CITY OF NEWARK
DELAWARE
CITY COUNCIL WORKSHOP MINUTES

July 25, 2011

Those present at 7:16 PM:

Mayor Funk presiding
Council Members Athey, Clifton, Markham, Morehead
(Absent – Temko, Tuttle)
City Secretary Patricia Fogg
City Manager Kyle Sonnenberg
Finance Director Dennis McFarland

The documents provided to Council to prepare for the workshop were used in a PowerPoint presentation.

1. Review of 2011-2016 Financial Forecast

Mr. McFarland reviewed the five-year Financial Forecast which was the same forecast included in the 2012-2016 Capital Improvement Program.

There were two significant assumptions: (1) that the current service levels would continue through the five-year forecast, and (2) a willingness to adjust both utility rates and property tax rates was assumed in order to achieve minimally acceptable financial results.

Overall inflation of contractual services and materials and supplies was at a rate of 2.5%. Wages and pensions were inflated at 2.5% annually. Health care increases were 10% annually.

Utility load growth was projected at 1% across electric, water and sewer utilities.

The forecast for utility margins and rates assumed that all utilities would earn close to a 20% margin each year. Rate increases were included as needed to achieve the 20% targeted margins. The forecast showed a 2.5% increase for electric rates, a 15% increase in water rates and a 10% rate increase for sewer rates in 2012. Additionally, an increase of 5% might be warranted in 2015.

All revenue classes other than property taxes were reviewed in the General Fund, and a 2% increase was assumed. To obtain minimally acceptable financial results over the five-year period, it was assumed the property tax rate would increase 5% each year. This would amount to a three or four cent increase per $100 assessed.

The Financial Forecast was the income statement for the City as a whole forecasted for the next five years. The key line was the annual surplus which showed the income for each calendar year. The average for the five years was about $1.5 million a year which was minimally acceptable.

The Financial "Rules of Thumb" showed how adjusting rates will impact the City's revenues: A one cent increase in the tax rates amounted to about $77,000, a 1% increase was approximately $50,000, a 1% change in the Electric Margin totaled $640,000, and a 1% change in wages cost $168,000.

With a one cent property tax increase the average residential customer would pay about $7 more/year, while a 1% electric rate increase would cost that same customer almost $13/year.

2. Discussion of Electric Utility

The issue was whether to change the City's reliance on the electric utility revenues for funding City government.

Mr. McFarland acknowledged two primary concerns with the City's reliance on electric revenue. One was the volatility of the revenue stream where during any budget year the City was exposed to significant swings due to weather, the economy, etc. To mitigate those swings, the new electric rate design with fixed customer charges recovered more costs regardless of consumption. In addition the Revenue Stabilization Adjustment would assist in recovering the margin for a budget year. Mr. McFarland reported that Staff planned to propose an accounting change to defer under collections in the electric utility where each year the budgeted margin would be achieved on an income basis, and any over/under collection would be passed back in a subsequent year.

The second issue was the concern that the University may choose to buy electric power from another source when their contract with the City expired at the end of 2015. Mr. McFarland explained that although customers may be able to purchase wholesale power from a source other than the City, the power still had to be delivered through the City's electric distribution system where the margin was collected.

According to Mr. McFarland the electric utility was one area where earnings/revenue growth could occur over a five-year period while property taxes would be fairly flat if the rate was not acted upon and transfer tax volumes were out of the City's control. From Staff's perspective he felt the City's reliance on electric revenues was not necessarily all negative.

Mr. Athey requested a report comparing the City's utility and service costs to determine whether Newark was still competitive with surrounding municipalities. He said with the prospect of hefty increases for the foreseeable future, Council needed to make a compelling argument that the City was still a bargain compared to other jurisdictions.

Mr. Morehead said residents mostly commented to him that they do not believe they pay enough taxes. He suggested considering a change in the City's marketing approach emphasizing that Newark was a great deal.

Mr. Sonnenberg reminded Council that the utility rate increases in water and sewer were being driven largely by the need to increase maintenance which he felt had been neglected. He added that Staff would continue to look for cost-saving opportunities and ways to increase revenues.

3. <u>Assumptions for Water Rate Study</u>

Mr. McFarland introduced Prabha Kumar, Principal with Black and Veatch, consultants on the water rate study.

Mr. McFarland noted the City's current rate design for water was simple with only two customer classes (in City and out of town), a flat rate for the water consumed and the same small fixed charge across the board. He said changing the rate structure would be complicated, requiring a cost of service study for each class. One reason to create different classes was to encourage water conservation with a type of inclined block rates for water consumption. However, this would raise other issues such as changing from quarterly to monthly meter readings and would require educational outreach on water conservation.

Mr. Athey pointed out that Jerry Kauffman was conducting an interim water analysis which Mr. Athey thought would show that Newark water rates were substantially lower than most other municipalities. He recommended working with Mr. Kauffman as he finalized his report.

Meeting adjourned. Time 8:51 pm.

Patricia M. Fogg, CMC
City Secretary