



FY2021 Budget Overview

August 17, 2020

TIMELINE

Date	Title:	Notes:
Monday, August 17, 2020	Department Budget Hearing #1	Council Direction given for: Overview
Monday, August 31, 2020	Department Budget Hearing #2	Council Direction given for: Planning, Parks and Recreation
Tuesday, September 8, 2020	Department Budget Hearing #3	Council Direction given for: Administrative, PWWR
Monday, September 14, 2020	Department Budget Hearing #4	Council Direction given for: Legislative, Alderman Court
Monday, September 21, 2020	Department Budget Hearing #5	Council Direction given for: Finance, Police, Electric
Monday, October 5, 2020	Financial Workshop #1	Budget Workshop
Tuesday, October 20, 2020	Planning Commission Approval of CIP	Meeting to receive Planning Commissions feedback and suggestions for CIP
Monday, November 2, 2020	Budget Hearing #1	Special Meeting
Monday, November 16, 2020	Budget Hearing #2	Special Meeting
Monday, November 23, 2020	Intro Date for revenue ordinances	
<i>Monday, November 30, 2020</i>	<i>requires a special meeting</i>	
Monday, December 7, 2020	Budget Hearing #3	

- This table represents the current Council schedule for the 2021 budget process
- The financial information to be presented over the next month are included in this budget overview
- Final budget draft will be provided at the Financial Workshop on October 5th

BUDGETARY IMPACTS - COVID

- **Covid-19**
 - Revenue impact (\$96.7 million budget in 2020, estimated \$12.2 million gross loss, or -12.6%)
 - Nearly all sources of revenue have been negatively impacted in 2020
 - Most impacted (estimated annual loss/%):
 - Utilities: (-\$7.6 million/-10.5%)
 - Tax Revenue: Transfer tax, lodging, franchise fees (-\$1.9 million/-18%)
 - Park & Recreation Fees: (-\$334,000/-50%)
 - Alderman Court: (-\$840,000/-40%)
 - Parking (-\$1.4 million/-49%)
 - Potential long-term cash flow concerns as taxpayers/customers begin to default on City obligations
 - 2021 Outlook – Revenue will continue to see some level of stagnation through the first half of 2021.

BUDGETARY IMPACTS – Cont'd

- **Covid-19 – Cont'd**
 - Expenditures
 - 2021 Outlook - Expecting FY2021 expenses to remain stable, as the majority of Covid-related expenses will be expended and reimbursed by the CARES Act in 2020
- **University of Delaware – Construction projects**
 - Whitney Athletic Center – Tentative c/o September 2020
 - Worrilow Hall – September 2020
 - McKinley Lab – July 2023
- **STAR Campus**
 - Chemours – Ramped up utility use during 2020 but delayed due to Covid-19
 - Biopharm/NIMBL – Final c/o in 2020
 - Fin-Tech – May 2021

BUDGETARY IMPACTS – Cont'd

- **Other Construction Projects**
 - College Square – Construction underway, 2022+
 - Dickenson Dorm project – August 2021
 - Green Mansion Hotel – not going to be completed in 2021
- **Other**
 - Projected Property tax growth: 0.87% in 2021
 - CPI - June 2020 CPI (annualized) was 0.1% - negligible (impacted by Covid-19)
 - Personnel costs (Payroll, retirement plans, OPEB, healthcare) – 38% of budget
 - Utility expenses (Electric – DEMEC/Sewer – New Castle County) – 41% of budget

MEASURES TAKEN TO DATE

Cost Curtailment

- Recommend lease/purchase agreements on large equipment in order to preserve cash
 - In progress (not yet reflected in departmental submissions)
- Amend City health benefits (in progress)
- Hiring freeze
 - Hold vacant positions open, only fill critical needs
- Freeze contractual spending
- Non-essential travel/training has been reduced/eliminated
- Delay the acceptance of \$3 million in general fund debt as approved in the 2018 Referendum until the second half of 2021
- Sunsetting outdated portions of Chapter 13 that provided tax abatements for specific, qualified commercial improvements
- Updated deposit requirements for non-residential electric accounts to a \$300 minimum

REVENUE OVERVIEW

REVENUE	2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
Utility Sales	\$ 72,774,508	\$ 70,644,150	-2.9%	\$ (2,130,358)
Property and Realty Taxes	10,329,000	10,305,000	-0.2%	(24,000)
Fees for Service	10,436,850	9,221,750	-11.6%	(1,215,100)
Intergovernmental Revenue	1,592,287	1,829,542	14.9%	237,255
Other Revenue	1,175,200	1,094,350	-6.9%	(80,850)
Appropriation of Prior Year Reserves	708,752	-	-100.0%	(708,752)
Total Operating Revenue	\$ 97,016,597	\$ 93,094,792	-4.0%	\$ (3,921,805)

Total Operating revenue is estimated to be \$3.9 million less than the 2020 Budget with no assumed changes
(detail contained on following slides)

REVENUE OVERVIEW – CONT'D

2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
\$ 72,774,508	\$ 70,644,150	-2.9%	\$ (2,130,358)

- **Utility Sales (-\$2,100,000):** Assumes some level of normalcy during the second half of 2021.
 - Electric (-\$900K) 2% overall electric sales reduction
 - Chemours growth is offsetting some of the overall electric losses
 - Electric rate study has been put on hold
 - Water (-\$915K) 10% overall water sales reduction from 2020 budget
 - Sewer (-\$742K) 10% overall sewer sales reduction from 2020 budget
 - Stormwater (+\$411K) increase required to cover Rodney Stormwater Project State Revolving Loan (SRL)
- Ability to meet revenue needs are challenged by reliance on consumption
 - Shift to customer charges for water and sewer, offset by reducing consumption rates will result in reliable cash flow to fund City infrastructure. Customer charges will be proposed for water, sewer and electric

REVENUE OVERVIEW – CONT'D

2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
10,329,000	10,305,000	-0.2%	(24,000)

- **Taxes (-\$24,000):**
 - Lodging tax: Reduction of \$300,000 (-40%)
 - Real Estate Transfer Tax: Reduction of \$150,000 (-9%)
 - Decline in large property transactions over \$1 million is assumed
 - Property Tax: Increase of \$492K due to 2019 tax increase (6.6%)
 - No Property Tax increase proposed yet for 2021
 - Franchise Tax: Reduction of \$50,000 (-10%)

REVENUE OVERVIEW – CONT'D

2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
10,436,850	9,221,750	-11.6%	(1,215,100)

- **Fees for Service (-\$1,200,000):**
 - Alderman Court: Reduction of \$680,000 (-35%)
 - Parks and Recreation: Reduction of \$188,000 (-28%)
 - Parking: Reduction of \$300,000 (-10%)
 - Red Light Cameras: Reduction of \$63,000 (-45%)
 - No significant change in Business License Fees, Permits and Licenses, and Internal Service Revenue

REVENUE OVERVIEW – CONT'D

REVENUE	2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
Intergovernmental Revenue	1,592,287	1,829,542	14.9%	237,255
Other Revenue	1,175,200	1,094,350	-6.9%	(80,850)

- **Intergovernmental Revenue (+\$237,000):**
 - UD Subvention: \$526,000 (Flat)
 - UniCity Bus: \$143,000 (Flat)
 - Includes \$400,000 in PILOT funds from the State (not included in past years)
 - Removed \$250,000 Asset Seizure funds (in 2020, not in 2021)
 - School Resource Officer: \$183,600
- **Other Revenue (-\$80,000):**
 - Includes Interest Income, Miscellaneous Revenue and Reimbursable Overtime

OPERATING EXPENDITURE OVERVIEW

EXPENDITURES	2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
Personnel Services	\$ 35,225,799	\$ 35,750,992	1.5%	\$ 525,193
Utility Purchases	39,274,933	38,592,386	-1.7%	(682,547)
Materials and Supplies	2,497,376	2,347,762	-6.0%	(149,614)
Contractual Services	10,893,167	10,464,805	-3.9%	(428,362)
Equipment Depreciation	1,524,265	1,503,666	-1.4%	(20,599)
Other Expenses	1,218,192	1,106,872	-9.1%	(111,320)
Total Operating Expenses	\$ 90,633,732	\$ 89,766,483	-1.0%	\$ (867,249)

Total Operating expenses are estimated to be \$867K under the 2020 Budget as Amended
(detail contained on following slides)

OPERATING EXPENDITURE OVERVIEW - PERSONNEL SERVICES

- **Personnel Services – Increase of \$525,000 or 1.5% due to:**

- \$100,000: Estimated health insurance premium increase
- \$360,000: Salary changes
 - Includes Cost of contractually obligated COLAs and Merit steps for CWA and AFSCME only
 - No cost of living adjustment assumed for Management and FOP staff (FOP contract expires 12/31/2020)
 - \$30,000 increase for Bailiffs’ hours for Atrium coverage
 - \$35,000 reduction in overtime, \$18,000 removal of standby pay in IT, \$57,500 removal of most of the City’s intern program (\$13K remains)
 - Down two full-time positions and one part-time position
 - Full Time: Lineman (Electric), Human Capital Manager (Administration)
 - Part Time: Meter Reader (Finance), Street Sweeper (PWWR), add HR position (swap for HCM proposed)
- No change: Annual pension contribution: \$4,150,000, OPEB annual contribution: \$1,000,000

2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
\$ 35,225,799	\$ 35,750,992	1.5%	\$ 525,193

OPERATING EXPENDITURE OVERVIEW - UTILITY PURCHASES

- Utility Purchases decrease of \$682K due to:

- Electric: \$33,000,000 (-\$682,000)
 - Assumes 2% overall decrease in electric consumption in 2020
 - STAR Campus growth has helped offset other electric losses
 - Does not include “renewable opt-out” program (to be added)
 - Flat cost of wholesale power pricing in 2021 (DEMEC rate not available until December)
 - Generation cost of energy has been declining over the years (49% of wholesale rates), offset by higher capacity/transmission costs
 - Revenue Stabilization Adjustment (RSA) process each March has provided a bill credit to account for cost reductions.
- Sewer: \$5,600,000 (no change from 2020)
 - Purchases from New Castle County assume no rate change on July 1, 2021

2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
\$ 39,274,933	\$38,592,386	-1.7%	\$ (682,547)

OPERATING EXPENDITURE OVERVIEW - OTHER

- **Materials/Supplies (-\$149K)**

- Across the board reductions in all departments for supplies/materials
- -\$35,000: Reduction for fuel in Fleet
- \$45,000: Increase in Fleet for vehicle maintenance/tires

- **Equipment Depreciation (-\$20K):**

- Funds the City's equipment replacement program

- **Other Expenses (-\$111K):**

- Reflects no changes to the City's subventions
- -\$125,000: Reduction for training and conferences

OTHER EXPENDITURE OVERVIEW	2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
Materials and Supplies	\$ 2,497,376	\$ 2,347,762	-6.0%	\$ (149,614)
Contractual Services	10,893,167	10,464,805	-3.9%	(428,362)
Equipment Depreciation	1,524,265	1,503,666	-1.4%	(20,599)
Other Expenses	1,218,192	1,106,872	-9.1%	(111,320)

- **Contractual Services (-\$428K)**

- \$1.7 million includes insurance for the City (property, casualty, auto, broker. Workers compensation, cyber, etc.)
- \$2.3 million includes Fleet and Facility Services that have matching revenue (no change)
- \$1.0 million for merchant fees (\$20,000 reduction)
- -\$168,000: Reduction for one-time CDBG CARES Act funding in 2020
- -\$200,000: Reduction in outside contractors

OPERATING EXPENDITURE OVERVIEW - DEBT SERVICE

DEBT	ENDING DATE	2020 BUDGET AS AMENDED	2021 BUDGET	\$ DIFF FROM 2020	COMMENTS:
GOB Series 2011	9/14/2022	\$ 1,491,400	\$ 1,305,150	\$ (186,250)	2000 Refunding paid in full 2020
Energy Conservation Loan	7/1/2022	68,438	68,438	-	
Smart Meters	9/1/2022, 1/1/2028	1,046,189	1,046,189	-	ARRA/DNREC (\$342,839), BOA (\$703,350)
Fiber Lease	8/5/2027	49,255	49,255	-	
ESCO Project (NEW)	8/21/2040	-	190,671	190,671	2.345%, 20 year term, offset by other revenue, energy savings. 2021 Interest-only payment
Debt Service:		\$ 2,655,282	\$ 2,659,703	\$ 4,421	
Referendum Payments*	Project	2020 BUDGET	2021 BUDGET	\$ DIFF	COMMENTS:
Rodney Regional Stormwater Park	Q1802	\$ 120,000	\$ 498,000	\$ 378,000	Interest-only payments until 2021, +20years
Sanitary Sewer Study and Repairs	S0904	35,000	93,000	58,000	Interest-only payments until 2020, +20years
Air Stripper Replacement - South Well Field	W1402	77,500	202,000	124,500	Interest-only payments until 2020, +20years
Water Tank Maintenance	W8605	7,500	42,000	34,500	Interest-only payments until 2023, +20years
Water SCADA System	W9302	5,000	37,000	32,000	Interest-only payments until 2021, +10years
Water Main Replacement Program	W9308	25,000	90,000	65,000	Interest-only payments until 2023, +20years
General Fund Projects	various	75,000	112,000	37,000	Interest-only payments until 2022, +10years
Referendum Payments Total:		\$ 345,000	\$ 1,074,000	\$ 729,000	
<i>*Estimated. To be updated for 2021</i>					
Budgeted Debt Service:		\$ 3,000,282	\$ 3,733,703	\$ 733,421	

- 2020 Debt Service increases \$733K when compared to 2020

- Increase is due primarily to Referendum-approved projects

- 2021 Referendum Debt Service is still being finalized

OPERATING EXPENDITURE OVERVIEW - CAPITAL IMPROVEMENTS

CAPITAL IMPROVEMENTS	2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
Gross Capital Improvements	\$ 20,512,665	\$ 11,382,603	-44.5%	\$ (9,130,062)
Less: Use of Reserves	(654,726)	(1,102,038)	68.3%	(447,312)
Equipment Replacement	(730,778)	(731,497)	0.1%	(719)
Grants	(2,221,076)	(1,495,070)	-32.7%	726,006
Bond Issues	(767,947)	(646,888)	-15.8%	121,059
State Revolving Loan	(11,360,048)	(4,600,000)	-59.5%	6,760,048
Other Sources	(1,689,530)	(1,190,000)	-29.6%	499,530
Net Capital Improvements	\$ 3,088,560	\$ 1,617,110	-47.6%	\$ (1,471,450)

- The Gross CIP Budget decreased \$9.1 million to \$11.4 million.
- Net CIP Budget decreased by nearly \$1.5 million to \$1.6 million. This represents the portion of the capital budget that is supported by current revenues (taxes, fees, etc.)
- Use of reserves (including equipment) reduced by \$448K compared to 2020.

BUDGET OVERVIEW

BUDGET OVERVIEW	2020 BUDGET AS AMENDED	2021 BUDGET	% DIFF FROM 2020	\$ DIFF FROM 2020
Operating Revenue	\$ 97,016,597	\$ 93,094,792	-4.0%	\$ (3,921,805)
Operating Expenses	90,633,732	89,766,483	-1.0%	(867,249)
Capital Improvements*	3,088,560	1,617,110	-47.6%	(1,471,450)
Debt Service*	3,000,282	3,733,703	24.4%	733,421
Total Expenditures	\$ 96,722,574	\$ 95,117,296	-1.7%	\$ (1,605,278)
Total Surplus/(Shortfall)	\$ 294,023	\$ (2,022,504)		



The 2021 Budget as of today is \$2.0 million short of funding.

- Total revenues are down 4%
- Total expenditures are down 1.7%

POTENTIAL MEASURES FOR COUNCIL TO CONSIDER

- Move a larger portion of fixed utility costs into the customer charge
 - Would enable the City to become less reliant on sales volume
 - Would provide additional protection from another UD shutdown
 - Fairly recovers the cost of infrastructure from all utility users
- Reduce reliance on City utilities
 - 50% of general fund operations are funded by City utilities
 - Every additional tax dollar that the City generates is one less dollar it needs to take from its utilities
 - Property tax is a more stable source than utility revenue
 - Assessment equity issue will be addressed by court mandated NCC reassessment in coming years
- Cost reductions
 - Reduce/eliminate City services or service levels (some may take over a year to reduce/eliminate)

SUMMARY

- Staff is still working towards solutions to bridge the projected revenue shortfall for 2021.
- Recommendations will be presented to Council at the Financial Workshop on October 5th.
- During the departmental presentations there will be opportunities to ask more details about specific issues.