

**CITY OF NEWARK
DELAWARE**

November 23, 2015

TO: Mayor and City Council

FROM: Carol S. Houck, City Manager
Louis C. Vitola, Finance Director

SUBJECT: Budget Hearing scheduled for November 30, 2015



Please be advised that we have made changes to the 2016 Draft Operating Budget and the 2016-2020 Capital Improvement Program (CIP) Draft Budget following the budget hearing of November 2, 2015 as directed by the Mayor and Council. The consolidated surplus is about \$452,000, which is spread relatively thin on a fund by fund basis. The updated draft documents may be found at the websites linked below:

2016 Operating Budget as Revised on November 23, 2015
<http://cityofnewarkde.us/DocumentCenter/View/6213>

2016-2020 CIP Draft Budget as Revised on November 23, 2015
<http://cityofnewarkde.us/DocumentCenter/View/6194>

The most significant changes to the Operating Budget include:

- the transfer of the Aetna Hose, Hook & Ladder Subvention from the General Fund to the Water Fund supported by a monthly per-meter fire protection surcharge as outlined in Bill 15-33,
- the movement of \$20,000 in Newark Police Department overtime (OT) from reimbursable OT to ordinary OT lines as a result of uncertainty of 2016 Delaware Alcohol and Tobacco Enforcement Division ("DATE") grant funding, and
- additional minor costs in the Parks & Recreation Department related to fireworks and tennis court maintenance, and bike share funding.

The most significant changes to the CIP Budget include:

- the elimination of the Citizen Engagement Portal,
- the movement of the Folk Park Picnic Shelter into 2016 from 2017 (\$45,000),
- the movement of the Phillips Parking Lot resurfacing from 2016 to 2014 (\$45,000), and
- the movement of the Parking Lot Cameras from the IT Division to the Parking Fund.

Options for increased infrastructure funding are reported in the attached presentation slides and will be covered in detail at the November 30, 2015 meeting.

Many of the questions you posed at the first budget hearing are addressed on the City's Budget Central Website, linked here: <http://cityofnewarkde.us/index.aspx?NID=940>. For example, we were able to publish:

- a property tax increase calculator,
- an updated comprehensive tax and utility comparison,
- electric operating indicators,
- comprehensive debt notes and projections,
- a review of Mayor & Council compensation,
- a detailed report of CIP projects by priority level and department, and
- the November 30, 2015 presentation itself, among other items.

The November 30, 2015 presentation slides are also attached here in hard copy for your review, although we will not be producing new 2016 Operating Budget or 2016 -2020 CIP binders until the budgets are approved and finalized.

Thank you in advance for your thoughtful and careful consideration of the revised budgets.

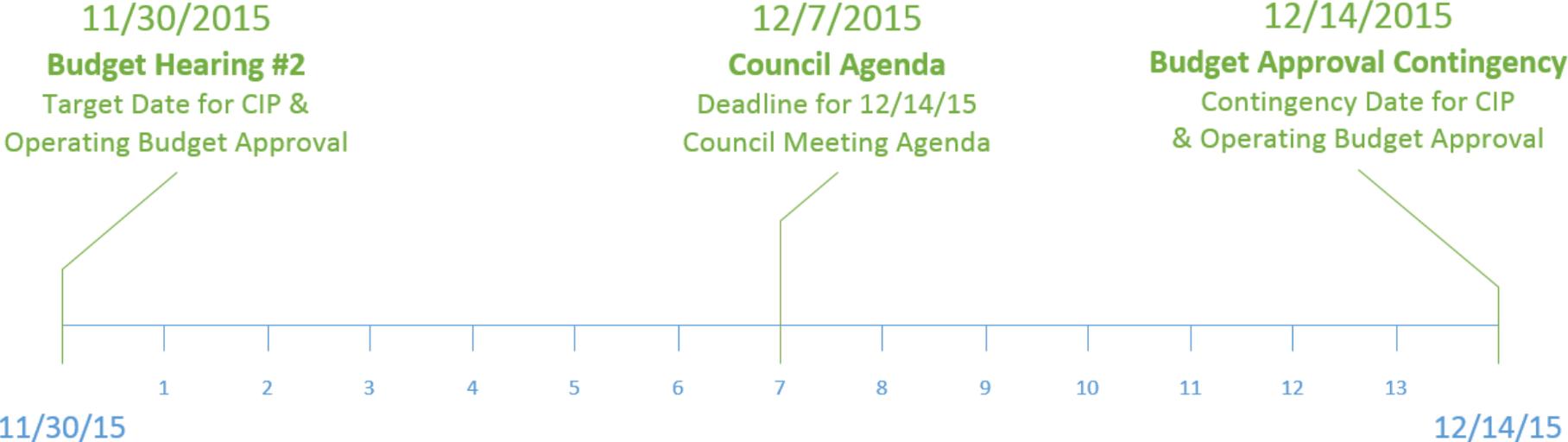
attachments



2016 Budget Hearing #2

November 30, 2015

Budget Process – Final Steps



A comprehensive schedule of all public budget meetings and hearings with agenda, prior presentations, and links can be found here on Budget Central: <http://cityofnewarkde.us/DocumentCenter/View/6262>

Changes Made after Hearing #1



- Eliminated Project IT1607 – Citizen Engagement Portal
 - (no impact on 2016 budget)
- Advanced K1602 – Folk Park Picnic Shelter (\$45,000) into 2016; pushed \$45,000 of K1301 (Phillips Lot) into 2017
 - (net \$0 impact on 2016 budget)
- Moved IT1610 – Parking Lot Cameras into the Parking Fund, renumbered V1601
 - (net \$0 impact to consolidated budget; increased general fund surplus, decreased parking fund surplus)
- Updated certain Operating Budget Lines
 - \$20,000 anticipated in NPD reimbursable overtime line added to ordinary overtime line (grant funding level may change)
 - Additional costs reflected in Parks budget (fireworks & tennis court maintenance)
 - \$12,000 in bike share funding added
 - Moved Aetna subvention from general fund to water fund; added per-meter fire protection surcharge to increase subvention

Fund by Fund Summary



- Consolidated Surplus* is about \$452,000
 - Electric Fund surplus of \$145,000 is not available for transfer
 - Sewer Fund surplus of \$95,000 is not available for transfer
 - Water Fund surplus of \$101,000 is available for transfer but not recommended
 - Parking Fund surplus of \$5,000 is nominal/minimized; no opportunity for meaningful transfer
 - Law Enforcement Fund surplus of \$68,000 is not eligible for transfer (statutory)
 - Street Fund (\$3,000) and Capital Fund (\$24,000) surpluses are not eligible for transfer
 - General Fund surplus is \$10,000 and should not be reduced further
 - Any reductions in project funding or operating expenses should accrue to the unappropriated surplus line

*Fund by fund surplus amounts reflect surplus remaining after transfers

Summary of Taxes and Rates



- 3.0% Property Tax Increase
 - Baseline increase required to avoid general fund deficit
 - No major changes or initiatives
 - Contractual wage progression in all union groups
 - 3.0% recommended non-union wage increase
 - 911 Dispatcher and Property Maintenance Inspector added to General Fund personnel expenses; part-time Customer Service Representative added to Finance Dept & shared by general fund
 - After enterprise fund transfers, general fund surplus is very thin
 - Moved IT project to Parking Fund
 - Moved Aetna subvention to Water Fund, pending Council approval

Summary of Taxes and Rates



- 8.4% Sewer Rate Increase
 - Two new equipment operators planned for 2016
 - Additional operating and maintenance (O&M) activities
 - Sewer line jetting
 - Manhole & Line inspections
 - Grease trap inspections
 - GIS platform development
 - Maintenance history, inspection data, topographic data
 - Assessing and recommending permanent improvements to recurring problem areas
 - Pump station maintenance
 - Restore sewer margin to 20% policy guideline
 - General fund transfer improvement (\$1.5 million) to prevent general fund deficit

Summary of Taxes and Rates



- 7.2% Water Rate Increase
 - Keep pace with revenue requirements outlined in expiring rate study
 - Maintain water infrastructure funding
 - Maintain general fund transfer (\$1.5 million) and prevent general fund deficit
 - Advancing the rate increase to January 1, 2016 (its original recommended implementation date) will provide \$300,000 in additional funding for CIP Project W9308 – Water Line Rehabilitation
 - Shift Aetna Hose, Hook & Ladder Company subvention to water fund by implementing \$1 fire protection surcharge (second reading 12/14/15)



City of Newark: Estimated Annual Infrastructure Maintenance Requirements versus 2015 & 2016 CIP Budget
 (All dollar amounts are expressed in thousands)

Infrastructure Category	Inventory ¹	Expected Service Life	Cost/mi	Comment	Replacement per year ²	Cost/yr	2015 Budget Funds	2015 Gap	2016 Budget Funds	2016 Gap
Water Mains	150 miles	100 years	\$ 1,000	Replace - restores full life	1.5 miles	\$ 1,500	\$ 1,000	\$ 500	\$ 1,000	\$ 500
Sanitary Sewer Mains	95 miles	100 years	500	Reline - restores 50-years	0.95 miles	475	400	75	500	(25)
Streets (City)	65 miles	17.5 years ³	490	50% full depth, 50% overlay	3.71 miles	1,818	1,000	818	1,000	818
Storm Sewer (Concrete)	80 miles	85 years	1,200	Replace - restores full life	0.94 miles	1,128	-	1,128	-	1,128
Storm Sewer (Metal)	5 miles	15 years ⁴	1,000	Replace with concrete	0.33 miles	330	200	130	132	198
Totals ►						5,251	2,600	2,651	2,632	2,619

¹Inventory lengths reflect our best available current records. Road miles are the only survey grade values at this point and all others will change as we complete surveys

²Replacement costs include structures like manholes, valves, catch basins, curbing, etc. in an effort to give a simple replacement value for an average street, main, etc.

³Average value assuming a 20-year life for full depth restoration and 15 years for 2" overlay. Life varies significantly based on traffic loading and material quality.

⁴Metal storm pipe has not been used for years. Typically, a 25-yr life applies, but most is severely deteriorated and in need of replacement that life was adjusted to 15 y

CMP Pilot



Public Works has identified several high risk corrugated metal pipes (CMP) that are in need of rehabilitation

- Woods at Louviers – Pond 1 Outfall (Embankment)
- Woods at Louviers – Pond 2 Outfall (Embankment)
- Woods at Louviers – Pond 3 Outfall (Embankment)
- Freemont Road – 15 Freemont Road (Road Crossing)

Three of the four locations have pipes that have already failed (bottom rusted through) and the fourth location (Pond 3) is very close to failure and located under an extremely large embankment

Propose a lining material pilot project to test up to four different lining technologies across the four pipes

Proactive repair cost estimated at \$10,000 to \$35,000 per location

Reactive repair cost estimated at \$75,000 to \$100,000 per location

CMP Pilot



Funding Gap Options



- Option 1:
 - Increase water rates by 7.2% 1/1/16 as prescribed in study instead of 7/1/16 assumption in budget
 - Generates additional \$300,000 for project W9308 to increase water main rehab from \$1 million to \$1.3 million in 2016
- Option 2:
 - 2A - Increase property tax rates by 3.5% more (6.5% total)
 - 2B – Increase property tax rates by 6.5% more (9.5% total)
- Combination of Option 1 & 2A or 1 & 2B
- Staff recommends combination of 1& 2B

Option 1

- Increase W9308 to \$1.3 million
 - Current CIP draft proposes \$1.0 million
 - \$0.1 million inspection & prioritization
 - Inspect 4 miles of lines under DelDOT roads
 - \$0.9 million line replacement & rehab
 - 1,600' of Hillside Rd (pipe segment @ left)
 - 1,150' of Winslow Rd (Apple to Beverly +)
 - 1,450' – all of Ferncliff Rd
 - 720' – all of Center St
 - How would \$0.3 million be utilized?
 - 460' – all of Flora Cir (about \$90,000)
 - 950' to 1,150' of water mains underlying DelDOT roads (about \$210,000)
 - Would schedule based on inspection & prioritization project & DelDOT resurfacing plans



Option 2



- Option 2 (Additional Property Tax Increases)
 - Option 2A – increase property taxes 3.5% (6.5% total)
 - Generates \$100,000 in 2016 & \$200,000 annually thereafter
 - 2016 Plan – utilize \$100,000 for corrugated metal stormwater pipe (CMP) inspections to develop prioritization
 - 2017+ Plan – add \$200,000 per year to project H1301 – Storm Drainage Improvements
 - Option 2B – increase property taxes 6.5% (9.5% total)
 - Generates \$187,500 in 2016 & \$375,000 annually thereafter
 - 2016 Plan – utilize \$100,000 for CMP inspections & \$87,500 would be added to S0904 – Sanitary Sewer Repair and/or a City-wide Fats, Oils and Grease mitigation program
 - 2017+ Plan – add \$200,000 per year to project H1301 and \$175,000 per year to Annual Street Program



Impact of Council Action on Estimated Infrastructure Funding Gaps
 (All dollar amounts are expressed in thousands)

Infrastructure Category	Annual Req'd Funding	Current Gap		2016 Funding Gaps after Council Action				
		2016 Budget Funds	2016 Funding Gap	Opt 1	Opt 2A	Opt 2B	Opt 1 & 2A	Opt 1 & 2B
Water Mains	\$ 1,500	\$ 1,000	\$ 500	\$ 200	\$ 500	\$ 500	\$ 200	\$ 200
Sanitary Sewer Mains	475	500	(25)	(25)	(25)	(113)	(25)	(113)
Streets (City)	1,818	1,000	818	818	818	818	818	818
Storm Sewer (Concrete)	1,128	-	1,128	1,128	1,128	1,128	1,128	1,128
Storm Sewer (Metal)	330	132	198	198	98	98	98	98
	5,251	2,632	2,619	2,319	2,519	2,431	2,219	2,131

Infrastructure Category	2017 Funding Gaps after Council Action				
	Opt 1	Opt 2A	Opt 2B	Opt 1 & 2A	Opt 1 & 2B
Water Mains	\$ 200	\$ 500	\$ 500	\$ 200	\$ 200
Sanitary Sewer Mains	(25)	(25)	(25)	(25)	(25)
Streets (City)	818	818	643	818	643
Storm Sewer (Concrete)	1,128	1,128	1,128	1,128	1,128
Storm Sewer (Metal)	198	(2)	(2)	(2)	(2)
	2,319	2,419	2,244	2,119	1,944

Project Priority Discussion



Summary of 2016 Net CIP Spending by Department and Priority

Department	Priority Levels				Grand Total
	1	2	3	4	
Water	414,501	1,346,106	75,000		1,835,607
Electric	1,213,000	190,000			1,403,000
Street	183,823	486,910			670,733
Sewer	153,866		60,000		213,866
Parks & Rec	-	130,000	10,000	65,000	205,000
Info Tech		154,000	-	32,000	186,000
Maintenance	128,353				128,353
Code Enf Div		51,190		16,695	67,885
Parking	-	-	65,000	-	65,000
Police	6,177	35,000			41,177
Refuse	25,000				25,000
Admin				22,000	22,000
Grand Total	2,124,720	2,393,206	210,000	135,695	4,863,621

- 1 – Underway; highest priority
- 2 – High
- 3 – Medium High

- 4 – Medium
- 5 – Low

(Low priority projects are in out years)

Conclusion / Questions

