CITY OF NEWARK
DELAWARE

COUNCIL WORKSHOP MINUTES

October 12, 2015

Those present at 6:00 p.m.:

Presiding:	Mayor Polly Sierer District 1, Mark Morehead District 2, Todd Ruckle District 3, Rob Gifford District 4, Margrit Hadden District 5, Luke Chapman District 6, A. Stuart Markham
Staff Members:	City Manager Carol Houck City Secretary Renee Bensley City Solicitor Bruce Herron Community Affairs Officer Ricky Nietubicz Deputy City Manager Andrew Haines Electric Director Rick Vitelli Finance Director Lou Vitola IT Manager Joshua Brechbuehl Parks & Recreation Superintendent Joe Spadafino Planning & Development Director Maureen Feeney Roser Public Works & Water Resources Director Tom Coleman Public Works & Water Resources Deputy Director Tim Filasky Purchasing Administrator Cenise Wright

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1. The Council workshop began at 6:00 p.m. in the Council chamber.

2. Ms. Sierer opened the floor to staff for the financial workshop presentation.

Ms. Houck reviewed the goals for the workshop, which were to provide an overview of the current status of the capital and operating budgets and provide information to facilitate feedback from Council regarding project priorities both during the workshop and in the lead up to the delivery of the final recommended budget on 10/23 in advance of the 11/2 budget hearing.

Ms. Houck noted that the City continued to struggle with General Fund expenses, even with savings achieved in recent years. She noted the impact that outsourcing refuse collection would have on that fund. Staff listened to Council's requests and made changes to the capital program sheets with an eye towards consolidating more information on each sheet to allow for better understanding of how each fits into the whole one-stop shop and as it relates to priority levels links to the company and envisioned element and operating impacts.

Ms. Houck reviewed the timeline for the remainder of the budget process, which included the financial workshop, the presentation of the CIP to the Planning Commission on 10/20, the Council budget hearing on 11/2 with a contingency date of 11/16, and the target date for budget approval of 11/23 with a contingency date of 12/14.

Ms. Houck reviewed the pressures on both the expense and revenue sides of the budget. Before considering any rate action, revenues were generally flat or slightly down while expenses were increasing. The budgeted surplus was very narrow each year and this would be the fifth consecutive year observed of a surplus not greater than 1.3%. Staff had already gone back to the departments to trim expenses. There was higher than expected property tax assessment growth in 2015, but that was not expected for 2016.

Real estate sales have been strong, driving up the real estate transfer tax receipts. There has been concern recently about the state cutting the real estate transfer taxes, but staff was confident about relying on the receipts for 2016. That comfort level came from the belief that any proposals made in 2016 would not impact the City until 2017. If that were to occur, about 16.5% would return to the state. In 2017, that would be about $260,000 and in 2018, when that would increase to 33%, it would be about $520,000. Revenues from fine receipts and permit activity were expected to go back to 2013/2014 levels in 2016, so lower receipts were expected in those two areas.

Meanwhile, costs were higher as staff was trying to plan for infrastructure operations and maintenance to extend the life of existing infrastructure while investing in new infrastructure. Ms. Houck noted the previous presentation of Mr. Coleman regarding pipe replacement requirements which have been underfunded in years past and the same was true this year. Personnel expenses were increasing as a result of the union contracts and non-wage cost pressures such as payroll taxes and benefits.

Mr. Vitola reviewed the status of the electric fund. Wholesale power costs hit a lower limit in 2015 and were going to start increasing in 2016. Recently, DEMEC has said that the energy component was still flat or decreasing, but its other components were driving up to meet the wholesale rate. Fortunately, the increase of 3% estimated for 2016 would be small enough that there should still be an RSA pass back next year and the City would not see anything more significant until 2017, but staff did not have that information or those estimates yet. Continuing the adherence to the MOU with Governor Markell's office meant that once again, in 2016, the Electric transfer to the General Fund would be capped at $10 million, the same as 2012 through 2015. This has forced some restraint in the transfer amount at a time when state renewable portfolio standards and other costs have driven up the electric wholesale rate. Those expenses were going to go up as the RPS requirement increased every year. The days of balancing the budget on the electric transfer were long gone. Now more than ever the City had to be more creative in the new world of renewable energy requirements, distributed generation, Bloom and fuel cells reduced demand, bid response, solar power and other changes on the grid. 2016 was seen as a buffer year before there was a noticeable change to the rates and a possible flip from a negative RSA to a positive RSA.

Ms. Houck noted that the take away from the Water Fund slide was that a rate increase was likely to be recommended by the City's rate consultant due to the fact that the prescribed rate increases from the earlier rate study were not followed perfectly in 2013, as it was nine months late and reduced to 5%. In 2015, the City also eliminated the hydrant fee as recommended by staff as necessary. In 2016, the increase was deferred until the updated rate study could be completed. Staff expected to have a session with Black & Veatch for Council at the beginning of the new year to kick off the rate study update and make some decisions about what the City included in the rate study.

Mr. Vitola stated that with the operating margin in the Water Fund and, therefore, the General Fund transfer shrinking over the last four years, yet still with the pressure to increase or at least retain funding for water infrastructure and with indication from the City's rate consultant about the foregone rate increases, staff thought it was appropriate to assume that least the 7.2% rate increase intended for January 1, 2016, would be recommended by the rate consultant for July 1, 2016. Despite that expectation, the City was still holding the operating margin well below the 20% guideline for City utilities and more money was going into Water while less was being transferred to the General Fund.

Mr. Vitola reviewed the next slide, which specifically called out the changes in the recommended rate actions from the rate consultant for the first five year period. The recommended effective dates were all January 1 of each year, but the effective rate in 2013 was late and the hydrant fee was reduced in 2015. In the budget, there was no water rate increase for the start of the year, January 1, 2016. Staff did not know what the real impact would be until the consultants actually did their work, but the consultant had advised that in reviewing the preliminary information, it would be at least the 7.2% that would be foregone in the beginning of 2016.

Mr. Vitola reviewed the status of the sewer utility. The county had not increased its sewer rates since July 2013, and the City would find out what the county rate requirements would be in January or February after the City budget was passed. The City would pass through any increase in the county's sewer fees, which covered the cost of county's sewer treatment. The City portion of the sewer flow rate covered the sewer collection and transmission components of the City sewer operations, which included everything from when the water leaves a house to the pipes that openly take it to the county treatment plant. The sewer division identified the new traditional jetting, inspection of manholes, inspection of sewer lines and grease traps and other key O&M in the keeping of the lines clear and prevented backups.

The City had not increased its portions of the flow rate since roughly the same time as the county's last increase. To cover the costs in the department including personnel, equipment maintenance, capital and the margin requirement, an increase in the flow rate to just over $3.77 per 1000 gallons was required, which resulted in a net increase of about 8.4% of the blended sewer rate for residential customers. It equated to about $3.14 per month per resident that uses 167 gallons of water a day. Staff could have run this calculation last year. The rate increase would have been justified then as the City's sewer margin had been shrinking over the years, but there were other items to prioritize.

In regards to the General Fund, the Electric Fund transfer had been capped at $10 million since 2012. The Water Fund transfer was slated to go down for the fourth consecutive year in a row. If not for the sewer rate increase recommended, the Sewer Fund transfer would be lower than the 2012-2014 period and very close to the subpar 2015 transfer. As a result of that and the cost pressure, staff recommended a property tax increase of 3%. That would generate about $174,000 a year in the long term, but only $87,000 in 2016 because the tax rate was effective as of July 1. That $87,000 covered a fraction of the roughly $756,000 in General Fund personnel increases and the rest was met with enterprise fund transfers to the General Fund. The recommended sewer rate action discussed on the last slide filled a gap that would otherwise require a tax increase of 10.1% over and above the 3% being recommended. The notion that staff was recommending a sewer rating increase to get to the 20% margin prescribed by City policies and only increasing the tax rate by 3% was evidence that the City had always and would always continue to rely on the public utility business model while trying to strike a balance between use and overuse.

The next slide contained a graph showing the percent which the city relied on utility contributions, as almost two thirds of City funding was derived from the utility funds and the rest filled the gaps, including property taxes, real estate transfer taxes, state aid, fines, permits, and the parking fund.

Ms. Houck noted that the $1.5 million increase included all personnel expenses. About 47% of that or about $700,000 was wage progression for existing employees. Another 34% or about $500,000 was attributed to new positions. A personnel count would be included in the near future to Council as well as put on Budget Central as it was a request of Councilman Morehead at the last Council meeting and staff was working on that. The balance of the increases were less than $300,000, resulted from payroll taxes, benefits, insurance and other increases. $1.5 million was a lot, but in the context of roughly $28 million in personnel expenses, it was about 5% over the 2015 budget. Retiree medical expenses and health premiums were reflected in the increase here as well, which was part of other post-employment benefit costs, or OPEB costs. On the bright side, the health insurance renewal with DVHIT, Delaware Valley Health Insurance Trust should be close to 5%, while the trend in Delaware was typically 8 to 12% increases, so the City should be ahead of that curve for the second year in a row.

Mr. Vitola reviewed the next slide which showed more than a decade of known or proposed wage growth versus CPI in our region. The unions were finishing up the third year of contractual increases of 3% or close to 3%. The recommended management increase of 3% made up just over $78,000 of the roughly $700,000 in wage progression. The increase included working field supervisors and helped narrow the gap between wage growth and inflation over the last 11 years. However, because it was the same increase as the CWA and AFSCME increase, it did not do anything to mitigate the wage compression issue between working supervisors and the Union employees they manage.

On the graph, the lines from top to bottom were AFSCME, CWA, FOP, CPI and management increases that had occurred. As shown, the dash line represented the recommended management increase. That was not final as it depended on council action, but it was dashed to show that it approached the CPI line.

Ms. Houck noted that staff had focused on the City's core services as requested by Council. As mentioned in the beginning, staff ran through the first drafts of the budget to determine what could be kept with service levels in mind. The efficiency initiatives since 2012 had been mentioned in the last several budget discussions. Those measures continued to save hundreds of thousands of dollars annually. From the Public Works and Water Resources merger to the operating efficiencies such as leaf collection and the closure of the transfer station, to the packers in the Refuse division, to the benefit reductions for management to the move to DVHIT for health insurance and more. All these things were making today's decisions easier.

By resulting in savings that compounded every year, all these things would represent more challenges today, if the City had to wrestle with them now. In total, the City had saved over $3 million through 2015 and more through 2016 while eliminating wasteful spending including putting people in the right places. That was a big focus of what staff was doing right now. It was not necessarily that they were going to be cutting numbers as much as getting people in place needed for the current operation.

Staff had been working to tackle most of the pressing issues facing local government. The City's counterparts at DEMEC and DLLG were facing these challenges as well. Through interfacing with the International City Managers Association members, staff has found that many have not begun to take some of those issues on. The City was simply doing more with less at this point in time. Taking the City's closest comparable, Dover: staff was proud of what Newark had to offer and the quality of its services, yet it was done with roughly 100 fewer employees than Dover. When staff took time to turn some work around, keep in mind that it was often the same individual, same staff working on multiple items and trying to do it well. The City's goal was not simply to manage the staffing, but to get them where they were needed now under the current environment.

Mr. Vitola moved the presentation to the Capital budget. A project costing over $20,000 with the useful life of more than one operating cycle was the definition of a capital project as part of the CIP budget. He reviewed several formatting changes, the revised priority listing, the addition of Comprehensive Plan vision elements and code references and the operating budget impact from each capital project. He noted that priority level 1 projects were projects authorized in 2015 or a prior year and they are currently underway or that the funds were reserved so that it could be initiated or resumed in 2016, such as ongoing equipment replacements.

The total CIP for this year was just over $12 million, which was a gross number. After factoring in reserves, grants, equipment funding and other funding, the net CIP budget is around $6 million. The gross figures were reported on the next three slides. The 2015 CIP was very similar with about $10.5 million in gross spending and $5 million in net spending. Mr. Vitola explained an error that had been updated in the equipment replacement and refuse lines regarding where the purchase of new refuse trucks was accounted. Some of the notable projects that were priority 1 were the salt shed rehab, the water main from Windy Hills to Red Mill, the sewer system master plan, storm drainage that was ongoing, the ADA accessibility transition plan that was ongoing, the pedestrian crossing signalization on Delaware Avenue which was going to happen in 2016 that was approved earlier, water SCADA and other projects.

Ms. Houck noted the priority level two projects were highlighted as the highest priority among projects that were new for 2016 or had not been started. These were the top 11 projects in the staff priority list. The first two items, the street program and the water main renovations, were noted to be $1 million each for 2016, which was not enough to begin to address the issues the City knew of. $1.5 million each continued to be an annual goal at this time and manageable in relationship towards inspections as well. The balance of the projects were level three and four which were still important and still needed, but there was less risk in leaving them beyond 2016.

Ms. Houck noted that the goal was to get some initial feedback on some of the projects. The final draft for the project list would be advertised the next day for the 10/20 Planning Commission meeting. Council would have the ability to consider the merits of each project and consider and question the priority levels. That could take place at the 11/2 budget hearing. However, staff encouraged Council to share preliminary feedback and ask questions by 10/21 so staff could share as much of the question and answers on project detail with all of Council and on Budget Central ahead of 10/23, which was the target date to distribute the budget binders with the capital program and operating budget to Council.

3. Ms. Sierer opened the floor to questions from Council.

Ms. Hadden asked what the difference was between the sewer system master plan in priority level 1 and the sanitary sewer study repairs in priority level 2. Mr. Coleman stated that the master plan was the development of the rest of the GIS database, in this case it is the sewer capacity model and additional flow monitoring to identify areas. There was a little bit of overlap. Part of the master plan would do flow monitoring which could be used as a study technique, but it was really set to calibrate the capacity model. In the sewer system study and repairs was more identifying pipelines that need to be repaired or rehabilitated through either CCTV inspection or smoke testing.

Ms. Sierer asked if the $900,000 other projects line on the priority level 2 slide could be broken out as it was a big number. Mr. Vitola noted it was 23 different projects that were smaller (under $100,000), but they added up to a big number. He agreed to follow up with Council on a more specific breakdown.

Mr. Ruckle asked if the water tower maintenance was painting the water tower as he thought that was happening in 2015. Mr. Coleman noted that was a different tower. The 2015 tower was Windy Hills, which was set to start the next week. They were mobilizing portable cell towers to the site now. The project in question was the Louviers tank, near Deerfield golf course.

Mr. Ruckle asked about the projected $2.2 million shortage for infrastructure work. Mr. Vitola noted that Mr. Ruckle was referencing the past slide showing how much of the water, sewer, metal stormwater and concrete stormwater piping should be improved every year and how much was actually funded in 2015. There was a $2.2 million difference between what the City should have done in 2015, and what was done during 2015. He did not know the magnitude of the number every year, but that went back in recent history. Mr. Ruckle wanted to know what it would take to get the City's infrastructure up to where it needed to be and stop kicking the can down the curve. He felt the City was doing everything it could to cut, which he loved, but there was a point where the City could not cut anymore, and he felt the City had reached that point. He requested the actual number needed and asked staff to focus on that number and what the City could do to fix that problem.

Ms. Sierer asked if the Newark Transportation Plan on level 2 was the City's share of the train station. Ms. Houck stated that was the parklets and that the $380,000 was the total amount of the project. $304,000 of that money would be from grants and $76,000 would be from City resources. The transportation plan had identified the benefits parklets on Main Street. Mr. Vitola noted that $58,000 was from 2016 City funds, $18,000 was from reserve funds and $304,000 was from DelDOT, who was really pushing the project, making this a 20/80 match. Mr. Markham noted that he would like to see projects funded with grants noted as such and would like to see projects noted as money saving with long term payback because that made a difference when looking at large numbers.

Mr. Markham asked if the pedestrian signal crossing in level 1 was different from the item being considered at the Council meeting tonight. Mr. Coleman noted this would be the second crossing, which would be located on Delaware Avenue at the Green. The item on the Council meeting agenda was for Main Street at the Green. The crossings were originally planned in the other order, but there were some difficulties with scheduling to get the UD Board of Trustees to vote on anything that happened on the Green on the City's schedule, so they were flipped.

Mr. Markham asked if the water disinfection equipment project had already been started at the reservoir. Mr. Coleman stated that it had not and that this one was the conversion from gaseous chlorine to onsite sodium hydrochloride in bulk deliveries.

Mr. Markham noted that he would like to know in the future how well some of the City's past investments had done, such as the water, electric and parking smart meters. Since Council was being asked to invest, he wanted to know how well it returned in the past and if the work was going to contribute more or less to the bottom line.

Mr. Morehead asked if the first slide talking about the pressure from both sides and the non-utility revenues generally being flat was not the normal situation for the most part. Mr. Vitola stated that the City did not have huge growth, but growth was uneven, so some years there were projects and things going on that add to non-utility revenue.

Mr. Morehead noted that the wholesale cost of power had been noted as increasing by 3%. He agreed with Mr. Ruckle's previous comments and stated that at some point the City had to bite the bullet and say this is the reality. Past councils had burned down the city's reserves, because they did not want to raise taxes and did not have to raise taxes when the money was sitting there in the bank from the layman's perspective. He thought that if the City knew that this was coming and it was within normal inflation, the City should pass it on from his perspective rather than keep it flat with no change for many years at a time, and all of a sudden it would have to go up 27%. He was a general advocate of when the City knew that the number was going up, to not fall behind and to get ahead of it and say upfront that this is the way it is. Money never increases in value. Inflation happens, people know that. Residents also know that Newark is a good deal and Council certainly did not want to change that, but Council should not make the City's situation more difficult. He was not say go spend freely, but his personal feeling was that there was no reason to fall behind, when the City knew these increases were coming, especially, if the City knew something would affect this midyear. He wanted to get ahead of it as there were not a lot of reserves. An example was the Black and Veatch study: the City knew what they would say. The City did not know the timing, but knew what they were going to say. Mr. Morehead wanted to go ahead and do it. From his perspective, he knew a lot of people were going to be unhappy with that, but felt the City could not pretend it was not going to happen, as that was not a solution.

Mr. Morehead asked if the chart of labor versus CPI showed salary only and did not include benefits. Mr. Vitola confirmed it was salary only. Mr. Morehead said he would be curious to see what that chart looked like with salary and benefits but it was curiosity, not a requirement so he could get some sense of that. He thanked staff for working on the head count.

Mr. Morehead asked if the efficiency initiatives previously referenced could be broken out from the full amount similar to the returns on investments that Mr. Markham had noted earlier. Mr. Vitola noted he had a file with that information that could be given to Council.

Mr. Morehead asked about the $350,000 reserved for the salt sheds as he did not see it and thought the City already had $200,000 in the CIP for that for this year. Mr. Vitola noted that was the nature of being a priority 1, was that it was approved with the 2015 budget, and it was not going to be done until 2016, so the funds carried over and still remain on the CIP sheet for Council to review again and reapprove with the reserve funding. Mr. Vitola stated he would have to look into the detail and come back to Council with how much was reserved and how much new funding was required if necessary. Mr. Morehead thought he remembered the project being around $200,000. Mr. Coleman noted that as the City got into the project this year and started work on it early in 2015 as part of the maintenance yard master plan and did an alternatives analysis for the salt shed, prices came back a lot higher than anticipated originally. Staff had originally thought that the City would go with one of the clear span structures, the plastic roof type, but after the finished alternative analysis, that did not seem like the best option. The price was higher than they thought for it and the life span was shorter. They thought it more appropriate to move to the gambrel style, which drove up the cost a little bit but the life span would be a lot longer. Mr. Morehead appreciated that effort.

Mr. Morehead asked for confirmation that the numbers presented were the gross numbers rather than the net numbers, which Mr. Vitola confirmed.

Mr. Vitola noted in response to the comment about if the City knew that wholesale rate increases were coming, they should pass them through, that as result of that experience, that was the impetus for the development of the RSA in Newark and that 3% increase in the cost of wholesale power would be factored into the RSA calculation, which Council would consider in March and that increase would be passed through starting at that time pending Council approval of the math per Code. The electric side would be reviewed in the RSA and be part of the pass through. Mr. Morehead asked if the RSA had room to go up 3%. Mr. Vitola thought it still would. Rates would go up but as a result of the wholesale rates still being lower than the base rates established in 2011 and what looked like should be another over-collection in 2015, there still should be a pass through in 2016, albeit a smaller one. Rates would go up but they would not crack that base level of where rates were in 2011. He did not think that would happen until 2017 or 2018, but it looked like 2017. Mr. Morehead noted that the RSA happened after 2011. Mr. Vitola corrected himself and said the RSA's predecessors happened as a result of past spikes.

Mr. Gifford did not recognize that the Newark Transportation Plan had parklets in it, but when he went back to priority 2 under the listing, it listed it as a critical need to remediate failing service, prevent failure or generate savings. He asked how parklets fit into that category and why it would not be below 5 because 5 was the project as a need and not a want, as he thought it was more of a want. Mr. Coleman stated it was the crosswalk upgrades for the rest of the crosswalks down Main Street. In driving down Main Street, the yellow curved sections, east of the bump outs, a lot of times cars would park in those spots and then drivers cannot see pedestrians coming out at the crosswalks until they have to slam on the brakes or they hit a pedestrian. Mr. Gifford noted these would not be the parklets that just take up a space that's not related to the crosswalks. Mr. Coleman confirmed they would be extensions of the crosswalks. The only location of the parklets would be either to shorten the distance for a crosswalk or to protect the crosswalk by being east of it and upstream in the site triangle. Mr. Gifford confirmed that it was more safety related and not convenience and green space related. Mr. Coleman noted that the City would take advantage of those spaces by adding bike racks, benches, etc. Mr. Gifford asked if the City was putting something there that was smaller and easier to see, which Mr. Coleman confirmed.

Mr. Gifford asked if the $1.1 million in the budget for refuse trucks was for four or five trucks. Mr. Coleman confirmed it was four trucks. Mr. Gifford asked if the City would actually be able to buy four trucks in one year. Mr. Coleman stated yes, that the person who would have been awarded the contract last fall when it was put out to bid had offered to extend the 2014 pricing through the beginning of 2016. The vendor said he was ready to go whenever the City wanted to place the order.

Mr. Gifford asked how many dollars the City normally spent on streets and how many street miles could the City actually do in a year as its actual performance. Mr. Coleman stated that the last few years, the City had been doing $1 million. In 2012, the City did $2.5 million. That was pushing it as the City ran into some issues with single contractors being able to get bonded for that much. What the City learned from that was to split it into two contracts to get more bidders that are able to take on small bids. Mr. Coleman felt it could definitely be done.

Ms. Sierer requested that staff and Council consider moving the Leica accident reconstruction equipment forward to priority level 2. She participated in the citizens' police academy and thought it was imperative to provide City police officers with this technology and would like to see it moved up if possible. Mr. Vitola stated it would be done.

Mr. Gifford asked if the MOU had an expiration date. Mr. Vitola stated it was five years from 2012, so 2017 should be the last year with a margin transfer limit. The first three years, 2013, 2014 and 2015, were firm. If there was an extenuating circumstance in 2016 or 2017 with notice to the Governor's office in writing, the City could increase the transfer amount to some amount that the City would need to operate the budget. Mr. Gifford asked if historically the City was much higher than that. Mr. Vitola noted there were years where the City was significantly higher in the $13-15 million range. He offered to provide a history on Budget Central.

Mr. Gifford asked if the priority level 4 and 5 projects were in year 2 of the CIP. Mr. Vitola stated that all of the 5s were in out years and some of the 3s and 4s were in out years. Mr. Gifford asked if a full list of projects would be available when the full CIP was distributed, which Mr. Vitola confirmed.

Mr. Morehead asked if the full CIP would be available the next day on the City's website, which Mr. Vitola confirmed. Mr. Morehead asked if staff was planning to maintain the 2015 and 2016 Budget Centrals on the website, which Mr. Vitola confirmed.

Ms. Sierer encouraged members of the public to submit questions, concerns or ideas regarding the budget to their Council member, Ms. Sierer, Mr. Vitola or Ms. Houck and noted that the City looked forward to input from the public. She noted that the regular Council meeting would begin in approximately 6-7 minutes.

4. Meeting adjourned at 6:54 p.m.

Renee K. Bensley
Director of Legislative Services
City Secretary