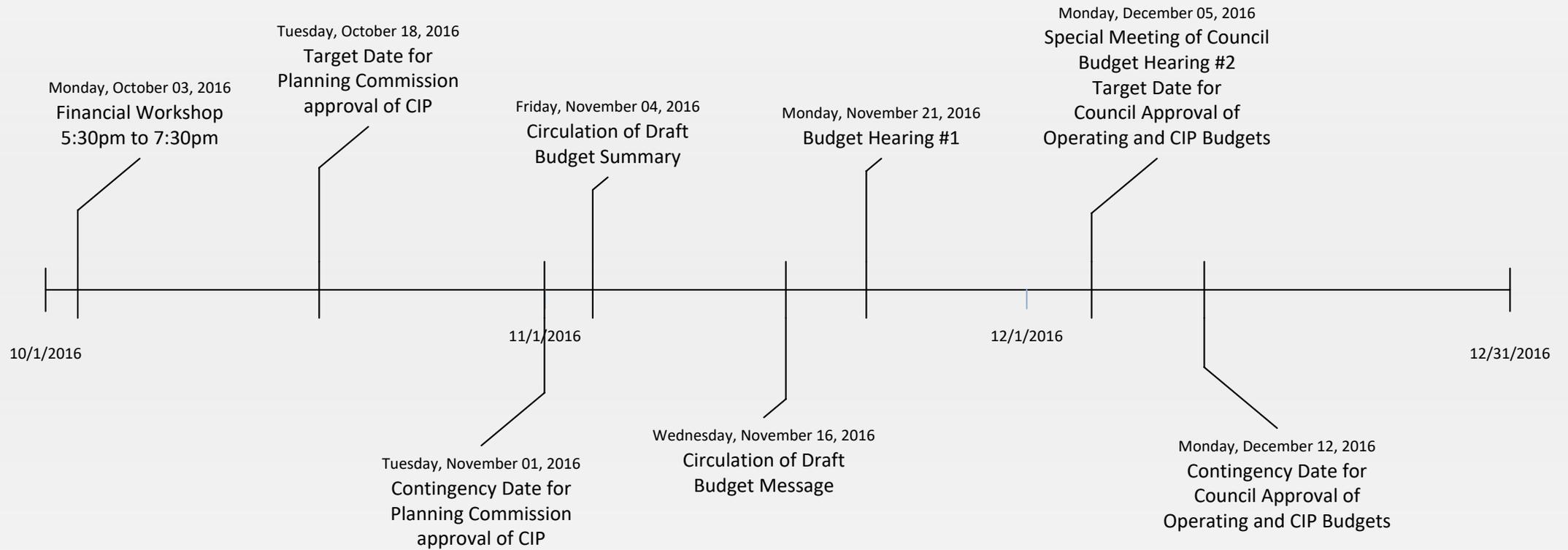


# Financial Workshop

2017 Budget Overview

# Budget Process – Next Steps

## 2017 Operating Budget & 2017-2021 Capital Improvement Program (CIP) Tentative Budget Planning / Timeline





## Still have pressure from both sides

- Non-utility revenue is generally flat/declining
  - Some bright spots
    - Property assessment growth in 2016
  - Areas of Concern
    - Real Estate Transfer Tax
    - Fine receipts
    - Permit activity
- Expenses are increasing
  - Infrastructure Investments
  - O&M Requirements
  - Personnel Costs (wages/health care/retirement)

# Electric Utility

- ▶ Wholesale cost of power expected to increase by up to 2.5% in 2017.
  - ▶ Due to our budget assumptions for 2016, we will see a decrease in actual electric revenue for 2017.
- ▶ Together with possible 2016 over-collection, should still result in rebate through RSA on 2017 electric bills.
- ▶ Performance capacity & transmission costs are driving up rates. Offset by lower than anticipated natural gas prices which fuel the Beasley Plants.
- ▶ Continued adherence to 2012 MOU with Governor Markell.
- ▶ No anticipated rate change for 2017. Although in accordance with national standards, we are recommending an increase to the minimum charge.

# Water Utility

- ▶ Rate study continues with consultant
- ▶ Black & Veatch will present storm water and rate design concepts to Council on Oct 12th
- ▶ Water and sewer rates for 2017 will depend upon how Council advises the path to take after the Black & Veatch presentation next week.
- ▶ We have been experiencing a decline in water sales in 2016, and are hoping that this trend is an anomaly.

## Water Rates Since 2001 (cost per 1,000 gallons)

	Effective 7/1/01	Effective 3/31/09	Effective 10/1/09	Effective 1/1/12	Effective 9/1/13	Effective 1/1/14	Effective 1/1/15	Effective 1/15/16
<b>Properties Inside City Limits</b>								
First 9522 gallons	\$3.03	\$3.49	\$4.71	\$5.39	\$5.65	\$6.07	\$6.51	\$6.98
All over 9522 gallons	\$3.86	\$4.44	\$5.99	\$6.86	\$7.21	\$7.73	\$8.29	\$8.89
<b>Properties Outside City Limits</b>								
First 9522 gallons	\$4.02	\$4.63	\$6.24	\$7.17	\$7.53	\$8.07	\$8.65	\$9.27
All over 9522 gallons	\$5.23	\$6.02	\$8.13	\$9.30	\$9.77	\$10.47	\$11.22	\$12.03
Quarterly Hydrant Charge	\$2.85	\$2.85	\$2.85	\$3.26	\$3.42	\$3.67	\$0.00	\$0.00
Average Increase (Flow Rate Only)		15.0%	35.0%	14.6%	5.0%	7.2%	7.2%	7.2%
Compound Annual Growth Rate as of 7/1/2014, 7/1/2015, 7/1/2016						5.5%	5.6%	5.7%

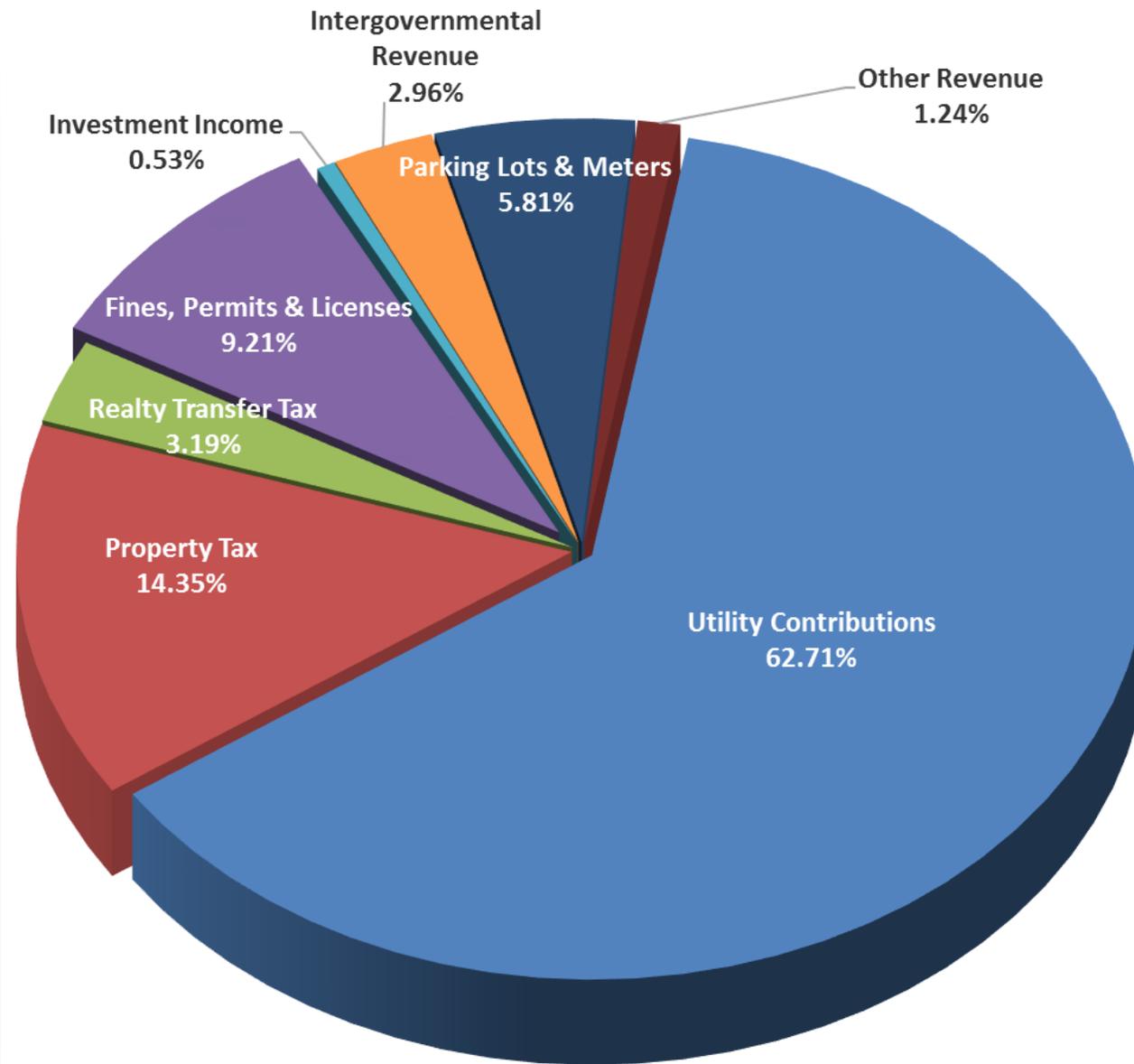
# Sewer Utility

- ▶ New Castle County sewer treatment costs have been stable
- ▶ Internal O&M costs related to collection and transmission are increasing
- ▶ We are holding our sewer fees unchanged from 2016, until we review the Black and Veatch rate study.
- ▶ Current rate is \$6.84 per 1000 gallons of flow. \$3.78 of this amount is directly related to City operations, the remaining \$3.06 is passed through to the County for treatment costs.

# General Fund

- ▶ Reduced reliance on transfers from the utility funds due to increasing costs and infrastructure needs
- ▶ 4.5% Tax Increase recommended
  - ▶ Offset cost increases
  - ▶ Offset reduced/flat transfers from the utilities
- ▶ Importance of public utility business model and striking a balance between use and overuse

# 2017 Total Sources of Funding



<b>Revenue</b>	<b>2016 Approved</b>	<b>2016 Estimated</b>	<b>Difference</b>	<b>% Diff</b>
Electric	\$55,805,699	\$53,005,699	(\$2,800,000)	-5.0%
Water	\$10,002,695	\$9,252,695	(\$750,000)	-7.5%
Sewer	\$7,543,387	\$7,523,387	(\$20,000)	-0.3%
Purchases	(42,280,340)	(39,780,340)	\$2,500,000	-5.9%
<b>Utility Contributions</b>	<b>\$31,071,441</b>	<b>\$30,001,441</b>	<b>(\$1,070,000)</b>	<b>-3.4%</b>
Property Tax	\$6,630,060	\$6,680,060	\$50,000	0.8%
Realty Transfer Tax	\$1,600,000	\$1,500,000	(\$100,000)	-6.3%
Fines, Permits & Licenses	\$4,745,442	\$4,520,442	(\$225,000)	-4.7%
Investment Income	\$294,150	\$309,150	\$15,000	5.1%
Intergovernmental Revenue	\$1,488,030	\$1,613,030	\$125,000	8.4%
Parking Lots & Meters	\$2,913,805	\$2,883,805	(\$30,000)	-1.0%
Other Revenue	\$623,808	\$638,808	\$15,000	2.4%
<b>Total</b>	<b>\$49,366,736</b>	<b>\$48,146,736</b>	<b>(\$1,220,000)</b>	<b>-2.5%</b>

## 2016 Estimated vs. 2016 Budgeted Revenue

			<b>2017</b>
<b>Revenue</b>	<b>2016 Approved</b>	<b>2016 Estimated</b>	<b>Recommended</b>
Electric	\$55,805,699	\$53,005,699	\$52,622,321
Water	\$10,002,695	\$9,252,695	\$10,293,607
Sewer	\$7,543,387	\$7,523,387	\$7,391,886
Purchases	(\$42,280,340)	(39,780,340)	(\$38,827,138)
<b>Utility Contributions</b>	<b>\$31,071,441</b>	<b>\$30,001,441</b>	<b>\$31,480,676</b>
Property Tax	\$6,630,060	\$6,680,060	\$7,205,185
Realty Transfer Tax	\$1,600,000	\$1,500,000	\$1,600,000
Fines, Permits & Licenses	\$4,745,442	\$4,520,442	\$4,624,881
Investment Income	\$294,150	\$309,150	\$266,600
Intergovernmental Revenue	\$1,488,030	\$1,613,030	\$1,485,487
Parking Lots & Meters	\$2,913,805	\$2,883,805	\$2,915,500
Other Revenue	\$623,808	\$638,808	\$621,969
<b>Total</b>	<b>\$49,366,736</b>	<b>\$48,146,736</b>	<b>\$50,200,298</b>

## 2017 Estimated vs. 2016 Revenue

	ACTUAL 2015	2016 BUDGET AS AMENDED	BUDGET 2017	% FROM 2016 BUDGET	\$ FROM 2016 BUDGET	% FROM 2015 ACTUAL
<b>Expenditures</b>						
Personnel Services	\$26,954,538	\$28,245,586	30,772,679	8.9%	2,527,093	14.17%
Materials and Supplies	2,078,695	2,257,298	2,312,249	2.4%	54,951	11.24%
Contractual Services	6,531,300	7,295,104	7,320,352	0.3%	25,248	12.08%
Equipment Depreciation	1,191,220	1,484,599	1,780,669	19.9%	296,070	49.48%
Other Expenses	604,271	514,703	514,544	0.0%	(159)	-14.85%
<b>Total Operating Expenses</b>	<b>\$37,360,024</b>	<b>\$39,797,290</b>	<b>42,700,493</b>	<b>7.3%</b>	<b>2,903,203</b>	<b>14.29%</b>
<b>Total Debt Service</b>	2,568,138	2,605,361	2,616,161	0.4%	10,800	1.87%
<b>Total Capital Current Resources</b>	5,459,575	5,351,121	4,355,000	-18.6%	(996,121)	-20.23%
<b>Total City Expenditures</b>	45,387,737	47,753,772	49,671,654	4.0%	1,917,882	9.44%
<b>Partial Reversal of Non-cash Expenditures</b>	-	1,150,309	-		(1,150,309)	
<b>Total City Cash Expenditures</b>	45,387,737	48,904,081	49,671,654	1.6%	767,573	9.44%
<b>Budgeted Revenue</b>	45,204,579	49,366,736	50,200,298	1.7%	833,562	11.05%
<b>Surplus / (Deficit)</b>	(183,158)	462,655	528,644			

## OPERATING BUDGET BY TYPE

# Personnel Expenses

- ▶ 2016 is the third year of the 2013 union contract agreements:
  - ▶ CWA contractually accepted a fourth year with a 2.9% renewal in 2017.
  - ▶ AFSCME & FOP currently in negotiations for 2017+.
- ▶ Management wage rate scale increase is recommended at 1.5%
- ▶ Wage progression, along with other personnel costs, are impacting the budget by \$2.5 million.

# Personnel Expenses

- ▶ Existing (2016) personnel and expenses represent \$2 million of the growth in 2017:
  - ▶ Wage Progression and/or union contract terms
  - ▶ Pension and OPEB Annual Derived Contributions (ADC)
- ▶ Proposed personnel staffing levels in 2017 account for the remaining ~~\$500,000~~ \$400,000
  - ▶ ~~Two (2) additional police officers, pending award of COPS Grant (grant denied 10/3/2016)~~
  - ▶ Additional technical support staff, including:
    - ▶ PWWR engineer
    - ▶ IT Desktop Support & Network Administration
    - ▶ Financial Analyst
    - ▶ Records Technician (Police)
    - ▶ GIS Technician (serving: Parks/Finance/Police/Planning/Legis Depts.)
    - ▶ Evidence Custodian (use allocated City cash-match from two Police Officer positions)
- ▶ Positions have staggered starting (funding) dates and are in one of the three unions; no additional Management staff.

# Personnel Expenses: DVHT Healthcare Advantage

- ▶ 1/1/2015 City enrolled with Delaware Valley Health Trust (DVHT) to control healthcare growth
  - ▶ Municipally owned, pooled-risk trust with investment dividends returned to trustees
  - ▶ Efficiently operated insurance company focused solely on municipal governments
- ▶ FY2017 estimated City renewal of 8% year-over-year without plan redesign
  - ▶ Middletown: 16.8% with Highmark prior to plan redesign
  - ▶ Dover/Smyrna (State of DE plans): 15.2% annualized renewal over two (2) increases
- ▶ No additional cost DVHT Wellness Programs to City employees, including:
  - ▶ On-site biometric screenings
  - ▶ Gym/Event (5K runs, triathlons, etc.) reimbursements
  - ▶ Biennial Wellness Grant (\$22,000) to fund further initiatives and programs
  - ▶ Rate Stabilization Fund (RSF) that grows with each year in Trust; current RSF value of \$7,028 after one year in Trust
  - ▶ DVHT is committed to try to impact personal decisions and life-style choices to improve claims, which impact renewal costs

# Personnel Expenses

- ▶ Efficiency initiatives beginning in 2012 continue to save roughly \$450,000 annually.
- ▶ Management and non-management benefit changes will realize a combined \$768,000 in expenditure avoidance in 2017.
- ▶ Health insurance changes expected to continue saving approximately **\$136,000** annually.

# City of Newark FY2017 Capital Budget Recommendation

Priority Levels Simplified

**PROJECT PRIORITY LEVELS**

1 - Highest Priority Level	Project underway and must be completed
2 - High Priority Level	Critical need to remediate failing service, prevent failure, or generate savings
3 - Medium-High	The City would be taking a calculated risk in the deferral of this item
4 - Medium	This project is a NEED and not a WANT, but no significant risk in the deferral of this item
5 - Low	This project is a NEED and not a WANT, but it can start in year two of this CIP or later

Priority Levels

CITY OF NEWARK, DELAWARE CAPITAL BUDGET - PROJECT DETAIL			
DEPARTMENT:	ENTER DEPT HERE	DIVISION:	DIV, IF APPLICABLE
PROJECT NO: E16XX	PROJECT TITLE: ENTER PROJECT TITLE	PROJECT LOCATION: ENTER PROJECT LOCATION	
PROJECT STATUS (CHECK ONE):	<input type="checkbox"/> NEW	<input checked="" type="checkbox"/> IN PRIOR PROGRAM	<input type="checkbox"/> IN PROGRESS
PRIORITY:	2 - High Priority Level	Critical need to remediate failing service, prevent failure, or generate savings	
COMPREHENSIVE DEVELOPMENT PLANNING VISION ELEMENT:			Sustainable Community
Charter § 806.1(2) DESCRIPTION & JUSTIFICATION:			

Comp Plan Vision Elements Added

Code  
References

§ 806.1(3) SUMMARY OF PROJECT DATA		PROJECT COST BY CATEGORY					
First Year in Program		CLASSIFICATION	ACCOUNT NUMBERS	AMOUNT			
Est. Completion Date		Labor					
Est. Useful Life (in years)		Materials					
Est. Total Cost		Other Contracts					
Est. Spend @ 12/31 (if underway) <sup>1</sup>		Total Project Cost		\$	-		
Balance to be funded <sup>1</sup>	-	<sup>1</sup> For ongoing projects, we must estimate total spent since inception through current year to derive the balance to be funded thereafter.					
% Complete (if underway)							
PROJECT FINANCING BY PLAN YEAR							
§ 806.1(3) SOURCE OF FUNDS	PRIOR <sup>2</sup>	2016	2017	2018	2019	2020	TOTAL

§ 806.1(4) ESTIMATED ANNUAL COST OF OPERATING / MAINTAINING PROJECT OR ASSET						
OPERATING IMPACT	2016	2017	2018	2019	2020	TOTAL
INCREMENTAL COSTS (NET SAVINGS)						-

Operating  
Impact  
Added

# Capital Projects – Priority Level 1

▶ Equipment Replacement					\$1,153,500
▶ Water and Stormwater	\$250,000	Public Works	\$441,000		
▶ Police	\$312,000	Electric & Others	\$150,500		
▶ Electric SCADA System					\$816,000
▶ Electric Transformers/Circuit Breakers					\$653,000
▶ Sewer System Master Plan					\$500,000
▶ Water Main: Windy Hills to Red Mill					\$429,350
▶ Storm Drainage Improvements					\$400,000
▶ Property Maintenance Software					\$317,500
▶ Salt Shed/Maintenance Yard Plan					\$250,000
▶ Storm System Study					\$250,000
▶ Other Projects					\$1,360,384

## Capital Projects - Priority Level 2

▶ Annual Street Program	\$1.5 million
▶ Water Main Renovation	\$1 million
▶ Water Disinfection Equipment	\$643,000
▶ Newark Transportation Plan	\$252,000
▶ Parks Hard Surface Improvements	\$194,000
▶ Water Plant & Reservoir Cameras	\$ 80,000
▶ Municipal Building Improvements	\$ 70,000
▶ Parking Lot Surface Maintenance	\$ 69,740
▶ Reservoir Upgrades	\$ 50,000
▶ Other Projects	\$143,968

## Capital Projects - Priority Level 3-4

▶ Water Storage Reconfiguration	\$225,000
▶ Bicycle/Pedestrian Bridge	\$200,000
▶ Parking Lot Surveillance	\$130,000
▶ Reconductor-Main Street	\$ 85,000
▶ Surveillance Camera Refresh	\$ 65,000
▶ Additional Parking Meters	\$ 54,850
▶ Lot Full Signs	\$ 30,000
▶ Water Tank Maintenance	\$ 25,000
▶ Source Water Protection	\$ 20,000
▶ Fence Repair and Construction	\$ 15,700

# Capital Projects

## Q&A / Feedback

- ▶ Project Specific Questions
- ▶ Direction on Prioritization

# Full Cost of Capital Projects Utilizing In-House Labor

- ▶ Many CIP projects involve both material and labor costs. The labor costs may be contractual or employee-related.
- ▶ The City has begun to utilize its employees to perform the labor on more CIP projects and will need to capture these labor costs in order to establish the true cost of the project.
- ▶ Capitalizing “internal” labor costs as part of CIP projects is required under GAAP (Governmental Accepted Accounting Principles).
- ▶ The “internal” labor costs will be reclassified from the operating budget personnel lines and instead included in the CIP budget. This will allow us to measure our actual costs to complete projects and also allow us to compare our cost for completing the project internally vs contracting the project out.
- ▶ We are in the process of converting all departments to the work order management system which will assist in consolidating all of the project costs. Currently Parks and Recreation are utilizing and Electric is being trained.

# To Be Considered???

- ▶ Rate Stabilization Cap
- ▶ Customer Charges for Utilities (electric, water, sewer)
- ▶ Bond Financing on Capital Projects

# To Be Considered: Rate Stabilization Adjustment Cap?

- ▶ The Rate Stabilization Adjustment (RSA) is calculated annually in order to maintain the budgeted operating margin and budgeted capital requirements of the electric utility.
- ▶ Past years have resulted in credits for our electric customers.
- ▶ One consideration for Council to decide is to whether withhold part of the credit and deposit these funds into a rate stabilization reserve in order to hedge future costs.
- ▶ One unknown that we have during our budget process is the estimated impact of our wholesale costs, which are provided by DEMEC.
- ▶ The creation of such a reserve may help stabilize rates going into the future as transmission and capacity costs continue to rise.

## To Be Considered - Customer charge for Utilities

- ▶ The City of Newark has fixed costs associated with its electric, water and sewer infrastructure.
- ▶ The old methodology of rate setting has been consumption-based.
- ▶ Technology, the conservation of resources and education has led to lower consumption by those we serve, resulting in the inability to properly recover the revenues necessary to meet our expenses.
- ▶ Infrastructure needs to be there regardless of usage levels- alternative energy users still rely on the City's grid.

# New revenue Opportunities: Its time to take diversification seriously!

- ▶ Fee Adjustments
- ▶ Parking Lot Fees
- ▶ Emergency Services Fee
- ▶ Court Fee Adjustment

# Fee Adjustments(+\$200,000)

- ▶ City Council requested a review of the fees charged by the City.
- ▶ Staff reviewed fees for Land Development, Construction Plan Review, and Inspection & Testing tasks. (Generally Chapters 27 and 32). Excludes impact fees.
- ▶ Staff estimated City costs (labor and recording fees) associated with each task and compared to existing fees adjusted for inflation. (no fee adjustments since 2006/2007).
- ▶ Department Directors recommended fees that reflect actual cost, balanced by fees charged by surrounding organizations including New Castle County, Wilmington, and Dover.
- ▶ Workloads from 2014-2016 were averaged to estimate the potential increased yearly revenue from the recommended new and revised fees.
  - ▶ New and revised fees could result in approximately \$200,000 more revenue per year.

# Parking Fee Adjustments(+\$100,000)

- ▶ Hold \$1.00/hour rate. Per Parking Committee recommendation, restructure off street parking rate from \$.50/30 minutes to \$1.00/hour to cover increasing cost to run parking facilities. Maintain first 10 minutes for free.
- ▶ City would see an increase of +\$100,000 over 2017 if implemented on January 1, 2017.
  - ▶ No change to current Parking Validation program; voluntary program in many instances.
- ▶ Increasing expenses from credit card transaction fees (lots and meters), increased Parking Ambassadors on Main Street and Residential areas, and increased office staff to handle residential parking system.
- ▶ Parking Division and the DNP would work to educate the public on change in fee structure and work with businesses on validation plan.

# Emergency Services Fee (+\$200,000)

- ▶ The cost to provide public safety services increase steadily year over year.
- ▶ Building permits would be assessed a surcharge of 0.5% of the construction value as determined by the City of Newark.
- ▶ Additional revenue generated from this enhancement will be used to defease the cost of our subvention to our local fire company, and the balance would be used for our own public safety expenses.

## Court Security Fee(+\$40-50,000)

- ▶ Noted in the memorandum for Bill No. 16-27, the addition of a bailiff has immensely improved the operations, safety and decorum of Court #40.
- ▶ Fee increase from \$5 to \$10 will generate approximately another \$40,000 to \$50,000 per year.
- ▶ Funding will allow the City to in-source bailiff staffing to provide great consistency. Utilization of 3<sup>rd</sup>-Party agency has not always provided consistent or high-quality staffing.
- ▶ The increased fee shall provide for additional physical renovations to increase staff and public safety in the Court room and waiting areas.

# Holding steady with 2016 budget .... Or not?

- ▶ Need to understand there is no zero increase budget without cuts
- ▶ We are not proposing cuts
- ▶ There are unavoidable costs that continue year over year
  - ▶ Health Care
  - ▶ Union Contracts
  - ▶ Inflation
  - ▶ Pension, retirement obligations
  - ▶ OPEB
  - ▶ Unanticipated initiatives
- ▶ That will require we find \$2.9 million of programs, staffing , or service cuts...

# City Lobbyist Direction Suggestions

## Lobbyist:

- ▶ Hotel tax: consideration of 0.5% - 1.0% on occupancy with funds retained in local jurisdiction.
- ▶ Local service fee: \$1/week value on all non-resident employees in the City.
- ▶ Remove Stopyra Tractepilogue language out of bond bill: prohibitive to annexation and development of adjacent land.

## Staff and/or Lobbyist:

- ▶ Review what other governments within the state do collaborating on the services that are provided to our constituents. City continue to explore ways that our departments can interact more efficiently, and assess consolidating services that are redundant to better serve everyone (i.e. annual real estate tax billing).
- ▶ Charter change where a referendum is not required for borrowing to accommodate infrastructure.

# Budget Process – Next Thirty Days

10/04/2016	Draft Version of CIP for Budget Central
10/18/2016	Draft CIP Presented to the Planning Commission
10/21/2016	Preliminary Council Feedback on CIP Requested
10/28/2016	Final Version of CIP & Operating Budgets for Council
11/21/2016	Budget Hearing #1

A large crowd of people is gathered at an outdoor event, possibly a fair or festival. In the background, there are blue tents and colorful balloons. A prominent blue banner with the text "THANK YOU!" is overlaid on the center of the image.

***THANK YOU!***