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Subject: Fiscal Sustainability Plan – Budget Strategies Analyses and
Recommendations

Date: May 9, 2019

Executive Summary

Management Partners has been working with the City of Newcastle during the past several months to identify potential budget strategies that would form the basis of a fiscal sustainability plan to address the City's General Fund fiscal gap identified in its six-year financial forecast.

The six-year forecast for FY 2019 through FY 2024 was developed by staff. Management Partners analyzed the forecast, which shows that revenues are expected to outpace expenditures through FY 2024 and would likely continue beyond that time. The long-term disparity between revenue and expenditure growth curves primarily relate to the 1% limitation on the annual property tax levy increase per state law, and binding interest arbitration for police and fire personnel that requires the City to meet cost of living adjustments and comparable compensation packages per the requirements under State law. The City contracts for police services with the King County Sheriff's Office and for fire services with the City of Bellevue, and the underlying personnel costs in those agreements will continue to rise beyond the statutory revenue growth limitations.

City leaders must find options to enhance revenue growth in future years. Without significant development or redevelopment projects that would generate one-time construction tax revenues, there will need to be further cuts to service levels.

The fiscal model assumes that revenue growth will be moderate, anticipates a mild recession in 2021 (not currently reflected in the six-year forecast in the adopted FY 2019 budget) resulting in a 5% reduction in selected General Fund revenues and with recovery by 2023, and expenditure growth based on inflationary factors of a modest 3%.

With these baseline assumptions in place, the forecast projects a slight deficit of \$140,000 in FY 2019. Starting in FY 2020, a structural deficit grows from \$1.3 million in FY 2020 to \$2.1 million by FY 2024. Without corrective action, the City's General Fund will be almost fully depleted by FY 2022 and will be in a deficit position by FY 2023.

Given the magnitude and timing of the budget deficit forecast, Management Partners conducted an independent analysis of the City's revenues and costs of service delivery relative to the General Fund to develop options, or strategies, for addressing the challenge. The strategies are provided in Attachment A. They were developed along a continuum that included:

- Expenditure control/cost shifts,
- Service delivery changes designed to reduce expenditures,
- Revenue enhancement opportunities, and
- Service level reductions.

Arraying ideas along such a continuum reflects the priority any organization would have for preserving service delivery to the maximum extent possible consistent with maintaining solvency.

The strategies were developed based on a combination of factors, including Management Partners' experience about approaches other cities and counties throughout Washington state and in other parts of the country are taking as they consider options to address structural deficits. We also identified ideas based on the City's unique opportunities and organizational climate. Several dozen potential strategies were developed in the categories described above.

An important element in developing an appropriate package of strategies for the City is the size and timing of the forecast deficit. Given the timing and size of the fiscal gap (growing to nearly 17% of annual operating expenditures), City leaders need to implement significant revenue and expenditure adjustments relatively quickly. Absent such actions, they will almost certainly need to implement significant service level reductions to save \$1.6 million by 2021, growing to \$2.1 million annually by FY 2024 (which represents the least desirable outcome). Such an approach might require positions to be left vacant, or even to consider layoffs, to preserve solvency. In addition, such actions are always disruptive to an organization and often affect operations for a long time.

The City's reliance on contracted services for police and fire and a relatively small employee base will make it extremely challenging to implement \$2.1 million in cost reductions. Doing so will most certainly decimate existing service levels. The City will be in a reactive mode for many of its service delivery functions and would be ill-prepared to deal with significant unforeseen events.

City leaders must take action in the very near term to implement planned and considered deficit reduction strategies. Given the nature of the growing fiscal deficit, and the organizational structure and service delivery mechanisms, without revenue enhancements the City will be hard pressed to resolve its structural imbalance in future years. Because revenue strategies often require voter approval, timing is a critical issue.

Organization of this Memorandum

This memo consists of the following sections and attachments:

- **Comparative Research on Revenues and Expenditures.** This section highlights the results of our comparative research of significant General Fund revenues and expenditures for Newcastle compared with 10 other agencies.
- **Determining Feasibility.** This section discusses the factors used in determining the feasibility of each strategy.
- **Strategies Considered.** This section identifies the feasibility tiers to which each strategy was assigned.
- **Budget Strategy Scenarios.** This section discusses three different scenarios that take varied approaches to solve the fiscal gap:
 - Budget Scenario 1: Strong Revenue Strategies, Minor Expenditure Reductions
 - Budget Scenario 2: Balanced Approach—Moderate Revenue Enhancement Strategies, Moderate Expenditure Controls, and Minor Service Level Reductions
 - Budget Scenario 3: Strong Operating Expenditure and Service Level Reductions, Moderate Revenue Enhancement Strategies
- **Attachment A – Detailed Strategies.** This attachment provides an analysis of each of the budget strategies and is organized by four strategy types:
 - **Expenditure Controls/Cost Shifts.** Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.
 - **Service Delivery Changes.** Maintaining service levels by changing the way that services are delivered, either through contracting for services or insourcing services from other agencies.
 - **Revenue Enhancements.** Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.
 - **Service Level Reductions.** If the above strategy types do not yield sufficient fiscal savings to the General Fund, the City would need to explore service level reduction strategies in order to achieve fiscal sustainability.
- **Attachment B – Other Strategies Identified Not Specifically Analyzed.** This attachment provides a list of other strategies that were identified during the course of our work but, due to the potential for little or no material impact on the significant fiscal gap, were not researched in detail; however a brief discussion of each strategy identified is included.

Comparative Research on Revenues and Expenditures

In order to understand the relative potential of revenue-generating strategies compared with cost reduction strategies, Management Partners compared General Fund revenues and expenditures for Newcastle and other peer cities in the Puget Sound region. Peer agencies were selected based on incorporated cities in the state of Washington that fall within a 25% range above and below Newcastle in terms of both population and median household income. Data for each criterion were taken from the 2013-2017 *American Community Survey Five-Year Estimates*. We then added Bellevue, Issaquah, Mercer Island and Renton as agencies that are directly adjacent to Newcastle, given the remote possibility to consider a strategy of disincorporation or re-annexation. The peers selected for this comparison are presented in Table 1.

Table 1. Comparable Agencies Selected for Peer Research

County	City	Population	Median Household Income	Within 25% Range
King	Bellevue	142,400	\$105,402	No; Higher Population, Adjacent
	Enumclaw	11,660	\$55,082	No, Lower Income
	Issaquah	37,110	\$100,844	No; Higher Population, Adjacent
	Maple Valley	25,280	\$102,130	No, Higher Population
	Lake Forest Park	13,090	\$101,429	Yes
	Mercer Island	24,270	\$136,644	No; Higher Population, Adjacent
	Renton	104,100	\$70,661	No; Higher Population, Lower Income, Adjacent
	Sammamish	63,470	\$157,271	No; City-selected Comparable Agency
	Snoqualmie	13,450	\$136,508	Yes
	Woodinville	11,830	\$102,006	Yes
Benton	West Richland	15,320	\$84,419	No, Lower Income
Pierce	Edgewood	10,990	\$90,544	Yes
Snohomish	Mill Creek	20,470	\$93,063	No, Higher Population
King	Newcastle	12,410	\$118,333	

Sources: Washington Office of Financial Management Population Projections April 2018; American Community Survey 2013-2017 Five-Year Estimate Median Household Income Projections

Based on the criteria detailed above, Newcastle has few direct peers: Lake Forest Park, Snoqualmie, and Woodinville in King County; and Edgewood in Pierce County. While Newcastle's population is close to the regional median population, it is set apart by its median income.

Compared with cities statewide, Newcastle's median income is one of the highest among cities with populations between 8,500 and 14,000, second only to Snoqualmie. On the other hand, Newcastle is in the bottom third in terms of population among cities with median incomes between \$88,000 and \$145,000 per year. Therefore, Enumclaw, Maple Valley, Sammamish, Mill

Creek and West Richland were added to supplement the initial selection and ensure that comparisons are representative of King County and the greater Puget Sound region.

Jurisdictions in this peer group were compared in terms of projected total General Fund revenue, General Fund revenue by source, and total expenditures for the 2019 budget period. Whenever possible, reported single-year budgets were used to most closely match Newcastle's budgeting process. In the case of Lake Forest Park and Mill Creek, which provided biennial budgets that were not disaggregated by year, reported revenues and expenditures were halved to approximate a single year. To normalize General Fund revenue data across cities, we opted to compare budget information on a per capita basis.

Newcastle's total General Fund revenues fall below the median per capita, which would be Renton at \$991, and approximately \$194 (or 22%) below the average per capita for these peer agencies. Total General Fund revenues, population, and General Fund revenues per capita, as well as Newcastle's relative position, are shown in Table 2.

Table 2. General Fund Revenues per Capita, Newcastle and Peers

Agency	Total General Fund Revenues for 2019 Budget ¹	Population	General Fund Revenues per Capita for 2019 Budget
Issaquah ¹	\$45,722,067	37,110	\$1,232
Enumclaw	\$13,693,017	11,660	\$1,174
Bellevue ¹	\$158,964,000	142,400	\$1,116
Snoqualmie ¹	\$14,824,844	13,450	\$1,102
Mercer Island ¹	\$25,988,194	24,270	\$1,071
Woodinville	\$11,839,393	11,830	\$1,001
Renton	\$103,147,010	104,100	\$991
Lake Forest Park	\$9,874,866	13,090	\$754
Mill Creek	\$14,097,683	20,470	\$689
Newcastle ¹	\$8,326,620	12,410	\$671
Edgewood	\$7,051,198	10,990	\$642
Sammamish ¹	\$35,474,253	63,470	\$559
Maple Valley	\$11,646,910	25,280	\$461
West Richland	\$6,909,110	15,320	\$451
Peer Average per Capita Revenue			\$865

¹ Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.

Examining total General Fund revenues per capita on their own may obscure imbalances in revenue generation. Taken in isolation, property tax per capita is higher in Newcastle than the peer average when factoring in those agencies with separate fire districts that are supported by

their own property tax levies. Revenue generated by property tax per Newcastle resident is \$269 per capita, which is \$42 (or 19%) higher than the per capita peer average of \$227. Property taxes constitute nearly half of the City's General Fund revenue. While relatively high at 49.6%, or about 17.2% above the average of 32.4%, Newcastle's General Fund is less dependent on property taxes than Sammamish and Mill Creek. Property tax revenue, on a per capita basis and its relation to all General Fund revenue, is shown in Table 3 below.

Table 3. General Fund Property Tax Revenue per Capita, Newcastle and Peers

Agency	Property Tax Amount for 2019 Budget ¹	Property Tax per Capita	Percent of General Fund Revenue for 2019 Budget
Mill Creek	\$7,900,000	\$386	56.0%
Snoqualmie ¹	\$4,917,970	\$366	45.0%
Sammamish ¹	\$20,868,750	\$329	66.6%
Woodinville	\$3,400,000	\$287	28.7%
Newcastle ¹	\$3,342,998	\$269	49.6%
Lake Forest Park	\$3,274,346	\$250	33.2%
Mercer Island ¹	\$5,829,159	\$240	38.2%
Renton	\$20,885,254	\$201	20.3%
Enumclaw	\$2,031,237	\$174	14.8%
Edgewood	\$1,796,735	\$163	25.5%
Maple Valley	\$3,953,670	\$156	34.0%
West Richland	\$1,814,603	\$118	26.3%
Issaquah ¹	\$2,024,989	\$55	17.3%
Bellevue ¹	Below Zero ²	N/A	18.0%
Peer Average per Capita Property Tax Revenue		\$227	32.4%

¹ Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.

² Bellevue's property tax revenues are insufficient to cover the costs associated with fire prevention services. They rely on sales tax generation to support public safety, which includes both police and fire services.

Newcastle's 2019 levy rate is \$1.49304 per \$1,000 of valuation. When adjusted for fire services, however, the levy rate is \$0.92493 per \$1,000 valuation, approximately 6.5% below the peer average levy of \$0.99425 per \$1,000 of valuation. The City also higher home values relative to its peers. Newcastle's median home value of \$624,500 ranks fourth among peer cities and is 28% higher than the peer average of \$487,454. Median home value, homes per square mile, and property tax levy rates for Newcastle and its peers are shown below in Table 4.

Table 4. Comparison of Factors Influencing Property Tax Revenues, Newcastle and Peers

Agency	Median Home Value	Homes per Square Mile	Levy Rate (Adjusted) ¹
West Richland	\$163,300	442.2	1.80872
Mill Creek	\$445,800	1,733.8	1.68149
Snoqualmie ¹	\$514,100	668.6	1.44913
Enumclaw	\$254,100	1,152.4	1.31320
Sammamish ¹	\$679,900	1,175.6	1.12572
Renton	\$339,800	1,751.6	1.11778
Lake Forest Park	\$506,600	1,515.0	1.00469
Edgewood	\$337,800	465.9	0.99372
Maple Valley	\$345,900	1,571.7	0.95652
Newcastle ¹	\$624,500	1,002.9	0.92493
Woodinville	\$546,800	896.3	0.82737
Mercer Island ¹	\$1,034,600	1,644.0	0.43661
Issaquah ¹	\$502,500	1,357.5	0.21027
Bellevue ¹	\$665,700	1,881.2	0.00000 ²
Average	\$487,454	1,250.4	0.99425

Sources: American Community Survey 2017; County Assessors' Offices for 2019

¹ Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.

² Bellevue's property tax revenues are insufficient to cover the costs associated with fire prevention services. They rely on sales tax generation to support public safety, which includes both police and fire services.

As Table 5 shows, Newcastle's per capita sales tax revenues is \$147 for 2019, which is 38% lower than the per capita average of \$236. Woodinville's per capita sales tax generation is significantly higher than the peers given its greater ability to attract non-residents with its thriving winery industry. Extracting Woodinville from the comparison, the average sales tax per capita would be \$206, which places Newcastle 29% lower than the average. At 16.7%, the City's sales tax revenues as a proportion of the General Fund are third-lowest among its peers.

Table 5. General Fund Sales Tax Revenues per Capita, Newcastle and Peers

Agency	Sales Tax Revenues for 2019 Budget	Sales Tax per Capita	Percent of General Fund Revenue for 2019 Budget
Woodinville	\$7,023,198	\$594	59.3%
Bellevue	\$55,195,000	\$388	26.3%
Issaquah	\$12,000,000	\$323	22.8%
Renton	\$30,570,813	\$294	29.6%
Enumclaw	\$3,360,000	\$288	24.5%

Agency	Sales Tax Revenues for 2019 Budget	Sales Tax per Capita	Percent of General Fund Revenue for 2019 Budget
Snoqualmie	\$2,936,165	\$218	16.3%
Mercer Island	\$5,129,942	\$211	15.7%
Maple Valley	\$4,803,990	\$190	41.3%
Mill Creek	\$3,357,500	\$164	23.8%
Newcastle	\$1,818,920	\$147	16.7%
Sammamish	\$7,400,000	\$117	16.9%
Edgewood	\$1,279,541	\$116	18.2%
Lake Forest Park	\$1,448,316	\$111	14.7%
West Richland	\$1,239,956	\$81	18.0%
Average Sales Tax per Capita		\$236	25.2%

Given already high per capita property taxes and the difficulty of increasing sales tax revenues over the short term, utility users' taxes (UUT) may represent Newcastle's best opportunity for per capita revenue generation. Newcastle does not currently have a UUT ordinance, a trait shared by only two of its peers, Sammamish and Mill Creek. The 11 other cities in this peer group generate between 7.9% and 20.8% of their General Fund revenue via UUT, with a range of per capita UUT revenue between \$66 and \$234 in 2019. Cities in Washington are authorized by state law to impose up to a 6% UUT on electricity, gas, steam, and telephone; a UUT rate comparable to neighboring communities on cable television; and any UUT rate on sewer, stormwater, water, and solid waste. All of these UUTs may be implemented without voter approval, while the limited rates can be raised beyond those levels with a majority vote. UUT revenues per capita among peer agencies are shown in Table 6.

Table 6. General Fund Utility Users' Tax Revenues per Capita, Newcastle and Peers

Agency	Total Utility Tax Amount for 2019 Budget	Utility Tax per Capita	Percent of General Fund Revenue for 2019 Budget
Issaquah	\$8,700,864	\$234	16.5%
Snoqualmie	\$3,139,070	\$233	17.4%
Bellevue	\$29,271,000	\$206	14.0%
Mercer Island	\$4,190,106	\$173	12.8%
Enumclaw	\$1,929,000	\$165	14.1%
Renton	\$16,242,153	\$156	15.7%
Edgewood	\$1,463,196	\$133	20.8%
Lake Forest Park	\$1,187,092	\$91	12.0%
Woodinville	\$930,000	\$78	7.9%
Maple Valley	\$1,924,430	\$76	16.5%
West Richland	\$1,005,450	\$66	14.6%
Newcastle	\$0	\$0	0%
Mill Creek	\$0	\$0	0%

Agency	Total Utility Tax Amount for 2019 Budget	Utility Tax per Capita	Percent of General Fund Revenue for 2019 Budget
Sammamish	\$0	\$0	0%
Peer Average per Capita UUT Revenue		\$146*	14.78%*

*Averages include only those cities with current UUTs. Newcastle, Mill Creek, and Sammamish are excluded.

Finally, Newcastle's budgeted per capita expenditures are lower relative to the peers. When adjusted for agencies that provide fire services in-house or that contract for fire services, the City's General Fund per capita expenditures of \$682 is 19.6% lower than the peer average of \$848 for 2019. The City's 2019 deficit as a percentage of expenditures is 1.3%, which is lower than the weighted average deficit projected among peers at 4.3%. With respect to surplus/(deficit) analysis, the data presented in Table 7 represent the 2019 projected amounts and do not consider existing reserve levels or what each of the jurisdiction's long-range forecasts indicate relative to the health of their respective General Fund reserves in the future. Per capita expenditures and surplus/(deficit) figures for peers are shown in Table 7 below.

Table 7. General Fund Expenditures and Surplus (Deficit) per Capita, Newcastle and Peers

Agency	Total General Fund Expenditures for 2019 Budget ¹	Surplus/ (Deficit) for 2019 Budget	Expenditures per Capita	Surplus/ (Deficit) as Percentage of Expenditures for 2019 Budget
Snoqualmie¹	\$15,289,125	(\$464,281)	\$1,137	(2.5%)
Enumclaw	\$13,693,475	(\$458)	\$1,174	< (0.1%)
Issaquah¹	\$40,707,572	\$0	\$1,097	0.0%
Bellevue¹	\$152,427,500	\$1,705,000	\$1,070	< 0.1%
Mercer Island¹	\$25,879,710	\$108,484	\$1,066	0.3%
Renton	\$101,580,959	(\$1,856,702)	\$976	(1.8%)
Woodinville	\$9,218,877	\$2,620,516	\$779	28.4%
Lake Forest Park	\$9,815,070	\$59,797	\$750	0.6%
Mill Creek	\$14,090,677	\$7,007	\$688	< 0.1%
Newcastle	\$8,468,615	(\$141,995)	\$682	(1.3%)
Sammamish¹	\$39,986,196	(\$4,511,943)	\$630	(9.4%)
Edgewood	\$6,545,642	\$505,556	\$596	7.7%
Maple Valley	\$14,622,850	(\$2,975,940)	\$578	(20.3%)
West Richland	\$7,443,922	(\$534,812)	\$486	(7.2%)
Weighted Peer Average per Capita Expenditures and Surplus/(Deficit)			\$848	(4.3%)

¹ Fire costs have been deducted from General Fund revenues for those cities with fire departments and/or those that contract for fire services. This allows a better comparison with those cities whose fire services are provided by fire protection districts with separate property tax levy funding.

While Newcastle's per capita expenditures are relatively high, they do not necessarily translate into unusually high staffing levels since police and fire services (typically the two largest municipal services) are contracted. In fact, the City employs 2.26 FTE per 1,000 residents, which is nearly 54% lower than the peer average of 4.89 FTE per 1,000 residents. Citywide staffing and FTE per 1,000 residents are shown in Table 8.

Table 8. Citywide Total Staffing and FTE per 1,000 Residents, Newcastle and Peers for 2019

Agency	Citywide FTEs ¹	FTE per 1,000 Residents
Enumclaw	107.60	9.23
Snoqualmie ¹	117.50	8.73
Bellevue ¹	1,132.33	7.95
Issaquah	275.38	7.42
Mercer Island ¹	162.33	6.69
Renton	593.50	5.70
Lake Forest Park	58.38	4.46
Woodinville	43.15	3.65
Mill Creek	59.00	2.88
Newcastle ¹	28.00	2.26
Sammamish ¹	131.25	2.07
Maple Valley	46.00	1.82
West Richland	24.00	1.57
Edgewood	15.43	1.40
Peer Average Residents Per FTE		4.89

¹ Fire staffing have been deducted from cities with fire departments for comparison purposes with those cities whose fire services are provided by fire protection districts or that contract fire services.

As a contract-dependent city, Newcastle's options for reducing personnel expenditures are limited. The long-term agreements for contracted police and fire services make it problematic to address expenditure reductions in a timely manner. While efficiencies may be identified, the relatively low number of personnel employed by the City make it challenging to rely exclusively on personnel reductions to address the fiscal sustainability issues facing it.

Determining Feasibility

While all the strategies are technically feasible and have been implemented in other Washington settings, they are distinguished by differing levels of community support, complexity of implementation, implementation timing, and disruption to the organization relative to the financial return. Strategies deemed most feasible are solutions that can be implemented more readily and would be least disruptive to the organization.

Certain revenue changes such as tax measures require voter approval to implement and vary in terms of complexity and community support. Some have a greater impact on voters (e.g., local property tax levy lid lift measures, utility users' taxes) while others have more of an impact on those from outside the city (e.g., sales taxes).

Increasing fees and charges to full cost recovery may help the City's structural deficit but may have adverse impacts on community participation in those services. Voters are more likely to support measures when they know their tax dollars are being spent efficiently, requiring City staff to review cost efficiencies prior to taking those measures to voters. These factors require careful consideration in determining the feasibility of revenue enhancements.

Changes that would be disruptive to the organization will take time because the impacts may be the subject of mandatory bargaining with the City's labor groups. Substantial changes in service delivery methodologies or employee benefit programs should also be weighed against the reality that they might result in ongoing employee relations issues, which can impair more incremental change. Key decisions will need to be made in the next 12 months in order to address the fiscal challenges faced by the City.

The strategies identified in this memorandum have been quantified to the extent possible, based on current information available to Management Partners and City staff. In many cases, they have been programmed into the fiscal model so City leaders can explore the cumulative impact of implementing any package of actions.

Based on these considerations, budget strategies were evaluated considering the set of factors that may weigh on difficulty of implementation as indicated in Table 9 below.

Table 9. Factors Used in Assessing Implementation Difficulty

Factors	Minimal Difficulty	Moderate Difficulty	High Difficulty
Potential for community pushback	Low	Medium	High
Technical and operational difficulties of implementation	Low	Medium	High
Timing necessary for implementation	Timely implementation is moderately to highly probable to meet timing required to resolve the structural deficit	Timely implementation is possible, but less than moderately probable	Timely implementation is unlikely to meet the timing required to resolve the structural deficit
Disruptive impact on service delivery	Low	Medium	High
Disruptive impact within City organization	Low	Medium	High

After factoring implementation difficulty, this is then compared with the potential annual fiscal impact that the City would experience if the strategy were implemented. We stratified fiscal impact into three tiers:

- **Low fiscal impact.** Strategies that would have a fiscal impact of \$50,000 or less per year
- **Moderate fiscal impact.** Strategies that would have a fiscal impact between \$50,000 and \$100,000 per year
- **High fiscal impact.** Strategies that would have a fiscal impact of over \$100,000 per year

Combining implementation difficulty and fiscal impact, we identify those strategies that have the highest degree of potential success to provide fiscal sustainability to the City in accordance with Figure 1 presented below.

Figure 1. Budget Strategies Quadrant Analysis

		Potential Annual Fiscal Impact (est)		
		\$0-\$50,000	\$50,000-\$100,000	Over \$100,000
Difficulty of Implementation	Minimal difficulty	1	2	3
	Moderate difficulty	4	5	6
	Significant difficulty	7	8	9

Great potential of success: High fiscal impact; minimal difficulty	Good potential of success: Medium/High fiscal impact; Minimal to moderate difficulty	Moderate potential of success: Medium/high fiscal impact; Moderate to significant difficulty	Low potential of success: Low fiscal impact; Moderate to significant difficulty	Little/no potential of success: Low fiscal impact; Significant difficulty
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Strategies Considered

Following meetings with City Council members and staff, Management Partners conducted an independent analysis of strategies that would be appropriate for consideration in Newcastle. Our experience working with municipalities across the United States coupled with our research of viable options exercised by other cities in Washington State, allowed us to identify strategies that could lead toward fiscal sustainability. The ultimate strategies selected for consideration were those with either great, good or moderate potential of success as indicated above. Table 10 captures the first tier of strategies that have the greatest potential of success.

Table 10. Great Potential of Success

Great Potential of Success	Strategies
Expenditure Controls and Cost Shifts	None
Service Delivery Changes	None
Revenue Enhancement	12. Implement an admissions tax 16. Establish transportation benefit district
Service Reductions and Eliminations	None

Two strategies appear to have great potential of success. One is to implement a new tax on golf course admissions, and the other is to establish a Transportation Benefit District.

Implementation of both options is entirely within the purview of City Council through adoption of an ordinance, are relatively simple to administer, do not have a significant impact on service delivery, and might not meet significant community resistance. The fiscal impact of the admissions tax is estimated to be \$200,000 per year at a 5% tax rate, and a vehicle license fee of \$20 per year would generate \$173,000 annually to offset the General Fund's subsidy of transportation improvements borne by the Street Fund. While the total of \$373,000 is nominal compared with a \$2.1 million structural gap, these options would still provide significant relief to the General Fund.

The next level of strategies is one with a good potential of success (shown in Table 11) and is considered moderately feasible to implement. Generally, these strategies may be disruptive to the City organization or residents via service delivery impacts or may receive some level of community pushback, especially in the case of the utility users' tax. City leaders will have to consider some of these strategies as their fiscal impact is considered significant, but the extent to which these will need to be fully implemented will depend on the level of success with those strategies with the greatest potential of success shown in Table 10 above. City staff will need to begin work on some of these strategies for two reasons: 1) those strategies with the greatest potential of success in total will not resolve the fiscal gap, and 2) they are needed as a fallback in case revenue strategies dependent on an election outcome are unsuccessful.

Table 11. Good Potential of Success

Tier 2	Strategies
Expenditure Controls and Cost Shifts	2. Combine roles of communications coordinator and community activity coordinator into one position 3. Freeze new accountant position until fiscal sustainability is achieved
Service Delivery Changes	None
Revenue Enhancement	9. Implement a utility users' tax 13. Implement public safety bond measure for the fire apparatus capital costs associated with the City's contract with Bellevue for fire services
Service Reductions and Eliminations	20. Eliminate community activities coordinator position and related services/ events

Tier 2	Strategies
	21. Eliminate funding for communications coordinator position and reassign certain duties to city clerk and other staff 22. Eliminate funding for one police officer position

Strategies with a moderate potential of success are shown in Table 12. Several of these strategies fall into this category because of the implementation difficulty primarily due to either the potential for community pushback or disruptive impacts on service delivery. The strategies under expenditure controls/cost shifts and service delivery changes do not yield as significant a fiscal impact as those related to revenue enhancements in this category.

The levy lid lift option as a revenue enhancement is in this category because of the level of anticipated pushback that might be experienced from the community. In light of other options that are within the purview of Council action, City leaders will need to address the potential for additional expenditure controls and service delivery changes, identify the severe impact of service level reductions that would otherwise need to be implemented, and engage the community about choices in advance of bringing forward a levy lid lift measure for voter consideration.

Table 12. Moderate Potential of Success

Tier 3	Strategies
Expenditure Controls and Cost Shifts	1. Freeze or eliminate the merit compensation component of the new salary structure
Service Delivery Changes	6. Contract for fire services with Renton Regional Fire Authority 7. Establish a new Fire Protection District with its own taxing authority and transfer fire services to the new district 8. Insource Coal Creek Utility District to gain economies of scale in overhead costs
Revenue Enhancement	10. Implement a Levy Lid Lift as a general tax increase 11. Implement a Levy Lid Lift as a specific purpose tax 14. Improve long-term cost recovery of development services through fees and charges and/or cost reductions to achieve at or near full cost recovery 15. Improve sales tax enforcement for construction and retail sales
Service Reductions and Eliminations	None

The final tier of strategies, one with low or little/no potential of success, is considered the least feasible to implement in the City's current economic, political and operational environment. These are presented in Table 13. Generally, these strategies neither provide sufficient fiscal impact, nor have proven difficult to implement in similar settings, or would have a negative impact in the long term on the organization and community. To the extent the City is unable to generate enough revenue increases or expenditure reductions from other strategies, these more difficult options for maintaining solvency might need to be explored.

Table 13. Low or Little/No Potential of Success

Tier 3	Strategies
Expenditure Controls and Cost Shifts	4. Require employees to pick up a greater portion of health care costs 5. Transfer responsibility of maintenance of smaller neighborhood parks to homeowners' associations
Service Delivery Changes	None
Revenue Enhancement	None
Service Reductions and Eliminations	17. Take no action 18. Allow Newcastle to be disincorporated and annexed into an adjacent city or back into King County 23. Reduce parks and street landscape maintenance

One strategy included for discussion purposes is taking no action. This is realistically not a viable option because it would result in a condition of insolvency. The majority of controllable General Fund expenditures is related to personnel costs. Fire and police contracts make up nearly 50% of the General Fund costs, but the ability to impact cost reductions in those contracts is limited.

When such a circumstance becomes imminent, the only thing a city can do is leave positions vacant when employees retire or separate from employment (sometimes called a hard hiring freeze), and/or lay off employees to reduce costs and maintain solvency. This will have catastrophic impacts on the City's ability to serve the community. In extreme circumstances, a jurisdiction could be forced to consider or even file for bankruptcy protection. Filing for bankruptcy protection is an unusual circumstance in Washington, most recently experienced by the Kennewick Public Hospital District in 2017. There are no known situations in Washington where a city or county has filed for bankruptcy protection, but this has been experienced in other states such as California, Idaho, Michigan, Alabama and Pennsylvania.

The only other option short of bankruptcy would be for the City to disincorporate. State law allows opportunities for cities to disincorporate, however there have been no known instances of disincorporation in the past 20 years. In such a circumstance, the State would take over operations of the city until which time it would transfer responsibility to the County. In the community's eyes, this is perhaps as low a desirable option as taking no action and being required to file for bankruptcy in that the community would be in the hands of other parties and would have little or no say in how the City's services and its structure would be implemented.

Other Strategies Identified

Additional strategies were identified during our analysis that were either deemed to provide little or no significant impact (i.e., less than \$50,000 annually) to solving the General Fund's structural deficit or were otherwise determined to be infeasible given the City's current

operating environment. Those items are identified in Attachment B to this report, with a brief description of each item and why those strategies were not analyzed further in greater detail.

This is not to say that these strategies could not be studied by the City, but rather that in our opinion the opportunities to address the City's fiscal gap in a timely manner would not be significant or might otherwise erode service delivery to an unacceptable level. For those items where current revenue or expenditure estimates were readily available, the potential savings to the General Fund for all the ideas combined may approach \$250,000 to \$400,000 annually depending on the approach used in implementing those solutions. However, given the magnitude of the structural deficit that grows to \$2.1 million by 2024, our efforts were focused on other strategies that would yield greater potential impacts toward fiscal sustainability of the City's General Fund.

One strategy that was initially reviewed was the option to sell vacant City-owned land on 130th Place SE south of Lake Boren Park. This property is zoned as R-6 and has the potential to yield 10 townhomes if it were developed. Initial estimates of the value of the property suggest a sales price of approximately \$1.6 million. One-time construction sales tax revenues could also be generated from development of the property. However, ongoing property tax revenue generation would likely be less than \$12,000 per year upon development and sale of the townhomes at the City's current levy rate.

While the sale of the property would infuse one-time proceeds to the City, Management Partners' experience suggests that one-time sales proceeds of long-term assets should be used for investment in long-term assets or infrastructure such as parks, open space, or City facilities. They should not be used for operating costs as the City will have lost a long-term investment for short-term services. It is not recommended that the sale proceeds be recognized as a one-time infusion of General Fund reserves as that would imply that they could be used for future operational costs. Nevertheless, the City could explore the option to sell the property for development and use those proceeds to address long-term capital infrastructure needs that might otherwise become the burden of the General Fund in future years.

Budget Strategy Scenarios

Baseline Scenario

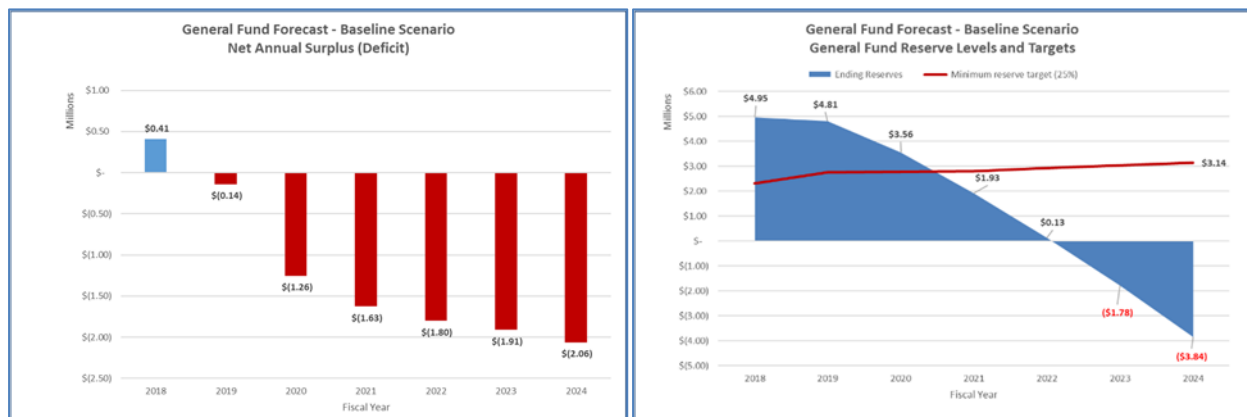
The baseline fiscal model was updated based on the City Council approved FY 2019 budget. The model indicates that the General Fund has a structural deficit, with a modest \$140,000 deficit in FY 2019 that grows dramatically to \$1.3 million in FY 2020 and up to \$2.1 million by FY 2024. The largest driver of the increasing structural gap is the fact that expenditure growth is projected to outpace revenue growth. Property taxes, the single largest revenue source for the General Fund, can only grow by Council action at 1% per year plus the impact of new construction on the total tax levy which equates on average to an additional 1% per year.

The police and fire contracts make up nearly half of the General Fund expenditures. Other than requesting that the King County Sheriff's Office eliminate an officer position that was recently

added in 2018, there is not much the City can do to limit the cost of these two contracts. Personnel costs are the next largest expenditure category in the General Fund. The City must provide some level of compensation and benefits that are competitive in the regional marketplace for skilled talent to provide services the community expects. The City has already seen turnover as employees leave to work in other jurisdictions with better compensation.

The City has established a target reserve policy for its General Fund of maintaining undesignated reserves of not less than 25% of annual budgeted operating expenditures. The Government Finance Officers' Association (GFOA) has recommended that municipalities establish minimum reserve policies for General Funds of not less than two months, or 17%, of annual operating expenditures, considered by many to be a best practice. The Council is commended in developing such a policy and it will provide sufficient reserves during a recession or in addressing a catastrophic event that requires unforeseen one-time expenditures such as the Winter Storm of 2019. If Council takes no action, the model projects that General Fund reserves will not only fall below the City's reserve policy of 25% by FY 2021, but they will fall below zero in FY 2023, as shown in Figure 2.

Figure 2. Historical and Projected General Fund Surplus/Shortfall and Reserves – Baseline Scenario



Development of Three Budget Scenarios

Management Partners has prepared three scenarios for Council's consideration that address this fiscal gap. Each of the scenarios would allow the General Fund to maintain an appropriate level of reserves, eliminate the structural deficit by 2024, and ensure the viability of the City's operations throughout the period included in the fiscal model. The three scenarios include options that could be implemented entirely by Council action.

The three budget scenarios described in this report are provided as examples of the types of strategies that Council members could consider to address the long-term fiscal gap. The Council could choose any of these scenarios or develop alternative scenarios that include varying types of strategies to resolve the fiscal gap. The three scenarios included in this report employ different strategies and make assumptions with respect to the timing of implementing each strategy. Table 14 summarizes these three scenarios.

Table 14. Budget Strategy Scenarios

Scenario	Description
Baseline Scenario Before Budget Corrections	<ul style="list-style-type: none"> • Shortfall of \$2.1 million that would likely continue to grow beyond 2024 • Depleted reserves by FY 2023 • Current staffing levels
Scenario 1 – Strong Revenue Enhancement Strategies	<ul style="list-style-type: none"> • Implement a utility users' tax (UUT) on gas, electric and solid waste at a rate of 6% targeting \$900,000 in annual revenues starting on 4/1/2020; implement a UUT on telecommunications at a rate of 6%, and water and wastewater utilities at a rate of 8%, targeting an additional \$900,000 in annual revenues (\$1.8 million total) starting on 1/1/2023 • Implement an admissions tax of 5% on golf course admissions by FY 2020 • Improve sales tax enforcement measures starting in FY 2020 • Establish a Transportation Benefit District with a \$20 vehicle license fee starting on 1/1/2021 • Improve cost recovery for development services by FY 2021 • Restore General Fund services levels and/or begin to meet unfunded or underfunded obligations totaling \$170,000 per year starting in 2023
Scenario 2 – Balanced Approach—Moderate Revenue Enhancement Strategies, Moderate Expenditure Controls, and Minor Service Level Reductions	<ul style="list-style-type: none"> • Implement an admissions tax of 5% on golf course admissions by FY 2020 • Improve sales tax enforcement measures starting in FY 2020 • Implement a utility users' tax (UUT) on gas, electric and solid waste at a rate of 5% targeting \$750,000 in annual revenues starting on 1/1/2021; implement a UUT on telecommunications at a rate of 5%, and water and wastewater utilities at a rate of 7%, targeting an additional \$750,000 in annual revenues (\$1.5 million total) starting on 1/1/2023 • Freeze the newly approved accountant position in FY 2019 • Improve cost recovery for development services by FY 2021 • Combine roles of community activities coordinator and communications coordinator by FY 2020
Scenario 3 – Strong Operating Expenditure and Service Level Reductions, Moderate Revenue Enhancement Strategies	<ul style="list-style-type: none"> • Implement an admissions tax of 5% on golf course admissions by FY 2020 • Improve sales tax enforcement measures starting in FY 2020 • Implement a fire bond measure for the capital costs associated with the fire services contract by FY 2022 • Improve cost recovery for development services by FY 2021 • Freeze the newly approved accountant position in FY 2019 • Eliminate the recently added police officer position (1 FTE) through agreement with KCSO by FY 2021 • Eliminate the community activities coordinator position and funding of all related community activities by FY 2021 • Eliminate the communications coordinator position/contract for service by FY 2021 • Implement additional ongoing General Fund expenditure reductions totaling \$600,000 by FY 2022, an additional \$400,000 by FY 2023, and an additional \$150,000 (totaling \$1.15 million) by 2024

Budget Scenario 1. Strong Revenue Enhancement Strategies

Scenario 1 includes the following budget strategies to resolve the fiscal gap. They are centered primarily on revenue enhancements. A moderate restoration of General Fund services or meeting unfunded or underfunded obligations would be possible starting in 2023.

- **Utility Users' Tax.** Implement a UUT on gas, electric and solid waste utilities starting no later than April 1, 2020. Implement a UUT on telecommunications, cable, water, wastewater and stormwater utilities no later than January 1, 2023. Revenue enhancements would target \$900,000 per year starting midway through FY 2020 and \$1.8 million total by FY 2023. This can be implemented by City Council action through a public hearing implementing a UUT ordinance.
- **Admissions Tax.** Implement an admissions tax on golf course admissions at a tax rate of 5% starting January 1, 2020. This can be implemented through City Council action through a public hearing implementing an admissions tax ordinance.
- **Sales Tax Enforcement.** Implement sales tax enforcement measures by City staff or through contract with a sales tax consulting firm to improve sales tax collection and enforcement starting in FY 2020. This can be implemented by staff but may require Council approval of a professional services agreement if sales tax consulting services are desired.
- **Transportation Benefit District (TBD).** Establish a TBD and implement a vehicle license fee of \$20 per registered vehicle starting in FY 2021. This can be implemented through City Council action through a public hearing establishing a TBD and implementing a \$20 vehicle license fee by ordinance.
- **Building/Planning Cost Recovery.** Improve cost recovery of building and planning services through fee increases and/or expenditure reductions starting in FY 2021. This can be implemented through the annual budget process.
- **Restore General Fund Services/Underfunded Needs.** Restore General Fund service levels and/or meet unfunded or underfunded needs such as capital improvement projects totaling an ongoing savings of \$170,000 starting in FY 2023.

Implementing these strategies will require a drawdown of existing General Fund reserves totaling \$1.4 million through FY 2022 but will eliminate the annual budget shortfalls by FY 2023 and maintain reserves at or above the targeted 25% of annual operating expenditures through FY 2024. These trends are shown in Figure 3.

Figure 3. Projected General Fund Surplus/Shortfall and Reserves for Budget Scenario 1



Budget Scenario 2. Balanced Approach – Moderate Revenue Enhancement Strategies, Moderate Expenditure Controls, and Minor Service Level Reductions

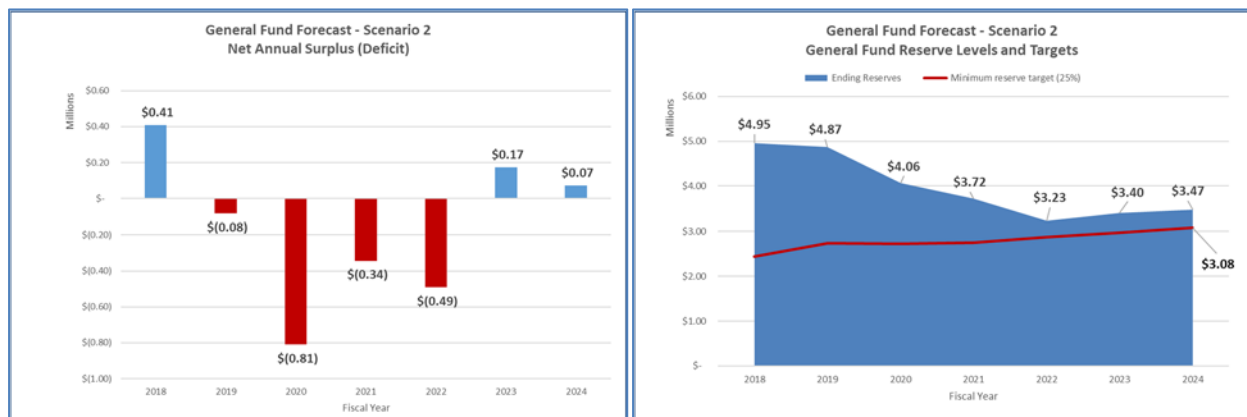
Scenario 2 includes the budget strategies below to resolve the fiscal gap. They take a balanced approach between revenue enhancements and expenditure reductions, attempting to maintain service levels by implementing expenditure controls that provide current service levels at reduced costs.

- **Admissions Tax.** Implement an admissions tax on golf course admissions at a tax rate of 5% starting January 1, 2020. This can be implemented through City Council action through a public hearing implementing an admissions tax ordinance.
- **Sales Tax Enforcement.** Implement sales tax enforcement measures by City staff or through contract with a sales tax consulting firm to improve sales tax collection and enforcement starting in FY 2020. This can be implemented by staff but may require Council approval of a professional services agreement if sales tax consulting services are desired.
- **Utility Users' Tax.** Implement a UUT on gas, electric and solid waste utilities starting not later than January 1, 2021. Implement a UUT on telecommunications, cable, water, wastewater and stormwater utilities not later than January 1, 2023. Revenue enhancements should target \$750,000 starting in FY 2021, and \$1.5 million total by FY 2024. This can be implemented through City Council action through a public hearing implementing a UUT ordinance.
- **Building/Planning Cost Recovery.** Improve cost recovery for building and planning services through fee increases and/or expenditure reductions totaling \$75,000 annually starting in FY 2021. This can be implemented through the annual budget process.
- **Accountant Position in Finance.** Freeze the accountant position in the Finance Department that was added to the FY 2019 budget mid-year and remains vacant. This can be implemented at the staff level in FY 2019 and through the annual budget process in future years.

- **Community Activities and Communications.** Combine the roles of community activities coordinator (existing filled position) and communications coordinator (provided by contract), saving \$75,000 annually by FY 2020. This can be implemented through the annual budget process.

Implementing these strategies will require a drawdown of existing General Fund reserves totaling \$1.7 million through FY 2022 but will eliminate the annual budget shortfalls by FY 2023 and maintain reserves at or above the targeted 25% of annual operating expenditures through FY 2024. These trends are shown in Figure 4.

Figure 4. Projected General Fund Surplus/Shortfall and Reserves for Budget Scenario 2



Budget Scenario 3. Strong Operating Expenditure and Service Level Reductions, Moderate Revenue Enhancement Strategies

Scenario 3 would have the most significant negative impact on City services. It assumes that several revenue enhancement strategies are not able to be implemented with sufficient fiscal impact, thus requiring significant cuts to General Fund operations.

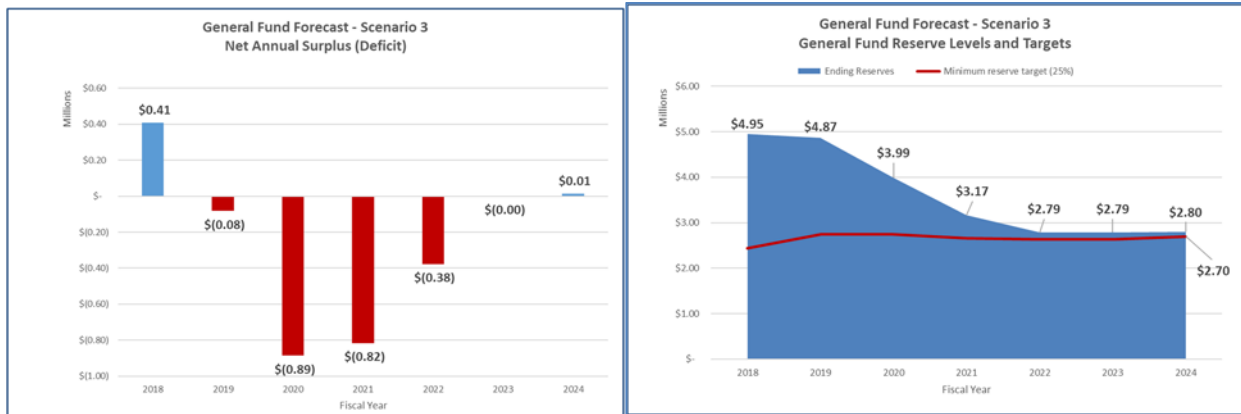
- **Admissions Tax.** Implement an admissions tax on golf course admissions at a tax rate of 5% starting January 1, 2020. This can be implemented through City Council action through a public hearing implementing an admissions tax ordinance.
- **Sales Tax Enforcement.** Implement sales tax enforcement measures by City staff or through contract with a sales tax consulting firm to improve sales tax collection and enforcement starting in FY 2020. This can be implemented by staff but may require Council approval of a professional services agreement if sales tax consulting services are desired.
- **Building/Planning Cost Recovery.** Improve cost recovery for building and planning services primarily through expenditure reductions totaling not less than \$75,000 annually starting in FY 2023. This can be implemented through the annual budget process.
- **Accountant Position in Finance.** Freeze the accountant position in the Finance Department that was added to the FY 2019 budget mid-year and remains vacant. This

can be implemented at the staff level in FY 2019 and through the annual budget process in future years.

- **Community Activities Coordinator and Community Events.** Eliminate the community activities coordinator position and funding towards related community events to reduce net operating costs by \$155,000 by FY 2021. Community events may continue if community support or other funding means outside of the City's General Fund were identified, but the General Fund would eliminate subsidy of any of those events starting in FY 2021. This can be implemented through the annual budget process.
- **Communications Coordinator.** Eliminate funding for the communications coordinator position, which is currently filled through a contract for service, by FY 2021. This can be implemented through the annual budget process.
- **One Police Officer Position.** Eliminate by FY 2021 the additional police officer position that was added in FY 2018 in the contract for services with KCSO. This would require discussions and possible contract amendment with KCSO and can be approved by City Council resolution.
- **Other General Fund Expenditure Reductions/Revenue Enhancements.** Implement ongoing expenditure reductions or revenue enhancements totaling \$600,000 starting in FY 2022, an additional \$400,000 (cumulative \$1 million) by FY 2023, and an additional \$150,000 (cumulative \$1.15 million) by FY 2024. To accomplish this, the City can consider implementing some of the more minor impact strategies contained in Attachment B, as they would cumulatively be significant. In addition, the City can consider undertaking strategies which were deemed to be undesirable in terms of community impacts. On the revenue side, the City may have to consider adjusting user fees such as parks facility use and other administrative fees to fully cover costs, and pursuing other revenue raising options that may become available under State law. Finally, to the extent required, the City can begin holding some positions vacant or even eliminating the positions as attrition occurs (a soft hiring freeze). Further service level reductions would be necessary, as discussed in Budget Strategy 18.

Implementing these strategies will require a drawdown of existing General Fund reserves totaling \$2.1 million through FY 2022 but will eliminate the annual budget shortfalls by FY 2023 and maintain reserves at the targeted 25% of annual operating expenditures through FY 2024. These trends are shown in Figure 5. This strategy, however, will have the greatest potential of needing additional expenditure reductions beyond FY 2024 given the long-term imbalance between revenue and expenditure growth trends.

Figure 5. Projected General Fund Surplus/Shortfall and Reserves for Budget Scenario 3



Attachment A – Detailed Strategies

EXPENDITURE CONTROLS/COST SHIFTS

1. Freeze or eliminate the merit compensation component of the new salary structure

STRATEGY TYPE: Expenditure Controls/Cost Shifts

IMPACT ESTIMATE

The cost of the merit compensation components of the new salary structure is approximately \$50,000 annually for the General Fund.

FEASIBILITY

Merit compensation was implemented as a means of providing an incentive program to employees and to address competitive recruitment and retention pressures the City is experiencing based on its current compensation levels. Implementing this solution will likely adversely impact recruitment and retention efforts.

Implementation would require meet and confer discussions with bargaining groups. While this would likely be met with some opposition by employees, if the alternative were to reduce services, and thereby reduce positions, this option might be more palatable.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Moderate/ Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Moderate
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Merit pay is a special compensation on top of regular pay and was implemented as part of Council resolution #2018-753 that adopted a revised salary compensation policy. The policy calls for annual cost of living adjustments (COLA) based on 90% of the Seattle-Tacoma-Bellevue June-to-June Consumer Price Index for All Urban Consumers (CPI-U) subject to a minimum of

1% and a maximum of 4%. COLAs have been built into the City's financial forecast in 2020 and future years based on 2019 salaries and benefits.

The policy also adopted an annual budgeted merit pool that would be funded with a minimum of 3% of salary costs that would increase employees' annual salary based on a positive performance evaluation. The merit pay component is estimated to cost the General Fund approximately \$70,000 in FY 2019, which would grow based on COLA in future years as the base compensation amount would increase. By 2024, the equivalent amount (assuming a 3% CPI growth factor) would equate to over \$80,000. While it is not guaranteed that employees would receive merit pay, the merit pay is incorporated into the budget to ensure that adequate funds are available if the City Manager grants the merit pay as part of employees' annual evaluation process.

Merit pay is a concept that several public agencies in Washington state and across the West Coast have implemented as a means of incenting performance to address labor market pressures related to a competitive salary and benefits package. Revising the policy to eliminate the merit pay component would provide General Fund savings but impacts relative to competitive compensation would need to be addressed.

2. Combine roles of Communications Coordinator and Community Activity Coordinator into one position

STRATEGY TYPE: Expenditure Controls/Cost Shifts

IMPACT ESTIMATE

General Fund savings would equate to approximately \$75,000 per year if the positions were consolidated and the contracted services agreement for the communications coordinator was eliminated.

FEASIBILITY

Once a base level of communications services are provided to the community, enhanced levels are often not prioritized as highly as direct services such as street maintenance, fire or police services. From this standpoint, shifting the responsibilities of the contract would be feasible and a logical choice until fiscal stability is reached, although it would impact the City's enhanced communications strategies

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Moderate
Potential of Success	Good

BACKGROUND/ANALYSIS

The City has an existing community activities coordinator position that assists in citywide event planning, coordination, and communication about those events. In 2018, the City Council identified as one of their strategic initiatives to “encourage community engagement” and had tasks to achieve that goal by updating the City's communication strategic plan, soliciting feedback from residents on a variety of topics through neighborhood meetings and other forms of outreach, and supporting diverse media options to reach the community and inform them of City events and issues. To accomplish this, the FY 2019 budget included a contract position to fill the role of a communications coordinator. The annual contract amount is \$75,000. Staff wished to pursue the role as an employee position but deferred until sufficient funding was available.

This budget strategy would shift the duties of this contract to the community activities coordinator position, and those contract dollars could be saved. There is concern about the

capacity and ability for the incumbent to successfully implement the initiatives performed under the communications position, and those concerns would need to be addressed through training or other means to ensure the communications role was handled properly. There is the potential that the community activities coordinator position has excess capacity that could absorb a portion of the communications duties.

There is a similarity for the responsibilities in the scope of work for the communications coordinator contract with the duties of the community activities coordinator position. Shifting the contract responsibilities to the position would require a prioritization of the communications work that the position would be taking on overall against the current duties but given the tradeoff between reducing direct services to the community and reducing community outreach, this strategy should be considered. While communications is an important function, it should be prioritized lower than direct services reductions to the public. It could be restored as a separate position or through contracted services if longer term fiscal stability is reached.

3. Freeze new accountant position

STRATEGY TYPE: Expenditure Controls/Cost Shifts

IMPACT ESTIMATE

The annual cost of the accountant position is approximately \$120,000, which is the savings that could be realized if the position was eliminated from the annual budget.

FEASIBILITY

The accountant position has not yet been filled as it was not anticipated to be filled until after July 1, 2019. The current capabilities of the Finance Department would not be impaired. However, the new position was intended to improve the department's ability to increase the capacity to improve budget analysis, increase capacity to generate management reports for City Council and department head use, improve accuracy in financial reporting and accounting, and increase the capacity of the Finance Department to address new issues or special projects as they may arise. Without the position, those initiatives would not be able to be achieved.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

The Finance Department received approval to add a new accountant position as of July 1, 2019 in the last budget process. Municipal finance continues to grow in complexity and the demands for better reports to support the leaders' fiscal decisions continues to grow. The City currently relies on a volunteer to help prepare reports and analyses that are used by city managers to make operational and fiscal decisions; otherwise the current ability of the Finance Department to meet those needs is impaired. The capacity added by the position appears to have merit, although Management Partners did not conduct a detailed analysis of department staffing. Nonetheless, the department has been able to deliver its services without this position previously, and given the structural deficit, this position could be frozen until the City's fiscal sustainability is in place.

4. Require employees to pick up a greater portion of health care costs

STRATEGY TYPE: Expenditure Controls/Cost Shifts

IMPACT ESTIMATE

Requiring employees to share up to \$200 per month in current health care costs would generate annual savings in the General Fund totaling \$50,000.

FEASIBILITY

Medical benefits are a mandatory subject of bargaining; however, those changes will need to be discussed with employees as there is not currently external representation of any labor groups. Asking employees to contribute to medical costs may impact the ability for the City to compete for labor in the marketplace, but other cities are also addressing the issue of continued rising medical costs. Furthermore, the impacts associated with health care reform at the federal level are currently unknown, which could have significant impacts on healthcare costs in the future that would require revisiting the proper allocation of healthcare costs between employer and employee.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Moderate
Potential of Success	Low

BACKGROUND/ANALYSIS

The City currently provides fully paid medical benefits to its employees as part of its compensation and benefits plan through the plans provided by the Washington State Health Care Authority (HCA). The cost for medical benefits for subscribed plans range from \$4,600 per year (\$380 per month) for employee-only coverage up to \$26,400 (\$2,200 per month) for full family coverage. Based on our initial research, all peers in the comparison group provide fully paid medical benefits to their employees. Requiring employees to pay a portion of medical costs is a viable way to reduce costs, however in this situation the City would be an outlier in terms of the comparable jurisdictions and would run the risk of not being able to successfully recruit and retain a skilled workforce.

Approximately 19 FTE are funded by the General Fund. If all employees were expected to contribute \$200 per month on average toward their medical costs, the total General Fund cost

deferral would equate to \$50,000. Implementation of such a strategy would require the City to perhaps create different tiers of contributions between employee-only and full-family coverage levels or implement cost sharing as a percentage of medical costs sufficient to generate the equivalent of \$200 per month per employee.

Other health sharing costs could be considered that might have more of a direct impact on reducing health costs or reducing the rate of growth of medical costs overall over time. Examples of strategies for reducing costs overall would be those that incentivize employees and their families to not use more discretionary services. Examples of this strategy are increasing the amount of out of pocket copays and/or deductibles for employees for non-preventive care. However, the potential to implement such solutions may be limited given the City's participation in the state HCA. Limiting funding to certain plan options or identifying a "not to exceed" amount may be the only reliable options to curb future costs in the existing health care plan.

5. Transfer responsibility of maintenance of smaller neighborhood parks to homeowners' associations

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

Transferring responsibility for parks maintenance costs associated with the City's various "mini parks" could generate General Fund savings totaling \$50,000 annually.

FEASIBILITY

The cost of maintaining the City's mini parks creates inefficiencies for the Public Works Department given the size and magnitude of the number of these parks. Transferring responsibility for the costs of maintenance to homeowners could be done through homeowners' associations or levies, the latter of which would require a vote of the affected property owners and might be met with significant resistance. In addition, development agreements and land title records would need to be searched to determine if there are any restrictions in transferring responsibility for maintenance costs to property owners, especially if park impact fees were used to construct the parks in question.

This option does not transfer ownership of the park areas to property owners, but rather the responsibility of the costs associated with maintaining them. As such, there is no impact on service delivery, just a reallocation of costs.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Low
Potential of Success	Low

BACKGROUND/ANALYSIS

The Parks Maintenance Division of the Public Works Department maintains 47.8 acres of park and open space. In 2019, the division's operating budget is \$662,070, which equates to \$13,851 per acre of park property maintained.

Interspersed throughout the City are small parks that abut private home development. The City calls these "mini parks," and they include Ballybunion, Gleneagles, Heritage Morgan, Highlands Forest View, Little Rhody, Madison Lane, Redman, Tralee and Windtree parks that

total 4.9 acres. Based on the per-acre costs above, the cost of serving these parks is approximately \$68,000.

If the City were to transition these costs to private homeowners, savings might approach \$50,000 annually. (This is subject to a more detailed analysis of service levels and time spent by maintenance crews in these park areas.)

This option would transfer the costs associated with maintenance of these parks either through existing homeowners' associations or possibly through a levy. Research on land title and development area records would need to be conducted to determine if there are any stipulations in the agreements that would impact the City's ability to transfer the costs or responsibility of maintenance of these park areas to private property owners. In some cases, park impact fee funds may have been used to develop these mini parks under the concept that the City would construct and maintain these park areas as part of the development agreement for the project area.

SERVICE DELIVERY CHANGES

6. Contract for fire services with Renton Regional Fire Authority

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

It is difficult to estimate cost savings from a shared services model without significant additional study and identification of potential partner agencies. Based on the existing budget, population served by Renton Regional Fire Authority (RRFA), and their existing contract for service with King County Fire District (KCFD) 40, the costs to Newcastle might equal the expected costs from the Bellevue agreement by 2024. In the next six-year period, it does not appear that there would be sufficient cost savings to justify a change. However, this strategy is maintained as an option to be explored further if opportunities to contract with RRFA might generate significant savings. The savings are dependent on how RRFA would allocate costs under a contract for service arrangement.

FEASIBILITY

The primary obstacle of contracting with RRFA would be whether being served from newly constructed RRFA Station 15, located on N. 30th Street in Renton, would provide sufficient response time to serve the entirety of Newcastle. The other pressing challenge would be that the City would need to vacate its existing agreement with Bellevue, which specifies the City must provide notice of its intent to terminate at least 30 days prior to commencement of the final service year for which the service is to be provided. In other words, notice would need to be given one year and one month prior to termination.

In our experience, to the extent that response times were maintained and performance standards were articulated and measured on a periodic basis, the public would not notice any significant difference in changing agencies that serve the City. In this case, however, there is a question about whether response times would be satisfactorily maintained. Such determination cannot be made until the option was explored further with RRFA.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Moderate/ Significant
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

The City currently contracts for fire services with the City of Bellevue. The most recent agreement was approved with a start date of January 1, 2018 and expires December 31, 2027. Current contractual costs for the agreement with Bellevue total \$2 million for FY 2019. That amount is expected to grow to \$3 million by FY 2024 due to the escalation of costs associated with the underlying labor agreements and capital costs that are built into the contract for apparatus replacement.

Shared services models in municipal fire services take on many different forms, such as joint powers authorities, mergers, confederations (agencies retain their employment form but come together under an appointed board of directors from each agency), and shared management positions (elimination of duplicate chief and deputy chief positions).

RRFA is a separately incorporated special purpose (fire) district incorporated in July 2016 based on voter approval in April of that year. It has a governance board of three Renton City Council members, and three commissioners appointed from KCFD 25 that consolidated operations into RRFA. There is also one non-voting member representing KCFD 40, which has an interlocal agreement for fire services from RRFA.

Geographic adjacency is a driving factor for any shared service model to work effectively. This is especially true for fire service. Bellevue, the City's current service provider, is the best suited agency geographically as Bellevue Fire Station 9 is located less than a half a mile from Newcastle City Hall. RRFA Station 15, recently completed, is located about 3 miles from City Hall, and would be a 5.5-mile drive to the farthest eastern edge of Newcastle.

We were not able to obtain a comprehensive budget document from RRFA. However, we did review the interlocal agreement with KCFD 40. Their annual costs are approximately \$4.8 million for a population of 21,191, which equates to an annual cost of \$227 per capita. Their geographic area (6.02 square miles) and population size are roughly 35% and 47%, respectively, the size of Newcastle. Based on a rounded per capita cost of \$230, Newcastle's cost allocation might approach \$2.6 million in today's dollars. This cost estimate is higher than the current agreement with Bellevue but is lower than the projected \$3 million by 2024. If RRFA's costs were to increase by 3.5% per year by 2024, the costs would be nearly identical with that of Bellevue.

7. Establish a new Fire Protection District with its own taxing authority and transfer fire services to the new district

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

If the City's entire fire operations were transferred to a newly established Fire Protection District (FPD), budget savings would be \$2.8 million. However, it should be noted that although this transfer would reduce the City's budget, taxpayers would not see a similar reduction in taxes paid since the FPD would have its own tax levy. In fact, from the taxpayer's perspective, the total tax burden might increase due to the new levy.

FEASIBILITY

There would likely be taxpayer resistance to the establishment of a new FPD due to the increase in overall tax levies. The impacts on the contract for services from Bellevue would need to be reviewed carefully. An option could be explored collaboratively with Bellevue if they had interest in a joint fire protection district, but that would create significant uncertainties with respect to Bellevue voters also approving the district and how the levy rate would be established based on their different level of assessed valuation. The City, alternatively, could seek to join the Renton Fire Authority, which was established in 2017. However, that would require termination of the agreement with Bellevue.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

In 2017, new legislation created an optional method for establishing a fire district where the boundaries match a local agency. This new district would be established by a vote of the people and could be overseen by either the City Council acting as ex-officio fire commissioners of the newly formed FPD, or Council may relinquish their authority to a separately elected board of fire commissioners. We are unaware of any cities moving forward with the formation of a new FPD with boundaries coterminous with city boundaries.

The City of Renton formed a new FPD in 2017, but that also consolidated existing King County Fire District #25 that served unincorporated areas adjacent to Renton. There could be an opportunity for Newcastle to join that FPD, but that would require terminating the agreement with Bellevue and would leave operational questions about how Newcastle would be served since the nearest Renton fire station is less than 1.8 miles and a typical six- or seven-minute drive from the Newcastle border. In some cases, it would be nearly 4 miles and take up to 15 minutes to get to the City's eastern border. Mutual aid agreements with Bellevue might be likely, which would erode potential savings.

The key benefit to the City of implementing a new FPD with boundaries coterminous with the City is financial. With the addition of a new voter-approved tax levy to support the FPD, approximately 2.8 million General Fund dollars would be freed up for other programs if the City's existing tax levy were not also reduced.

Though the overall tax burden would be higher, there would be the benefit to the taxpayers of a direct correlation of taxes paid to fire services and capital investments made, compared with these services being just one of many currently funded through the City's General Fund.

8. Assume control of Coal Creek Utility District to gain economies of scale in overhead costs

STRATEGY TYPE: Service Delivery Changes

IMPACT ESTIMATE

Assumption of the Coal Creek Utility District (CCUD) operations would provide cost savings to the General Fund through a reallocation of public works and citywide overhead costs that could exceed \$135,000 per year and might also provide cost savings to CCUD ratepayers given the economies of scale of a merged entity into the City's operations. Such savings could not occur until after 2024.

FEASIBILITY

The existing non-assumption clause within the purchase agreement of property by the City from CCUD in 2015 would not allow for an assumption of CCUD services until after 2024. The existing franchise agreement would be terminated if the City took over operations to provide water and wastewater services. A reorganization of the Public Works Department would be required to absorb the utility operations of the District. Certain CCUD positions would likely be eliminated as a result of the merger, and institutional knowledge would need to be considered as part of a multi-faceted transition plan.

The transition would not require a vote, but care would need to be taken to assure a comprehensive community engagement strategy was implemented during the discussions and the implementation of a merger. Public information, branding, and a communications strategy would be required to assure a seamless transition of operations.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

BACKGROUND/ANALYSIS

The City has a franchise agreement with CCUD to provide water and wastewater services to Newcastle property owners. The agreement was effective April 24, 2008 and has no expiration date. In 2015, the City and CCUD entered into an agreement to sell CCUD property to the City. As part of that agreement, the City agreed to take no action to assume the District for a period

of 10 years following the closing date on the property. The term of this agreement would expire at the end of 2024.

If the City chose to take over the operations of CCUD, the water and wastewater operations would become enterprise funds of the City, and certain overhead costs such as administration, legal, finance, and technology costs could be allocated to those operations. Given the nature of District operations, most of their employees would be retained. However, economies of scale could be identified by incorporating operations as divisions of the Public Works Department under the Public Works director. The general manager position could be eliminated.

Under such a merger of operations, there could be cost savings in the General Fund equal to half of the General Fund cost of the Public Works director (approximately \$35,000 per year net savings), plus a reallocation of City Manager, City Clerk, Finance Department, and technology support costs that might total over \$100,000 per year. A conservative fiscal impact on the General Fund might approach \$135,000 in annual savings but could not take effect until after 2024.

REVENUE ENHANCEMENTS

9. Implement a utility users' tax (UUT) on utility providers serving Newcastle

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Implementing a comprehensive UUT on gas, electric, water, wastewater, telecommunications and cable/video service providers could generate as much as \$1.8 million based on per capita average collections by comparable agencies.

FEASIBILITY

The City Council can impose a UUT on the gross operating revenues of utility companies that provide services within City limits. Council action to impose the UUT may be performed through adoption of an ordinance. Before adopting the ordinance, however, there will need to be a significant amount of research and outreach to the utilities that would be affected. Determining existing gross receipts will be necessary to refine the anticipated fiscal impact goals and establish the tax rate the City wishes to levy. In addition, outreach to utility providers will need to allow for sufficient time for the imposed tax rate to go into effect and allow them to inform their customers. It could take as long as nine months to properly implement the tax and begin to receive remittances from the utility providers.

While Council may impose a UUT by ordinance, there is the potential that a referendum procedure could be required as Washington State law (RCW 35.21.706) is currently not clear on this point. The City Attorney would need to be consulted should the City decide to impose a UUT. Since the taxes would probably be passed on directly to rate payers, public sentiment would need to be considered.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

A UUT is an excise tax placed on utilities that provide services in a municipality. Potential utilities that may be included in a UUT are natural gas, electric, telephone, cable, water, sewer,

stormwater, and solid waste. The UUT is levied on gross operating revenues collected by the utility provider on services within the city limits. A UUT provides a diversified revenue stream to a city such as Newcastle that is heavily dependent on property tax, which has statutory growth limitations. UUT revenues are also generally more predictable and less volatile than other General Fund revenue sources such as sales tax and development fees.

Revenues are unrestricted and may be used for any lawful governmental purpose. The maximum tax rate may not exceed 6% for electric, gas, and telephone services unless approved by voters. There is no limitation on the tax rate for water, sewer, solid waste, or stormwater utilities. Internet and satellite TV may not be taxed per federal law, but cable TV may be subject to a tax with some special provisions.

Table 6 earlier in this report indicated the per capita UUT revenues for comparable agencies and their percentage of total General Fund revenues. Table 15 below summarizes the UUT rate used by each comparable agency based on the types of utility tax that they levy. The table also includes the per capita revenue amount generated by the tax as was included in the prior table.

Table 15. Comparable Agency Per Capita UUT Revenues and UUT Rates by Type 2019

City	Per Capita Revenue	Natural Gas	Electric	Telecommunications	Cable	Water	Sewer	Stormwater	Solid Waste
Issaquah	\$234	6.0%	6.0%	6.0%	1.0%	None	None	None	6.0%
Snoqualmie	\$233	6.0%	6.0%	6.0%	6.0%	9.0%	9.0%	None	9.0%
Bellevue	\$206	5.0%	5.0%	6.0%	4.8%	10.4%	5.0%	None	4.5%
Mercer Island	\$173	6.0%	6.0%	6.0%	7.0%	5.3%	5.3%	5.3%	7.0%
Enumclaw	\$165	6.0%	6.0%	6.0%	None	8.0%	8.0%	None	8.0%
Renton	\$156	6.0%	6.0%	6.0%	6.0%	6.8%	6.0%	6.8%	6.8%
Edgewood	\$133	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Lake Forest Park	\$ 91	6.0%	6.0%	6.0%	6.0%	None	None	None	None
Woodinville	\$ 78	2.0%	2.0%	4.0%	None	None	None	None	4.0%
Maple Valley	\$ 76	6.0%	6.0%	6.0%	6.0% to 12/31/2023; 3.0% on 1/1/2024	None	None	None	None
West Richland	\$ 66	6.0%	6.0%	6.0%	6.0%	14.0% General, 1.0% for Streets	12.5% General; 1.0% for Streets	6.0%	8.5%
Average	\$146	5.5%	5.5%	5.8%	5.4%	8.6%	7.5%	6.0%	6.6%

Source: City municipal codes

Attachment A – Detailed Strategies

Based on an average per capita collection amount of \$146, Newcastle's UUT generation could be as high as \$1.8 million. It is difficult to estimate the actual collections without information regarding gross revenues generated by each service provider and then applying a tax rate that appropriate for those providers. In order for Newcastle to achieve such a per capita amount, however, it would need to decide to levy UUTs that are consistent with the average rates collected by the other agencies as indicated in Table 15 above (i.e., 6% for gas, electric, telecommunications, cable and stormwater; 7% for solid waste; 9% for water; and 8% for sewer).

If the City Council were to approve a UUT by November 2019, the tax could be implemented by April 1, 2020.

10. Implement a Levy Lid Lift as a general tax increase

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City's property tax levy rate in 2019 is just over \$1.49 per \$1,000 assessed valuation and is expected to generate \$5.4 million in annual property taxes in 2019. Increasing the levy through a levy lid lift ballot measure is estimated to yield the following General Fund fiscal impact (based on existing assessed valuation):

- Tax rate increase of \$0.05 per \$1,000 assessed valuation: \$181,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of \$0.10 per \$1,000 assessed valuation: \$361,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of \$0.15 per \$1,000 assessed valuation: \$542,000 increase in General Fund property tax in the first year of implementation

Additional revenues could be achieved if the levy lid lift measure also included a future levy lid lift increase amount beyond the 1% that can be implemented by Council action. Increased fiscal impact would depend on the level of the original levy lid lift and the future increases included in the measure. For example, under the levy lid lift scenario of \$0.10 per \$1,000 assessed valuation, and a 3% future increase in the levy in future years, the additional revenue generated would be approximately \$176,000 in the second year of the levy lid lift.

FEASIBILITY

A levy lid lift that includes future increases that match the inflationary impacts on city expenditures (most notably, increases in employee compensation and benefits) would have the single largest ongoing fiscal impact to resolve the City's General Fund fiscal gap. Increasing the property tax rate requires majority voter approval. Such a measure, however, is one of the most politically sensitive ballot measures that a Washington city can bring to voters. A significant amount of public engagement and education about the City's fiscal position would be required, likely coupled with cost reduction strategies to demonstrate fiscal conservatism, before such a measure might gain the necessary public support for approval.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate

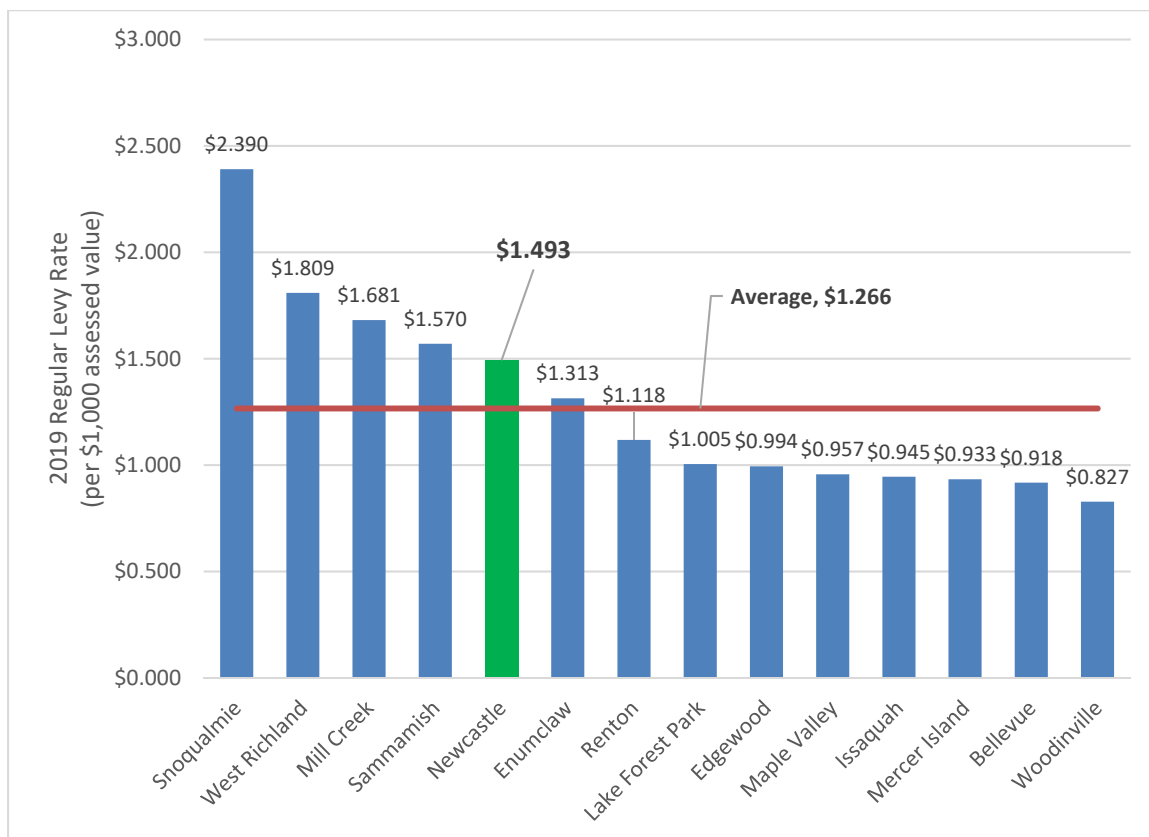
BACKGROUND/ANALYSIS

Washington state law provides the opportunity for cities to increase the annual levy on properties by not more than 1% in any one year through Council resolution, plus an allowance for new construction. Increases in any single year, or over a period of multiple years, requires a voter-approved “levy lid lift.” The amount that the levy may be raised is subject to having sufficient “banked capacity” below the maximum aggregate levy rate and the local limit established under state law. The constitutional aggregate limit is \$10 per \$1,000 assessed value for any taxing area, while the local limit is \$5.90 per \$1,000 assessed value.

Newcastle’s maximum statutory rate is \$3.2332 per \$1,000 assessed value. The current levy rate of \$1.493 per \$1,000 assessed value is expected to generate \$5.4 million in total property tax levy in FY 2019. Property taxes are the single largest revenue source for the City, representing 50% of General Fund revenues in 2019. However, the projected growth in property taxes, which are subject to a 1% maximum increase by Council action not requiring voter approval, will only increase the General Fund portion of property tax revenues by \$284,000 by FY 2024. In that same time period, given inflationary pressures on employee compensation and other services and supplies of about 3% per year, salaries and benefits are expected to grow by \$2.1 million.

Current levy rates per \$1,000 assessed value among peer agencies are presented in Figure 6 below. Newcastle’s rate of \$1.493 is about 18% above the peer average of \$1.266.

Figure 6. Property Tax Levy Rates (Regular Levy) Among Comparable Agencies for 2019



Source: City budget documents and/or county assessor's offices' websites.

Attachment A – Detailed Strategies

It should be noted that starting in 2018, cities can exempt senior citizens, disabled veterans, and other people with disabilities from the tax increase resulting from a levy lid lift if desired. Any exemptions would need to be stated in the ballot measure placed before voters.

11. Implement a Levy Lid Lift as a specific purpose tax

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

The City's property tax levy rate in 2019 is just over \$1.49 per \$1,000 assessed valuation and is expected to generate \$5.4 million in annual property taxes in 2019. Implementing a levy lid lift for a specific purpose (e.g., parks maintenance, public safety) through a ballot measure is estimated to yield the following fiscal impact (based on existing assessed valuation):

- Tax rate increase of \$0.05 per \$1,000 assessed valuation: \$181,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of \$0.10 per \$1,000 assessed valuation: \$361,000 increase in General Fund property tax in the first year of implementation
- Tax rate increase of \$0.15 per \$1,000 assessed valuation: \$542,000 increase in General Fund property tax in the first year of implementation

FEASIBILITY

In many cases, feasibility of this budget strategy would be similar to a levy lid lift discussed in Budget Strategy 18. However, in this case, voters would be asked to approve a measure dedicated to a specific purpose. Some agencies find that dedicating revenues to a specific purpose to avoid the elimination of that service meets with greater public support because the public understands what they will be getting for the tax being paid.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

Washington state law allows for cities to create property tax levies for specified purposes. There are limits on the amount of levy that can be charged based on the specified use.

Table 16 shows the special purpose levy limits that might be applicable to Newcastle, along with other specific circumstances applicable to each type of levy.

Table 16. *Special Purpose Levy Limits Allowed under Washington State Law*

Levy Type	Levy Limit	Other Considerations
Affordable Housing	\$0.50 per \$1,000 AV	Revenues restricted to finance affordable housing for “very low-income” households; requires simple majority voter approval
Emergency Medical Services (EMS)	\$0.50 per \$1,000 AV	Restricted to providing emergency medical care or services; may be imposed 6 years, 10 years, or permanently; requires 60% majority voter approval for initial measures; renewal for 6- or 10-year measures require simple majority approval; separate accounting and referendum procedures apply to permanent measures
Excess Levy (operations and maintenance)	No limit	Levy is only authorized for one-year at a time; may be used for any lawful governmental purpose, but spent in accordance with purpose(s) specified in the approved ballot measure; requires 60% majority approval
Other special purpose levy lid lifts	Subject to maximum statutory rate	Follows regular levy lid lift procedures and limitations; may be implemented for single or multiple years

Source: MRSC of Washington Revenue Guide for Washington Cities and Towns, February 2019

To have the desired fiscal impact, the City would want to focus on levies that would provide ongoing revenue to fund operations. The Excess Levy would be limited to one-year and would expire the following year unless renewed, which is not a viable option given the City’s ongoing structural deficit. Special purpose levy lid lifts with potential for voter approval could be proposed for the following:

- Public safety (combined police and fire services)
- Police services
- Fire services
- Parks and recreation operations

If such levy lid lifts were proposed, the City would need to determine if those services could be funded without the levy lid lift for the future, and would be best packaged under the provision that the measure is being sought for approval to avoid service level reductions in the specified areas.

12. Implement an admissions tax

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

More research regarding the revenues that are generated by the golf course for use of the facilities (e.g., green fees, practice facility, cart fees) would be necessary. Based on estimated revenue projections from other similar facilities, it is reasonable to assume that an admissions tax could generate between \$120,000 (based on 3% of revenues) and \$200,000 (based on 5% of revenues) depending on the admissions tax rate imposed.

FEASIBILITY

The City had an admissions tax in place prior to 2003 at a 3% tax rate. It was suspended in 2003 and repealed in 2007. If City leaders chose to implement a new admissions tax, they would have to determine which businesses the tax would apply to. Cities have latitude in determining what types of businesses the tax would apply to as long as it is consistent with the provisions of Washington State law. The most likely business is the golf course facility within City limits, the Golf Club at Newcastle, which operates two 18-hole courses plus a practice facility, among other amenities. The tax would be applicable for admission/use of the facilities only, not on food and beverage sales per state statute.

Pushback might come from golfers and the owner/operator of the facility, but the course is a regional draw and several of the golfers would be non-residents. Implementation of the tax would have minimal difficulty in that the Council could implement the tax by ordinance. Collections would be administered by the City's Finance Department and they would prescribe forms and collection methods. The City could include audit provisions in the ordinance, which could be exercised on a periodic basis either with City staff or by contract with an independent accounting firm. This would ensure the appropriate amount of taxes was being received from the course.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Significant
Potential of Success	Great

BACKGROUND/ANALYSIS

State statute (RCW 35.21.280) allows cities to create an admissions tax in an amount not greater than 5% of the admission charge for various facilities and events. The tax may be imposed by Council ordinance without voter approval. The use of the funds is unrestricted.

Typical admissions tax ordinances levy taxes to venues such as theaters, dance halls, clubs that have cover charges, stadiums, and any other activity where an admission charge is made to enter the facility, as well as on rental or use of equipment or facilities for the purposes of recreation or amusement. School activities and any public facility or district facility is exempt.

Admissions taxes are administered by the city that implements the tax, and as such, typical ordinances include the ability for the city to collect and audit the collection and remittance of taxes by affected businesses. In addition, some cities have been known to exempt certain events such as those sponsored by nonprofit organizations, but this is an option that is determined individually by the agency that imposes the tax.

A previous admissions tax was in place in Newcastle that placed a 3% admissions tax on businesses meeting the definition of services in the state statute mentioned above. The only business that was affected at the time was the golf course. The City suspended the tax in 2003 and repealed it effective September 4, 2007.

City leaders could decide to reinstitute the admissions tax. There are several dance studios and other recreation facilities such as the YMCA that are in business in Newcastle currently. The golf course would likely be the greatest revenue generator. It has a traditional green fee, but also has membership programs to allow unlimited play and use of green fees, cart fees, and the practice facility. Membership dues do not include services that other golf clubs may have, such as food and beverage service, which makes the collection and remittance of the tax less burdensome to the golf course operator.

Seattle, Lynnwood, Auburn, Everett, Kent, and Redmond are six local examples that charge an admissions tax applicable to golf courses. Other than Everett (4% tax rate), each city charges a 5% admissions tax, the highest allowed by state law.

Without knowing the exact revenues generated by the golf course, it is difficult to estimate the tax collections that could be generated. Based on our experience with other cities that receive admissions tax on golf courses and based on the green fees and membership rates charged by the golf club, it would not be unrealistic to assume that golf course revenues approach \$4 million annually. Assuming a tax rate of 3%, that would generate \$120,000 in annual tax revenues. A rate of 5% could generate up to \$200,000.

13. Implement public safety bond measure for the fire apparatus capital costs associated with the City's contract with Bellevue for Fire services

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Based on the costs for service provided by the City of Bellevue in the most recently adopted contract, the annual portion associated with funding fire apparatus replacement totaled \$121,000.

FEASIBILITY

There are several revenue mechanisms that the City could consider to pay for the annual cost of fire apparatus replacement that is part of Newcastle's fire agreement with the City of Bellevue. A simple levy lid lift ballot measure for up to nine years for debt service requires only a 50% majority vote (as indicated in Strategy 19). Going to the voters for a General Obligation bond for capital improvements requires a 60% approval of voters, a much higher threshold.

Many cities in King County have successfully placed levy lid lift measures on the ballot. According to the Municipal Research and Services Center, there have been 29 levy lid lift elections in King County since 2011. Of those, 20 passed and 9 failed. There were two fire bond measures in that same time period, and both passed.

If the City issued a bond measure, the associated levy would have an expiration date in accordance with the fire service contract, which could be helpful in gaining passage of the measure. In addition, the City could negotiate an upfront payment of those apparatus costs with Bellevue for a lower amount that might otherwise be required in annual payments.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

Newcastle's share for the fire apparatus capital replacement obligations under its fire contract with the City of Bellevue is approximately \$121,000 in 2019. A property tax supplement could be structured in two ways to pay for this obligation.

- Levy lift for nine years to fund the cost of the debt service, or
- General Obligation bond, funded on residents' property tax bills, which does not affect the City's levy rate under the statutory limit.

There are approximately 3,600 parcels in Newcastle. The average cost per parcel per year for a \$121,000 levy would be approximately \$34 per year. The City could levy the parcel tax based on a flat amount or based on assessed valuation.

14. Improve long-term cost recovery of development services through fees and charges and/or cost reductions to achieve at or near full cost recovery

STRATEGY TYPE: Revenue enhancements

IMPACT ESTIMATE

If the policy regarding cost recovery on development fees were modified to collect closer to full cost of providing these services, additional revenues would likely not exceed \$75,000 that could be generated in the General Fund.

FEASIBILITY

The determination of a cost recovery target for fee setting purposes is a Council policy decision. Clearly, there are often market and policy factors that should be considered when determining a cost recovery target. For example, if a particular fee is to be charged on a program financially benefitting an individual, full or near full cost recovery is usually appropriate. Otherwise, the general tax base of the City, used to fund non-fee-based services like fire and police, would be making up the cost difference.

Market realities should also be considered in that if fees are set too high where a customer has choices (e.g., some recreation programs), they may go elsewhere. Where customers do not have a choice (e.g., building and planning services), they may postpone or reduce the size of a project if fees are excessive. With these considerations in mind, it appears there is some room for additional cost recovery for development fees.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Moderate
Potential of Success	Moderate

BACKGROUND/ANALYSIS

The largest category of user fees in the General Fund is development fees. Development fees primarily consist of charges for building, planning and engineering services, about two-thirds of which are for permits to build or remodel single-family residences. Total projected revenue from development fees in 2019 is \$1.5 million but is expected to decline to about \$850,000 throughout the remainder of the forecast due to the significant development projects that are expected to be permitted in 2019.

Building services are based on project construction costs and other factors such as number of buildings, capacity of heating units and, in some cases, hourly rates. Planning fees are charged primarily based on a deposit-based system where planners track their time on each project and an hourly charge is applied against the deposit.

It has been several years since an independent development fee study was completed. Staff have added new fees where appropriate based on estimated costs of services, but mainly the City has updated its fees based on cost of living adjustments each year, primarily tied to the Consumer Price Index changes for the Seattle-Tacoma-Bellevue area. Best practices suggest that cities target cost recovery levels for the following services based upon a comprehensive cost recovery study:

- Building services – 90% to 100%
- Planning services – 75% to 90%
- Engineering services – 75% to 90%

With these cost recovery targets in mind, City staff estimates 2019 and 2020 development services revenues as shown in Table 17:

Table 17. Estimated Development Services Revenue by Fee Category for 2019 and 2020

Fees	2019 Revenue Estimate	2020 Revenue Estimate
Building permits (building, plumbing, mechanical, electrical)	\$975,000	\$421,295
Planning billable hours	336,800	320,000
Plan review fee	179,350	179,350
All other permits and licenses	82,840	63,580
Total development fees FY 2019 and 2020	\$1,573,990	\$984,225

When determining an appropriate cost recovery level, consideration should be given to the amount of benefit provided to an individual versus the public in general. Charges for services that most benefit a private party (e.g., building services) with limited benefit to all citizens should be recouped at a higher rate than services that at least in part also benefit all residents (e.g., planning services). Other factors, such as market rates, can also be considered when establishing cost recovery rates. State law (RCW 82.02) further limits development fees to those costs directly associated with the processing of applications, inspecting, and reviewing plans.

The Community Development Department long-term expenditure forecast indicated a departmental cost of approximately \$1.35 million over the term of the six-year fiscal model. Annual revenues, however, are only expected to approach \$850,000 on average. The City will have some leverage in reducing the number of contracted services hours for building and planning. On a broad level, however, the projections suggest that cost recovery can be improved in the forecast.

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Assuming that the City targets cost recovery levels based on the recommendations above, and that it exercises the leverage of reducing contracted services in building and planning based on actual development activity, the cost recovery level in the forecast could be improved. The portion of costs relative to advanced planning activities would likely not be subject to cost recovery. If the City were to improve the cost recovery gap by 50% in future years, the savings to the General Fund could approach \$75,000 in the forecast model in future years starting in 2021.

15. Improve sales tax enforcement for construction and retail sales

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Estimated impacts of hiring a sales tax consultant to perform audits and enforcement of sales tax revenue generation in the City may approach \$50,000 to \$75,000 per year but could be higher during time of significant construction activity. Eventually, the impact tapers off as businesses begin to report sales tax collections properly.

FEASIBILITY

Implementing a sales tax enforcement program is a bit more difficult when a city does not currently have a business and occupations tax that requires businesses to report gross receipts. Enforcing sales tax collection requires data to be received from the Washington Department of Revenue (DOR) on a timely basis to review and pursue potentially underpaid sales tax. Initial setup of an enforcement program requires diligence and obtaining the right data to analyze. Once established, the program becomes easier to administer.

The greatest area of opportunity, which also presents the greatest challenge, is verification of construction-related sales tax given the timing between when those amounts are reported and remitted to the DOR and when corroborating information regarding assessed valuation is able to be obtained from the County Assessor.

Factor	Difficulty Level
Potential for community pushback	Minimal
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Moderate
Potential of Success	Moderate

BACKGROUND/ANALYSIS

Washington DOR is responsible for collection of sales taxes from retailers in accordance with the provisions of state law (RCW Section 82.08). Sales taxes are also levied on the value of construction (as a use tax) when construction projects are completed. During periods of expansion or significant development activity, construction revenues can generate significant sales taxes for cities. It is also an area that requires diligence to ensure that contractors/developers are reporting the correct amount of taxes owed on the development.

Cities in Washington and in other states that levy sales taxes have created enforcement programs to ensure that the sales taxes being reported to the state are properly collected and remitted to them. In some cases, these enforcement activities include hiring an independent sales tax consulting firm that focuses on sales tax analysis and enforcement. In many cases, these types of firms are compensated based on a percentage of revenues collected (e.g., 30% of additional revenue found through enforcement proceedings). Current Finance Department staff may be stretched in attempting to implement an enforcement program due to competing priorities and existing capacity.

Based on an initial review of historical sales tax collections and development activity leading to assessed valuation of tenant improvements, there appeared to be discrepancies regarding the amount of sales tax actually collected on construction projects when compared with the projected sales tax that should have been collected based on assessed valuation of tenant improvements. A recurring enforcement program can help review and identify potential aberrations in collections to ensure Newcastle is receiving its appropriate share of revenues.

For a city the size of Newcastle, it is not uncommon for agencies to experience net collections approaching \$50,000 per year, especially during times of significant construction activity that may not be reported properly. The impact begins to taper off as businesses begin to report sales taxes properly to the jurisdiction (construction sales tax trends notwithstanding).

16. Establish a transportation benefit district

STRATEGY TYPE: Revenue Enhancement

IMPACT ESTIMATE

Establishing a Transportation Benefit District (TBD) in the City would impose a vehicle license fee on every vehicle registered in Newcastle. Based on a projected 8,650 vehicles currently registered, a \$20 per year vehicle license fee would generate \$173,000 in revenues. These revenues would reduce Street Fund operating costs that are currently subsidized by the General Fund (averaging \$250,000 annually).

FEASIBILITY

Implementing a TBD is within the purview of Council's discretion. The City would establish a district that would allow it to generate revenues through vehicle license fees up to \$100. The City Council can initially implement a fee of \$20, and once it has been in effect for 24 months, it can be increased to \$40. Another 24 months later, the City could increase the fee to \$50 before requiring voter approval, but the portion above \$40 is subject to potential referendum. Fees above \$50 and up to \$100 require a majority of votes cast in an election.

Impacts on vehicle owners would need to be considered. Establishing a TBD could be achieved with minimal difficulty, subject to holding a public hearing on a proposed ordinance to establish the district.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Minimal
Disruptive impact within City organization	Minimal
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Significant
Potential of Success	Great

BACKGROUND/ANALYSIS

State law allows cities to establish transportation benefit districts to address transportation needs within the jurisdiction in accordance with the provision in RCW 36.73. To the extent that the boundaries of the district are coterminous with the city's jurisdictional boundaries, the district can be assumed when the city passes an ordinance to establish the TBD.

Revenues generated by the TBD can come in two forms: 1) a voted sales tax up to 10 years with a maximum tax rate of 0.2%; or 2) a vehicle license fee up to \$100 per year levied on each vehicle

registered with the Department of Motor Vehicles within the TBD's boundaries. Most cities that implement TBDs do so through a vehicle license fee by City Council ordinance.

Revenues must be used for eligible transportation improvements listed in a local, regional or state transportation plan in accordance with RCW 36.73. Improvements range from roads and transit services to sidewalks and transportation demand management. Construction, maintenance and operating costs are eligible costs that may be funded by the TBD revenues. The City now incurs transportation improvement costs in its Streets Fund with an annual operating budget of over \$600,000 per year, which are partially funded through motor vehicle excise taxes and other fees received through state or regional sources. The General Fund is expected to provide a subsidy to the Streets Fund of \$285,000 in 2019, and ongoing subsidies ranging from \$205,000 to \$265,000 from 2020 to 2024.

Six of the 13 peers mentioned earlier have implemented city TBDs as indicated in Table 18.

Table 18. Transportation Benefit Districts of Comparative Agencies

Agency	Year Established	Revenue Type	Amount
Edgewood	2013	Vehicle license fee	\$20 per year
Enumclaw	2013	Vehicle license fee Sales tax	\$20 per year 0.10% tax rate
Lake Forest Park	2008	Vehicle license fee	\$40 per year
Maple Valley	2012	Vehicle license fee	\$20 per year
Mercer Island	2014	Vehicle license fee	\$20 per year
Snoqualmie	2010	Vehicle license fee	\$20 per year

Based on population density and estimates of vehicles per household, staff estimates that there is between 8,600 and 8,700 vehicles registered in Newcastle. Using the middle of this range, the Council could establish an initial vehicle license fee of \$20 that would generate approximately \$173,000 annually. These funds would be deposited directly into the Streets Fund, thereby reducing the subsidy necessary from the General Fund in future years.

SERVICE LEVEL REDUCTIONS

17. Take no action

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

The fiscal impact of taking no action would leave the City's General Fund fully depleted of reserves by FY 2023, at which point the City would be forced to implement hiring freezes or layoffs. To avoid bankruptcy, those hiring freezes and layoffs would need to total nearly \$1.3 million per year and grow to \$2 million per year by 2024, or just short of 17% of the General Fund's annual operating expenditures.

FEASIBILITY

The option of "doing nothing" is not feasible without forcing the City into bankruptcy proceedings. The City would face litigation from creditors, employee groups, residents, and agencies such as the state pension fund, risk insurance pools, and others. Ultimately, the City would be placed into a form of receivership by the state and would then be overseen by an appointed court to implement the necessary actions to allow the City to operate.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Minimal
Potential of Success	None

BACKGROUND/ANALYSIS

The fiscal model indicates that the City faces a structural deficit that would increase to an annual shortfall of \$2.1 million by FY 2024 and would continue to grow thereafter given the 1% limitation on annual property tax levy increases, cost increases anticipated from police and fire contracts, and an obligation to provide competitive salaries and benefits to employees to recruit and retain quality workers. Reserves would be almost fully depleted by FY 2022, and would fall below zero by FY 2023.

The City would be forced into bankruptcy proceedings, placing the control of fiscal and, in some cases, operational decisions in the hands of the courts, which would take the necessary action to restore the City's fiscal health. This could mean significant reductions or full

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outsourcing of a variety of services such as police, fire, parks, recreation, and public works. It would have negative impacts on economic development and quite possibly home prices. The City would face difficulties in recruiting and retaining its workforce as it would have a negative reputation in the labor market.

18. Allow Newcastle to be disincorporated and annexed into an adjacent city or back into King County

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

Should the City not be able to generate sufficient fiscal resources or savings to continue providing services to the community, City leaders may need to consider a plan to be disincorporated or reannexed back into the County or into another adjacent community such as Bellevue or Renton. The fiscal impact is moot in that the City would cease to exist as a separately incorporated community. The impact on taxpayers would require significant analysis beyond the scope of this project.

FEASIBILITY

Annexation procedures are quite complex, especially in a situation where a city that is currently incorporated wishes to, in effect, merge into another agency.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Significant
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Low

BACKGROUND/ANALYSIS

Newcastle became a separately incorporated community under the provisions of state law on September 30, 1994. In the nearly 35 years since incorporation, the population has increased from 4,654 to 11,346. It continues to grow with several high-density residential projects that are under construction or under review.

Based on its size and pressing fiscal challenges of generating sufficient resources to provide the services that the community expects, one option to avoid bankruptcy would be to disincorporate the City under the provisions of Washington State law (RCW 35A.15). The process starts by one of two methods: 1) filing a petition signed by a majority of registered voters in the city with the county auditor; or 2) a city council resolution for an election on the proposition of disincorporation.

If the voters approve dissolution, the Secretary of State would need to certify the results. A receiver would then be appointed to discharge the former city's indebtedness or outstanding liability and make a final accounting of funds to the county treasurer. Once disincorporated, the city's powers and privileges are surrendered to the state. All existing obligations and contracts would remain unimpaired. All facilities, roads and highways pass to the control of the state.

Another option would be to allow Newcastle to be annexed by another agency, such as being annexed back into King County. Another is to entertain an option to be annexed into an adjacent jurisdiction such as Bellevue or Renton.

The methods for annexation are governed by state law and depend on the classification of the agency attempting to annex areas based on the Growth Management Act. A significant amount of legal analysis would be required to fully understand this option but would require a petition or voter approval process that requires approval from owners of property. For such a mass area like the entire City, an election would be the most appropriate method. The annexation process would also require review by a boundary review board as the agency taking over the area would need to ensure the annexation area is updated within its urban growth boundary.

Under the annexation scenario, it is possible that the disincorporation measure would also occur simultaneously.

19. Implement General Fund services and staffing reductions

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

The City's General Fund is projected to have a nearly \$1.3 million budget gap in 2021 that grows to a \$2.1 million gap by 2024. If the combination of enacted expenditure controls, service delivery changes, and revenue enhancements do not resolve this fiscal gap, the City would have to implement General Fund service-level reductions. A thorough analysis of all departments' operations would be needed.

Reducing the General Fund to eliminate the structural deficit is difficult given the nature of the contract service agreements for police and fire, which represent \$4.6 million of the entire General Fund's \$11 million budget. For purposes of this analysis, reducing the General Fund by \$2 million might require the following actions:

- Eliminating Street Fund subsidies – \$250,000
- Reducing police services with KCSO by 25% – \$625,000
- Reducing parks maintenance by 25% – \$175,000
- Reducing staffing and other expenditures in the City Manager's Office, Clerk, Finance, IT and Engineering by 30% – \$750,000
- Eliminating all outreach activities – \$220,000

The actual amount of reductions to close the fiscal gap will depend on the other strategies selected and the resultant fiscal impact of those measures.

FEASIBILITY

Achieving a \$2 million expenditure reduction in the departments above would require significant reductions in positions, which will have an adverse impact on service delivery. The average General Fund employee costs the City about \$130,000 per year. Based on this average, we estimate that to reduce total costs in the departments above would require the City to reduce its workforce by four positions, or 40% of those in the City Manager's Office, Finance, and Park Maintenance functions. That would yield 75% of the necessary reductions in those departments.

The reductions outlined above would have dramatic impacts on service delivery. There would likely be significant community concerns if service levels were reduced to this extent. This strategy, however, would be necessary to provide fiscal sustainability if other cost reductions or revenue enhancement strategies are not pursued or are not successful.

Factor	Difficulty Level
Potential for community pushback	Significant
Technical and operational difficulties of implementation	Significant
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Significant
Overall difficulty for Implementation	Significant
	Rating
Fiscal Impact	Significant
Potential of Success	Low/Moderate

BACKGROUND/ANALYSIS

Service level reductions represent strategies that would be necessary after cost controls/shifts, service delivery changes, and/or revenue enhancement strategies do not culminate in sufficient savings to close the fiscal gap. Reducing service levels would require departments to review all expenditures, identify prioritized service levels, and develop a list of recommended reductions for City Manager and, ultimately, City Council approval to achieve the necessary fiscal target. The analysis would require a thorough and common understanding of the jurisdiction's core levels of service, legally or contractually required services, and clarity regarding mission and values. In some cases, services may need to be viewed from a programmatic perspective so those that require cooperation from multiple departments receive special consideration.

We have estimated the fiscal impact based on current expenditures in the General Fund. For purposes of our analysis, we assume that a \$2 million General Fund expenditure reduction target would be implemented, and departments would then need to identify reductions in personnel, services and supplies, and ongoing capital needs to achieve the necessary reduction.

Community development services are excluded from this analysis because it is assumed they would seek to achieve at or near full cost recovery, generating permit fee revenues to support their operations. The fire contract is also excluded from this analysis as it is unlikely that sufficient savings would be possible through, for example, a brown-out of apparatus in Fire Station 9. The number of officers in the KCSO contract, however, might be able to be reduced to generate a 25% reduction in service costs, but that would severely reduce the number of patrol officers available on any shift.

20. Eliminate community activities coordinator position and related services/events

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

General Fund savings to eliminate just the community activities coordinator position would total \$89,000 annually. Eliminating the position and all events and activities in the Community and Outreach Division of the Community Development Department would total \$155,000, net of lost donation revenues totaling approximately 40,000 annually.

FEASIBILITY

The community has come to rely on the duties of the community activities coordinator (coordinator). However, community events can be viewed as a level of service that is discretionary in nature, compared with public safety or street or facility maintenance responsibilities. This position could be eliminated until other funding resources were identified to restore fiscal sustainability. Reducing to half-time would obviously require scaling back services by prioritizing only the most important. The City would need to comply with its personnel rules relative to layoffs.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Moderate/Good

BACKGROUND/ANALYSIS

The community activities coordinator position is staffed within the Community Development Department. The annual compensation and benefits costs for the position are approximately \$89,000. Costs of administration and the City's role in the various events contribute an additional \$106,000 per year. Total cost of the Community Outreach and Events Division is nearly \$195,000.

Events that are coordinated by the position include the following:

- Fourth of July
- Concerts in the Park (series of four)

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- Summer Movie Night
- Newcastle Days
- Volunteer Recognition
- National Night Out
- Tree Lighting Ceremony
- Various events with Aegis Cultural Center, Library and YMCA

The position also is involved in these other activities:

- Community Activities Commission liaison
- Skyhawks coordination
- 4 Culture/Grants administration
- Historical signs
- Newcastle Youth community engagement coordination with the Library and YMCA
- Community, neighborhood and business outreach
- Volunteer coordination

If the position were eliminated, private non-profit groups such as those mentioned above could take on the role of organizing community events themselves. City involvement could be limited to those services that could be directly paid for by the organizations (setup and cleanup, etc.) through a fee/permit process.

Other responsibilities of the position could be shifted to others in the organization:

- City committees and commission support could be the responsibility of the committees themselves for preparing agendas, taking minutes, and bringing reports directly to City Council;
- Support for City Council committees and/or boards and commissions could be provided either by the City department most closely aligned with those functions, and/or the City Clerk.

21. Eliminate funding for communications coordinator position and reassign certain duties to City Clerk and other staff

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

General Fund savings by eliminating the communications coordinator position and the current contract for services that fills those duties would total \$75,000 per year.

FEASIBILITY

The City Council's initiatives call for community engagement as one of the priorities for 2019. Eliminating the existing contract could be done with minimal impact on core service delivery but would jeopardize the City's ability to effectively engage the community through social media and other platforms without running the risk of reducing other services that may be of higher priority. Once a base level of service is provided to the community, enhanced communications levels are not prioritized as highly as direct services to the public such as street maintenance or fire or police services. Certain duties related to public information dissemination of City or Council-related activities, issues or initiatives might be handled by the City Clerk on a priority assessment basis.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Minimal
	Rating
Fiscal Impact	Moderate
Potential of Success	Good

BACKGROUND/ANALYSIS

The 2019 budget approved \$75,000 to fill the role of a communications coordinator. Given the fiscal challenges, the City Manager recommended, and Council approved filling the role through a contract for services. The existing contract is being filled through a consulting contract on an annual basis.

The City has increased its communications outreach with the community through enhancements to its website, issuing press releases more frequently, and engagement through social media platforms such as Facebook and Instagram. These efforts were particularly helpful in providing real-time information regarding road closures and service restoration during the winter storms of 2019.

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Communications strategies have tiers of priorities. Dissemination of emergency event-related information is a high priority, as are matters that address public safety. Systemic communications activities, including creating active public engagement opportunities, is typically considered a lower tier of prioritization when compared with other service delivery responsibilities.

22. Eliminate funding for one police officer position

STRATEGY TYPE: Service Level Reductions

IMPACT ESTIMATE

The savings to reduce one police officer position with King County Sheriff's Office is estimated at \$200,000 per year.

FEASIBILITY

Reducing one officer position would need to be discussed with KCSO to determine if the contract can be amended to eliminate the additional officer that was added in 2018. Service levels would be scaled back to pre-2018 levels, at least until fiscal sustainability is reached and fiscal resources were identified to afford the additional officer position. Initially, there may not be a significant impact on service levels, however addressing incidents as they occur will be problematic and may require greater reliance on mutual aid from KCSO and adjacent agencies such as Bellevue and Renton Police Departments.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Moderate
Timing necessary for implementation	Moderate
Disruptive impact on service delivery	Significant
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Significant
Potential of Success	Good

BACKGROUND/ANALYSIS

In its contract with KCSO, the City added one additional police officer in 2018 to improve patrol services. This action increased sworn police staffing from 10 to 11. Prior to this, Newcastle police staffing was at 0.89 sworn police staffing per 1,000 population. This was comparable to what KCSO indicated was its partner city average of 0.92 sworn officers per 1,000 population. The addition of one officer increased the ratio to 0.97 sworn officers per 1,000 residents. Reducing one officer would realign its staffing level with KCSO's average for its partner cities.

Other options that Newcastle could consider for reorganizing its police staffing include the following:

- **Reducing the additional police officer by 50%.** The City could reduce the added officer position to 0.5 FTE by targeting the shifts with the highest calls for service. However,

this would require extending capacity back to KCSO for that additional 0.5 FTE no longer utilized by Newcastle.

- **Restructuring Police Chief Duties.** The City could explore the possibility of utilizing the police chief during high-demand shifts for patrol duties and reducing hours spent on community outreach. This could raise issues in terms of job responsibilities in the job description for the police chief in the KCSO labor agreements. We believe there is still value in exploring this option for the following reasons:
 - The chief is a sergeant by rank, and is listed in the King County Sheriff's General Orders manual as a patrol supervisor;
 - Sergeants are eligible for overtime, indicating they are members of a bargaining unit. It appears that sergeants may volunteer for overtime on shifts where there is insufficient minimum patrol staffing availability, which suggests they indeed can perform patrol duties on shifts.
 - The General Orders Manual also lists numerous instances of a sergeant's abilities to do work in the field, albeit in a supervisory capacity.

The chief indicated that he often is in the field when the situation requires it, and that a significant part of the job is keeping a presence in the community and meeting with residents and civic groups. However, Management Partners notes that if patrol services are critical to Newcastle, then some of the community outreach might be considered a second level priority given fiscal constraints.

- **Reducing the full-time detective to half time.** The City's crime rates are considered fairly low. While detective duties are important in investigating crimes that have been committed, there is potential to reduce investigation responsibilities of the existing detective to 50% and use the other 50% of time for patrol services, especially during peak periods. While not ideal, the need for a full-time detective in a community the size of Newcastle should be considered compared with the need for direct patrol services.

23. Reduce parks and street landscape maintenance

STRATEGY TYPE: Service Level Reduction

IMPACT ESTIMATE

Annual budget savings of \$50,000 could be achieved by reducing parks and landscape maintenance activities and irrigation in City parks with an accompanying reduction in service levels as discussed below.

Savings of \$100,000, or 15% of the annual budget of the Parks Maintenance Division, would have a severe impact on parks appearance, open space management, and maintenance of athletic fields and playgrounds.

FEASIBILITY

A budget reduction of \$50,000 in the Parks Maintenance Division is feasible, although park facilities would experience observable changes. A reduction of \$100,000, or roughly 15% of the annual budget, would have more severe negative impacts on open space management, proactive tree maintenance, athletic field maintenance, and potential degradation and/or deferred maintenance of parks infrastructure such as irrigation systems, pathways and fields.

Factor	Difficulty Level
Potential for community pushback	Moderate
Technical and operational difficulties of implementation	Minimal
Timing necessary for implementation	Minimal
Disruptive impact on service delivery	Moderate
Disruptive impact within City organization	Moderate
Overall difficulty for Implementation	Moderate
	Rating
Fiscal Impact	Minimal/Moderate
Potential of Success	Low/Moderate

BACKGROUND/ANALYSIS

The Parks Maintenance Division of the Public Works Department has an annual budget of \$662,000 and maintains nearly 48 acres of parks and open space in the City. Operations are supported by 2.5 full-time equivalent staff members. This division maintains nearly 48 acres of parks, open space and facilities such as athletic fields, playgrounds, hiking, and biking trails, and picnic facilities.

The level of service for maintenance of parks could be reduced. This would mean mowing, weeding, and irrigating City parks less, and possibly reducing supplies and contracted services such as arborist services. Reducing one-half of one FTE position plus various maintenance supplies and services could yield \$50,000 in savings. The following would result:

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- Reduction in the appearance of certain parks amenities,
- Potential for overgrowth during spring and summer months, and
- Reduced capacity to address any significant issues such as downed tree limbs, excess trash, or damage done by excessive parks use.

While the City would likely experience minor degradation in parks infrastructure, clearly the level of parks maintenance enjoyed by the community would be reduced and noticed.

A targeted reduction of 15% of annual operating expenditures would yield \$100,000 in budgetary savings, requiring the following:

- Reduction of one FTE,
- Reduction in supplies and services,
- Reprioritization of response efforts related to proactive maintenance and significant maintenance needs such as winter storms, damage in city parks, or safety issues, and
- Rebalancing of responsibilities among maintenance staff.

The public would notice vegetation overgrowth during the spring and summer seasons along hiking/biking trails and in parks and open space areas, and a more reactive approach in arborist and maintenance responsibilities. In some circumstances, park closures may be required to allow time for reduced work crew to correct safety issues that may arise. Maintenance activities for streets might also be temporarily impacted to the extent that pressing safety issues in the parks would require a maintenance worker to assist in resolving issues.

Attachment B – Other Strategies Identified Not Specifically Analyzed

Table 19 summarizes additional strategies that were identified during our analysis that were either deemed to provide little or no significant fiscal impact (i.e., less than \$50,000 annually) to solve the General Fund’s structural deficit or were otherwise determined to be infeasible given the City’s current operating environment. City leaders would be encouraged to pursue these strategies, especially if the strategies incorporated in a proposed fiscal sustainability plan were not able to be implemented.

Table 19. Other Budget Strategies Identified but Deemed to have Low Fiscal Impact or Otherwise Infeasible

Strategy Title and Description	Comments
<i>Expenditure Controls/Cost Shifts</i>	
Implement tax increment financial tool(s) to finance redevelopment for downtown (e.g., Community Revitalization Financing Act area, Local Revitalization Financing program).	Prior capital improvement project relative to these improvements was eliminated. No current costs are included in the forecast that would be borne by the General Fund. If downtown redevelopment costs are expected to be incurred and funded by the General Fund, this strategy could be implemented to provide a funding source.
Implement a Business Improvement District for the downtown area to fund improvements and ongoing maintenance of public infrastructure.	No current costs are included in the forecast that would be borne by the General Fund. If downtown improvement costs are expected to be incurred and funded by the General Fund, this strategy could be implemented to provide a funding source
Establish local improvement district to fund sidewalk maintenance.	Costs associated with sidewalk maintenance are funded in the Street Fund and the Stormwater Maintenance Fund. The General Fund does provide a subsidy to the Transportation Fund totaling \$200,000 per year; however most of the subsidy is primarily going to fund street improvements.
Move Police and Finance to the Annex and lease vacated space at market rates for private offices.	Improvement costs necessary to prepare space in the Annex to house Police and Finance, and to prepare space in City Hall for a private tenant would need to be incurred. Current lease spaces may provide additional revenue funding, however the amortized costs of improvements to the Annex and City Hall may likely net less than \$50,000 in annual revenue improvement to the General Fund.
Shift costs of community events to businesses via sponsorship revenues and/or ensure full costs for City support and special event permit processing are paid.	Current costs borne by the City that may be shifted would total \$35,000 to \$40,000 per year. See Budget Strategy 19 for more information about impacts from eliminating community events.
Obtain sponsorships/grants/donations to pay for ongoing monument maintenance costs.	Funding maintenance costs for monument signage is expected to be relatively minor and well below \$50,000 annually.
Convert high-maintenance landscaped areas along City streets to low-maintenance softscape/hardscape.	Incremental costs associated with maintaining landscaped areas are estimated to be below \$35,000 annually.

Attachment B – Other Strategies Identified Not Specifically Analyzed

Strategy Title and Description	Comments
Share reception desk position between Finance and City Clerk to increase productivity.	This recommendation would take advantage of potential excess reception desk capacity to support administrative needs in the City Clerk's Office. There would be no reduction in personnel, so no cost reductions would be anticipated.
<i>Service Delivery Changes</i>	
Determine if police services can be contracted with other local law enforcement agencies with a lower cost structure than the King County Sheriff's Office.	Renton and Bellevue's cost per capita are on par with Newcastle's and would likely not provide sufficient savings compared with the existing contract with KCSO. Management Partners also reviewed analyses conducted by Sammamish and Burien relative to moving police services in-house and terminating their contracts with KCSO. In each case, the analysis indicated the costs for those cities to provide the services themselves would increase by 20% to 30%.
Contract engineering and capital project management services to private engineering firm.	The cost structure for City employees based on existing compensation and benefits packages are lower than the hourly rates charged by private contractors. Savings could be generated to the extent that City staff had excess capacity. However, initial indications are that existing staffing levels are meeting the current demands to manage engineering duties.
Contract planning and building plan check/inspection services to private engineering/planning firm.	The cost structure for City employees based on existing compensation and benefits is lower than the hourly rates charged by private contractors. Contracts are already used for the chief building official and planning/building inspection on an as-needed basis. To the extent that the City is operating at or near full cost recovery (see Budget Strategy 14), there would be little additional savings to the General Fund.
Explore a fleet shared use agreement for vehicles with Coal Creek Utility District.	Detailed information regarding fleet managed by CCUD would be required to further analyze this strategy. There are potential economies of scale that may be generated through a fleet shared use agreement but based on limited information the cost savings to the City's General Fund would likely be nominal.
Share/transfer community activity/event planning with other agencies (e.g., Bellevue Parks and Community Services) and/or private parties (e.g., Newcastle Chamber of Commerce).	The City should continue to explore these options in the event that Budget Strategy 19 is implemented. Currently, cost reductions are not likely to have a significant impact on current General Fund costs.
Contract parks maintenance services to private landscaping firms or implement a shared service model with Renton or Bellevue.	Newcastle's current level of service and costs for parks maintenance is low. The compensation and benefits cost structure for Newcastle is lower than Renton or Bellevue, suggesting that cost savings would not likely occur. Prevailing wage requirements per recent changes to state law make contracting for services with private landscapers less financially feasible.

Attachment B – Other Strategies Identified Not Specifically Analyzed

Strategy Title and Description	Comments
Contract payroll preparation services.	Based on our experience with external payroll service providers and the existing costs for payroll services with staff, the City would likely not experience significant cost savings and would lose capacity in support of other Finance Department activities if the payroll position was eliminated.
Revenue Enhancements	
Sell/lease vacant surplus property located on 130th Place SE south of Lake Boren Park (zoning R-6)	The surplus property is approximately 1.75 acres located adjacent to townhomes built in the last several years. The property has capacity for 10 townhomes. Sales price of the property could yield \$1.6 million in one-time sales proceeds revenues that should not be used for current General Fund operations, but rather for investment in other long-term assets or infrastructure needs such as parks, open space or city facilities. One-time construction sales tax revenues could be generated for development of the property. However, ongoing property tax revenues are estimated to be less than \$12,000 annually.
Sell/lease land and process entitlements for infill development on City property along May Creek (zoning R-1).	Detailed research into the feasibility to use the land for a residential project would need to be completed. There is currently insufficient information to project potential ongoing property tax increases that would be sufficient to provide General Fund relief within the six-year fiscal model timeframe. The sale of City-owned property should not be viewed as funding ongoing operations, but rather as one-time revenue that could be used to fund capital costs with long useful lives.
Implement a business and occupations (B&O) tax.	Newcastle has relatively few businesses that would generate sufficient gross receipts to provide General Fund revenues over \$50,000 per year. The idea could be explored further but would require more information regarding the gross revenues that businesses in city limits generate on an annual basis. The maximum B&O tax rate that the City could charge is 0.20%.
Expand business license scope to include apartment complexes.	This is a plausible concept, however the increase in General Fund revenues that would be associated with this strategy would likely yield less than \$25,000 annually.
Service Level Reductions	
Reduce street maintenance to lowered pavement condition index (PCI) standards.	The City's current pavement management study indicates that the City's PCI in 2017 was 85. The City opted to provide annual funding of \$550,000 in developing its capital improvement plan, which would on a long-term basis already reduce PCI levels to 80. If the City determined to lower the PCI standards further, there is potential that the annual subsidy to the Streets Fund could be reduced, but likely not in the short-term.

Attachment B – Other Strategies Identified Not Specifically Analyzed

Strategy Title and Description	Comments
Eliminate grants/funds to neighborhoods (e.g., portable toilets in neighborhood areas).	The City provides nominal funding to support neighborhood initiatives and parks needs beyond maintenance services provided by the Parks Division. The incremental costs associated with these enhanced services are estimated to be well below \$15,000 per year.
Reduce stormwater management funding to minimum NPDES requirements.	An updated surface water management fee rate study will be completed in 2020. The update last conducted in 2017 indicated minimum proactive and optimum service level options. Council indicated a desire for an optimum level of service but was not willing to increase fees to fund that level. There is currently no fiscal impact on the General Fund for the current level of service, and thus no impact that could have direct benefit to the General Fund.