

**CITY OF NEWARK
DELAWARE**

**CITY COUNCIL
WORKSHOP AGENDA**

Monday – October 7, 2013 – 7:00 pm - CC

A Workshop will be held on Monday, October 7, 2013, at 7:00 p.m. in the Council Chamber, to discuss and review the financial forecast.

/rkb

Posted: September 24, 2013

Advertised: September 27, 2013



Financial Workshop

October 7, 2013

Agenda

- 2013 Financial Forecast
- 2014 Budget Highlights
 - Capital Improvement Plan (CIP)
 - Operating Budget Overview
 - Personnel Reconciliation
 - “Fixed” items
 - Suggested Changes reflected in 2014 Budget
 - Conceptual Changes to be considered for 2015+
- Special Topic – Cash Reserves

2013 Financial Forecast

- Consolidated Operating Surplus of \$480m
 - General Fund Revenue is strong
 - Transfer taxes (\$1.3mm / +\$200m)
 - Permit fees (\$1.75mm / +\$300m)
 - Fines (\$2.3mm / +\$200m)
 - Park Fees (\$600m / +\$100m)
 - General Fund Operating Expenses
 - Controlled very well overall
 - IT Contractual Expenses (\$500m / +\$250m)
 - Security testing, Study, Diamond Technologies
 - Legislative & Parks overages offset by Police, Streets, Maint, Code & Planning underage

- *NOTE: "m" is commonly used to denote \$1,000; \$285m = \$285,000.
"mm" is commonly used to denote \$1,000,000; \$3.5mm = \$3,500,000.*

2014 Budget Highlights

- Consolidated Surplus of \$242m
- CIP totals \$11.2mm gross / \$4.9mm net
- Salary & Benefits Expenses up \$1.6mm
- Incremental Smart Meter Rev & Expense
- Water Rate Increase per 2011 Study
- No Sewer Rate Increase Planned
- Incremental Tax Increase of 1.5%
- Electric Rates are Flat / Marginally Lower
- Other Revenue Opportunities
 - Parking Meter, Court Fee, Merchant Offset

Capital Improvements Program Total 2014 – 2018

	2014	2015	2016	2017	2018	Total Out- Years	Total CIP
General Fund							
Capital Improvement Program							
Administration	\$ 413,200	\$ 20,000	\$ -	\$ 20,000	\$ -	\$ 40,000	\$ 453,200
Information Technology	519,320	80,900	-	20,000	-	100,900	620,220
Legislative	-	-	-	-	-	-	-
Parks & Recreation	1,671,744	1,094,000	1,533,000	1,580,000	145,000	4,352,000	6,023,744
Code Enforcement	-	50,000	-	95,000	-	145,000	145,000
Police	266,385	315,000	109,000	205,000	3,000	632,000	898,385
Public Works	3,408,670	2,283,500	2,774,000	2,000,000	8,594,578	15,652,078	19,060,748
Total General Fund	\$ 6,279,319	\$ 3,843,400	\$ 4,416,000	\$ 3,920,000	\$ 8,742,578	\$ 20,921,978	\$ 27,201,297
Enterprise Funds							
Capital Improvement Program							
Electric	\$ 1,357,790	\$ 1,571,000	\$ 711,000	\$ 545,000	\$ 1,173,000	\$ 4,000,000	\$ 5,357,790
Water	2,305,000	3,519,500	3,246,800	954,500	1,097,000	8,817,800	11,122,800
Sewer	608,000	500,000	400,000	400,000	400,000	1,700,000	2,308,000
Parking	609,250	8,171,000	4,451,320	3,349,450	-	15,971,770	16,581,020
Total Enterprise Fund	\$ 4,880,040	\$ 13,761,500	\$ 8,809,120	\$ 5,248,950	\$ 2,670,000	\$ 30,489,570	\$ 35,369,610
Internal Service Funds							
Capital Improvement Program							
Maintenance	\$ 30,000	\$ 213,000	\$ -	\$ 25,000	\$ -	\$ 238,000	\$ 268,000
Total Internal Service Funds	\$ 30,000	\$ 213,000	\$ -	\$ 25,000	\$ -	\$ 238,000	\$ 268,000
Comprehensive CIP	\$ 11,189,359	\$ 17,817,900	\$ 13,225,120	\$ 9,193,950	\$ 11,412,578	\$ 51,649,548	\$ 62,838,907

Key Projects - 2014

- Annual Street Program (\$1.0mm)
- Vehicle Replacements (\$1.7mm)
- New Substation (\$700,000)
- IT Improvements (\$495,000)
- Smart Parking Meters (\$340,000)
- Door Lock Retrofits (\$200,000)
- Solar Compactors – Refuse and Recycling – Main St. (\$180,000)
- Ongoing Storm Water Conversations (\$6.9mm)

Key Projects 2015

- NWTP Raceway Improvements (\$1.3mm)
- Hard Surface Facility Improvements – Parks (\$600,000)
- Parking Garage (\$8mm)
- Substation (\$700,000)
- South Well Field Air Stripper (\$625,000)
- Streets Program (\$1.3mm)
- Water Main Renovations (\$500,000)

2014 Budget Highlights – Personnel

Description	2013 Projection	2014 Budget	Difference Unfav (Fav)
Total Personnel Expenses	24,805,801	26,414,162	1,608,361

Explanation of Non-wage Personnel Expense Increases	Expected Change Unfav (Fav)
Increase in Healthcare Costs	394,385
Increase in Pension Contribution (\$330 prescribed by actuarial review, \$300 add'l)	630,473
Increase in OPEB Contribution (\$70m) & Other Personnel Categories (\$80m)	150,250
Personnel Expense Increases explained by non-wage expenses	1,175,108

Explanation of Wages and Salaries Expense Increase	Expected Change Unfav (Fav)
▶ Contractual Items (Labor Contract Increases, Service/Longevity)	495,872
▶ Organic Changes (Police Other Wage Lines, OT, Management Turnover)	53,468
▶ PWWR Reorganization, Finance / Admin / IT Reorganization	(593,786)
▶ Late 2013 Initiatives / 2014 Budget Proposals	276,768
▶ Items Subject to Council Approval	135,393
▶ Other Minor / Routine Increases (standby pay, PT hours changes, shift diff, etc)	65,538
Personnel Expense Increases explained by wages and salaries	433,253

2014 Budget Highlights – “Fixed” Items

■ Personnel Items

- ❑ Contractual Increases / Labor Allowance
- ❑ First \$330m of Pension ARC Funding
- ❑ \$70m OPEB Funding / \$80m Other Personnel

■ Electric & Sewer Rates

- ❑ Maintain electric rate structure & RSA
- ❑ Sewer rates stable; electric rates slightly lower

■ Smart Meters: Rev + Efficiency pays lease

■ Other Revenues are Stable

- ❑ Fines/Fees, Transfer taxes, Intergovernmental

2014 Budget Highlights – Recommendations

- Personnel Items
 - Next \$300m of Pension ARC Funding
 - Management & Council Increases
- Water Rate Increase – 7.2% in January
- Tax Increase – 1.5% (Phila region CPI)
- Introduce Court Security Fee
- Introduce Offset to Merchant Fees
- Introduce Dynamic Parking Meter Rates
- Introduce Storm Water Utility Fee

2014 Budget Highlights – Water Rate

■ Impact of Increase

□ Inside City

- Avg mthly bill ▲ by \$2.26 from \$31.11 to \$33.37

□ Outside City

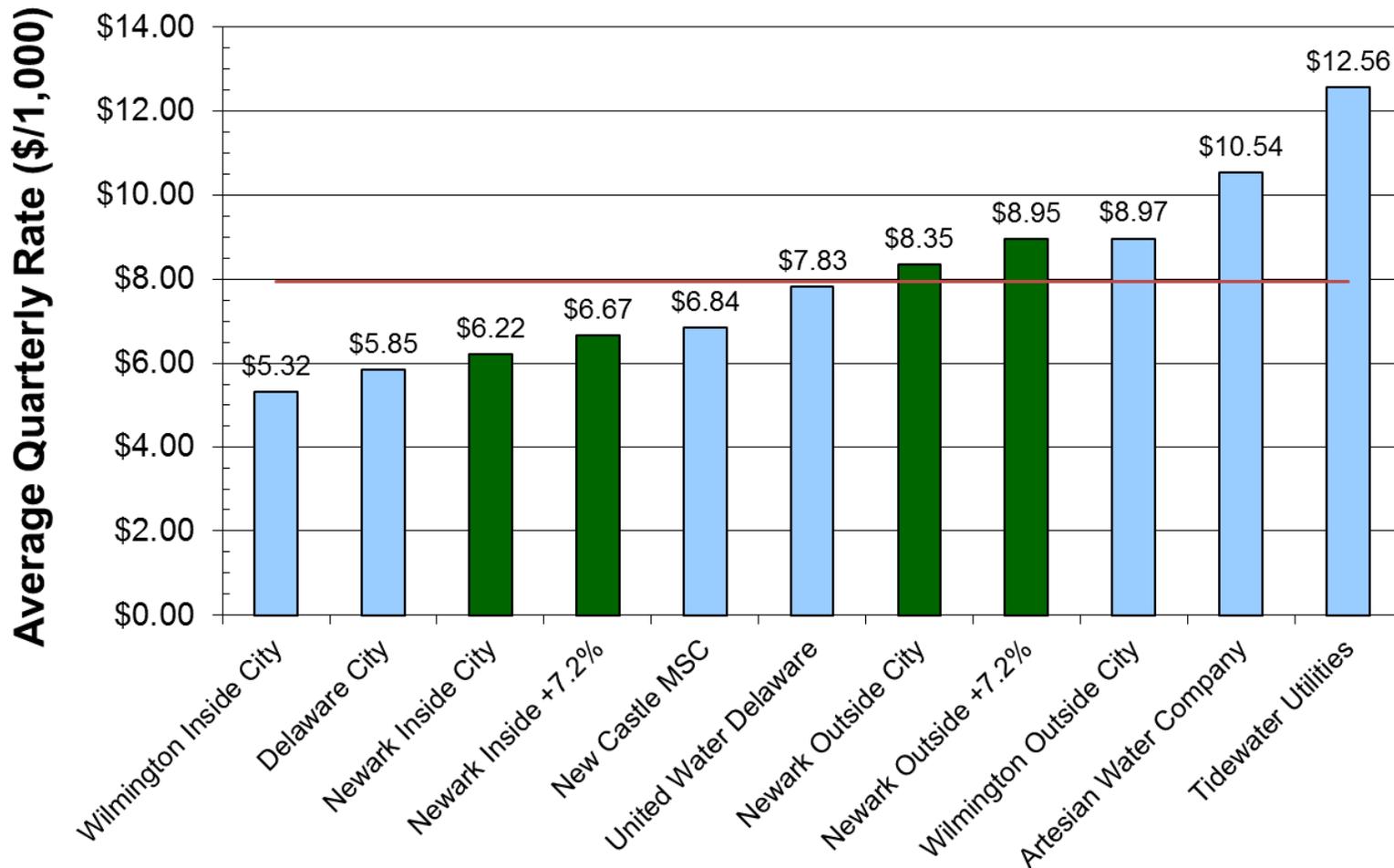
- Avg mthly bill ▲ by \$3.03 from \$41.74 to \$44.77

□ Water revenues increase by \$490m

- Equivalent to 8.9% tax increase
- Half year delay & reduction to 5% costs \$323m
- Reduction to 5% with no delay costs \$151m

□ Maintains D/S Coverage Ratio at 1.9, which is still below amount contemplated by B&V (2.4)

Water Rates in New Castle County, Delaware (2013)



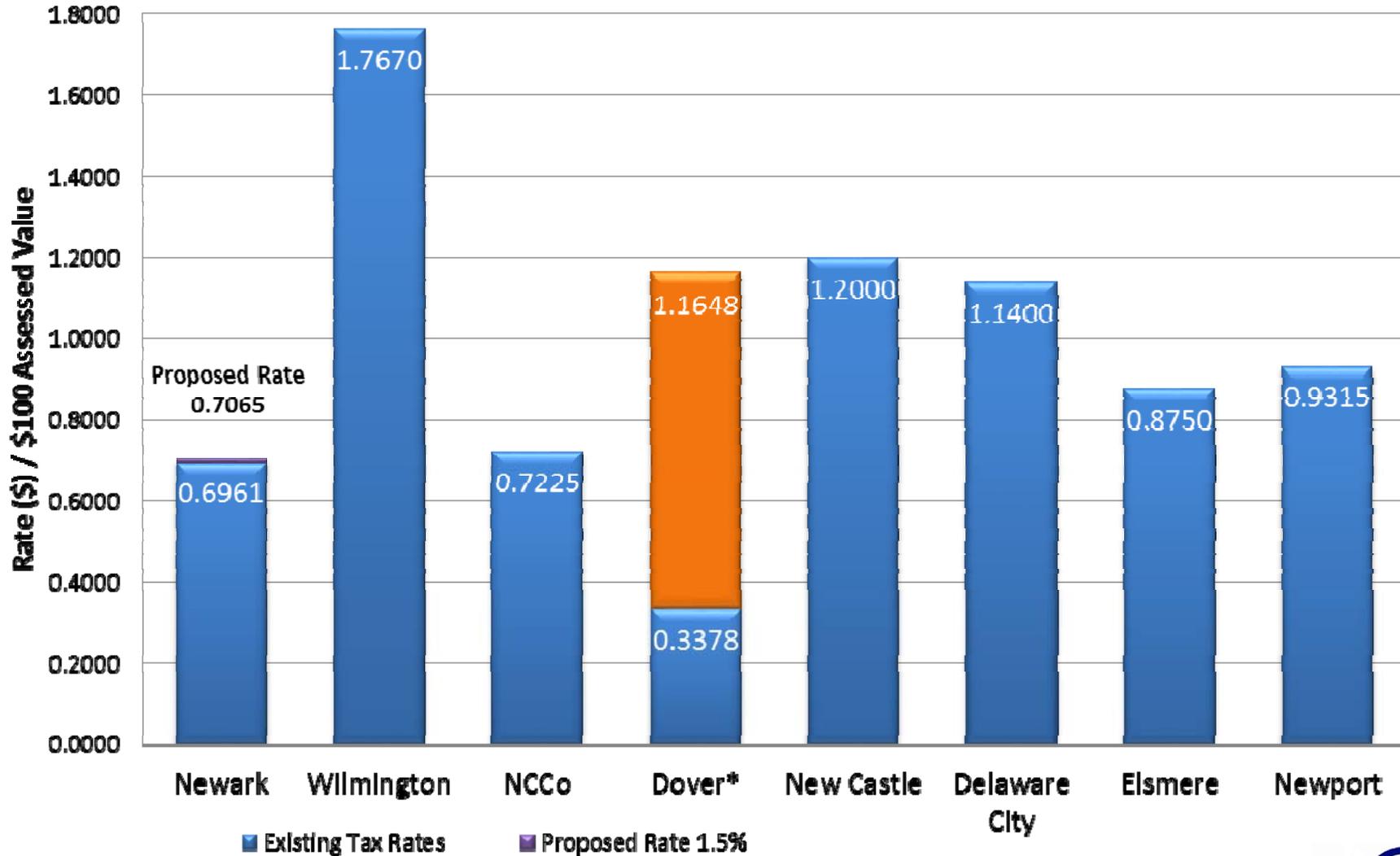
Source: University of Delaware Water Resources Agency, Institute for Public Administration, Draft Report "Water Rates in Delaware and Surrounding States," October, 2013



2014 Budget Highlights – Tax Rate

- Impact of Increase: \$0.6961 to \$0.7065
 - Residential Property
 - Avg annual bill ▲ by \$7.29 from \$488.27 to \$495.57
 - Smallest residential increase: \$1.64
 - Largest residential increase: \$26.84
 - Commercial Property
 - Avg annual bill ▲ by \$37.96 to \$2,578
 - Largest commercial increase: \$1,100 to \$74,722
 - Revenue Impact is \$129,633

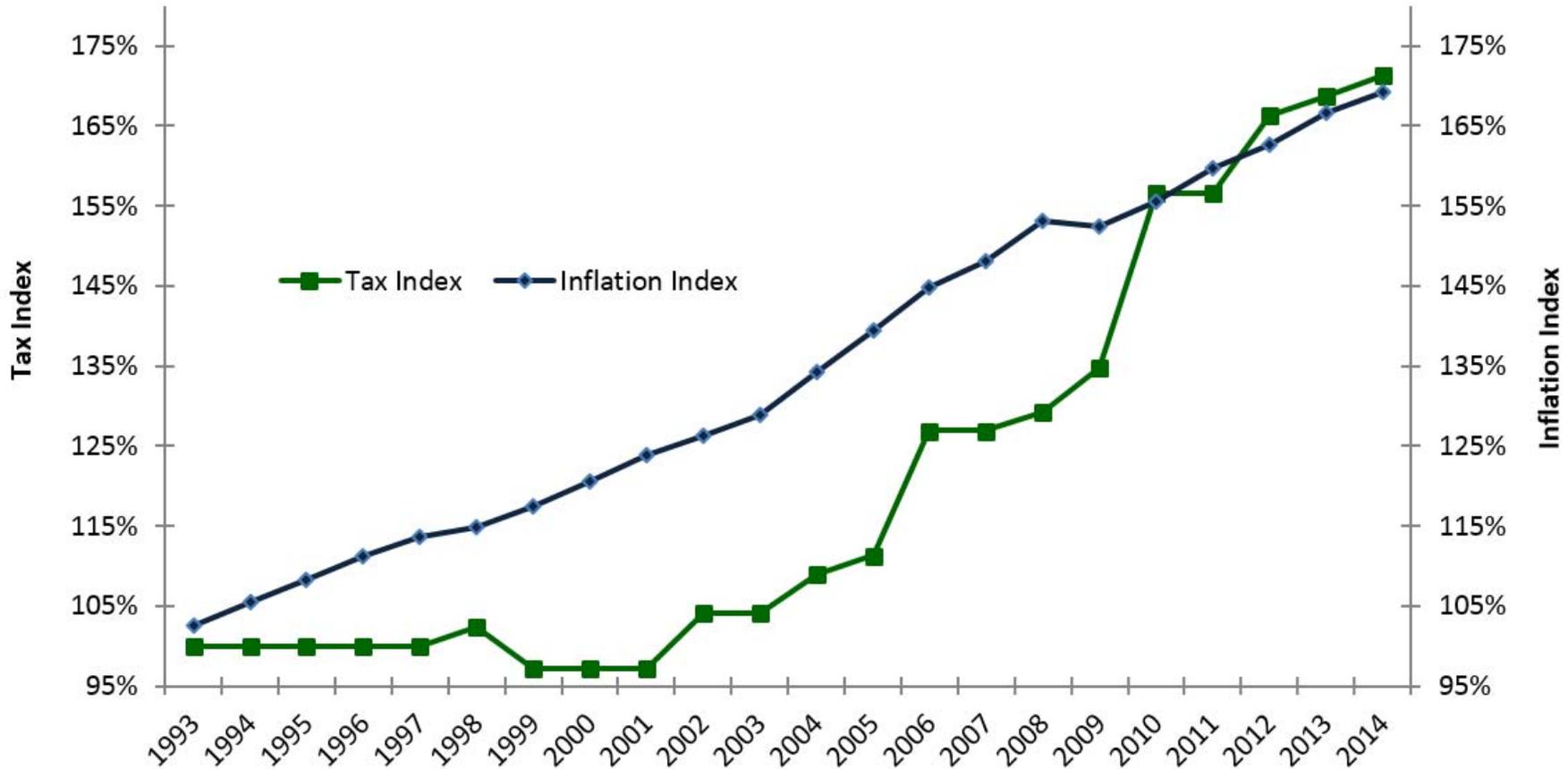
2014 Budget Highlights – Tax Comparables



*Dover's stated rate of \$0.3378 yields an effective rate of approximately \$1.1648



2014 Budget Highlights – Tax vs Inflation



2014 Budget Highlights – Court Security

- **Court Security Fee Appended to Fines**
 - Benchmarked \$10 fee with other jurisdictions
 - All State Courts charge a \$10 Security Fee
 - Alderman's Courts in Laurel, Newport, & Dewey charge a \$10 Security Fee
 - On pace for ±15,800 tickets in 2013
 - Equates to \$158m in annual revenue
 - Restrict use of proceeds to fund court security
 - Third party contract to hire guards
 - Equipment purchase
 - Equivalent to tax increase of 2.9%

2014 Budget Highlights – Merchant Fees

■ Credit Card Acceptance

- Pros – shift credit risk to card issuers, reduce customer service burden, improve cash flow
- Cons – significant merchant fees to City
 - Electric – \$110m
 - Water – \$65m; Sewer – \$45m
 - Parking – \$45m
 - Code, Property Tax, Parks – \$37m
- \$150m; equivalent to 2.7% of tax base
- 2.4% (\$5 max) fee would partially offset merchant fees

2014 Budget Highlights – Dynamic Rates

- **Dynamic Parking Meter Rates**
 - ❑ Made possible by smart parking meters
 - ❑ Keep hourly rates in tact for each meter zone's existing time limit
 - ❑ Double rates after initial period(s)
 - ❑ Meter expires after twice the initial period
 - ❑ Drives market-based enforcement
 - ❑ Other opportunities
 - Different rates at different times of day / week
 - Free parking for special events

2014 Budget Highlights – Storm Water

- ❑ Current budget draft assumes \$1.5mm in revenue with \$1.5mm offsetting expenses (lumped in OpEx)
- ❑ Storm Water Utility Fee remains recommended funding source
- ❑ Problems with tax funding
 - Tax base is less broad than utility base, so funding is concentrated to property owners only
 - Would have to move storm water utility back out of the water fund and into the general fund (personnel, equipment, operating expenses)
- ❑ Grant funding and alternative financing with the state / USDA continue to be investigated

2014 Budget Highlights – Conceptual Items

- **Local Service Fee of \$1 per week**
 - Newark employers process through payroll
 - Exemption for Newark residents
- **Amusement Tax**
- **Hotel Occupancy Tax**
 - Small amount per stay based on regional benchmarking
- **Scalable / Variable Business License Fee**
 - Dover, Middletown, others have fee based on variable component, such as cost of goods sold
- **Follow-up on 9/30 financing questions**

Special Topic – Cash Reserves

Summary of 2009 Financial Policies

Fund	Budget Res		Contingency Res		Equipment Repl		Cap Reserve		Rate Stab Fund		TOTAL		Cash & Investments 12/2014
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	
General Fund	1,111	1,667	278	695	500	901	-	-	-	-	1,889	3,263	8,505
Electric Fund	4,187	6,281	523	6,804	500	500	-	-	1,132	3,772	6,342	17,357	5,741
Water Fund	580	1,232	145	580	500	500	-	-	-	-	1,225	2,311	2,256
Sewer Fund	467	992	117	467	500	500	-	-	-	-	1,083	1,958	1,846
Parking Fund	106	225	26	106	500	500	-	-	-	-	632	831	1,391
Capital Fund	-	-	-	-	-	-	-	-	-	-	-	-	4,844
Total	6,451	10,396	1,089	8,651	2,500	2,901	-	-	1,132	3,772	11,172	25,720	24,583

Recommended Changes to Existing Financial Policies

Fund	Rainy Day Funds		Contingency Res		Equipment Repl		Cap Reserve		Rate Stab Fund		TOTAL		Cash & Investments 12/2014
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	
General Fund	6,250	7,250	-	-	-	-	-	-	-	-	6,250	7,250	8,505
Electric Fund	11,700	18,000	-	-	-	400	1,000	3,000	-	3,400	12,700	24,800	5,741
Water Fund	3,000	6,000	-	-	-	300	1,800	3,600	-	-	4,800	9,900	2,256
Sewer Fund	2,000	2,000	-	-	-	100	400	800	-	-	2,400	2,900	1,846
Parking Fund	600	2,600	-	-	-	100	250	500	-	-	850	3,200	1,391
Capital Fund	-	-	-	-	-	1,800	3,500	5,250	-	-	3,500	7,050	4,844
Total	23,550	35,850	-	-	-	2,700	6,950	13,150	-	3,400	30,500	55,100	24,583

Historical Cash Balances

