



CITY COUNCIL AGENDA BILL 19-29

AGENDA BILL NO.: 19-29

TITLE: Fiscal Sustainability Plan – Budget Strategies Recap and Draft Implementation Plan

TOTAL PAGES: 88

ORIGINATING DEPT.: Executive

EXHIBITS:

1. Fiscal Sustainability Plan – Budget Strategies Analyses and Recommendations
2. Draft Implementation Action Plan

ACTION PROPOSED: Discussion of Fiscal Sustainability Plan with review of a Draft Implementation Action Plan

SUMMARY

City Council will be presented with an overview and recap of previous work done in 2019 on a proposed Fiscal Sustainability Plan. In addition, City Council will review and discuss a proposed Draft Implementation Action Plan for potential future adoption.

FISCAL IMPACT

No fiscal impact as this is only a discussion item. See attached tables for potential fiscal impacts.

BACKGROUND

Management Partners has been working with the City of Newcastle for over a year to identify potential budget strategies to address the City's General Fund fiscal gap identified in its six-year forecast. The following actions have been taken to date:

- **Conducted an independent analysis of the City's six-year forecast.** Management Partners conducted an independent review of the City's General Fund forecast in December 2018 and offered several recommendations that would improve the forecast. The fiscal dashboard created indicated that the City's General Fund was projected to have an annual fiscal gap where expenditures and transfers would exceed revenues, growing to \$2 million per year by FY 2024. Without corrective action, reserves would be almost fully depleted by FY 2022 and in a deficit position by FY 2023.

- **Developed budget strategies.** Management Partners then conducted an analysis of various budget strategies to address the fiscal gap and bring fiscal sustainability to the City's General Fund. A combination of revenue enhancements, expenditure controls/cost shifts, service delivery changes, and service level reductions were identified. Management Partners presented three different budget scenarios that included a mix of budget strategies that would address the fiscal gap if they were successfully implemented. The scenarios ranged from revenue-centric to expenditure-centric solutions. They were presented to the City Council at its May 14, 2019 meeting. Council members did not decide on any specific set of strategies, but instead directed staff to move forward with a community engagement initiative as part of the City's annual Town Hall meeting before selecting any strategies for implementation.
- **Presented at the City's Town Hall Meeting on Fiscal Sustainability Issues.** A Town Hall meeting was held on June 18, 2019 to share information about the City's financial condition and to obtain input from the community on their perspectives based on the information shared. Management Partners presented an overview of the City's financial condition. Budget strategies were not presented during the meeting, but several community members were knowledgeable about the discussions held by the City Council at its May meeting. Community members asked questions and provided their opinions about the City's financial condition and services.
- **Participated in City Council's review of budget strategies after the Town Hall meeting.** The City Council then met on July 2, 2019 to review the previously presented budget scenarios in light of the discussions held at the Town Hall Meeting two weeks prior. Council members determined that the timing was not right to select any set of strategies. However, there appeared to be majority consensus forming regarding a set of strategies that would address the fiscal gap (discussed further below). Council's direction was to discuss budget options at its August 15, 2019 retreat and move forward with preparation of the FY 2020 annual budget.

Budget Scenarios Considered

Please refer to Exhibit 1 "Fiscal Sustainability Plan – Budget Strategies Analyses and Recommendations" report (from the May 14, 2019 City Council meeting) for this evening's meeting. The three budget scenarios presented to the City Council at that time are summarized below.

- **Budget Scenario 1 – Strong Revenue Enhancement Strategies.** This scenario relied primarily on revenue enhancements to resolve the fiscal gap. The more significant strategies included implementation of a utility tax (UT), an admissions tax for use of the golf course, and implementation of a Transportation Benefits District (TBD).
- **Budget Scenario 2 – Balanced Approach of Moderate Revenue Enhancement, Expenditure Controls, and Service Level Reductions.** This scenario attempted to moderate revenue enhancements with expenditure controls and service level reductions. This scenario still relied on implementation of a UT and admissions tax but eliminated the Accountant position and consolidated the roles of Community Activities Coordinator and contracted Communications Coordinator.
- **Budget Scenario 3 – Strong Operating Expenditure and Service Level Reductions with Moderate Revenue Enhancements.** This scenario focused primarily on expenditure reductions with some moderate revenue enhancements. An admissions tax was still included in this scenario, but the UT was eliminated from consideration. Instead, this scenario relied on the eliminating one police officer position, the accountant position, eliminating community events and communications coordinator functions, and would still require an additional \$1.15 million in expenditure reductions by FY 2023 to resolve the fiscal gap.

DISCUSSION

During the discussion of the various budget scenarios at the City Council's July 2 meeting, the Finance Committee presented an option for Council consideration to address the fiscal gap using the budget strategies discussed in May. This scenario included the following strategies to resolve the fiscal gap:

- **Utility Tax.** Implement a UT starting in FY 2020 that would increase the rate enough to generate \$2 million in annual revenues by FY 2024.
- **Cost Recovery for Development Services.** Implement solutions identified in the Management Partners report to increase cost recovery of development services totaling \$80,000 by FY 2024.
- **Merge the Community Activities Coordinator and Communications Coordinator positions.** Implement solutions identified in the Management Partners report to combine the roles of these two functions into a Community Engagement Coordinator.
- **Accountant.** Freeze the Accountant position until FY 2020, when the position would be filled through a recruitment.

This solution would resolve the fiscal gap and maintain reserves above the targeted 25% of annual operating expenditures.

Council members were unanimous in acknowledging that the City's projected fiscal gap is real and needs to be addressed. However, there was disagreement over how and when to address the problem. At the time, there appeared to be a possible majority consensus to move forward with the strategies detailed above, which would form the basis of a fiscal sustainability plan. Before a fiscal sustainability action plan is finalized, however, Council members must agree on the chosen set of strategies to pursue.

Draft Fiscal Sustainability Action Plan

While there is still some time to address this gap and implement an action plan to resolve the structural deficit, City Council will need to take action in the next few months to adequately address it. Based on the scenario that Council members discussed at the July 2, 2019 meeting as indicated above, Management Partners has refined the scenario using the latest draft fiscal forecast. The detailed strategies in this scenario are listed in Table 1 below.

Table 1. Budget Strategies for Implementation in Fiscal Sustainability Plan

Budget Strategy	Description	Timing/Amount	Fiscal Impact
Utility Tax	Implement a UT by Council resolution, adding a Utility Tax section to the City's Municipal Code	Implementation by July 1, 2020. See Table 2 for UT tax rates proposed	FY 2020 - \$330,000 FY 2021 - \$1,036,000 FY 2022 - \$1,370,000 FY 2023 - \$1,705,000 FY 2024 - \$2,043,000
Cost Recovery for Development Services	Update the City's fees and charges for development-related services (e.g., planning permits, plan check, building permits)	Implementation of new fees and charges on or before January 1, 2021	FY 2021 and ongoing – \$50,000
Merge the Community Activities Coordinator and Communications Coordinator Positions	Terminate the contract for a Communications Coordinator and revise the job description for Community Activities Coordinator to include communications functions and retitle it as Community Engagement Coordinator	Implement by January 1, 2020	FY 2020 and ongoing – \$50,000

To achieve the fiscal impact for implementation of the UT, it is estimated that the tax rates for the various utility services would need to be implemented as indicated in Table 2.

Table 2. Proposed UT Implementation Timing and Tax Rates by Service

Utility Service	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024 and thereafter
Electric and Natural Gas	2.0%	3.0%	4.0%	5.0%	6.0%
Telephone and Cellular	2.0%	3.0%	4.0%	5.0%	6.0%
Cable TV	2.0%	3.0%	4.0%	5.0%	6.0%
Solid Waste	2.0%	3.0%	3.0%	3.0%	3.0%
Water	2.0%	3.0%	4.0%	5.0%	6.0%
Wastewater (Sewer)	2.0%	3.0%	4.0%	5.0%	6.0%

Note: Implementation of the tax rate for each year is proposed to be January 1, except for FY 2020 when the implementation date would be as early as July 1 but before July 1. Percentages in red indicate new or changed tax rates.

The scenario discussed by the City Council on July 2, 2019 also included the potential to bank the 1% property tax levy growth in FY 2024 to the extent that the financial forecast indicated the ability to do so. This item is not incorporated into the fiscal sustainability plan but is a choice that the Council can make based on the financial performance of the City at that time.

ACTION RECOMMENDED

Discussion item only. However, staff is requesting direction on whether to move forward with a final version of the Implementation Action Plan.
