



CITY MANAGER'S OFFICE

CITY OF NEWARK

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November 13, 2014

Newark City Council
City of Newark, Delaware

2015 GENERAL OPERATING BUDGET MESSAGE

The Honorable Mayor and Members of City Council:

On behalf of the Administrative and Financial Divisions of the City of Newark, with support from all departmental units, I am pleased to submit our recommended 2015 General Operating Budget for your review and consideration. This budget represents the City's financial plan for the next fiscal year with a look to recent years' experiences and a nod to future opportunities. As such, it provides for ongoing services the City will provide to our community and identifies the revenue sources, including utility fund transfers, grants and other funding that will support the full efforts of our dedicated employees on behalf of our citizens. This document was developed based on a prioritization of needs, revenue and cost assumptions, ideals for a well-rounded community, and a view towards the future. In the coming year, we will continue to consider and evaluate options for increased operational efficiencies. The primary goals of the 2015 General Operating Budget are to address the needs of our community while positioning ourselves to take advantage of innovative and progressive efforts to reduce the future costs of maintaining current service levels. Developing meaningful partnerships, embracing efforts for economic development, improving our use of technology and communication with our citizens are of utmost importance. Additionally, the diversification of revenue sources, reducing our reliance on transfers from the utility funds and seeking payment in lieu of taxes (PILOT) support from the state to offset 44% in tax exempt property are initiatives that will continue to be a major focus of our efforts to support the General Fund and the quality of life offerings to our community. The decisions we make should seek to position our organization to support the level of services provided in a more sustainable fashion in 2015 and beyond.

As we move towards 2015, it is important that we fully understand the measures that have been taken to control costs by working smarter and more efficiently. Our administrative team, along with the support and involvement of department directors and front line supervisors, has implemented initiatives that are projected to result in at least \$3 million in savings from 2012 through the end of 2015. The merge of the Public Works and Water and Waste Water Departments allows for \$1.2 million of these

savings, as well as the correction of significant operational concerns through more dedicated supervisory controls and simply working smarter. Of note is a striking 600 hours of overtime slashed from street sweeping, leaf and holiday tree collection efforts beginning in 2013 with no service delivery cuts. Additionally, the smart electric and water metering project is outperforming accuracy expectations and the project's original cash flow model. Final determinations of overall success will be made in August of 2015 when Honeywell is required to deliver measurement and verification data to determine if targets have been met. However, a year-to-year comparison of delivered water from September 2013 to September 2014 shows an increase of 130 million gallons since the installation of the smart water meters, which validates the movement to upgrade our aged metering infrastructure, recover lost revenues of approximately \$600,000 and represents a strong indication of the project's success. The associated \$300,000 of avoided salary and benefits alone in 2015 is higher than the total projected operation and maintenance savings. Likewise, the closure of the refuse transfer station brings \$285,000 of rehabilitation savings, while pension and health care savings undertaken amount to cost avoidance of \$800,000 in 2015 related to other post-employment benefits (OPEB) and reductions of almost \$500,000 in management pension and health care costs from 2012 through 2015. Smart parking meters went on line in September of this year, and although installation was delayed during our pilot effort, their acceptance has been very favorable and revenues have been strong and trending upward in the two months since the complete launch. Please note that these additional revenues help to defray the cost of offering the pay by credit/debit card at our parking meters, which was not passed on to the consumer.

These successful undertakings with the support of our employee unions and Mayor and Council have drastically changed the landscape of our future. Most notably, all new employees now enter our workforce under reduced liability plans (from defined benefit to defined contribution) and join current staff in paying higher contributions to maintain a comfortable level of health care benefits. Our entry into the Delaware Valley Health Insurance Trust in January of 2015, fully supported by our unions, is yet another example of employees and management working together to find solutions to the ever rising cost of our operations. These measures were noted to be a priority for 2014 and their accomplishment sets our organization apart from many others.

As we finalized these budget documents and our recommendations for funding operations in 2015, the initiatives were assessed with the following considerations in mind:

- Progressive or efficiency driven
- Impact of not funding
- Adequacy of research
- Avoidance of stranded investments
- Best interest of community
- Ability to implement in 2015
- Driven by emerging opportunity

This exercise, coupled with the conversation with Mayor and Council at the November 3, 2014 Financial Workshop and further staff review, fed into the final presentation of the 2015 operating budget. The core action items for the 2015 Budget including the 2015-2019 Capital Improvement Program include:

- Tax increase of 1.5% (contributes \$42,500 in 2015 revenue; \$85,000 long-term annual revenue)
 - Partially offset inflationary cost pressures
 - Resume plan for incremental increases
 - Small step toward General Fund self sufficiency
- Water rate increase of 7.2% (contributes \$0.6 million in revenue)
 - Continue stepped rate increase outlined by rate consultants 2012-2016
 - Increase current resources available for water infrastructure improvements (\$1.9 million)
 - Reduced transfer to General Fund versus 2014 in effort to curb reliance (\$1.3 million)
- Consideration of storm water utility to be implemented in 2015 (\$500,000 in budget-neutral revenue)
- Responsible application of the \$5.1 million in 2015 *current resources* toward capital improvements as follows
 - Electric – \$0.7 million – transformer & circuit replacement; new lines and services
 - Water – \$1.9 million – source water monitoring, reservoir upgrades, main renovations, tank maintenance
 - Sewer – \$0.6 million – sanitary sewer repairs; sewer system master plan
 - Public Works – \$0.9 million – yard waste carts; street program; storm drainage; pedestrian crossing
 - Maintenance – \$0.3 million – salt shed replacement; truck lift system repair
 - Public Safety – \$0.1 million – patrol rifles
 - Parks – \$0.2 million – tree inventory and hard surface facility improvements
 - Parking – \$0.2 million – expansion of Lot #2; fee collection equipment upgrade
 - IT – \$0.2 million – 911 dispatch recording; cashiering module; cloudbank server; web filter proxy server

2015 – Challenges and Initiatives

The 2015 Budget continues to address long-term infrastructure needs including the renewed recommendation to create a storm water utility following extensive outreach within our community in 2014. This effort resulted in a plan that offers an equitable fee structure based on impervious cover, with a community education and grant component that would allow for the necessary study or completion of \$500,000 of necessary storm water improvements in a focused and consistent manner. Likewise, additional community infrastructure projects include \$1 million to repair roadways; a conversion to LED streetlights funded through a \$581,250 lease purchase with the Delaware Sustainable Energy Utility; continued Supervisory Control and Data Acquisition (SCADA) system

improvements of \$336,000; design funding for a substation at the former Chrysler site in concert with the University of Delaware (UD) and Delmarva Power; and proposed parking garage considerations for existing Lot 1 in accordance with on-going land acquisition efforts supported by most current and previous legislative bodies. As in past years, this annual budget continues to direct funding for infrastructure improvements and maintenance where it can do the most good, reduce future costs, and positively impact the character and economic vitality of our community.

The 2015 budget also sees personnel wages increase by \$1.3 million in accordance with existing union contracts; the partial alignment of management increases with that of our unions (with a concern for wage compression); succession planning for the Police and Planning and Development Departments; critical service level increases (911 Center); and a reorganization of facility maintenance operations that is offset by a staff reduction in the Parks Division. We are faced with this level of personnel cost increases even as employees take on higher levels of health care contributions and the equivalent of an additional eight full time positions have been either eliminated, modified or positively impacted by early retirement incentives. The wage increases are partially offset by non-wage personnel cost decreases.

Maintaining pension funding levels for the legacy plans will require disciplined funding of the annual required contribution (ARC) to the City's pension fund; however, as we did in 2014, we plan to overfund the ARC by \$100,000 in 2015 in an effort to accelerate the funded status of the plan, not merely maintain it. As long-tenured staff retire, the ARC will be more easily managed on an annual basis and at continually reduced levels.

Our tax base remains relatively flat with little opportunities for annexation but a strong redevelopment history never more evident than recent years, as in 2013 when Newark experienced the approval of the equivalent number of apartment units (476) as that which were approved from fiscal years 2000 to 2012 (482). This along with the number of rental units approved in 2012 (137) and 2014 to date (126) signals a robust interest on the part of developers to invest in Newark housing. Of course, the first phase of the ongoing Rental Needs Assessment Study should provide results regarding the future impact of growth on the rental housing market. Large projects like The Retreat and Rittenhouse II were completed in 2014, and the redevelopment and improvement occurring in our core downtown continues to be a vital aspect of our attractiveness as a community. The redevelopment of the former Chrysler assembly plant by the UD, now the Science, Technology and Research (STAR) Campus, continues with exciting University-affiliated Health Science operations open to our community that should serve as a magnet for additional economic development opportunities that could provide substantial revenue improvements over the course of several years. Being flexible and ready to adapt to the infrastructure needs of such opportunities will require a high level of commitment and to some extent an "If you build it, they will come" attitude towards the electrical substation needs identified to support the build out of the campus, estimated at \$8.9 million, as well as to increase electrical reliability to our residents and businesses in the southern portions of Newark. That said, it is important to continue efforts to increase and diversify sources of General Fund revenue while tempering electric rate increases, as electric rates are known to be high on the list of determining factors for private industry seeking to invest

or relocate to choice localities. In addition, larger commercial and industrial developments typically demand less of the City's core municipal services though they contribute a pro rata share of property tax revenue, which is a positive benefit to residential tax payers.

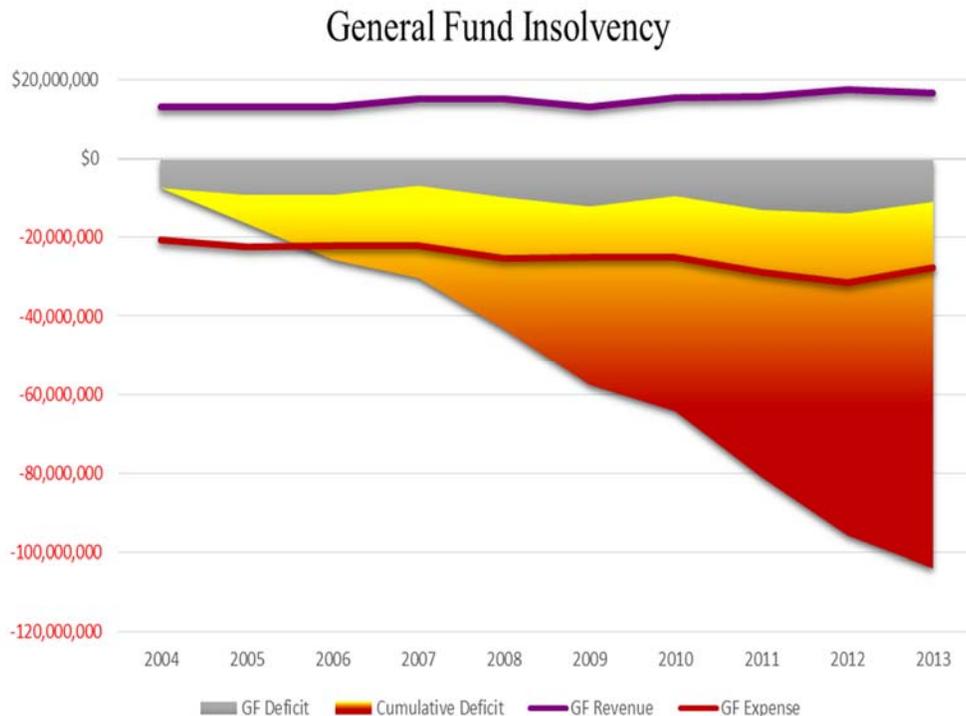
While pointed efforts made to educate the legislature of Newark's high level of tax exemption fell flat in 2014, our feedback indicated that the severe budget concerns of the State, not the merits of our case or our request, thwarted any interest of the Joint Finance Committee in sending our request for inclusion in PILOT funds to the legislature. Continued education and sharing of efforts to be more efficient and work smarter will be necessary in 2015 as Newark has an even stronger story to tell our State Legislators regarding its own belt tightening and trend setting (pension and health care reforms). Working towards a PILOT carve in, which has been estimated to deliver between \$400,000 and \$500,000, can only be described as just one tool in the toolbox of efforts we must undertake on behalf of our community. The reality of our high proportion of tax exempt property will continue to present challenges to sustaining funding sufficient to meet our existing service levels.

In developing the 2015 General Operating Budget, we continue to weigh needs vs. wants and efficiency impacts to costs associated with any given initiative. While some services are clear cut "must haves" (refuse collection, clean water and lights that stay on) others fall in grey areas that we are balancing on a regular basis as our priorities, the makeup of our community and/or those elected to serve, change. One example of a current grey area is that of the development of a parking garage in our downtown. This initiative has been part of our communication and a focus of our organization since 1998, and more actively since January of 2011 when a Memorandum of Understanding (MOU) was approved by the Mayor and Council with a third party limited liability company. After some starts and stops, but little progress, negotiations to take control of the properties that make up the most feasible location for a downtown garage (that we have been leasing for numerous years) finally came together with the help of special legal counsel and full support of our legislative body. Yet now, as we see the finish line, we may again take a pause to confirm need. What is most important is that we all acknowledge that there was a concerted effort to reach this point, as well as a cost of doing so, which should not be taken lightly when evaluating our downtown.

Additionally, our need to provide financing for all of the services and initiatives we hope to deliver in 2015 prompts a harsh look at our realities. Two prime realities we must face as a community are first, that we are very fortunate to have been able to rely on transfers from our utility funds (primarily the electric utility) to support General Fund services (refuse, parks, public safety, etc.) and secondly, that we currently do so to the tune of almost 50% of the General Fund costs. More clearly, our dependence on utility transfers to the General Fund is one that cannot be easily modified without severe service reductions or a great deal of revenue diversity. Our 2015 projected General Fund revenues are expected to reach \$13.3 million while our projected General Fund expenses, including the Street Fund, are conservatively expected to total \$24.7 million. This is an \$11.4 million shortfall that is rescued by margin transfers from our utility funds. It could be likened to taking money from retirement funds to support grocery bills. Public safety alone will cost \$11.8 million in 2015. I think we would all agree that like our

groceries, public safety is rather important and we cannot do without it. On the bright side, I have shared before that our ability to meet this shortfall with utility margin revenues has been Newark’s lifeblood and its path to financial stability in the absence of increasing taxes in line with the cost of services we provide, or in the absence of PILOT funds and other revenue diversification. This margin transfer to the General Fund has also enabled Newark to maintain an AA+ credit rating and a low cost of living. Unfortunately, the ever increasing costs to provide the same suite of services to our community, with no efforts to improve the stand alone General Fund revenue picture, cannot continue to be sustained. By taking from the utilities our rates will be rendered uncompetitive and doing so further compromises our ability to fund necessary utility infrastructure improvements and maintenance. Please recall the \$8.9 million substation or the \$6.8 million of currently identified storm water repairs and improvements. The graph below exhibits the aforementioned imbalance in general funding versus utility transfer funding by highlighting the insolvency of Newark’s General Fund over a recent ten-year period:

Transfers from the utility funds to the General Fund are legitimate and will likely always play a significant role in how Newark balances its budget, however, to what extent this is sustainable must be determined. One quick reference check to determine sustainability is to compare Newark’s transfers to nationwide statistics of other public utilities. A study published by the American Public Power Association (APPA) in 2012 covering 284 public power systems reported that the median transfer to the local general fund was 5.2% of electric operating revenues. Newark’s 2015 electric fund transfer is 19.7% of operating revenues. Another litmus test to gauge sustainability is how our rates compare to utilities within our region. If our rates are too far above average during any part of the year, our sustainability is threatened, as high rates will negatively impact our economic development prospects and cost of living. Rates must continue to support all operating expenses, capital needs, debt service and hopefully diminishing transfers to the general



fund, but they also must remain sustainable so as to positively impact economic development and the overall cost of living. This is our challenge as the leaders of our community in 2015 and the near term. More specifically, our tax levels and other revenues must rise while our reliance on transfers from the utility funds to the General Fund must fall. Striking this balance, continuing our efficiency efforts, moving towards greater revenue diversity, and consistently promoting economic development (a great place to do business) will serve our community well. And serving our community well is what we are here to do.

While attempting to reduce our dependence on utility transfers into the General Fund, improving our ability to use the funds we have available wisely is of great importance. Along with prioritization, the reduction of utility transfers and increasing taxes, we should also begin the smart utilization of debt to help address some of our high priority projects. For instance, suppose we grouped several of the 2016 capital projects eligible for revolving loan funding: \$1.5 million of water line rehabilitation, \$1.3 million for the upgrade to the Curtis Water Plant intake, and \$5 million of storm water rehabilitation for a total of \$9 million in projects. This amount could be financed with state loans over a 20 year period at a debt service cost of less than \$550,000 per year. All have a longer life expectancy than 20 years and the \$550,000 tackles several high priority projects while utilizing just 12% of our typical \$4.6 million Capital Program funding, which maintains the majority of current funds to continue to address routine projects such as street improvements and parks maintenance in the coming years. There are pros and cons to this model, including the downside of increasing debt and incurring interest over 20 years of debt service, but an undeniable upside is the completion of critical projects in a manner that we can responsibly afford. This would certainly be a fundamental shift in how we approach project funding that should be implemented conservatively and without increasing or maximizing our debt capacity. With a conservative approach, we can take the middle ground between the pros and cons where we can finance the most critical of our projects and build the debt service into the current resource funding we have historically utilized. As you know, a charter change would be required to enable the City to join the municipalities and counties in Delaware that have already taken advantage of the nearly \$400 million in clean water and drinking water grants and loans afforded by the State of Delaware.

While we hope to employ a version of this model in the coming years, the 2015 budget was constructed in a way that is comparable to years past.

The 2015 Budget in Summary

The proposed budget for 2015, including the five-year Capital Improvements Program, results in a surplus of \$315,843, which represents less than 1% of total revenues. While any surplus is a positive signal and acceptable by Code, the small surplus doesn't allow greater progress towards our reserve goals of approximately \$24 million to \$27 million. The expenditures do, however, make meaningful contributions toward critical items such as the capital improvements highlighted in the opening paragraph of this message and the City's pension plan. While we recommend overfunding the pension plan, we also

recommend a reduction of \$800,000 in OPEB funding as a result of pension reform measures initiated in 2014.

Operating expenditures are expected to increase by 3.4%, while net capital expenditures and debt service are planned to increase by 9.5% and 15.2%, respectively, over the 2014 budget levels. The surplus, while remaining less than ideal, shows improvement over the last two planned budget surpluses. In total, spending (excluding the unappropriated surplus) is about 4.7% higher in 2015 versus the 2014 budget.

The major components of the consolidated budget follow:

	<u>2014</u>	<u>2015</u>	<u>Percent Increase (Decrease)</u>
Operating Budget	\$ 36,194,321	\$ 37,418,494	3.4%
Capital Budget	4,686,483	5,130,701	9.5%
Debt Service	2,226,988	2,566,527	15.2%
Unappropriated Surplus	200,185	315,843	57.8%
Total	<u>\$ 43,307,977</u>	<u>\$ 45,431,565</u>	<u>4.9%</u>

City wide operating revenues of \$45.4 million in 2015 are expected to exceed 2014 budgeted revenue by \$2.1 million, or about 4.9%. Utility contributions are responsible for just about the entirety of the increase, while all other revenue categories net to a nominal increase of about \$30,000. Most notably, property tax and realty transfer tax increases of more than \$175,000 versus the 2014 budget are being offset by reduced levels of fines and parking revenues. To be clear, parking revenues and fines are expected to exceed actual levels achieved in 2014, but we are being conservative in our anticipation of fines and parking revenue as compared to original 2014 budget levels. The table below highlights the City's anticipated 2015 revenues.

Operating Revenues

	<u>2014</u>	<u>2015</u>	<u>Percent Increase (Decrease)</u>
Net Utility Revenue	\$ 25,967,869	\$ 28,060,159	8.1%
Property Tax	5,573,730	5,700,210	2.3%
Realty Transfer Tax	1,250,000	1,300,000	4.0%
Other Taxes and Fees	447,500	461,730	3.2%
Fines	2,322,021	2,228,750	-4.0%
Permits & Licenses	1,878,630	1,890,460	0.6%
Park Fees	557,040	587,500	5.5%
Commercial Refuse	11,280	8,540	-24.3%
Parking	2,967,440	2,830,920	-4.6%
Investment Income	301,800	294,150	-2.5%
Subventions	516,620	523,340	1.3%
Other Revenue	1,514,047	1,545,806	2.1%
Total	\$ 43,307,977	\$ 45,431,565	4.9%

Operating Expenses

	<u>2014</u>	<u>2015</u>	<u>Percent Increase (Decrease)</u>
Personnel Services	\$ 26,365,132	\$ 27,050,341	2.6%
Materials & Supplies	1,921,939	2,149,238	11.8%
Contractual Services	6,304,141	7,246,863	15.0%
Equipment Depreciation	1,249,269	1,671,809	33.8%
Partial Reversal of Depreciation	0	(1,150,309)	100.0%
Other Expenses	353,840	450,552	27.3%
Total	\$ 36,194,321	\$ 37,418,494	3.4%

Personnel expenses are mixed in 2015. The introduction called attention to salary and wage increases of \$1.3 million in accordance with existing union contracts; the partial alignment of management salary increases with that of our unions to address wage compression; succession planning for the Police and Planning and Development Departments; 911 call center service level improvements; and a reorganization of facility maintenance operations that is offset by a staff reduction in the Parks Division. The wage increases are partially offset by non-wage personnel cost decreases, which is driven by the reduction in OPEB spending. Taxes, insurance lines, and other non-wage personnel

items are higher than the 2014 budget, but net savings are achieved after factoring in the reduction in OPEB spending.

The materials and supplies lines have increased versus 2014 across a number of funds and a broad mix of expense categories. Most notably, IT supplies have increased in various departments reflecting the renewed initiatives to maintain appropriate functionality across the City's network. Vehicle & equipment maintenance lines have been increased as a hedge against the sharply reduced vehicle and equipment replacement program for 2015. Postage expenses are higher as we move to monthly water and sewer billing. The Police uniform budget has increased in anticipation of recruitment needs, while electric department supplies have increased due to updated safety regulations. In the Street Fund, salt and sand budget lines were increased, while additional funding was targeted for storm water supplies.

Contractual services lines have increased versus the 2014 budget in part due to the maturity of the reorganized Information Technology Department. Hardware and software solutions are being leased and/or procured as a service to promote standardization and to improve continuity and regularity of upgrades and improvements. While operating expenses are increasing in this area, capital spending in information technology has dropped versus prior years. Another contractual service increase is related to the deployment and maintenance of the City's new Graphical Information System (GIS) platform, which will significantly improve our ability to store, review and analyze data related to the City's infrastructure and service needs.

Equipment depreciation (a non-cash, formula driven expense) has increased by almost 34% versus 2014 as a result of the City's increased asset balances. However, note the partial reversal of non-cash expenditures this budget year. Typically, the City uses reserve funding to meet vehicle and equipment replacement costs, and replenishes reserves by the amount budgeted for non-cash depreciation expenses. The term for this practice is "funding depreciation." This year, only four individual fleet vehicles are being recommended for replacement, resulting in the use of just \$171,500 in reserve funding. This sharp reduction in vehicle replacements allows us to comfortably recommend partial depreciation funding of \$521,500, which results in the avoidance of \$1.15 million of our depreciation funding. The City's vehicle and equipment reserves will still grow in 2015 to provide funding for future vehicle replacements.

The Capital Improvements Program

The 2015 leg of the five-year Capital Improvement Program exhibits gross expenditures approaching \$16.5 million. Reserve funding, grant funding, and alternative sources of funds are being proposed for a majority of the funding. The use of capital reserves and equipment replacement reserves is a routine practice for projects that were authorized and encumbered in previous periods. Grant funding is likewise a fundamental goal and a recurring practice of the City. Reserves and grant funding represent about \$4.4 million

of the proposed funding, while alternative sources of funding, such as referendum or non-referendum debt, capital lease obligations, supplier financing, and/or public private partnerships represent potential funding of \$6.9 million. It should be noted that any type of borrowing or funding partnership will result in ongoing debt service expenditures and/or other operating costs which, when layered into future operating budgets, will result in reduced levels of then-current resources available for “pay-as-you-go” financing of capital projects. That said, we reiterate the need to address a greater level of critical infrastructure projects than current resources in 2015 and 2016 would permit; that need may be solved through the responsible, systematic utilization of funding in a way that strikes a balance between accomplishing immediate needs and encumbering future operating costs. The table below exhibits planned capital spending by department in 2015 versus the 2014 plan with a breakdown of funding sources.

<u>Expenditures</u>	<u>2015</u>	<u>Funding Sources</u>	<u>2015</u>
Electric Fund	\$1,675,015	Gross Capital Improvements	\$16,460,114
PWWR-Water Fund	4,869,668	Less: Use of Reserves	(3,001,558)
PWWR-Sewer Fund	1,100,000	Equipment Replacement	(171,500)
PWWR-General Fund	1,923,564	Grants/Other Sources	(8,156,355)
PWWR-Maint Fund	330,000	Bond Issues	<u>0</u>
Police Department	102,000		
Parks & Recreation	356,000	Net Capital Expenditures	<u>\$5,130,701</u>
Parking Fund	5,860,325		
Information Technology	<u>243,542</u>		
Gross Capital Expenditures	<u>\$16,460,114</u>		

Fund by Fund Commentary

General Fund

The General Fund serves to account for the requirements to provide typical municipal services such as public safety, planning, administration, parks and recreation, and public works functions. As discussed in detail above, Newark’s General Fund remains highly dependent on transfers from the Enterprise/Utility Funds to maintain a positive fund balance and maintain the level of services offered in our community. While in recent years we have limited the level of our transfers in association with our Financial Policies and more pointedly by our acceptance of a Memorandum of Understanding (MOU) with Governor Markell’s administration, efforts to self-motivate and monitor a sustainable level

of transfers in the future along with additional revenue diversifications must remain a priority. It is important to recognize that absent these transfers, the General Funds, including the Street Fund, would experience operating deficits totaling nearly \$11.6 million in 2015.

Other Governmental Funds

Other governmental funds include the Capital Fund and various grant and miscellaneous funds. The Street Fund is used to budget and account for the City's street maintenance program. All capital projects associated with the General Fund and Street Fund activities are budgeted and accounted for in the Capital Fund. These funds are typically heavily supported by transfers from the Enterprise Funds.

Enterprise Funds

The Enterprise Funds are comprised of the Electric, Water, Sewer and Parking Funds. These funds are intended to be self-supporting and also contribute to the Governmental Funds via operating margin transfers. We have recently made efforts to more clearly communicate the value of the public power business model to Council, our boards and commissions, and Newark residents. We are mindful that our transfers to the General Fund have been very high over the years, by design, but perhaps to the extent of overreliance. However, the fundamental principles of the public utility business model nonetheless represent a significant value for the City's residents and businesses. The equation is simple – our overall utility rates compare favorably with investor-owned utilities serving neighboring areas. If investor-owned utilities were serving water, sewer and power to Newark residents, our residents' monthly utility expenses would be largely unchanged; yet, as a result of the margin passing to shareholders instead of back to Newark, the City's General Fund and other funds would be forced to generate additional taxes in excess of \$13 million per year. Our 2015 property tax revenue is less than \$6 million.

The Electric Fund is projected to generate a \$10.2 million surplus before transfers to the General Fund in 2015. The 2015 projected transfer of \$10 million to the general fund is roughly equal to the 2014 transfer, although it remains less than the 2012 transfer pursuant to the MOU executed with the Governor's office in 2012. In 2012, 2013 and 2014 electric rates were adjusted downward through the Revenue Stabilization Adjustment (RSA) in association with falling wholesale power supply costs. We expect a similar reduction again in 2015.

The Electric Fund will begin to record revenue from a generation asset for the first time in the City's history, thanks to the completion of McKees Solar Park in October, 2014. McKees Park is a 230-kilowatt solar farm developed on a four-acre brownfield site. This behind-the-meter renewable power source will serve all residents by reducing the City's peak power demand, lowering the wholesale cost of power, generating solar renewable energy credit revenue, bringing locally produced green energy to the City's electric users, and reducing the City's carbon footprint. The 900-panel array will produce enough electricity to power approximately 26 to 36 homes, depending on the season.

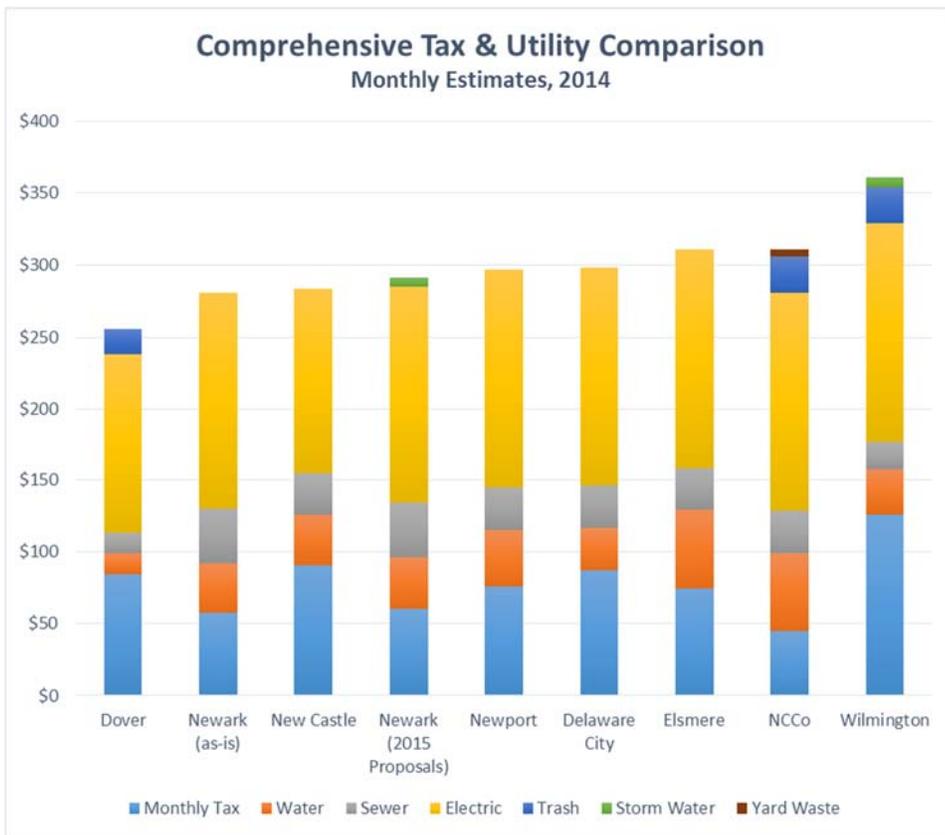
The Water Fund is projected to achieve an operating margin of nearly \$5 million in 2015, which, after debt service of \$1.7 million, will be sufficient to provide almost \$2 million in funding for capital improvements in 2015. This level of capital spending is considered the minimum required to continue with water main replacements, water tank improvements, filter, chemical and water quality improvements, and the development of a master plan to accumulate data and prioritize future water projects as efficiently as possible. These initiatives are made possible in part by the proposed 7.2% water rate increase, which was part of a staged increase recommended by rate consultants Black & Veatch in 2011. The projected transfer of \$1.3 million to the General Fund is less than the study originally contemplated, which is preserving funding for water projects. This reflects our efforts to reduce reliance on utilities to support the General Fund, but it is important to mention that this would not be possible in the absence of additional contributions from the Parking Fund.

The Sewer Fund operating margin is expected to reach \$1.3 million in 2015, which is slightly behind 2014 as a result of cost inflation without a corresponding rate increase. Almost \$600,000 of the operating margin is targeted for sanitary sewer repairs in the CIP program and the City's share in the partially grant-funded development of a sewer system master plan, which, like the water system master plan, will improve our system knowledge and help prioritize future projects efficiently. There may be a need to adjust sewer rates in July, 2015 should the County sewer rates change, although no major increase is expected. Our ability to undertake future sewer line improvements and maintain the sanitary sewer collection and distribution system to standards will depend on the city portion of the sewer flow rate, which will be reviewed in 2015 in advance of the 2016 budget process.

Parking Fund revenue is expected to be higher in 2015 as it includes the reclassification of the parking meter revenue from the General Fund to the Parking Fund. In addition, the parking meter revenue is expected to increase as a result of the installation of the credit and debit enabled parking meters late in 2014. Expenses related to parking meter enforcement formerly recorded in the General Fund will also be reclassified to the Parking Fund as part of our ongoing efforts to properly align operating activities with the appropriate fund. We anticipate achieving an operating margin of \$1.2 million in the Parking Fund, about \$200,000 of which is slated for fee collection equipment upgrades and other minor capital improvements and \$1 million of which will be transferred to the General Fund to support municipal services.

How Does Newark Compare

Property tax and utility rate increases are rarely popular among our residents and rate-paying customers, but as this document has demonstrated, our costs to provide services are constantly on the rise. We are attempting to strike a balance between identifying efficiencies to reduce costs without sacrificing services and making necessary rate increases. In 2015, we don't anticipate any sewer rate increases, and the electric rate is expected to decrease with falling wholesale power costs. Further, the storm water fee being proposed in 2015 would be less than the \$7.50 originally contemplated for all residents. Even with the introduction of a storm water fee, a 7.2% water rate increase, and a 1.5% tax increase, the City's total, comprehensive cost of service is competitive among our peers in New Castle County. Aside from Dover, which is a marginal comparable due to its location in Kent County, only the City of New Castle's combined rates for property taxes, water, sewer and electric utilities, waste disposal, and storm water are lower than Newark's. The chart below reinforces the reality that Newark continues to remain very competitive, and to quote one of our residents, the City is "still a bargain" in terms of water rate levels as compared to local municipalities and investor-owned water companies. In addition to the simple cost comparison, Newark excels in the scope and delivery of services as well. The City's refuse, recyclable, and yard waste collection consistently receive praise from residents, while leaf and tree collection are services that are unavailable in most communities without an associated cost. As long as our residents continue to value the high level of service we provide, supporting funding levels to maintain these services will continue to be necessary.



Moving Forward

Future budget cycles will continue to feature at least inflation-indexed tax increases, fixed or reduced electric revenue transfers, and modest growth in utility consumption. However, our expenses are likely to continue growing at a faster pace than revenues even with our continued efforts to work smarter. We will be challenged to balance our commitment to high service levels with the need for higher revenues or new revenues. Recent modifications to future employee benefit packages and efficiencies should continue to provide some relief, while we are hopeful that tax base growth initiatives through reorganized economic development efforts in 2015 will result in a favorable outcome for our residents as well as our revenue base. Further engagement with existing companies that are doing great work right here in Newark will also be initiated and celebrated to further drive home the fact that Newark is a great place for business.

Budget Presentation

The 2015 Budget document is arranged to comply with generally accepted accounting principles. Each operating budget is assigned to a fund group. The order in which they appear is Consolidated, General Fund, Other Governmental Funds, Enterprise Funds, and other miscellaneous funds. As in the past, consolidated revenue and expenditure summaries are presented in the front of the document, and each operating budget includes tables, statistics and annual reports for its individual department or division.

The following schedule for processing the 2015 Budget is proposed to meet the requirements of the City Charter:

Presentation to Council:

- Budget Document – November 10, 2014
- Budget Message – November 13, 2014
- Public Hearing- November 24, 2014
- Adoption* - December 15, 2014

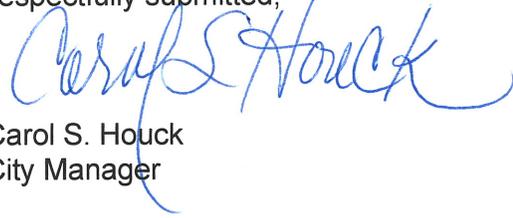
*Mayor and Council may, at its discretion, adopt the budget immediately after the public hearing on November 24, 2014.

The preparation and compilation of the 2015 General Operating Budget and its accompanying Capital Program was the result of much hard work, research and prioritization of all of our departments. In particular, the Finance Department under the leadership of Finance Director Lou Vitola, Deputy Finance Director Wilma Garriz, Accountants Jim Smith and Debi Keeley, and many other members of the Finance Department worked diligently in coordinating all stages of this documents development. Likewise, our Department Directors should be commended for thoroughly evaluating their needs, considering opportunities and responding to timelines and funding limitations. Deputy City Manager Andrew Haines played a key role in preparing all personnel related detail as well as in leading, along with Finance Director Lou Vitola, the conversation with our unions and ultimately our success regarding pension, OPEB and Health Care

reforms. I see these initiatives as a turning point for our organization and one that future leaders and our community will fully benefit from.

It has been a busy, at times tense, but rewarding year for Newark. I look forward to continuing the many efforts along with our staff to move our organization forward and take advantage of opportunities for improvement. Lastly, I thank you, Newark's elected officials, for your dedication to our community and your support of the hard work of our many employees. Your commitment of time, skills, and interest in doing the right thing on behalf of our citizens, businesses and visitors is greatly appreciated.

Respectfully submitted,



Carol S. Houck
City Manager