October Surprise: City Scares Pants Off Taxpayers

by Bill Erxleben and Nola Coston

If you thought Halloween was scary, wait until you read the City of Newcastle's October preliminary budget and revenue forecast.

Beginning in 2017, the General Fund will have an operating deficit of $367,000 with larger deficits each year thereafter. The major safety reserve, the Cumulative Fund, which was raided for $1.3 million to purchase City Hall, now carries a balance of only $10,000 and there are no plans to add more funds. Off balance sheet, not accounting for unrecognized millions of dollars in deferred maintenance, the city has $4.3 million in general and revenue liabilities, including underfunded pension obligations owed to employees and Bellevue fire fighters.

With a recent AAA bond rating from Standard and Poor's (S&P), record development fees, and increased sales tax receipts from construction in 2016, why are we going broke in boom times? There are four reasons: (1) the S&P rating is questionable--S&P paid $1.5 billion in penalties in 2016 to federal and state governments for inflating ratings to secure business; (2) the city needs a much larger commercial tax base to survive, something that was questioned when the city was incorporated in 1994; (3) the city has been on a two-year, ill-advised, $8.5 million discretionary spending spree on land, buildings and consultants; and (4) the undeveloped property real estate boom is over, impacting revenues.

The city depends on other jurisdictions services for two-thirds of its services (King County Police, Bellevue Fire, and the CCUD for sewer and water). Consequently, Newcastle has limited control over costs. For example, Bellevue voters are facing a big tax increase this fall to upgrade fire department facilities. Since we are not part of Bellevue we get no say in the outcome; the cost is just passed on.

Almost one-third of the budget, $3.2 million, is for city employee compensation. The average city employee makes $115,000 a year with benefits, and the budget contemplates a 4.8% salary increase in 2017. City employees pay negligible city taxes since none of them live in Newcastle.

Where will the city get the money to plug the budget deficits? The city is planning another property tax increase in 2017 with no credit to taxpayers for the city's mistaken property tax increase last year. And, because of inadequate maintenance and a $250,000 charge against the fund to buy the new City Hall, surface water management fees will jump next year by 28%! But even more money is needed to cover the budget deficit. The City Manager favors a regressive utilities tax that normally requires voter approval. Disturbingly, the city is studying ways to avoid a taxpayer vote on a utilities tax. A business and occupation tax is also being considered.

Where is the city's financial plan to deal with the budget crisis? In 2013, the State Auditor told Newcastle: "Prior audits have noted a potential distressed financial condition…We recommend that the city adopt a written, comprehensive plan that addresses the forecasted shortfalls…The council should revise the plan as needed to insure the city's ability to continue operating." To date, the city has done nothing to prepare a plan.

The council's only plan seems to be to protect their jobs, which will result in a high tax, low services city in the next three or four years. A better alternative is to be proactive and explore consolidation with a contiguous city like Bellevue, a city with a much more favorable economic outlook and a large commercial tax base. As a full service city, Bellevue also provides a wider range of community services and facilities. Bellevue's city taxes are roughly comparable to Newcastle's. Perhaps we should follow the wisdom of our neighbors to the north: Newport Hills and Factoria joined Bellevue in 1993; Eastgate followed in 2012.

C'mon council, this is no way to run a city. Stop the runaway spending. Show us your long-term financial plan. And don't try to impose a utility tax without a public vote.