City Council Workshop Agenda

August 25, 2026 at 6:30 PM

City Hall Council Chambers - 210 W 6th Ave and Virtual

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1. 2027/2028 Budget: Biennial Budget Overview & Budget Assumptions

If you need reasonable accommodations due to a disability to attend or participate in this meeting, please give us 24 hours' notice by emailing ClerkInfo@ci.kennewick.wa.us or call 509-585-4273.

Council Agenda Coversheet	Item Number:	1.	Date:	8/25/2026	Category: Info Only
	Item Type:	Presentation			
	Subject:	2027/2028 Budget: Biennial Budget Overview & Budget Assumptions			
	Department:	Finance			

Summary

Staff will provide an overview of the City's budget framework with a focus on major revenue and expenditure assumptions that are currently being utilized to develop a proposed 2027/2028 biennial budget for City Council's consideration later this year. The presentation will primarily focus on budget assumptions for the General and Street Funds, but will also touch upon major revenue sources for other governmental funds. The anticipated budget calendar will also be presented including next steps in the budgeting process.

Attachments:

1. Presentation

2027/2028 Biennial Budget Overview & Assumptions

City Council Workshop

August 25, 2026

Purpose of Presentation

- Review Budget Framework and Budget Calendar
- Overview of Major 2027/2028 Revenue and Expenditure Assumptions (General & Street Funds)
- Next Steps

Budget Framework

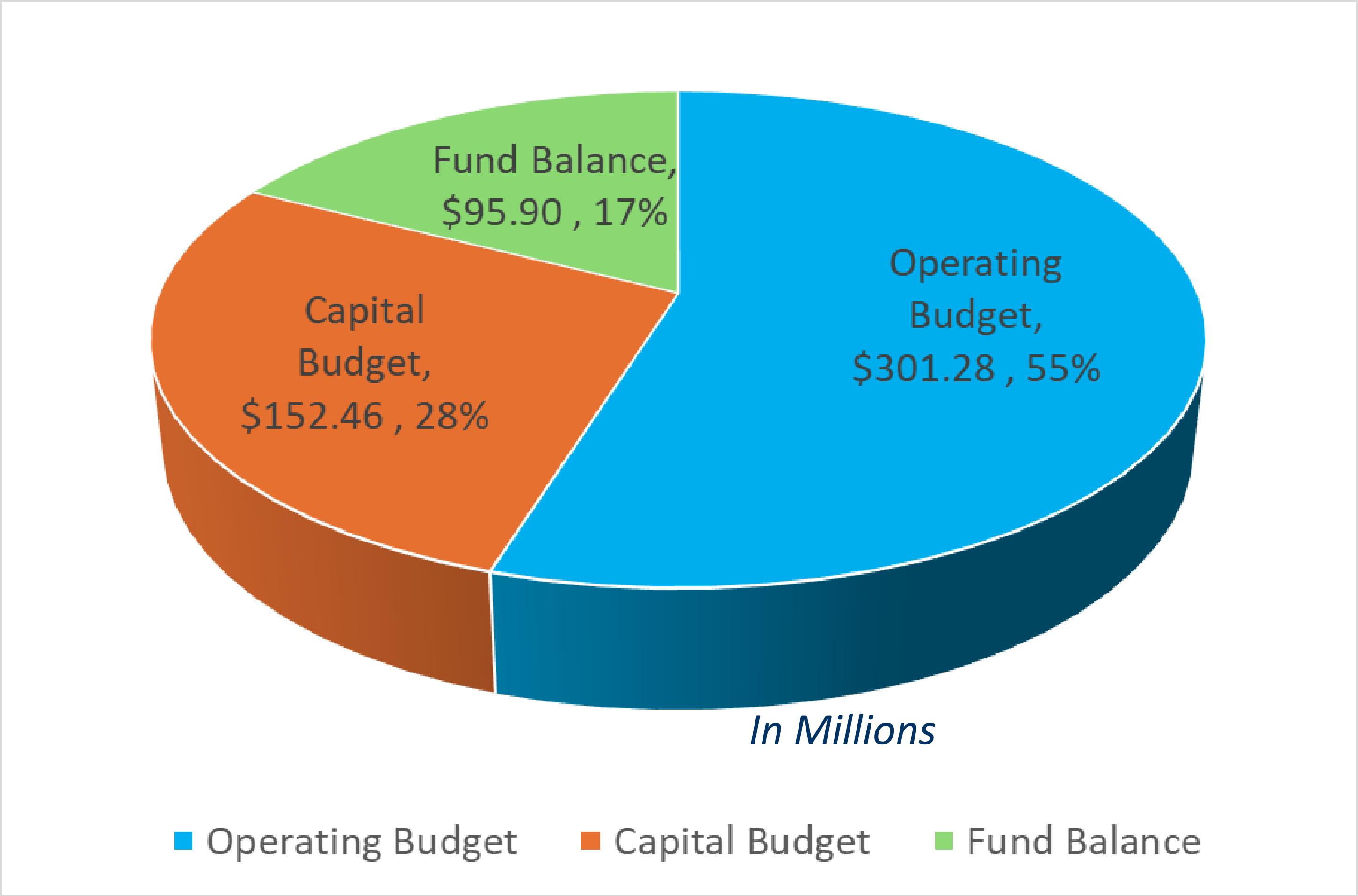
Budget Framework - Overview

- The City of Kennewick budgets on a biennial basis beginning on odd number years (e.g., 2027-2028)
- Total City budget consists of two separate but integrated budgets: Operating and Capital
  - Operating budget: general operations of the City and specific revenue-funded activities
  - Capital budget: construction projects in Transportation, Parks & Recreation, Utility, Facilities, and General Capital

Budget Framework - Overview

2025/2026 Budget

$550M



Budget Framework - Overview

Budget Structure

What's a fund and why are there so many in the budget?

- Fund Accounting
  - Funds separate cash, revenues, and expenditures in a local government's financial system
  - Types of funds: governmental funds; enterprise / proprietary; fiduciary funds
  - You can't always move money between funds – different types of money spend differently

Budget Framework - Overview

Budget Structure

General Governmental Funds:

- **General Fund:** to account for financial resources not required to be accounted for in another fund.
  - Examples: Police, Fire, Parks & Recreation, Administration
- **Special Revenue Funds:** to account for legally restricted resources.
  - Examples: Lodging Tax – Tourism Promotion, Transportation Benefit District – Street Overlay, Public Safety Tax – Public Safety
- **Capital Projects Funds:** to account for financial resources to be used for acquisition or construction of capital facilities.
  - Examples: Parks, Transportation, Facilities
- **Debt Service Funds:** to account for resources accumulated for the repayment of debt.
  - Example: Debt Payment for New Fire Station

Overlaying W. 10th Ave.

Budget Framework - Overview

Budget Structure

Proprietary Funds:

- **<u>Enterprise Funds</u>:** to account for operations that are financed and operated in a manner similar to a private business
  - Examples: Water, Sewer, Medical Services – Ambulance, Building Services, Stormwater, Coliseum, Golf Course

- **<u>Internal Service Funds</u>:** to account for financing of goods or services provided by one department to another within the government.
  - Example: Risk Management

Budget Framework - Overview

Budget Structure

Trust and Custodial Funds:

- To account for assets held by a government in a trustee capacity.
  - Examples: Firemen's Pension Fund, Other Post- Employment Benefit Fund

Budget Framework - Overview

- City Financial / Budgetary Policy Framework
  - Keep the City in a fiscally sound position in both the short and long terms
  - Maintain sufficient financial liquidity to meet normal operating and contingency obligations
  - Protect the City from catastrophic losses
  - Have service users pay their fair share of program costs
  - Operate utilities in a responsive and fiscally sound manner
  - Maintain existing infrastructure and capital assets
  - Debt and cash management policies

Budget Framework - Overview

- Reserves
  - General Governmental
    - Maintain fund balance equal to 7.5% of operating expenditures to meet cash flow requirements in the general governmental operating funds (General Fund and Street Fund) ~ $5.1M in 2025
    - Maintain Cash Reserve Fund for revenue stabilization and contingencies, City will increase the Cash Reserve Fund annually by CPI (not less than 2%) ~ $3.5M current balance

Budget Process Schedule

Anticipated Schedule	Activity
March 2026	City Council Retreat
April 2026	Department Head Retreat
May – July 2026	Budget Instructions & Preparation
August – September 2026	Budget Request Review and Modification
August – October 2026	Council Budget Workshops
September 2026	Council Workshop Water/Sewer/Stormwater Utility Rate Discussions
October 2026	City Manager Prepares Preliminary 2027-2028 Budget and Copies Made Available to the Public
November	Public Hearing and Setting 2027 Property Tax Levy
November – December 2026	Public Hearing(s) and 2027-2028 Budget Adoption

2027/2028 Major Revenue and Expenditure Assumptions

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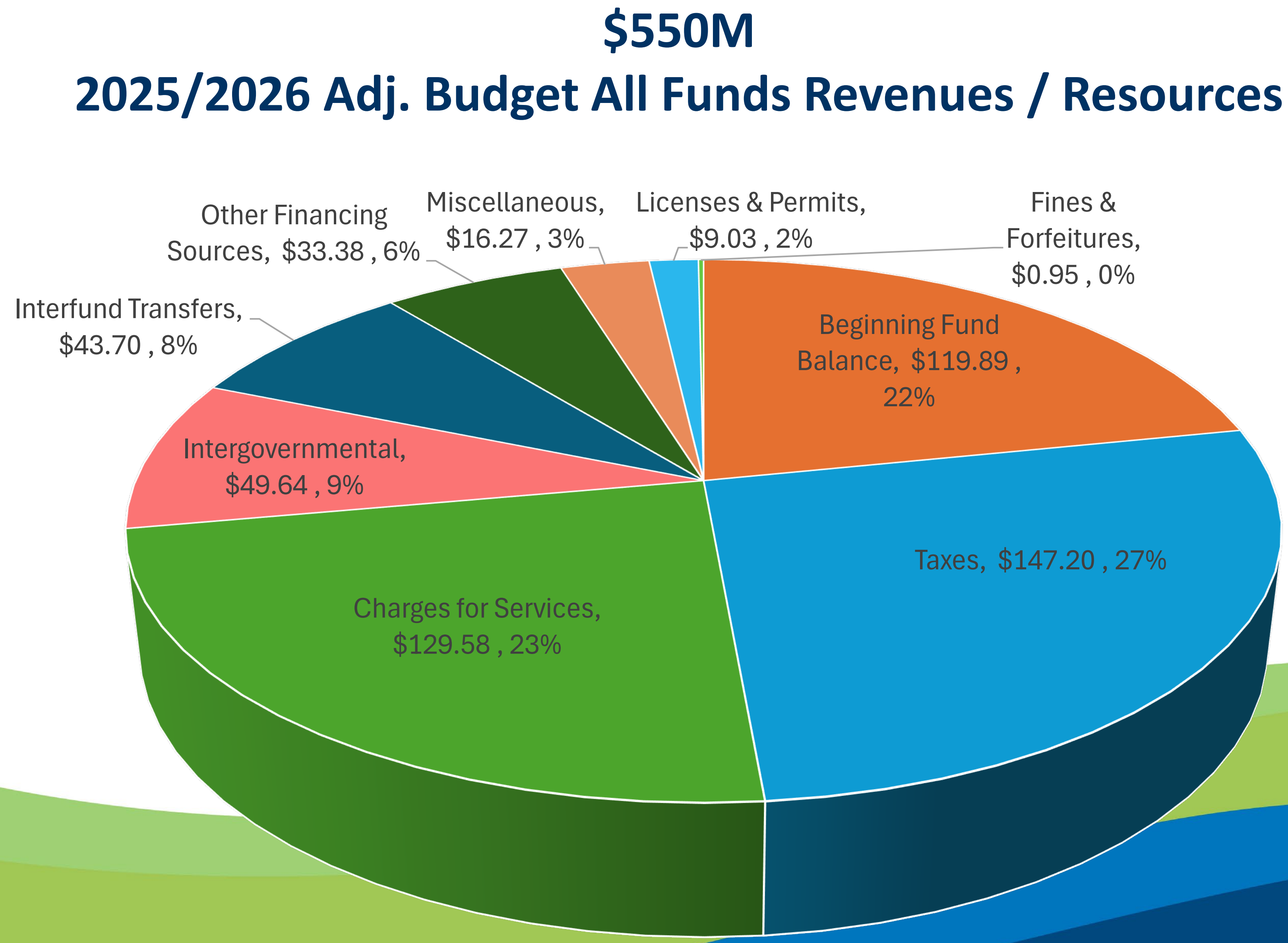
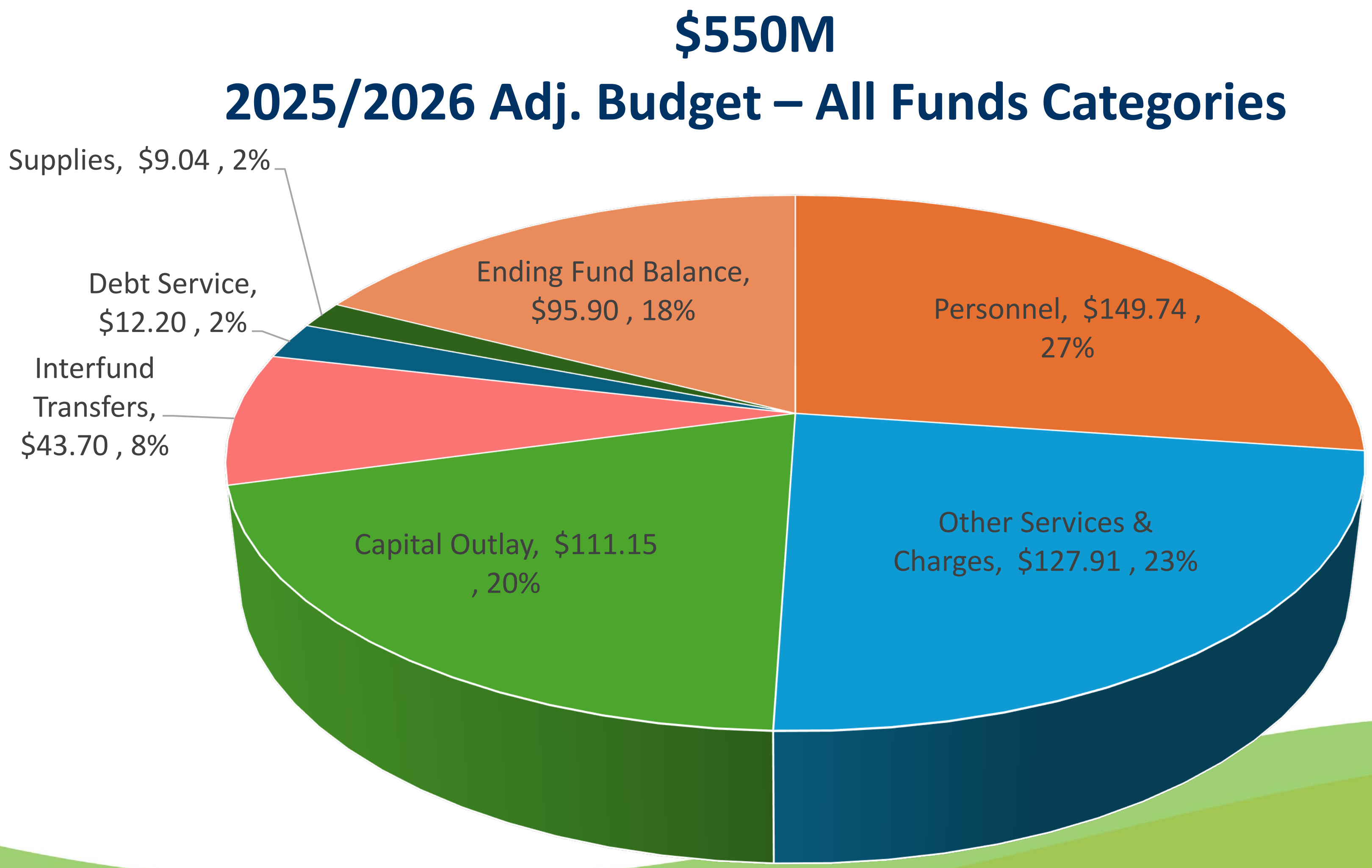
WASHINGTON

Budget Overview – All Funds (In Millions)



Budget Overview – All Funds (In Millions)



Note: Three Rivers Convention Center Expansion contribution budgeted under Other Services & Charges $24.6M

Budget Overview - General and Street Funds

- Major Sources of Revenue:

Three major sources of revenue: Property, Sales, & Utility Taxes

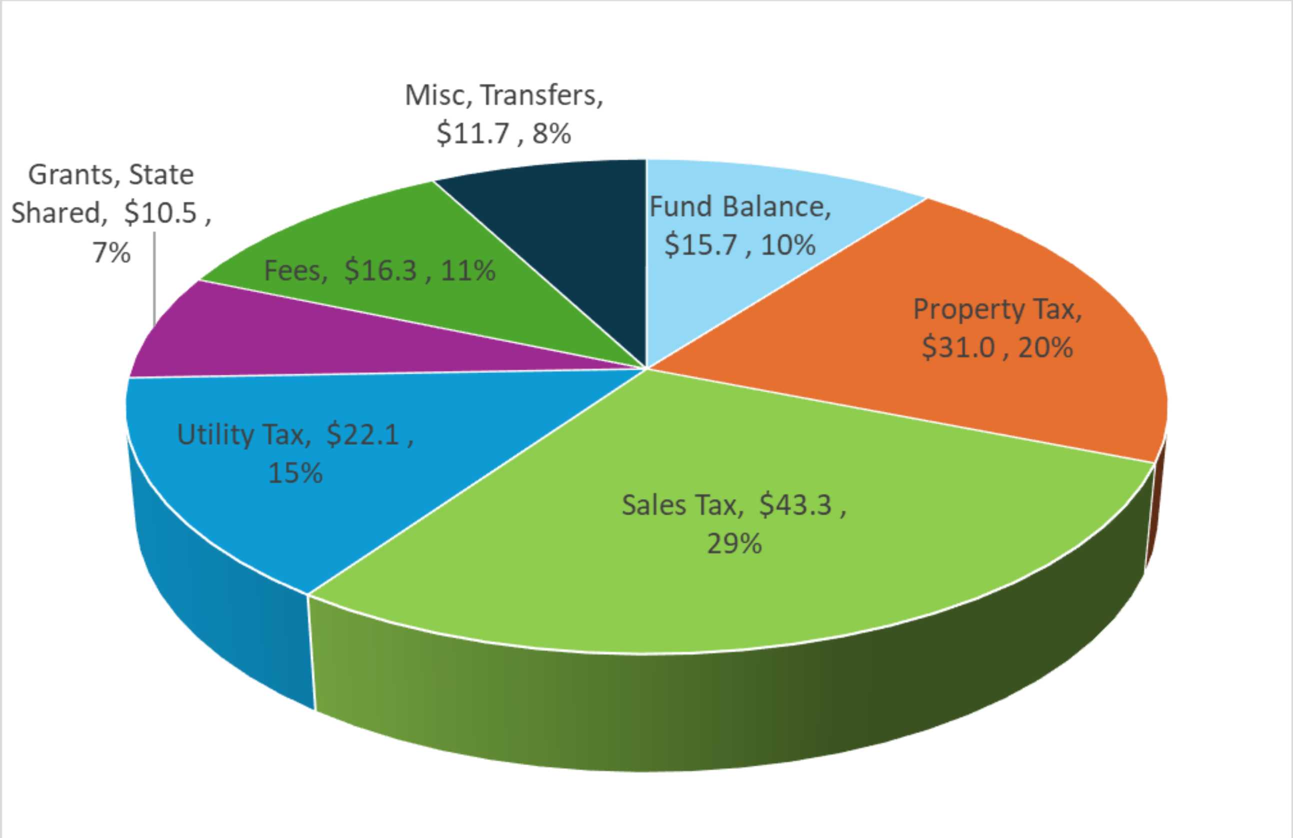
(64% of total revenues)

Note: Excludes $450K transfer from General Fund to Street Fund

2025-2026 Adopted Revenue Budget

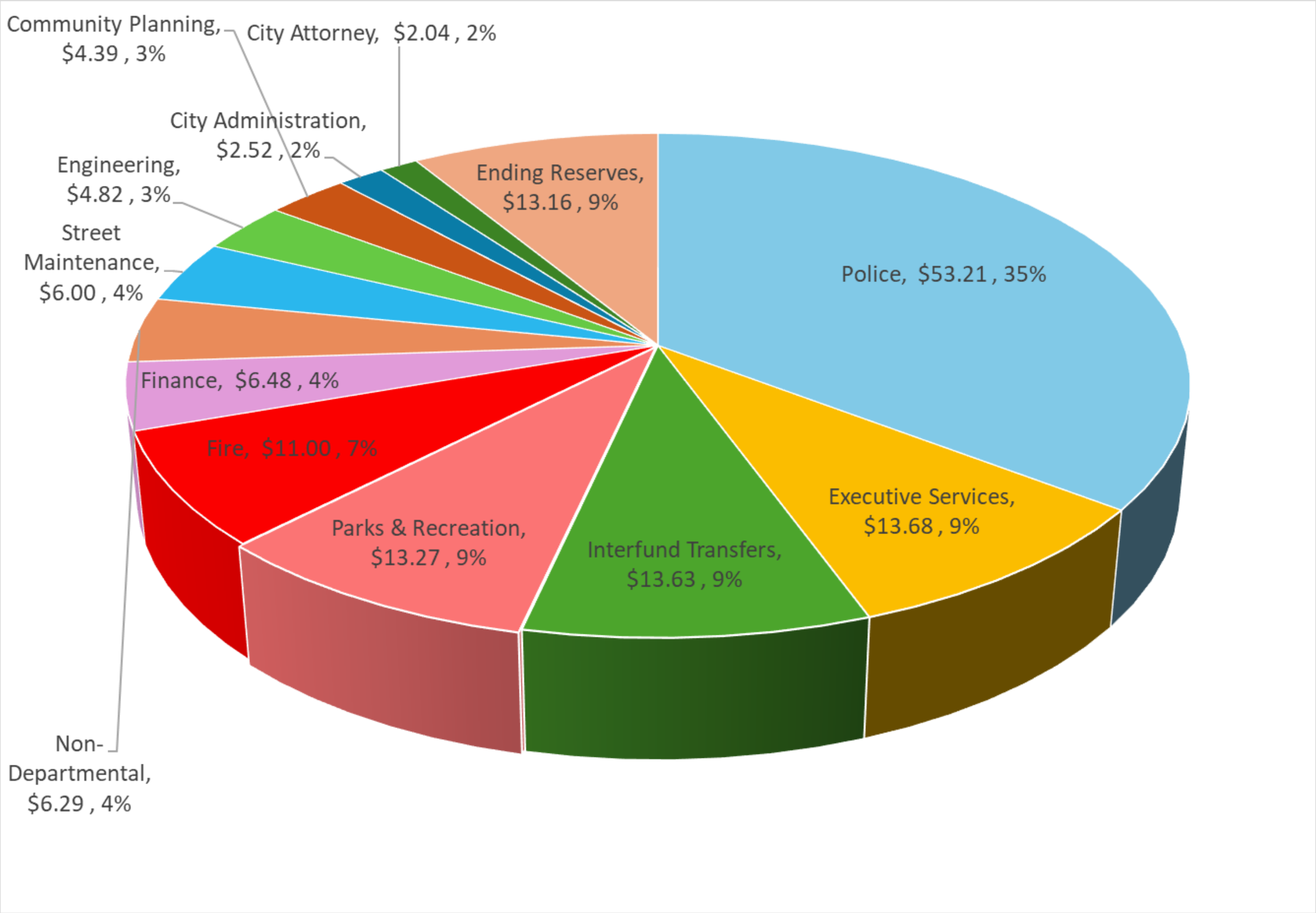
$150.5M

(In Millions)



Budget Overview - General & Street Funds Expenditures

2025-2026 Adopted Expenditure Budget $150.5M
(In Millions)



2027/2028 Major Revenue Assumptions

Economic Conditions

National

- Economy has displayed steady resilience with a slowing growth pace
- Unemployment decreased to 4.1% in July 2026
- Inflation remains somewhat elevated due to high energy prices
- Uncertainty about the economic outlook remains elevated
- US GDP grew by 2.2% for the full year of 2025, slowing from 2.4% in 2024
- GDP increased at an annual rate of 1.5% in the second quarter of 2026, increases in consumer spending, investment, and exports
- July 2026 – CPI 3.4 and CPI-W 3.4

State

- Job growth gains in June and July, unemployment rate decreased slightly to 5%
- Vehicle sales continue to trend down
- Housing construction increased during the second quarter
- Exports increased in the second quarter of 2026 due to strong growth in transportation equipment

Local

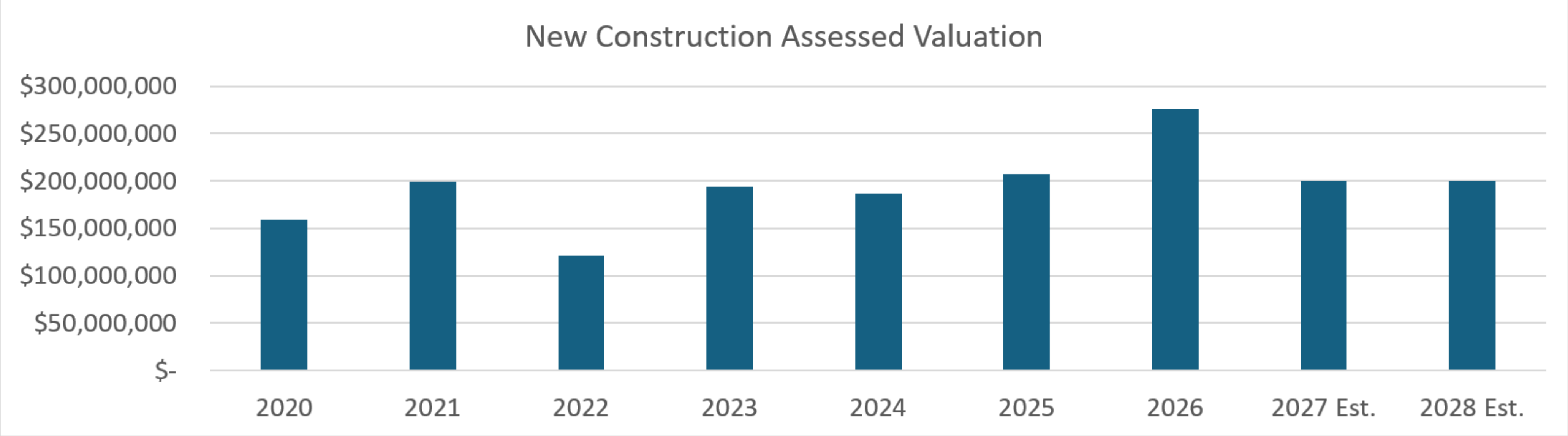
- Kennewick-Pasco-Richland preliminary unemployment rate for June decreased from 4.9% to 4.3%
- Business sectors experiencing job gains include Education & Health Services, Transportation & Utilities, and Professional & Business Services

2027/2028 Major Revenue Assumptions

- Economic Conditions
  - Local – Kennewick Highlights
    - Residential and commercial building activity was strong in 2025 and remains somewhat elevated in 2026
      - Single family permits issued January through July in 2026 increased compared to the prior year (188 permits issued in 2026 compared to 177 permits issued in 2025)
      - Commercial permit valuation January through December declined compared to the prior year from $82M to $51M
    - In 2025, retail sales tax increased 6.6% ($1.7M) compared to the prior year, this was primarily fueled by new construction (one-time revenue). In 2026, sales tax has increased 3% compared to the prior year.
    - Elevated inflation is continuing to impact the City's budget, from personnel to capital expenditures

2027/2028 Major Revenue Assumptions

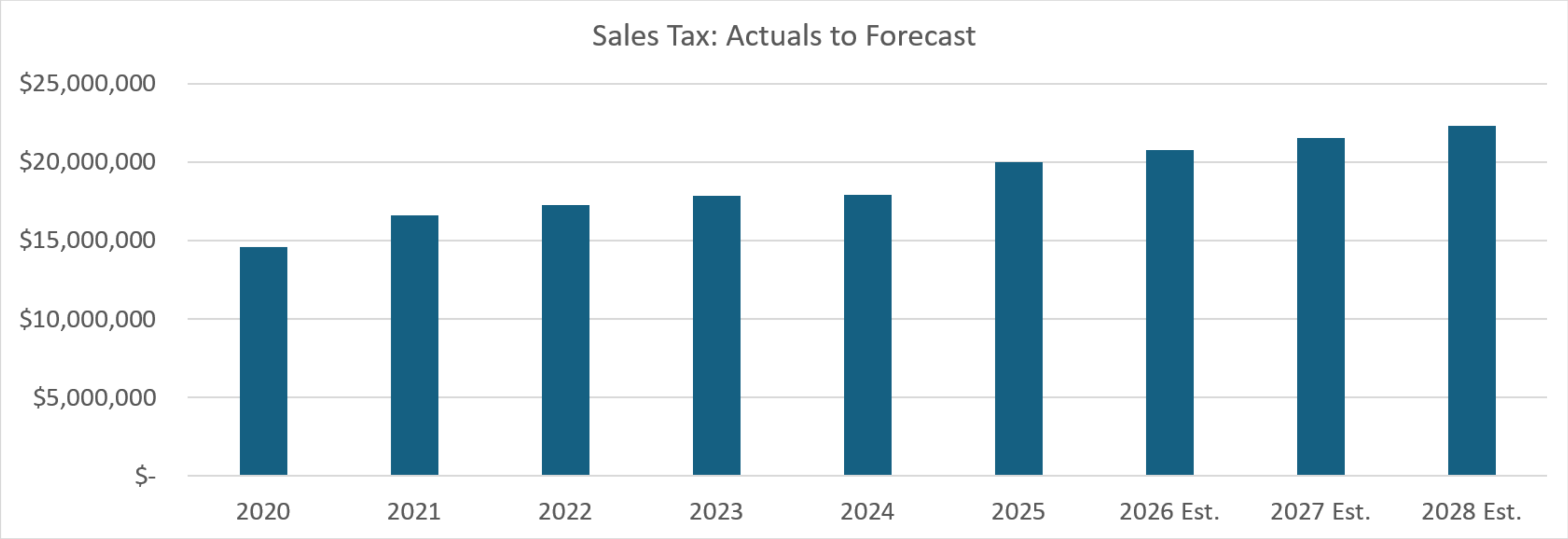
- Major Assumptions – Property Tax
  - Property tax revenue:
    - 1% growth in base levy beginning in 2027, plus new construction
    - New construction valuation estimated at $200M each year beginning in 2027 (with 40% of growth in Southridge Local Revitalization Area)
    - New construction reduced to 1.5% from 2.18% of the Assessed Valuation anticipate some slowing of development



Note: The first preliminary values from Benton County are anticipated to be sent at the end of September

2027/2028 Major Revenue Assumptions

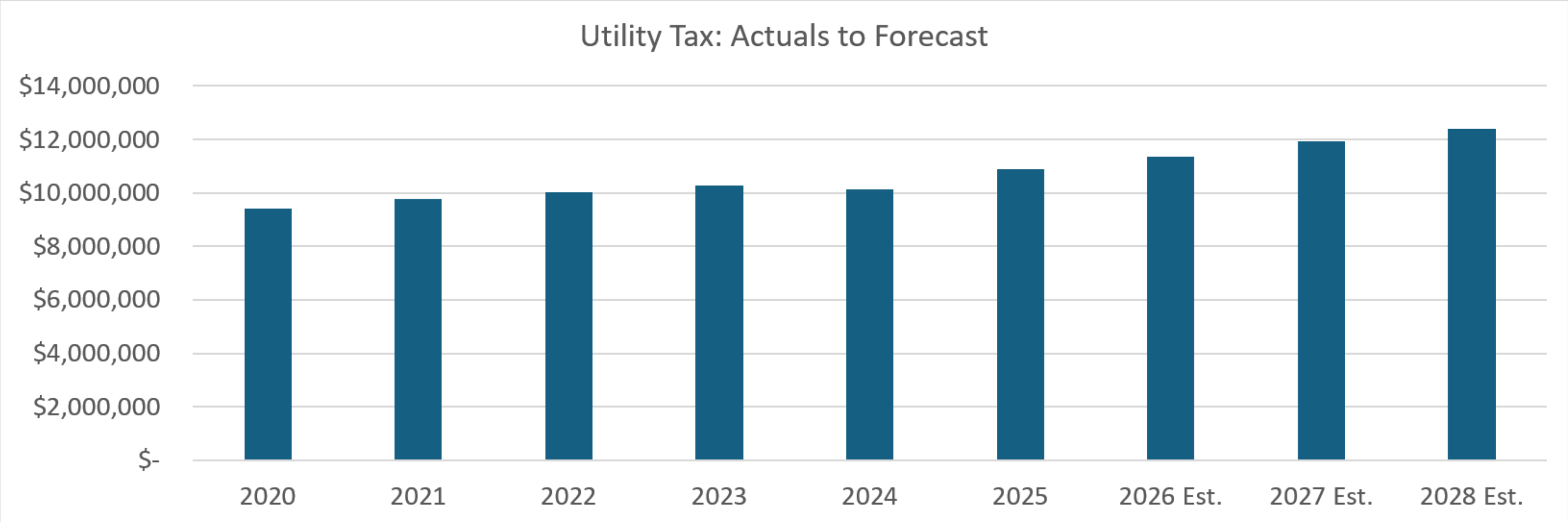
- Major Assumptions – Sales Tax
  - Anticipates slowing of sales tax generated from new construction beginning in 2027
  - Assumes an average annual sales tax growth of 3.5%



Note: 2025 increase partly attributed to shifting sales tax from CIP to General Fund to pay for new Axon contract for Public Safety.

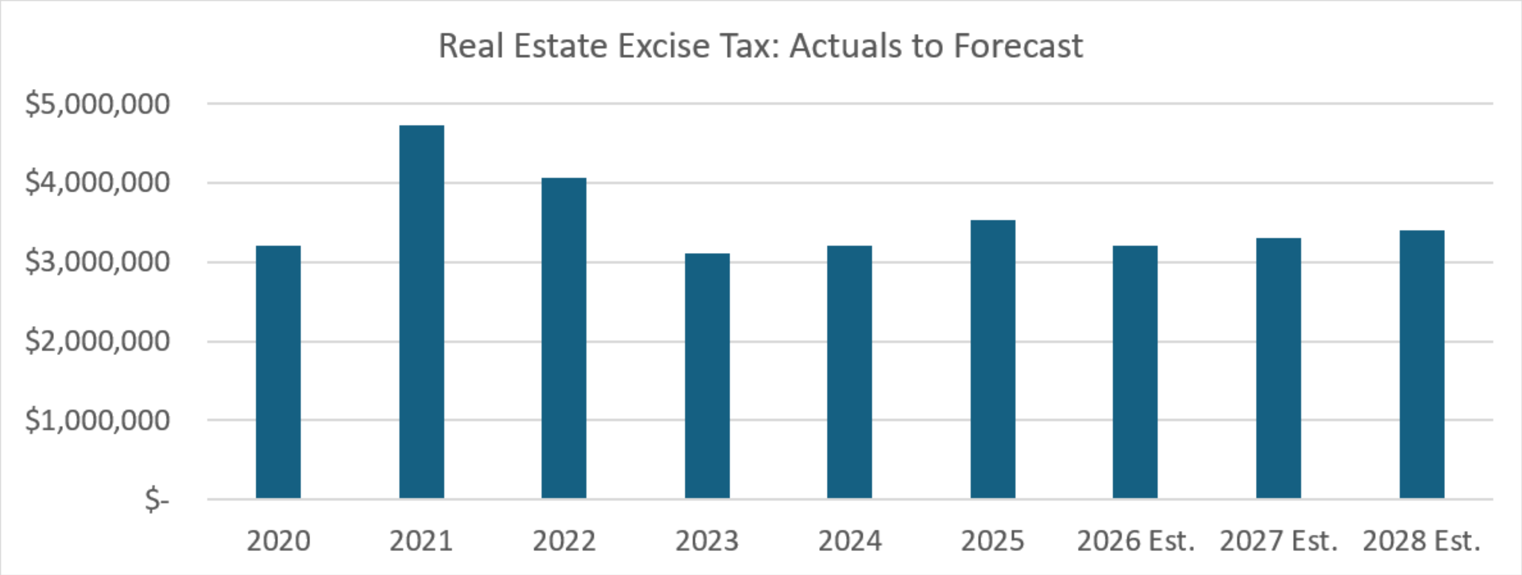
2027/2028 Major Revenue Assumptions

- Major Assumptions – Utility Tax
  - Aggregate utility tax revenues to increase 4% on average, assumed no changes to City utility tax rates
  - Telephone and cable utility tax revenues predicted to continue declining
    - Telephone 4% annual decrease
    - Cable 5% annual decrease
  - Utility tax on other privately owned utilities – continue trend of paced level of consumption, assumes customer gross and applicable rate increases
  - Utility tax on water/sewer/stormwater – assumes customer growth and projected rate increases



2027/2028 Major Revenue Assumptions

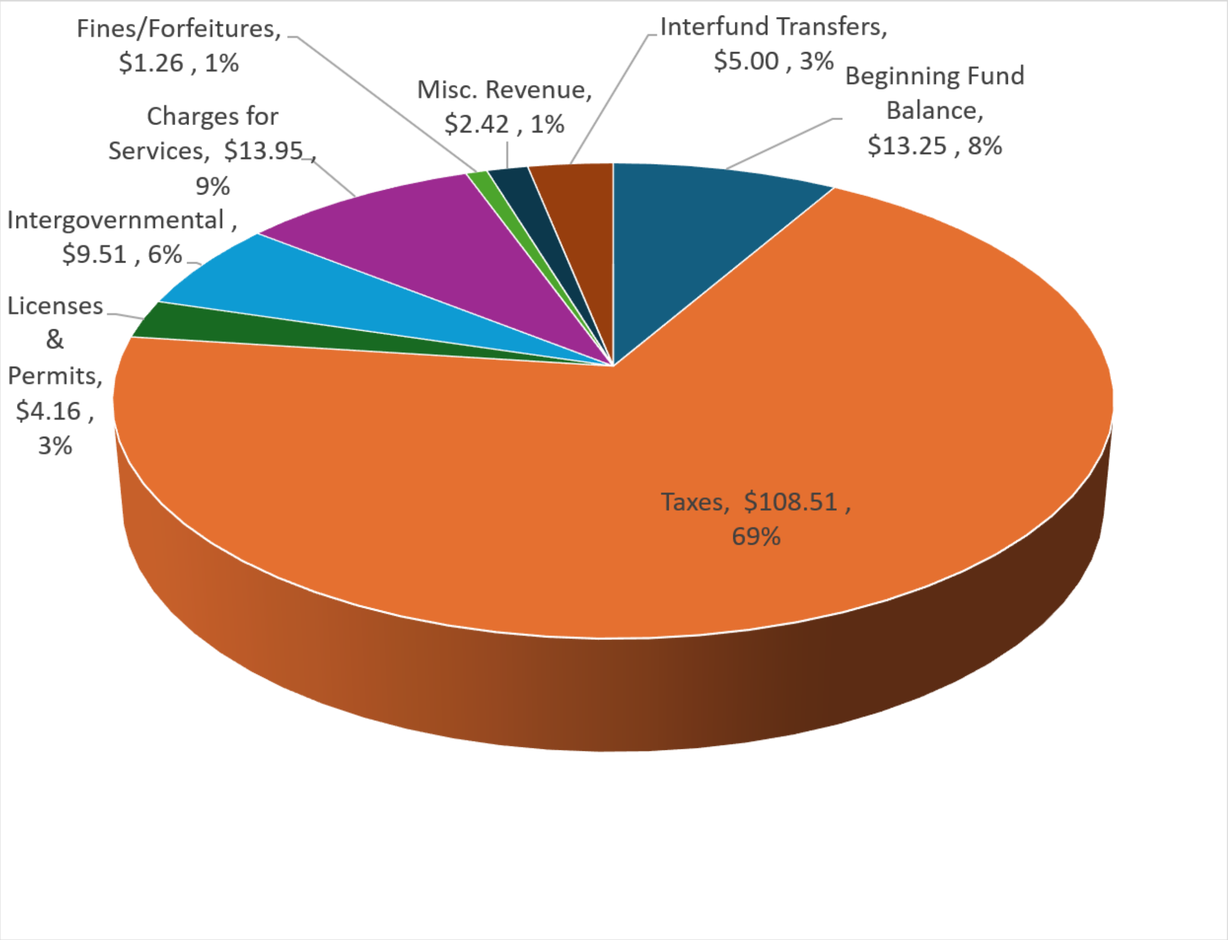
- State Shared Revenues – No change to existing allocations
- Other Revenues – Generally 2% increases per year
- Lodging Tax Revenue – 2% growth per year
  - Restricted funding source for tourism promotion and operation of city owned tourism facilities
- Real Estate Excise Tax (REET) – 3% growth per year
  - Restricted funding source allocated to the capital improvement program



Projected Sources of Funding
2027/2028 General and Street Funds

2027/2028 Projected Sources = $158M

(3.5% Incr. for biennium compared 2025/2026 current adjusted budget)



2027/2028 Major Expenditure Assumptions

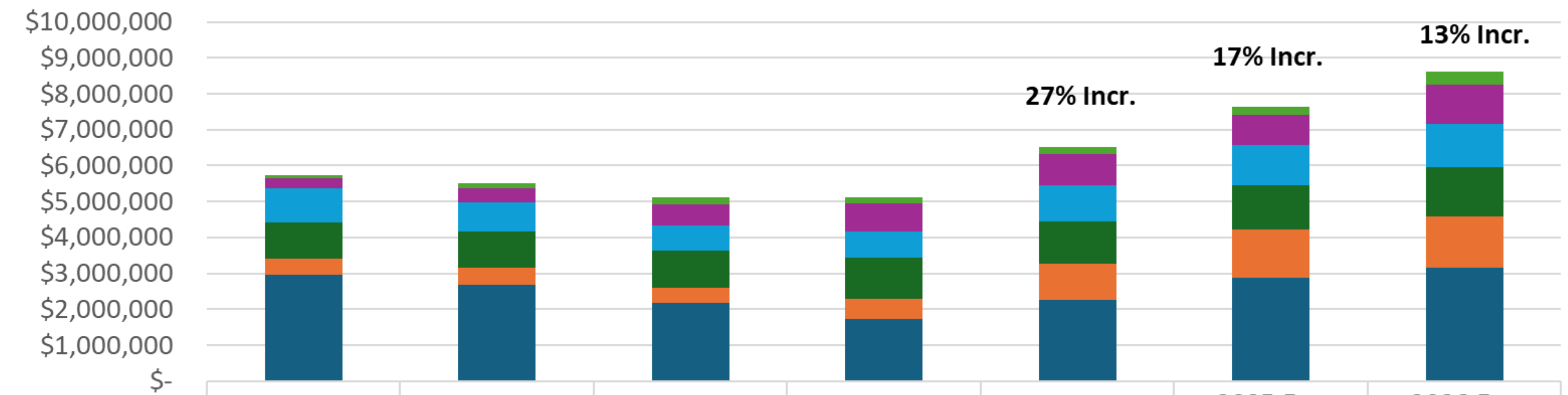
- Salaries & Wages – Per contract terms or projected terms
- Medical Rates – 13% increase in 2027 & 8% increase in 2028
  - 2027 medical premium rates have not been finalized by AWC Employee Benefit Trust
- Retirement Rates – Per DRS projections
- Dental – 3% increase in 2027 and 3% increase in 2028
- L&I – 8% increase in 2027 and 8% increase in 2028
- Other Benefit Rates –
  - Vision – 0% increase in 2027 and 3% increase in 2028
  - LTD – 3% increase in 2027 and 3% increase in 2028
  - Life Insurance – 3% increase in 2027 and 3% increase in 2028

2027/2028 Major Expenditure Assumptions

- Supplies and Services
  - No increases where possible, remain at 2025/2026 budget level
  - Inflationary increase considerations for contract services and utilities
- No New Program Requests in the General/Street Funds

2027/2028 Major Expenditure Assumptions

- General Fund Major Contract Services – Jail, Office of Public Defense (OPD), Benton County Emergency Services (BCES), District Court, Animal Control, BI-PIN



	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Est. Actual	2026 Est. Actual
BI-PIN	$80,696	$151,913	$185,232	$184,222	$186,501	$205,289	$345,141
Animal Control	$267,193	$372,019	$596,650	$776,105	$859,633	$844,622	$1,104,398
District Court	$962,576	$819,210	$707,624	$721,942	$1,018,295	$1,118,490	$1,207,969
BCES	$993,206	$1,021,353	$1,034,217	$1,160,975	$1,182,467	$1,235,936	$1,359,684
OPD	$473,312	$473,516	$408,152	$560,501	$996,882	$1,358,712	$1,426,472
Jail	$2,945,455	$2,673,725	$2,184,854	$1,725,589	$2,262,842	$2,866,352	$3,159,496

2027/2028 Major Expenditure Assumptions

- Major Contract Assumptions -

Service	25/26 Adjusted Budget Amount	27/28 Est. Amount	$ Diff	% Increase / (Decrease)	2026 Allocation	2027 Allocation
Jail Services	$5.99M	$6.43M	$0.44M	7%	13.99%	12.68%
District Court	$2.35M	$3.26M	$0.91M	39%	26.55%	27.34%
Office of Public Defense	$2.79M	$3.16M	$0.37M	13%	46.82%	Pending
Benton County Emergency Services (BCES)	$2.57M	$3.02M	$0.45M	18%		
Total	**$13.70M**	**$15.87M**	**$2.17M**	**16%**		

Note: Estimates are preliminary. The City anticipates receiving budget estimates from the County and BCES in September / October. The 2027 allocation for Office of Public Defense is anticipated to be received in late August or September.

General and Street Funds Forecast Review

- Anticipating expenditures to outpace revenues in 2027 and beyond
- Contributing Factors
  - Softening and, in some cases, declining revenues
    - Declining revenues includes telephone and cable utility taxes and gas tax
  - Significant inflationary increases across all departments
  - New and expanded General Fund initiatives without new additional revenues

General and Street Funds Forecast Review

- March Council Retreat reviewed anticipated 2027/2028 $11.4M structural budget gap
- Due to anticipated budget shortfall in the General and Street Funds, departments were asked to:
  - critically review every program and line item to ensure that it is being operated in the most effective manner possible;
  - ensure that resources are properly allocated to the highest priority programs and services; and
  - justify any increases over the 2025/2026 budget after backing out one-time new programs.
- Staff worked collaboratively to identify $3M in reductions primarily through personnel cost savings (including freezing some vacant positions) and remaining at 2025/2026 baseline for supplies and services

Next Steps

- Budget Must be Balanced
  - Staff is working on options to continue to bridge the gap for Council consideration
  - Options are anticipated to be discussed at a September workshop

Questions / Discussion