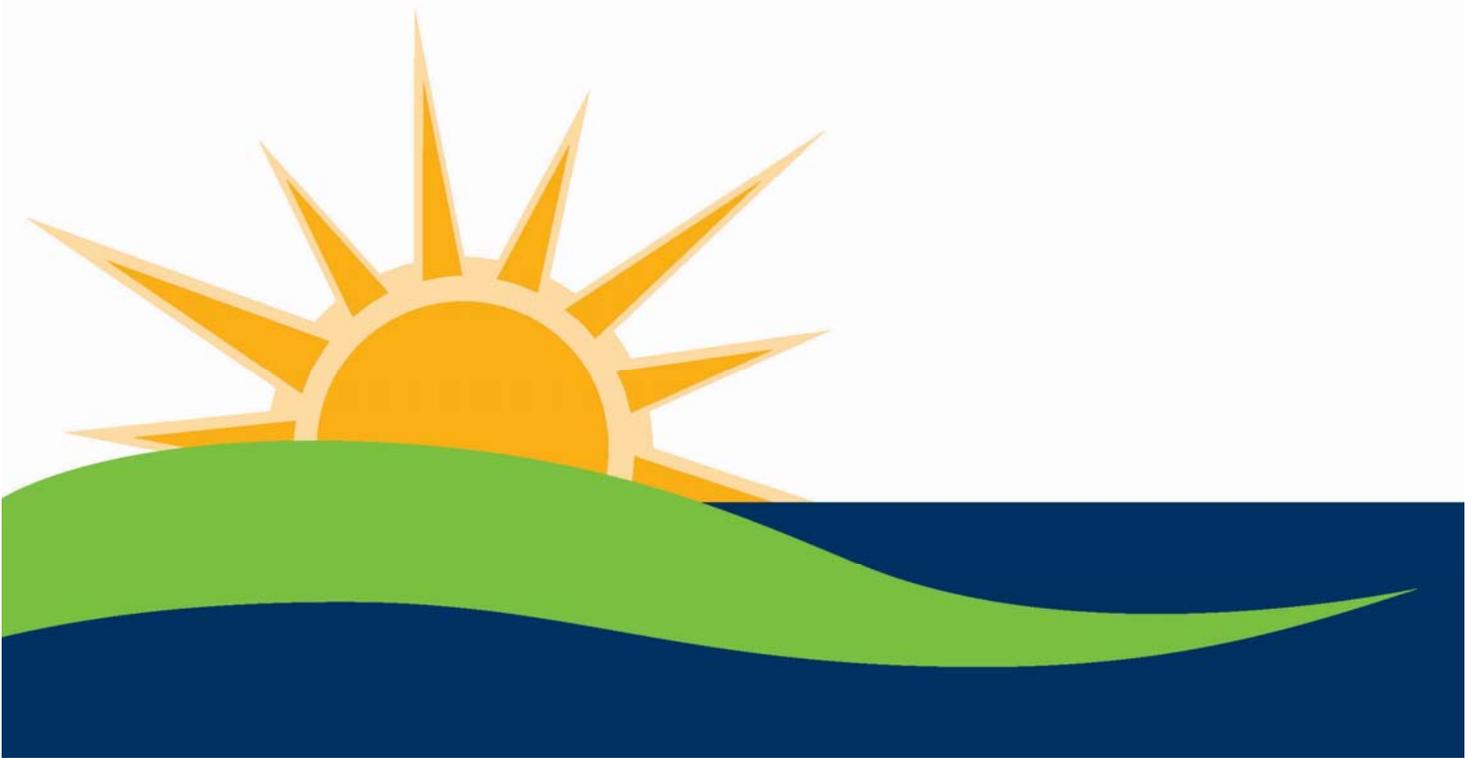


# Popular Annual Financial Report



## City of Kennewick

For the year ended

December 31, 2015

Kennewick, WA

# Letter from City Manager

Dear Citizens of Kennewick,

On behalf of the Mayor and City Council, I thank you for taking a moment to pick up and read the City of Kennewick's Popular Annual Financial Report (PAFR) for the year ended December 31, 2015. The PAFR is an unaudited, easy-to-read version of the City's Comprehensive Annual Financial Report (CAFR) that is published on an annual basis by the City's Finance Department. The CAFR document is a more detailed account of the City's financial statements, notes, schedules and statistics prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is audited by the Washington State Auditor's Office. A copy of the CAFR is also available for interested users on the City's internet page at [www.go2kennewick.com](http://www.go2kennewick.com).

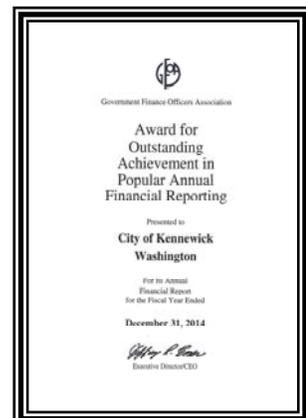
The local economy for the City of Kennewick and Tri-Cities region as a whole continued to be healthy in 2015 and reflects the consistent growth in the City and region that has been present during the last several years. Low unemployment, significant economic development and growth in the City, coupled with a number of strategic policy decisions 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.

Looking forward, 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 August of 2014, voters approved a 0.3% criminal justice sales tax in Benton County that provides funding for a number of important new public safety programs across the County. In Kennewick, this funding source is being utilized to pay for 3 existing and 12 new police officers along with 2 new police support positions and an additional Assistant City Attorney to enhance the City's public safety programs and combat criminal gang activity. The City will also complete construction of its fifth fire station in 2016, which will help the City's Fire Department to reduce emergency response times considerably. The City expects to complete the Steptoe/Bob Olson Parkway extension creating a transportation loop between Highway 240 and State Route 395 in early 2017. This connectivity will be a significant transportation enhancement to the entire region and is a top priority for Kennewick City Council. Also In 2016, the City will be working on two of its most important policy documents, with adoption of the 2017/2018 biennial budget expected to occur in November and adoption of the 10-year update to the City's comprehensive plan document expected to follow in mid-2017. There are also many exciting economic development opportunities throughout the City including further development of the Southridge area, continued redevelopment of the City's bridge to bridge and downtown areas, and master planning for the future development of the City's Vista Entertainment District in west Kennewick. It's truly an exciting time to live, work and play in Kennewick!

Thank you for your interest in the City of Kennewick and how it functions. We welcome this opportunity to let you know how the City is doing financially and provide information about the many wonderful things that are occurring in Kennewick. Please feel free to 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) if you have any questions regarding this information.

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 of 2016 for a two year term through December of 2017. Mayor Young's City Council term expires on December 31, 2019—Ward 3.

**Council Members**

**Don Britain—Ward 1**

*Don.Britain@ci.kennewick.wa.us*



**Gregory Jones-Ward 2**

*Gregory.jones@ci.kennewick.wa.us*



**Matt Boehnke—At Large**

*Matt.Boehnke@ci.kennewick.wa.us*



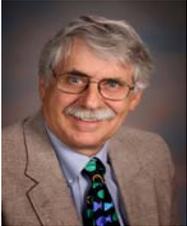
**Bob Parks—At large**

*Bob.Parks@ci.kennewick.wa.us*



**John Trumbo—Ward 3**

*John.Trumbo@ci.kennewick.wa.us*



**Paul Parish—At Large**

*Paul.Parish@ci.kennewick.wa.us*



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 work-shop 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 exercises the legislative power of the City and determines matters of policy.

**Leading The Way**

We will provide excellent public service and ensure the safety and wellbeing of our community and one another through the empowerment of each employee. *We value...*

INTEGRITY...  
 INCLUSIVENESS...  
 STEWARDSHIP...  
 AND COMMUNICATION

We are accountable to our community for innovative and collaborative efforts that anticipate needs, leverage resources and deliver solutions.

**Integrity:** We hold ourselves to the highest standard of professionalism and ethical conduct.

**Inclusiveness:** We embrace diversity and value different perspectives as we work together for the common good.

**Stewardship:** We ensure the public's resources are used responsibly to provide the greatest benefit.

**Communication:** We will listen and engage in an open, honest and timely exchange of information.



**City Council Members**

# 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 78,290, is the largest of the Tri-Cities. The Tri-Cities Metropolitan Statistical Area has a population of approximately 279,116.

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 200 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.

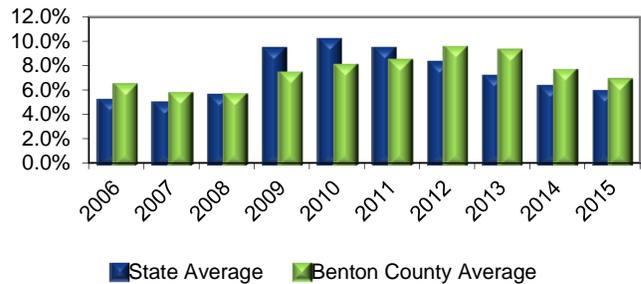
Kennewick is the regions shopping hub, and features many unique shops, public art, restaurants and a casual, easy-living vibe. Kennewick is a great place to visit and an even better place to live, come and check it out!

### Principal Employers in Area

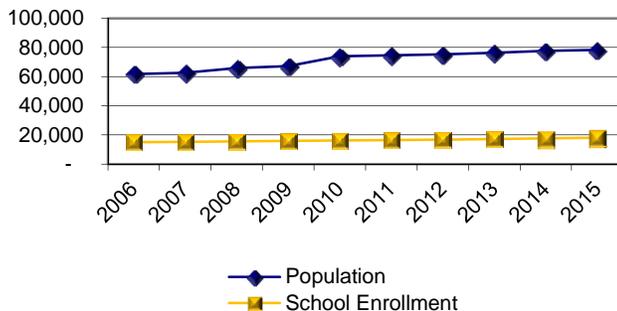
- Pacific NW National Laboratory
- Kadlec Medical Center
- Bechtel National Labs, Inc.
- ConAgra Foods/Lamb Weston
- Kennewick School District
- Pasco School District
- Mission Support Alliance
- Richland School District
- Washington River Protection Solutions



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 2015..... 18,043
- Population 2015.....78,290
- Median age 2015.....36.8
- Median household income 2015.....\$63,372
- Per capita personal income 2014.....40,956
- Benton County Average
- Unemployment Rate.....6.6%

# Where the Money Comes From...

The following is an overview of the City's financial operations for the fiscal year ended December 31, 2015. The data included in this review is not presented 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, 2015, 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 high quality 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 2015 were \$65,773,040.

Taxes are the City's most important source of funding and make up 74% of general governmental revenues. They include Sales & Use taxes (32%), Property and Road taxes (18%), Utility taxes (17%), Real Estate Excise taxes (4%), 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 and increased by 9% citywide in 2015. This increase is attributable to low unemployment, growth in new construction and a continued growth in the Cities base sales and use tax.

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 2015 by 2.6%, which was attributable to growth in the City and increased tax rolls for 2015. In total, the City's 2015 property tax levy increased by approximately \$304,000. The majority of this increase was the direct result of \$88 million in new construction value that was added to the City's assessed valuation in 2014 for the 2015 levy. The remainder of the growth in the City's 2015 levy was attributable to a 1% increase to the base levy as allowed under state law.

Real estate excise tax increased 70% or \$1.1 million during 2015 from 2014, this is related to significant new residential and commercial growth the City experienced during the year.

General Government (thousands)					
Revenue	2015	2014	2013	2012	2011
Taxes	\$48,940	\$44,051	\$43,098	\$41,839	\$41,100
Licenses & Permits	769	620	569	582	520
Intergovernmental	8,188	10,871	7,198	9,521	5,935
Charges for Services	5,579	5,748	5,737	5,507	5,149
Fines & Forfeitures	1,200	1,262	1,267	1,192	1,238
Miscellaneous	1,097	804	888	923	1,025
	<b>\$65,773</b>	<b>\$63,356</b>	<b>\$58,757</b>	<b>\$59,564</b>	<b>\$54,967</b>

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



### Where does your tax dollar go?



\*Intergovernmental revenues (including federal and state grants, state entitlements and state shared revenue) decreased by \$2.4 million in 2015 compared to 2014, primarily due to the reduction in State and Federal grants for transportation projects. The City still received over \$3 million in capital grants of which \$2 million was for the City's Steptoe /Bob Olson Parkway phase 3 street extension project during 2015. This project 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 has received capital grants of over \$2 million for Edison Street Widening and \$1.7 million for Clearwater—Leslie to US395. There were also a number of ongoing street projects that received grant revenue during 2015, this revenue source will continue to vary with capital project activity.

## Where the Money Goes...

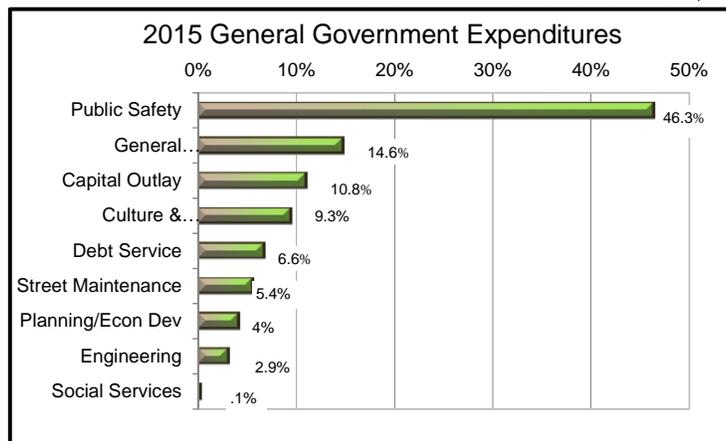
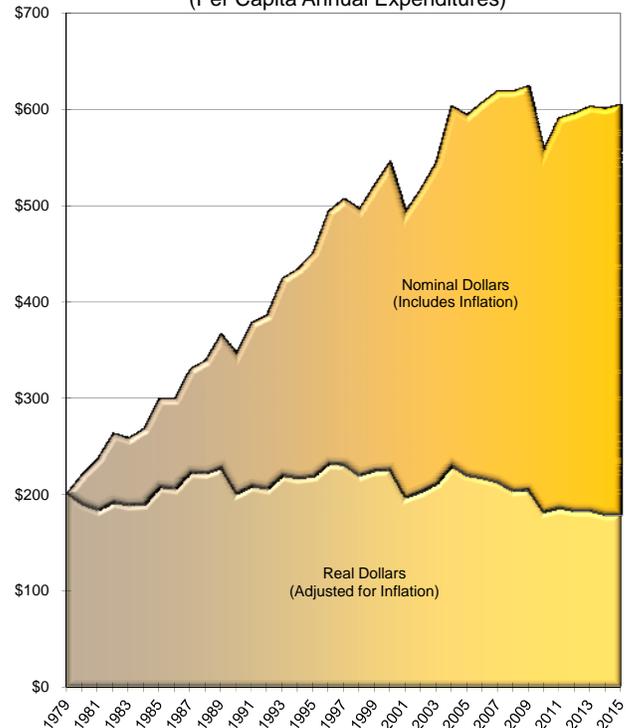
Actual activity for the City's operating funds (General and Street) during 2015 resulted in an ending fund balance of \$2.63 million, which is in excess of the fund balance needed to meet the City's budgetary policy to maintain an ending fund balance of at least 5% of annual operating expenditures. Additionally, the City also continues to maintain a Cash Reserve Fund for revenue stabilization and contingencies, which currently has a balance of \$2.72 million.

Significant expenditures during 2015 include public safety costs which were 46% of total expenditures. This is not unexpected as over half of the City's full-time equivalent employees (195.25 out of 363.85) work in public safety programs and public safety has been identified as the Kennebec City Council's highest priority.

Street Maintenance increases are mostly attributable to an increase in street maintenance projects in 2015. These projects vary each year depending on maintenance needs as well as the availability of funding for projects.

The City's capital outlays in 2015 were primarily for transportation projects including a \$3.5 million street project to construct a new section of Steptoe Street as well as completing subgrade work on Bob Olson Parkway from Sherman to Steptoe Street. A variety of other projects were in progress during 2015 for street reconstruction, new signal installations, street overlays, storm drainage park improvements, city-wide technology improvements and other information systems purchases.

TREND IN REAL EXPENDITURES  
GENERAL GOVERNMENTAL OPERATIONS  
(Per Capita Annual Expenditures)

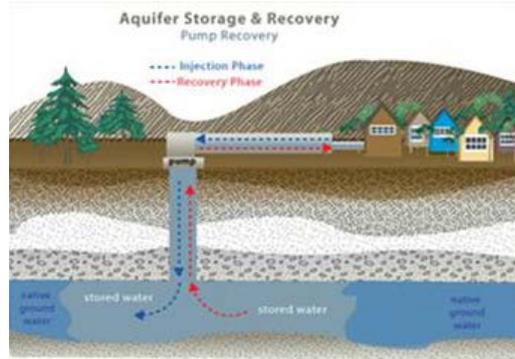


General Government (thousands)					
Expenditures by Function	2015	2014	2013	2012	2011
Public Safety	\$27,440	\$27,441	\$26,984	\$26,012	\$24,384
General Government	8,638	8,844	9,160	8,198	8,324
Culture & Recreation*	5,537	5,541	5,128	4,897	4,413
Street Maintenance	3,178	2,498	4,382	5,971	6,051
Engineering	1,738	1,753	1,593	1,910	1,903
Planning/Economic Development	2,361	2,054	1,861	2,134	1,238
Social Services*	58	50	206	59	-
Debt Service (Principal & Interest)	3,890	3,488	3,994	4,320	4,476
Capital Outlays	6,403	9,256	5,449	9,135	8,578
<b>Total</b>	<b>\$59,243</b>	<b>\$60,925</b>	<b>\$58,757</b>	<b>\$62,636</b>	<b>\$59,367</b>

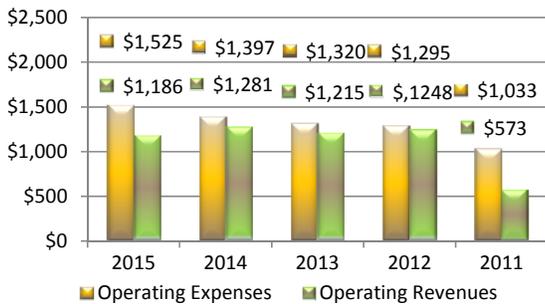
\* Beginning in 2012, certain expenditures were reclassified to new functions as a result of a state mandated restructuring of the City's account structure.

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 City's Coliseum facility.

The **Water and Sewer Fund** is by far the largest enterprise fund. The utility had 22,699 active water accounts and 17,996 active sewer accounts on December 31, 2015. The Fund had a budget of \$46.7 million for the 2015/2016 biennium, including \$10.7 million for capital projects. Current capital projects include the Aquifer Storage & Recovery (ASR) project in the Southridge area where construction is completed, but cycle testing is still underway. ASR is the use of an aquifer for storage by injecting water underground and later recovery of the water through pumping. A temporary authorization permit has been received from the Washington State Department of Ecology. This project received the 2014 Project of the Year Award in the summer of 2015 from the American Society of Civil Engineers. Many additional projects are underway including Wastewater Treatment Plant upgrades, water and sewer infrastructure for Bob Olson Parkway, and Columbia Garden Winery Wastewater Treatment Facility.



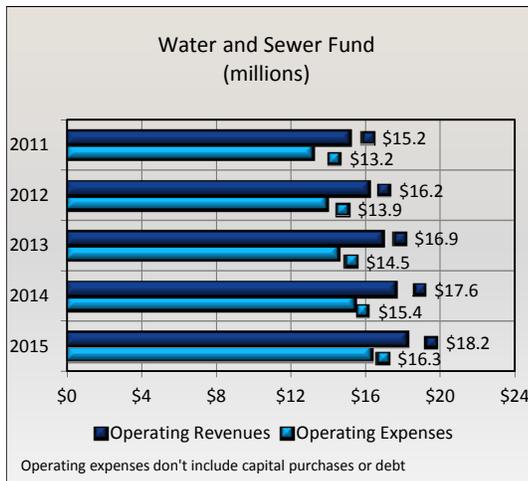
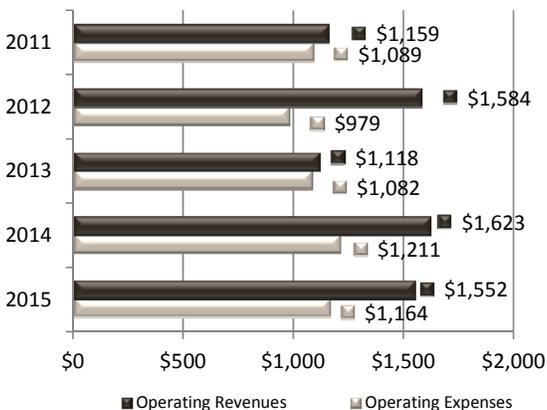
Stormwater Utility Fund (millions)



Operating transfers are not included in operating revenues.

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 customers.

Building Safety Fund (thousands)



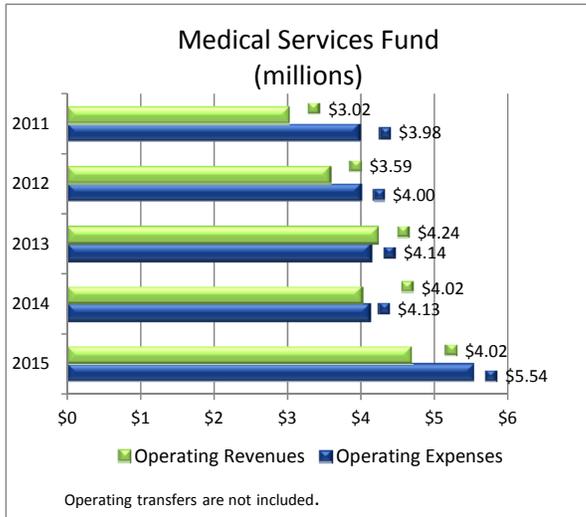
New Construction Activity		
	Comparative Totals	
	2015	2014
Single Family Permits	277	302
Commercial Permits	253	256
Other Permits	1,475	1,496
<b>Total Permits</b>	<b>2,005</b>	<b>2,054</b>
Permit Valuation	\$206,675,665	\$181,177,996
Building Permit Fees	\$1,549,559	\$1,623,412
Planning Fees	\$144,605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

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 decreased by 4.5% during 2015 when compared to 2014, however, it is important to note that building permit revenue recognized in 2014 was at the highest amount recorded in the last 10 years. Although the volume of permits was down slightly in 2015, overall valuation associated with permits increased by 14%. The increase was attributable to commercial and multi-family permit activity.

# 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. 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 \$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.

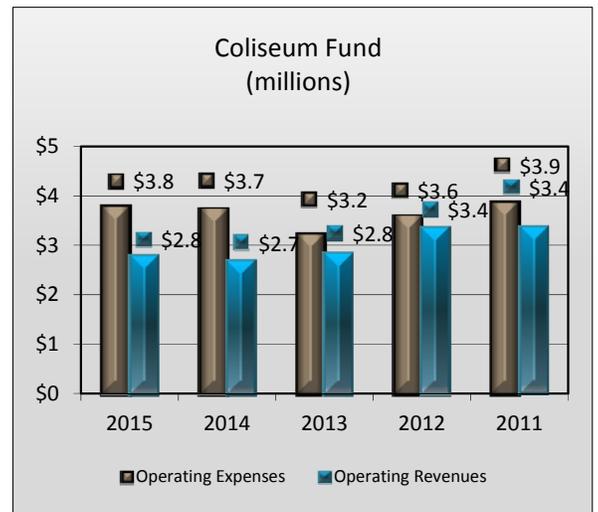
## THE TOYOTA CENTER & ARENA

### 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. The City has an agreement in place with the Kennewick Public Facilities District (KPF) Board to oversee management of the facility in conjunction with its own Three Rivers 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 2015.



# Economic Development

# New Projects

A group of about 40 Kennewick firefighters and support staff participated in the ground-breaking ceremony for the future home of **Fire Station No. 5** at 6016 W. 10th Ave. The decision to add a fire station was based not only on the demands faced by a specific area (e.g. population, incidents, traffic), but also on the needs and assets of the surrounding community. The proximity of the Department's existing fire stations (Station 2 at N. Morain Street, Station 3 near the Benton County Justice Center, and Station 4 at 27th Avenue and Ely Street) provide excellent emergency services to their respective response areas, but cannot meet response time goals in the proposed Station 5 area off of 10th Avenue. The fire station size will be between 11,000 and 12,000 sq. ft. with living quarters for six (6) staff and space to house three (3) to four (4) Fire/EMS apparatus. The fire station is scheduled to be complete at the end of summer 2016 for a cost of \$3.775 million.



**Columbia Gardens Partnership** – the City of Kennewick and Port of Kennewick continue to work together, along with other private partners to bring the vision for Columbia Gardens Phase 1 to fruition. The City Council approved an amendment to the interlocal agreement with the Port of Kennewick that better defines the work that will be completed (which consists of the Port constructing 3 new buildings and the City completing the winery effluent treatment system and streetscape improvements). The agreement provides for the work to be completed no later than October 2016. The City has also completed the trail around Duffy's Pond (shown below), which was a portion of its commitment for phase 1 of the Columbia Gardens Project.



The Southridge LRF project was established in 2009. As of December 31, 2015, 30 new businesses had located within the Southridge Area, resulting in approximately 300 new full-time jobs that generate an estimated \$12 million in wages and benefits each year.

Approximately \$15.9 million in new sales and use tax has been generated for the state and local governments within the Southridge Local Revitalization Area from 2010—2015. In 2015 alone, \$3.8 million in new sales and use tax was generated through activity within the LRF Area. Of this amount \$2.8 million went to the state and \$1 million went to local government.



### 2015 Southridge Progress

- Completion of a new \$48 million Trios Medical Care Center that is adjacent to the new Trios Health hospital.
- Completion of a \$5.6 million Hampton Inn hotel.
- Completion of a \$1.5 million development that includes new restaurants, a coffee shop, and office space.
- Continued residential and commercial growth and construction.

Southridge LRF

# Current City Projects

BEFORE

AFTER



Five Corners Roundabout



Steptoe/Hildebrand



W. 10th to Montana

**Cost per gallon...**



Coca-Cola \$2.64



Mocha \$34.00



Tide \$23.04



Chanel No. 5 \$41,600.40

City Tap Water \$0.0036



**What does your \$166 per month get you?**



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

The City of Kennewick earned the Well City Award for the sixth consecutive year during 2015. 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 2016 premiums.





210 West 6th Avenue

Kennewick, WA 99336

Phone: (509) 585-4200 / Fax: (509) 585-4383

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