

1. You mentioned having developed a summary "snapshot" (my terminology) of 2016 CIP approved spending versus unspent to date. Where would I find a summary of this information?

The Finance Department maintains a list of approved capital projects and updates it monthly. Attached is a copy of the list. In the future, we can provide Council with this report on a quarterly basis, and/or post on Budget Central. That summary can be found [here](#).

2. You mentioned both CIP Reserves and Operating Reserves at the Planning Commission. Where would I find a summary of this information?

Historically, reserves have been tracked in total, not necessarily on a fund-by-fund basis. However, we feel that presenting reserve allocations by fund will allow for improved transparency in future budgets. Additionally, if debt-financing is embraced, we will be able to restructure our funding sources to allow the City to simultaneously meet our reserve requirements and CIP needs without a consistent reliance on rate adjustments. We are hoping to accomplish this challenge in a short period of time with Council's support.

In addition, a preliminary review of software to help achieve our goals of timely, comprehensive and simplistic reporting has commenced.

3. I have reviewed once again the most recent finance policies that had been approved by Council. I think they need some revisions and would be happy to meet with you about this once the budget is settled. I will provide one example in the short term. I noticed the current policy requires the utility funds to have 51 days operating reserve except for the water utility. Is this an oversight or is there a really good reason why this utility is singled out to have no minimum operating reserve?

I welcome the opportunity for us to discuss the City's current financial policies with Council after the budget has been settled. Per my review, the water utility is required to have a 51 day operating expenditure reserve, the same as the sewer and electric funds. Where the differences lie is in the parameter for days of emergency purchases. Since we do not have a routine need to purchase water (unless under dire conditions), our reserve requirement for water purchases is set at a minimum of 0 days, and a maximum of 51 days. Both the sewer and electric funds have a minimum emergency purchase requirement of 51 days, but have different maximum values. Our minimum daily reserve requirements in the electric and sewer funds are established to control any unintended price increase from either DEMEC or New Castle County. Embedded below is the current copy of our financial policy for future reference. ([link](#))

Since this policy was originally drafted in 2009 and updated in 2014, the City has not reached its desired level of reserve requirements. Cash funding, coupled with the urgency of projects, has been the primary reason for this.

4. In the 2016 operating budget, I did not find any line items indicating payments into the operating reserve funds by department. I would expect these to be listed as operating expenses rather than capital expenses. Will you be labeling these contributions in the 2017 budget?

Please see the response to question #2.

5. I would like to be able to look at the proposed budget to understand what our reserves (all types) are projected to be by 12/31/16, and then what "deposits" (layman's terminology) we are proposing to

make in 2017, as well as what "withdrawals" (again layman's terminology) we are proposing to make in 2017. Will this information be included in a manner to make these concepts easily understood?

Please see the response to question #2.

Additionally, we had the discussion regarding the line in the 2016 Operating Budget labeled "Partial Reversal of Non-Cash Expenditures" totaling \$1,150,309. This 2016 line was the reversal of a credit of the same amount in 2015. This is the history/reason for that line:

Newark undertakes the practice of cash funding its non-cash equipment depreciation expenses to build a fund to defray the cost of future equipment replacement purchases. This practice is commonly called "capitalizing" or "funding" depreciation. In other words, depreciation is a non-cash expense, but the city actually puts an amount of cash equal to its depreciation expense aside in a fund so that future equipment replacement purchases are met by the fund, not by the current year budget.

During the 2015 budget preparation process late in 2014, Council placed an emphasis on needs versus wants. Part of staff's response to that guidance was to replace only those vehicles and equipment that were absolutely needed in 2015, which totaled about \$0.5 million. However, because vehicles and equipment purchases are made through the fund, the City's budget is not alleviated by simply delaying the purchases. In addition to delaying the purchases, staff also reduced the cash funding of depreciation (\$1.6 million in 2015) by \$1.1 million, leaving only the amount required (\$0.5 million) to keep pace with 2015 vehicle and equipment purchases. That \$1.1 million "partial reversal of non-cash expenditures" represents the amount by which 2015 depreciation expenses were underfunded.

Then, in the 2016 budget, we restored that level of funding. Not only did we fund 100% of the 2016 depreciation expense, like in a normal year, but we overfunded depreciation by an amount equal to that which it was underfunded in 2015. The 2017 budget simply features a return to normal practices, so the variance from 2016 to 2017 in that line is not meaningful.