CITY COUNCIL AGENDA BILL 19-29

AGENDA BILL NO.: 19-29

TOTAL PAGES: 15

EXHIBITS:
1. Resolution adopting the final Fiscal Sustainability Implementation Action Plan

ACTION PROPOSED: Adoption of the Fiscal Sustainability Implementation Action Plan

SUMMARY
City Council will vote on potential adoption of the Fiscal Sustainability Implementation Action Plan (“Plan”). The Plan provides direction on actionable steps to achieve fiscal sustainability over the current 6-year General Fund forecast.

FISCAL IMPACT
The fiscal impact is detailed in the attached Plan.

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

- Conducted an independent analysis of the City’s six-year forecast. Management Partners conducted an independent review of the City’s General Fund forecast in December 2018 and offered several recommendations that would improve the forecast. The fiscal dashboard created indicated that the City’s General Fund was projected to have an annual fiscal gap where expenditures and transfers would exceed revenues, growing to $2 million per year by FY 2024. As shown in budget documents and Management Partner’s report, public safety costs will consume all property tax revenues in the City’s 6-year forecast. Without corrective action, reserves would be almost fully depleted by FY 2022 and in a deficit position by FY 2023.
- **Developed budget strategies.** Management Partners then conducted an analysis of various budget strategies to address the fiscal gap and bring fiscal sustainability to the City’s General Fund. A combination of revenue enhancements, expenditure controls/cost shifts, service delivery changes, and service level reductions were identified. Management Partners presented three different budget scenarios that included a mix of budget strategies that would address the fiscal gap if they were successfully implemented. The scenarios ranged from revenue-centric to expenditure-centric solutions. They were presented to the City Council at its May 14, 2019 meeting. Council members did not decide on any specific set of strategies, but instead directed staff to move forward with a community engagement initiative as part of the City’s annual Town Hall meeting before selecting any strategies for implementation.

- **Presented at the City’s Town Hall Meeting on Fiscal Sustainability issues.** A Town Hall meeting was held on June 18, 2019 to share information about the City’s financial condition and to obtain input from the community on their perspectives based on the information shared. Management Partners presented an overview of the City’s financial condition. Budget strategies were not presented during the meeting, but several community members were knowledgeable about the discussions held by the City Council at its May meeting. Community members asked questions and provided their opinions about the City’s financial condition and services.

- **Participated in City Council’s review of budget strategies after the Town Hall meeting.** The City Council then met on July 2, 2019 to review the previously presented budget scenarios in light of the discussions held at the Town Hall Meeting two weeks prior. Council members determined that the timing was not right to select any set of strategies. However, there appeared to be majority opinion forming regarding a set of strategies that would address the fiscal gap (discussed further below). Council’s direction was to discuss budget options at its August 15, 2019 retreat and move forward with preparation of the FY 2020 annual budget.

- **Provided an updated forecast model on January 21, 2020.** Management Partners attended the January 21, 2020 City Council meeting and provided an updated 6-year forecast model that included up to date expected 2019 year-end numbers along with adopted 2020 budget numbers loaded in the model.

- **City Council continued discussion on February 4, 2020.** Staff provided answers to City Council technical questions that centered around the implementation of a utility tax and the referendum process - including cutoff dates for the November 2020 election. Council voted to direct staff to bring back a final version of the Plan for adoption, with minor changes, to the February 18, 2020 City Council meeting.

**DISCUSSION**

In addition to the motion passed at the February 4, 2020 City Council meeting that amended select implementation dates and directed staff to bring back a final Plan for adoption, there was some discussion around other strategies that could be included in the Plan. One such strategy centered around current ideas being implemented or considered to increase sales tax collection. For example, city staff have been working on finalizing a contract with a consulting firm to collect potential uncollected past sales tax. In addition, the City Council approved a new Accountant position in the 2020 budget that would provide the Finance Department the capacity to developed systems that going forward will aid in tracking the relationship between construction
permits and sales tax generation that should generate increased revenue. These sales tax related strategies are now included in the final Plan under a new Section D.

Next Steps

Assuming adoption of the Plan in Exhibit 1, the next step in the process for City Council will be the review of a draft utility tax ordinance. The Plan contemplates an April 2020 adoption of said ordinance and in order to meet that deadline the City Council will need to provide direction on key details to be included. These details include assumptions about what the initial utility tax rate should be set at and if any future increases should be included in the ordinance. See Table 1 below which shows the rates in the current draft. The current version assumes collection starting in October 2020 at 2% without the delay of a referendum vote. If Council wants to be more conservative, they may want to amend that to start full collection in January of 2021 to allow the possibility of a vote to take place. If that decision is made, the Council might want to also consider starting the rate at 3% since that is what the proposed 2021 rate is in the plan. These decisions can be made at an upcoming meeting and/or the Finance Committee can be tasked to provide recommendations for the full Council to consider.

Table 1. Proposed UT Implementation Timing and Tax Rates by Service

<table>
<thead>
<tr>
<th>Utility Service</th>
<th>FY 2020 (Oct)</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024 and thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric and Natural Gas</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Telephone and Cellular</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Cable TV</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Solid Waste</td>
<td>2.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Water</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Wastewater (Sewer)</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

If the decision is made to move forward with a utility tax ordinance (at whatever rate), the next question to answer would be whether to include future utility tax increases in an adopting ordinance or only include the initial rate and wait on adopting a completely new ordinance at the time Council decides future increases are needed. A utility tax ordinance can include future increases in the original ordinance and then later decide to delay the implementation and collection of those increases. An advantage of including all potential future increases in an ordinance is that there would only be the need to go through a potential referendum process once. The downside is that by asking the public to vote on a large increase all at once may increase the likelihood of a referendum vote passing.

ACTION RECOMMENDED

Staff is recommending adoption of the resolution attached as Exhibit 1.

I MOVE TO ADOPT THE RESOLUTION CONTAINED IN EXHIBIT 1 ADOPTING THE FISCAL SUSTAINABILITY IMPLEMENTATION ACTION PLAN