



City of Newark Delaware

Council Financial Workshop

July 25, 2011

Agenda

- Review of 2011-2016 Financial Forecast
- Discussion of Electric Utility
- Assumptions for Water Rate Study

Financial Forecast Assumptions

■ Inflation

- ❑ Overall inflation of 2.5%
- ❑ Wages & Pensions Increase 2.5% annually
- ❑ Health Care Increases 10% annually

■ Utility Load Growth

- ❑ Electric demand grows roughly 1% annually
- ❑ Water & Sewer demand grows 1% annually

Financial Forecast Assumptions cont'd

- Utility Margins & Rates
 - Electric utility earns 20% margin
 - Rates increase 2.5% in 2012
 - Rates increase 5% in 2015
 - Water utility earns 20% margin
 - Rates increase 15% in 2012
 - Sewer utility earns 20% margin
 - Rates increase 10% in 2012
 - Continue to track County rates
- Municipal Revenues
 - Property tax rate increases 5% annually
 - Other revenues increase 2%

Financial Forecast

2012 - 2016

(In Thousands)

| | ACTUAL | APPROVED BUDGET | PROJECTED | | | | |
|-------------------------------------|-----------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Operating Revenues: | | | | | | | |
| Utilities Gross Margin | \$24,585 | \$24,510 | \$27,296 | \$27,519 | \$27,741 | \$30,855 | \$31,162 |
| Real Estate Taxes | 4,850 | 4,968 | 5,216 | 5,477 | 5,751 | 6,039 | 6,341 |
| Other Taxes | 2,537 | 1,472 | 1,501 | 1,531 | 1,562 | 1,593 | 1,625 |
| Other Revenue | 8,871 | 7,964 | 8,123 | 8,285 | 8,451 | 8,620 | 8,792 |
| TOTAL REVENUES | \$40,843 | \$38,913 | \$42,136 | \$42,812 | \$43,505 | \$47,107 | \$47,920 |
| Operating Expenses: | | | | | | | |
| Salaries | \$15,528 | \$16,357 | \$16,766 | \$17,185 | \$17,615 | \$18,055 | \$18,506 |
| Payroll Taxes | 1,241 | 1,325 | \$1,358 | \$1,392 | \$1,427 | \$1,463 | \$1,500 |
| Pension Contributions | 2,164 | 2,463 | \$2,525 | \$2,588 | \$2,653 | \$2,719 | \$2,787 |
| OPEB Contributions | 1,136 | 920 | \$943 | \$967 | \$991 | \$1,016 | \$1,041 |
| Other Benefit Costs | 2,899 | 3,355 | 3,691 | 4,060 | 4,466 | 4,913 | 5,404 |
| Total Personnel Services | 22,968 | 24,420 | 25,283 | 26,192 | 27,152 | 28,166 | 29,238 |
| Materials & Supplies | 1,921 | 2,055 | 2,096 | 2,138 | 2,181 | 2,225 | 2,270 |
| Contractual Services | 4,445 | 5,066 | 5,167 | 5,270 | 5,375 | 5,483 | 5,593 |
| Equipment Depreciation | 1,096 | 1,250 | 1,275 | 1,301 | 1,327 | 1,354 | 1,381 |
| Other Expenses | 200 | 279 | 284 | 290 | 296 | 302 | 308 |
| TOTAL OPERATING EXPENSES | \$30,630 | \$33,070 | \$34,105 | \$35,191 | \$36,331 | \$37,530 | \$38,790 |
| GROSS MARGIN FROM OPERATIONS | \$10,213 | \$5,843 | \$8,031 | \$7,621 | \$7,174 | \$9,577 | \$9,130 |
| Non-Operating Expenses: | | | | | | | |
| Debt Service | \$1,749 | \$1,578 | \$1,579 | \$1,572 | \$1,574 | \$1,569 | \$1,569 |
| Current Capital Program | 1,691 | 4,257 | 3,939 | 6,712 | 4,535 | 6,289 | 4,953 |
| TOTAL NON-OPERATING EXP | \$3,440 | \$5,836 | \$5,518 | \$8,284 | \$6,109 | \$7,858 | \$6,522 |
| ANNUAL SURPLUS(DEFICIT) | \$6,773 | \$7 | \$2,514 | (\$664) | \$1,065 | \$1,719 | \$2,608 |

Cash Flow

2011 - 2016

(In Thousands)

| | ACTUAL | BUDGET | PROJECTED | | | | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Beginning Cash | \$12,451 | \$19,007 | \$19,205 | \$22,156 | \$20,717 | \$21,220 | \$23,124 |
| Gross Margin from Operations | 10,213 | 5,843 | 8,031 | 7,621 | 7,174 | 9,577 | 9,130 |
| Depreciation | 1,096 | 1,250 | 1,275 | 1,301 | 1,327 | 1,354 | 1,381 |
| Current Capital Program | (1,691) | (4,257) | (3,939) | (6,712) | (4,535) | (6,289) | (4,953) |
| Capital Reserves/Bonds | (757) | (717) | (207) | 0 | 0 | (154) | 0 |
| Equipment Replacement | (556) | (342) | (631) | (2,077) | (1,889) | (1,015) | (1,306) |
| Debt Service | (1,749) | (1,578) | (1,579) | (1,572) | (1,574) | (1,569) | (1,569) |
| Net Cash Change | \$6,556 | \$199 | \$2,951 | (\$1,440) | \$503 | \$1,904 | \$2,683 |
| YEAREND CASH | \$19,007 | \$19,205 | \$22,156 | \$20,717 | \$21,220 | \$23,124 | \$25,807 |

Financial “Rules of Thumb”

- (.01¢) Increase in Tax Rate = \$77,000
- (1%) Increase in Tax Rate = \$50,000
- (1%) Change in Electric Margin = \$640,000
- (1%) Change in Wages = \$168,000

Annual Impact of (.01¢) Increase in Tax Rate

| | w/Deduction (\$) | w/o Deduction (\$) |
|----------------------------|---------------------|-----------------------|
| ▪ Residential | | |
| • Highest | 15.24 | 25.81 |
| • Average | 5.51 | 6.93 |
| • Lowest | 1.83 | 2.30 |
| ▪ Commercial (Main Street) | 24.65 | 31.03 |
| ▪ Industrial (Largest) | N/A | 856.20 |

Impact of (1%) Change in Electric Margin

| | Annual Impact (\$) |
|---------------------------|--------------------|
| ▪Average Residential | 12.98 |
| ▪Commercial (Main Street) | 24.39 |
| ▪Industrial (Largest) | 44,790.13 |
| ▪University of Delaware | 203,776.334 |

Annual Impact of Lowering Electric Revenues \$1m & Raising Tax Revenues \$1m

| | w/Deduction (\$) | w/o Deduction (\$) |
|----------------------------|---------------------|-----------------------|
| ▪ Residential | | |
| • Largest | 136.12 | 272.56 |
| • Average | 48.92 | 67.31 |
| • Lowest | 6.91 | 12.91 |
| ▪ Commercial (Main Street) | 198.11 | 280.43 |
| ▪ Industrial (Largest) | N/A | (65,462.93) |
| ▪ University of Delaware | N/A | (345,543.28) |

Note: \$1m reduction in electric margin from 20% results in a margin of 18.3%

Assumptions for Water Rate Study

- Number of Customer Classes
- In/Out City Rate Differential
- Importance of Conservation Goal
- Potential Rate Increase

Questions