



**CITY MANAGER'S OFFICE**  
**CITY OF NEWARK**

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October 30, 2020

Newark City Council  
City of Newark, Delaware

**2021 GENERAL OPERATING BUDGET MESSAGE**

The Honorable Mayor and Members of City Council:

On behalf of the City Manager's office and Finance Departments of the City of Newark, with support from all departmental teams, I am pleased to submit our recommended 2021 General Operating Budget for your consideration and approval. This document represents the City's financial plan for the next fiscal year, considering experience, forecasting efforts, and Council direction. The budget ensures the continued provision of high levels of service and identifies the anticipated revenue sources to support our operations. The 2021 budget was developed based on a prioritization of needs for a well-rounded, full-service city, requiring consideration be given to competing infrastructure and community interests and the economic impact of COVID-19 on the City's, and our resident's, finances. As with recent years, time was devoted in 2020 towards evaluating options for increased operational efficiencies and cost savings.

In preparation of the 2021 budget, we face several familiar structural cost drivers that once again compete with desired projects for funding. These structural costs are similar for municipalities across the state and country: rising healthcare costs, unfunded pension liabilities, collective bargaining related salary increases, and post-employment benefit liabilities. Absorbing the increases from these items to avoid a tax increase took much hard work by our department directors and staff and we are pleased to present a budget that is balanced without the need for a tax increase.

Primary goals of the 2021 General Operating Budget and the associated Capital Improvement Program include continued provision of existing services, maintenance of our existing infrastructure, meeting the needs and expectations of our community, and taking advantage of innovative and/or progressive efforts to plan for the future and move our community forward. Developing meaningful partnerships, embracing efforts for economic development and improving our use of technology and communication with our citizens continue to be a high priority. To reach our goals, we remain committed to increase revenue diversification and look for ways to gradually reduce our reliance on enterprise fund transfers into the General Fund. We also recommend that the City continue to migrate utility revenue away from consumption based variable charges into lower risk customer charges. Lastly, we are continuing to utilize borrowing where appropriate to create a foundation for a more sustainable financial future.

Finally, with significant consideration and effort on the part of all departments, we present the consolidated 2021 Operating Budget and 2021 thru 2025 Capital Improvement Program (CIP). The CIP continues to heavily leverage city funds to maximize external funding sources. Eighty four percent of the funding for the City's capital program is earmarked to be paid with external funding sources. Utilizing

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grant funds and contributions from state legislators where possible, we have continued to incorporate borrowing from bank loans and the state revolving loan program into the budget, as approved during the 2018 Referendum. Capital projects have been prioritized with a "fix it first" approach, as keeping our current infrastructure maintained and up to current standards is the backbone of our capital budget. Extending assets' useful lives and the safety of our community are highly regarded in the prioritization process as well, followed last by the projects that are an expansion of our existing services or assets and could be considered as nice to have.

In summary, the core action items of this budget include:

- No tax increase for 2021
  - Tax rate is based on 1983 taxable assessments provided by New Castle County.
  - Same service levels as provided in 2020.
  - Decreased transfer from the utilities to the governmental funds totaling \$0.3 million (\$16.2 million vs. \$16.5 million).
  
- A Water customer charge adjustment (Entirely to cover Referendum-related projects).
  - City overall water consumption has remained flat due to conservation and technology advancements, as new buildings today are much more efficient than the structures they have replaced. The impacts of COVID-19 have further exacerbated this trend with year over year sales for 2021 predicted to be lower than any time this century. Weather is also impacting water sales. Its unpredictability makes accurate revenue forecasting difficult, resulting in revenue not meeting its annual requirement to fund water initiatives. This impact is amplified due to Newark's water rate structure which is almost entirely based on consumption.
  
  - In 2020, City Council enacted the first meter-based customer charge in the water and sewer utilities to cover the debt service associated with borrowing approved under the 2018 referendum. This is the first step towards a more stable mix of volumetric and fixed charges. We have proposed another increase to both utilities customer charges to cover the additional debt service payments anticipated from our continued work on projects that were included in the approved referendum.
  
  - The 2021 CIP provides for \$4,635,019 of Water Fund projects to be completed utilizing \$256,030 in reserves, \$125,000 in grants and \$3,800,000 in state revolving loan funding. The CIP funding is driven by the water main replacement (\$2 million) and water tank maintenance (\$1.8 million) programs.
  
- No utility rate adjustment is proposed for the Stormwater program.
  - \$2.2 million annual program to cover the cost of the current stormwater program.
  
  - Includes a monthly stormwater fee that will be between \$2.12 and \$6.37 per month for residential customers. Most residential customers will pay \$3.54 or less per month. Non-residential customers will pay \$3.54 per month per ESU (Equivalent Stormwater Unit). This reflects no change from the 2020 rates.

- The 2021 CIP provides for \$2,196,104 of stormwater projects, including the Rodney project of \$1,407,000, which will be coming to completion in 2021. The successful referendum in June 2018, allowed the project to move forward, and will be funded almost entirely via a state revolving loan.
  
- No Electric rate adjustment for 2021
  - The 2021 CIP provides for \$670,000 of electric projects to be completed utilizing 2021 current year revenue \$538,719, reserves of \$11,281 and other funding totaling \$120,000.
  
  - The City is currently undergoing a rate study, which we plan to complete by the end of 2021, assuming the economy stabilizes during 2021 enough to produce estimates with an acceptable confidence interval.
  
- A Sewer customer charge adjustment (Entirely to cover Referendum-related projects)
  - The 2021 CIP provides for \$800,000 of sewer projects to be completed utilizing \$800,000 in state revolving loan funding to pay for ongoing sanitary sewer repairs.
  
  - In 2020, City Council enacted the first meter-based customer charge in the water and sewer utilities to cover the debt service associated with borrowing approved under the 2018 referendum. This is the first step towards a more stable mix of volumetric and fixed charges. We have proposed another increase to both utilities customer charges to cover the additional debt service payments anticipated from our continued work on projects that were included in the approved referendum.

### **2021 Budget Process – Discussion of Challenges and Initiatives**

The 2021 budget process began late spring, with staff discussing our organizational challenges and initiatives, and the Finance Department updating the presentation templates that were initially created as part of the 2019 budget process. We have incorporated more data than ever into our Capital Improvement Plan and held a budget meeting with Council in August to reflect the starting point of the 2021 budget, highlighting our anticipated revenue shortfalls, for the second year in a row. Efforts to compile our annual budget has not become easier, however the earlier start to the budget process and the involvement of City Council earlier in the process has provided more transparency as to what is included in the budget program. We are confident that the changes made to the budget process over the last few years have benefitted all who are involved in the process. Staff is challenged annually with aligning funding for initiatives and services across departments where it provides the most benefit, reducing costs where possible, and continuing to positively impact the character and economic vitality of our community.

Our organization's most valuable resource, our personnel, currently makes up 37.7% of our overall budget costs. Increased personnel costs, including salary and benefit provision adjustments, the recruitment of suitably skilled staff, and the retention of our workforce impacts the budget's bottom line. As a result, the general fund will require regular non-utility revenue enhancements or else we will increase our reliance on utility revenue to cover general fund operations. The City finalized new collective bargaining agreements with three of our four labor unions: CWA, AFSCME Local 1670, and AFSCME Local 3919 at the

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end of 2019. Each of these contracts are a minimum of 4 years in duration, with AFSCME 1670 being a 5-year contract. We are currently in negotiations with FOP Lodge 4 with the goal to renegotiate their contract before it expires at the end of 2020. All personnel costs (including benefits) are up \$451,290 compared to 2020. The majority of that increase, \$359,098, is associated with contractual salary increases and merit step progression. Absent a reduction in force which would likely reduce level of service, personnel costs will continue to trend upward due to contractual obligations, increasing healthcare expenses, and increased pension obligations due to more realistic (lower) return assumptions for our pension fund investments.

Many of our growing personnel costs are legacy obligations, like pensions and post-employment benefits, that we have been able to negotiate out of labor contracts over the last few years. Unfortunately, the funds created to pay these liabilities assume payments are made across employee's entire careers, so we are still required to make payments for obligations from the past. Pension and OPEB costs have been consistently increasing each year as we have reduced our rate of return assumptions and amortization periods down to more realistic and conservative values. We have continued the trend again this year by reducing the assumed rate of future returns from 6.5% to 6%. This is considerably lower than the 7.5% that was assumed earlier this decade. Assuming a lower rate of return results in higher necessary payments but is a more realistic representation of what we are likely to achieve from our investments in the short term. Fortunately, our pension and OPEB costs peak in 2021, largely due to the closure of our non-police pension to new hires between 2012 and 2014 (depending on labor group).

Budget discussions of recent years have highlighted Newark's admirable utilization of the "pay-as-you-go" method of financing its capital projects. While paying cash for our projects has kept our debt service low, in turn, it has prevented us from adequately funding reserves and tackling larger capital projects to address our aging infrastructure. The successful 2018 referendum provided borrowing authorization for up to \$27.6 million in a combination of state revolving loans and bond/loan financing that will allow us to incrementally build our cash reserves back to a level in line with our financial policies. Continuing to strike a balance between "pay-as-you go" and smart borrowing for projects with adequate lifecycle moving forward will allow us to preserve our highly respected AA+ bond rating while adequately meeting the growing capital needs associated with aging infrastructure. While our rating was modified with a negative outlook this fall due to the impacts of COVID-19, we would have been downgraded if not for the strong reserves on-hand that are largely as a result of using excess revenues since 2018 to build reserves as opposed to cash financing much needed capital projects. The additional reserves allowed us to weather the downturn without the need for raising rates or taxes to cover the shortfall.

Despite moderate electric sales growth over the last few years from construction at STAR and on campus, sewer sales are flat and water sales are decreasing, largely due to higher efficiency fixtures used in new construction and improved leak detection from the smart meter project. As a result, our tax base and utility revenue will not increase over the short-term at a rate sufficient to fund our community's growing infrastructure maintenance demands as our infrastructure ages. However, proper financing of our debt, accompanied with prudent planning, and sustainable development growth can ensure that both our current and future residents and business owners are paying for services at a rate that is comparable to our surrounding municipalities. The good news is Newark remains a great value.

Smart City initiatives of the past are generating long-term avoided cost savings to the City. During 2015 and 2016, the City replaced nearly 2,000 streetlight fixtures with LED replacements. In September of 2017, Vermont Energy Investment Corporation (VEIC) performed an analysis to determine the project's overall impact and cost-effectiveness (M&V Report). This report confirmed that the City's LED project will

produce an annual cost avoidance of \$135,000 each year and create an annual savings of 829,000 kwh. The total cost of the project was \$575,000, creating a return on investment payback period on the City's outlay of just over four years. For every \$1 spent on this project, the City will save \$4.20 in avoided costs. Building off the success of that project, the City is just beginning the construction phase of a nearly \$9 million Energy Savings Performance Contract (ESPC) in partnership with Seiberlich Trane, a Delaware licensed Energy Savings Company (ESCO). This project will replace inefficient and end-of-life HVAC systems at City Hall, the Newark Police Department, and the George Wilson Center with high efficiency systems utilizing modern building automation systems. In addition to the HVAC work, this project will complete the City's transition to LED streetlights by replacing the remaining 800 streetlights in areas where we have underground electric lines. It will also add dimming capability on all streetlights in the City, repair or replace all flat roofing systems on City facilities, install more than a megawatt of solar generation, upgrade water department pumps with variable frequency drives where appropriate, and include a handful of other efficiency related improvements. In the end, the savings generated by these projects will more than cover the cost of the annual lease payments over the 20-year payback period while moving us forward toward the goals included in the "Sustainable Newark" sustainability plan adopted by Council earlier this year.

Controlling health care expenses is one of the biggest challenges facing both the public and private sector today. The City of Newark, in working in conjunction with its workforce, joined the Delaware Valley Health Trust in 2015. This monumental change allowed the City to continue to provide quality healthcare to its employees, while avoiding annual double-digit premium increases that other government agencies have experienced, through pooling its risk with other municipalities. During this time our annual healthcare costs have increased at a rate approximately half of what we would have experienced otherwise. This year's renewal was no different, with an average increase across all offered plans of only 3.7%.

Appropriately managing risk and strategically using tools that are available to us, like debt and performance contracting, will be critical if we are going to be successful at sustainably meeting the expectations of our community for service delivery and quality of life. One critical action that staff strongly recommends is that we continue to move more of our utility revenue toward fixed charges and away from volumetric charges. This is to reflect that most of our expenses, especially in the water fund, are fixed, and that just because a building uses no utilities doesn't mean they received no benefit from the utility being there, ready to serve on demand. This was highlighted this year during the early months of the pandemic when UD and most businesses closed or move towards work from home, resulting in the loss of millions of dollars in utility revenue. Best practices in utility management suggest frequent reviews of our billing structure with adjustments as necessary to keep each utility financially stable while avoiding cross-subsidization of customer classes. The City must remain proactive to ensure that the City's fees for service are covering the costs to provide them equitably to all our customers.

**The 2021 Budget in Summary**

The proposed budget for 2021, including the five-year Capital Improvements Program, currently results in a surplus of \$1,562,585. This estimated surplus is divided amongst all funds, with the Stormwater Fund accounting for 56% of the balance (\$876,061). If the expenditure budget equals the revenue estimates in 2021 at year-end, these funds would revert to their respective reserve accounts to help grow the City's cash balances. Stormwater surplus can also be used to help pay down principal on the Rodney project loan, which would decrease interest expense over the life of the loan.

<b>Expenditure/Surplus</b>	<b>2020 BUDGET AS AMENDED</b>	<b>2021 BUDGET</b>	<b>\$ FROM 2020 BUDGET</b>	<b>% FROM 2020 BUDGET</b>
Operating Budget	\$90,633,623	\$87,999,442	-\$2,634,181	-2.9%
Capital Budget	\$3,188,560	\$1,518,621	-\$1,669,939	-52.4%
Debt Service	\$3,000,282	\$3,552,568	\$552,286	18.4%
Net Current Surplus	\$194,132	\$1,562,585	\$1,368,453	704.9%
<b>Total</b>	<b>\$97,016,597</b>	<b>\$94,633,216</b>	<b>-\$2,383,381</b>	<b>-2.5%</b>

Major components of the consolidated budget are reflected as follows:

Operating expenditures are decreasing by 2.9%, while net capital expenditures (capital budget) and debt service combine for a decrease of \$1.1M or 18.1%. Newark's core Operating, Capital and Debt Service spending (excluding the unappropriated surplus) is \$3.8 million, or 3.9% lower in 2021 versus the 2020 budget, due primarily to the cost of utility purchases and a reduced capital program.

The net Capital Budget of \$1.5 million consists primarily of:

- Electric: \$538,719 – new lines and services (E2101), new substation engineering study (E2002), Christianstead underground primary cable addition (E1806), replay replacements at Kershaw substation (E1807), voltage upgrade for North College Avenue (E1808), and vehicle replacements (including one electric vehicle).
- Stormwater: \$44,511 – stormwater quality improvements and the purchase of one electric vehicle.
- Streets: \$100,155 – towards vehicle replacements. Total funding for the Street program is \$1.6 million for 2021.
- Parks and Recreation: \$85,000 – reflects \$45,000 for facilities accessibility (K2004) and \$40,000 for children's play equipment (K0908).
- Police: \$68,268 – funding for the body worn camera project (C1904), and \$39,238 towards vehicle replacements.

**2021 Budgeted Operating Expenses by Function**

Total operating expenses are recommended to be \$88 million for 2021, or a \$2.6 million decrease from 2020. The table below highlights the City’s 2021 budgeted operating expenses:

	<b>2020 BUDGET AS AMENDED</b>	<b>2021 BUDGET</b>	<b>\$ FROM 2020 BUDGET</b>	<b>% FROM 2020 BUDGET</b>
Personnel Services	\$35,225,799	\$35,677,089	\$451,290	1.3%
Utility Purchases	\$39,274,933	\$36,804,486	-\$2,470,447	-6.3%
Materials and Supplies	\$2,498,376	\$2,365,695	-\$132,681	-5.3%
Contractual Services	\$10,893,058	\$10,611,313	-\$281,745	-2.6%
Equipment Depreciation	\$1,524,265	\$1,443,987	-\$80,278	-5.3%
Other Expenses	\$1,217,192	\$1,096,872	-\$120,320	-9.9%
<b>Total</b>	<b>\$90,633,623</b>	<b>\$87,999,442</b>	<b>-\$2,634,181</b>	<b>-2.9%</b>

**Personnel Services** - Personnel expenses are increasing by \$451K or 1.3% in 2021. The Human Capital Manager position was deleted from the budget in 2021, in addition to the defunding of a Lineman position to lower growing personnel costs. Part-time Meter Reader, Street Sweeper, and Secretary were also not funded in 2021. These reductions are being offset by the \$465K increase to the 2021 budget to fund contractually obligated cost of living wage adjustments to CWA and AFSCME staff. In addition, a portion of these funds are also earmarked for employees who are due merit adjustments and have not reached the top of their pay scale. In 2021, both management and FOP staff are not budgeted to receive cost of living wage adjustments.

Included in the \$35.7 million in personnel services are funding for the City’s pension plan (\$4.1 million). The Pension plan has been closed since 2014 to new hires, except for the City’s police officers. In addition, the City will be contributing nearly \$1.7 million towards its OPEB obligations in 2020. Both contributions match the same amount as 2020.

**Utility Purchases** - Utility purchases, which include the cost of electric purchases from DEMEC (\$31.8 million) and sewer purchases from New Castle County (\$5 million), are anticipated to be \$36.8 million. Should New Castle County choose to raise rates, we would need to perform a mid-year rate adjustment to pass these costs along to our sewer customers or else we will run a deficit for the year. As of today, we are not anticipating a rate change from DEMEC for the purchase of wholesale electric for 2021.

**Materials & Supplies** - The materials and supplies lines have decreased by 5.3% due primarily to reductions made across all departments.

**Contractual Services** - Contractual Services increased by \$282K, or 2.6%. Part of the difference is due to a one-time \$168K grant in 2020 for the CDBG CARES Act program. Remaining difference is from departmental reductions.

**Equipment Depreciation** - Equipment depreciation (a non-cash, formula driven expense) decreased by 5.3% versus 2020. This expense continues to supplement the funding our future large equipment purchases.

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**Other Expenses** - Other Expenses decreased \$120K. This is due to training expenses reduced across all departments due to the Coronavirus pandemic.

**Budget by Department/Division** – The budget changes by department/division are reflected on the table below. The reduction in the need to purchase electric and sewer service due to the Coronavirus pandemic are contributing towards 94% of the annual budget decrease from 2020.

<b>DEPARTMENT/DIVISION</b>	<b>2020 BUDGET AS AMENDED</b>	<b>2021 BUDGET</b>	<b>\$ FROM 2020 BUDGET</b>	<b>% FROM 2020 BUDGET</b>
Utility Purchases	\$39,274,933	\$36,804,486	-\$2,470,447	-6.3%
Police Department	\$15,885,655	\$16,418,866	\$533,211	3.4%
Electric Department	\$7,398,640	\$7,230,040	-\$168,600	-2.3%
Water Department	\$4,773,248	\$4,891,908	\$118,660	2.5%
Parks and Recreation Department	\$3,803,537	\$3,805,144	\$1,607	0.0%
Refuse Division	\$2,271,557	\$2,253,151	-\$18,406	-0.8%
Municipal Parking	\$2,162,721	\$2,173,723	\$11,002	0.5%
Code Enforcement Division	\$1,620,322	\$1,638,869	\$18,547	1.1%
Street Division	\$1,680,496	\$1,590,647	-\$89,849	-5.3%
Fleet Maintenance Division	\$1,471,119	\$1,482,017	\$10,898	0.7%
Stormwater Utility	\$1,455,790	\$1,302,328	-\$153,462	-10.5%
Legislative Department	\$1,248,876	\$1,211,693	-\$37,183	-3.0%
Sewer Department	\$1,093,212	\$1,130,925	\$37,713	3.4%
Administration Department	\$1,211,738	\$1,062,743	-\$148,995	-12.3%
Engineering Division	\$1,108,089	\$1,017,012	-\$91,077	-8.2%
Planning Department	\$972,268	\$917,708	-\$54,560	-5.6%
Facilities Maintenance Division	\$826,637	\$845,440	\$18,803	2.3%
OPEB Fund Expenses	\$662,300	\$662,300	\$0	0.0%
Alderman's Court	\$556,306	\$608,230	\$51,924	9.3%
Law Enforcement Fund	\$335,286	\$339,214	\$3,928	1.2%
Finance Department	\$274,846	\$283,155	\$8,309	3.0%
Unicity Transportation Fund	\$280,269	\$268,958	-\$11,311	-4.0%
Self-Insurance Fund	\$230,000	\$230,000	\$0	0.0%
Community Development (Operating)	\$413,782	\$202,885	-\$210,897	-51.0%
Special Parks Fund	\$35,096	\$41,100	\$6,004	17.1%
Information Technology Division	\$0	\$0	\$0	n/a
Less: Inter-Dept. Electric Sales	-\$413,100	-\$413,100	\$0	0.0%
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$90,633,623</b>	<b>\$87,999,442</b>	<b>-\$2,634,181</b>	<b>-2.9%</b>



**Revenue Highlights**

City wide operating revenues of \$94.6 million in 2021 are expected to be below 2020 budgeted revenue by 2.5%. Water and sewer sales are collectively responsible for \$1.3 million of the \$2.4 million decrease due to the lingering effects of the Coronavirus pandemic. In addition, the City is forecasting a \$1.1 million loss in revenue from its fees for services, which includes fines, park fees, and parking. We are estimating a small growth in taxable assessments for 2021, primarily due to commercial growth. More significant will be the first full year of revenue from the tax increase of 13.3% that was approved by Council in 2019. While 2018 and 2019 were banner years for real estate transfer tax (RTT), RTT fell off considerably during 2020 due to the slowdown in real estate activity caused by COVID-19. It is hard to tell at this time if RTT revenue will rebound completely in 2021 so we have set the anticipated RTT revenue at \$1,450,000, generally in line with average years before the highs seen in 2018 and 2019. Most growth in electric sales is derived from the STAR Campus, with 9 of 10 floors currently occupied in the STAR Tower, Chemours approaching full occupancy, and BPI ramping up operations throughout 2020. Most growth elsewhere in the City only provides minor revenue increases as redevelopment results in larger but more efficient buildings.

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REVENUE SOURCE	2020 BUDGET AS AMENDED	2021 BUDGET	\$ FROM 2020 BUDGET	% FROM 2020 BUDGET
<b>Utility Revenue</b>				
Electric	\$ 53,485,162	\$ 54,067,229	\$ 582,067	1.1%
Water	\$ 9,379,300	\$ 8,744,200	(635,100)	-6.8%
Sewer	\$ 7,537,046	\$ 6,872,100	(664,946)	-8.8%
Stormwater	\$ 2,373,000	\$ 2,373,000	-	0.0%
<b>Total Utility Revenue</b>	<b>\$ 72,774,508</b>	<b>\$ 72,056,529</b>	<b>\$ (717,979)</b>	<b>-1.0%</b>
<b>Realty Transfer Tax</b>				
Realty Transfer Tax	\$ 1,600,000	\$ 1,450,000	\$ (150,000)	-9.4%
Property Tax	\$ 7,468,000	\$ 7,960,000	492,000	6.6%
Penalties	\$ 36,000	\$ 20,000	(16,000)	-44.4%
Franchise Tax	\$ 475,000	\$ 425,000	(50,000)	-10.5%
Lodging Tax	\$ 750,000	\$ 450,000	(300,000)	-40.0%
<b>Total Tax Revenue</b>	<b>\$ 10,329,000</b>	<b>\$ 10,305,000</b>	<b>\$ (24,000)</b>	<b>-0.2%</b>
<b>Fees for Service</b>				
Fines	\$ 2,102,715	\$ 1,359,800	\$ (742,915)	-35.3%
Business License Fees	\$ 175,000	\$ 225,000	50,000	28.6%
Permits and Licenses	\$ 2,303,355	\$ 2,268,950	(34,405)	-1.5%
Park Fees	\$ 671,600	\$ 483,000	(188,600)	-28.1%
Commercial Refuse & Transfer Station	\$ 20,000	\$ 20,000	-	0.0%
Parking Lots	\$ 613,000	\$ 603,000	(10,000)	-1.6%
Multi-Space Parking	\$ 1,760,000	\$ 1,550,000	(210,000)	N/A
Parking Meters	\$ 480,000	\$ 400,000	(80,000)	-16.7%
Internal Service	\$ 2,311,180	\$ 2,431,560	120,380	5.2%
<b>Total Fees for Service</b>	<b>\$ 10,436,850</b>	<b>\$ 9,341,310</b>	<b>\$ (1,095,540)</b>	<b>-10.5%</b>
<b>Intergovernmental Revenue</b>				
Subventions	\$ 525,575	\$ 525,575	\$ -	0.0%
Local School District	\$ 133,600	\$ 183,600	50,000	37.4%
Unicity Bus	\$ 143,380	\$ 143,380	-	0.0%
Community Development Block Grants	\$ 413,782	\$ 202,885	(210,897)	-51.0%
Law Enforcement Grants - Special Fund	\$ 331,650	\$ 336,287	4,637	1.4%
Miscellaneous Grants and Donations	\$ 44,300	\$ 444,300	400,000	902.9%
<b>Total Intergovernmental Revenue</b>	<b>\$ 1,592,287</b>	<b>\$ 1,836,027</b>	<b>\$ 243,740</b>	<b>15.3%</b>
<b>Other Revenue</b>				
Interest Received	\$ 581,475	\$ 548,600	\$ (32,875)	-5.7%
Miscellaneous	\$ 336,655	\$ 288,750	(47,905)	-14.2%
Reimbursable Overtime	\$ 244,500	\$ 244,500	-	0.0%
Assessments	\$ 12,570	\$ 12,500	(70)	-0.6%
<b>Total Other Revenue</b>	<b>\$ 1,175,200</b>	<b>\$ 1,094,350</b>	<b>\$ (80,850)</b>	<b>-6.9%</b>
<b>Appropriation of Prior Year Reserves</b>	<b>\$ 708,752</b>	<b>\$ -</b>	<b>\$ (708,752)</b>	<b>-100.0%</b>
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 97,016,597</b>	<b>\$ 94,633,216</b>	<b>\$ (2,383,381)</b>	<b>-2.5%</b>

**The 2021 through 2025 Capital Improvements Program**

The 2021 portion of the proposed five-year Capital Improvement Program exhibits gross expenditures of \$23 million. Reserve funding, grant funding, vehicle equipment replacement funds, a bond issue, state revolving loan, and other sources are proposed for the program. 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 remains a recurring and successful funding mechanism for Newark.

Funding for the 2021 CIP is proposed on the table labeled "2021 CIP Funding Sources." The Net Capital Improvement total of \$1,518,621 will be funded in 2021 through current year revenue, which includes property taxes, utility rates, stormwater fees and other current sources of revenues.

Similar to 2018 through 2020, borrowing is included in the 2021 Capital Plan. It should be noted that any type of borrowing or funding partnership planned in future years 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. There is a need to address a greater level of critical infrastructure projects than current resources and reserves in 2021 will permit.

<b>2021 CIP Funding Sources</b>		
<b>Capital Improvements</b>		<b>\$22,956,548</b>
<b><u>Funding Sources:</u></b>	<b><u>%</u></b>	<b><u>\$</u></b>
Use of Reserves	6.3%	\$1,450,168
Equipment Funding	2.7%	\$614,497
Grants	16.6%	\$3,813,409
Bond Issues	2.8%	\$646,888
State Revolving Loan	26.2%	\$6,007,000
Other Sources	38.8%	\$8,905,965
<b>Current Resources:</b>	<b>6.6%</b>	<b>\$1,518,621</b>

<b>Expenditures</b>		
Public Works - Maintenance Fund	41.4%	\$ 9,499,295
Water Fund	20.2%	4,635,019
Parks & Recreation Department	10.2%	2,335,788
Public Works - General Fund	9.7%	2,228,164
Stormwater Fund	9.6%	2,196,104
Sewer Fund	3.5%	800,000
Electric Fund	2.9%	670,000
Police Department	1.0%	233,278
Parking Fund	0.7%	156,200
Other Departments	0.6%	130,000
Information Technology Division	0.3%	72,700
<b>Gross Capital Expenditures</b>	<b>100.0%</b>	<b>\$ 22,956,548</b>

This need can be met through the responsible, systematic utilization of funding in a way that strikes a balance between accomplishing immediate needs and encumbering future operating costs. Capital projects earmarked to be funded via the state revolving loan program or a bond issue, will move forward due to the referendum passing in 2018 to secure funding for these projects.

The table "Expenditures" exhibits planned capital spending by department in 2021. The majority

of our gross capital expenditures consist of infrastructure, which are electric, water, sewer, stormwater and street projects. 2021 also includes a \$9.5 million energy savings project, which will be funded over the next twenty years from energy efficiency savings, grants and new revenue generated from this project.

## **Fund by Fund Commentary**

### **General Fund**

The General Fund is used to provide typical municipal services such as public safety, planning, administration, parks and recreation, streets and public works functions. 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. This is further highlighted by the fact that property tax revenues (including tax penalties and franchise fees) make up only 8.4% of our operating revenues in 2021. 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 then-Governor Markell's administration, efforts to self-motivate and monitor a sustainable level of transfers in the future along with additional revenue diversifications are challenges and must remain a priority. It is important to recognize that absent these transfers, the Governmental Funds (including the Street Division), would experience operating deficits over \$16.2 million in 2021, or require a tax increase of over 200% to account for the total loss of margin transfers and maintain current service levels. For comparison purposes, the City would need to add over 26,500 new additional residences just to collect \$16.2 million in new tax revenue based on the City's median assessed value of a residential property. This is merely an academic comparison, however, as new residential properties would also result in increased demand for services and, accordingly, increased costs that would likely more than negate the increased tax revenue. Development in a form that uses less in services and infrastructure than the tax generated is key to making a dent in our general fund deficit. This is generally achieved via dense, mixed-use development located proximate to jobs and the downtown, although there is no magic formula.

An additional reason to continue to focus on decreasing our reliance on utility transfers is the risk to revenues associated with the increased penetration of privately-owned distributed energy resources, like rooftop solar, as well as the impact of electric and water conservation. Both items have positive environmental and social impacts, but negatively impact our utility sales and margins. Transfers from the water fund have been increasing as a percentage of revenues in recent years, absorbing the majority of the additional revenue raised by significant rate increases dating back to 2011. Dialing back, or at a minimum not further increasing, on our dependency would provide future benefits by leaving more revenue in our utility funds that are facing an infrastructure replacement tsunami as the majority of our distribution infrastructure like pipes and wires installed mid-century reach the end of their useful life over the next 15 or so years.

### **Other Governmental Funds**

Other governmental funds include the Capital Projects Fund, Debt Service Fund and the Special Revenue Funds. All capital projects associated with the General Fund are budgeted and accounted for in the Capital Projects Fund. The Debt Service Fund is used to account for debt associated with the General Fund. The Special Revenue Funds are supported mainly by grant funds.

### **Enterprise Funds**

The Enterprise Funds are comprised of the Electric, Water, Sewer, Stormwater and Parking Funds. These funds are intended to be self-supporting and contribute to the Governmental Funds via operating margin transfers (except for Stormwater). City Council's passing of the Stormwater Utility mandates that no funds are to be transferred from it to support general fund operations. ([Bill 17-43](#)). Revenue expectations by fund can be found in within the operating budget.

**Moving Forward**

Efforts to improve the opportunity for citizens to manage utility consumption and associated costs with smart technology, and to equitably align utility costs across users via a combination of fixed and consumption based charges will be of great importance as we compete for new residents and businesses. Furthermore, it would be prudent whenever feasible, for future budget cycles to feature small inflation-indexed tax increases, and fixed or reduced utility revenue transfers. However, as demonstrated by next year's revenue and expense budget projections, even with our continued efforts to embrace efficiencies and work smarter, costs continue to outpace our revenues. It remains clear that our organization and community will continue to be challenged to balance our commitment to our existing service levels without the need for higher, more diversified revenues. The addition of the Hotel Lodging Tax, effective as of December 2018, was a positive step for Newark to diversify revenue that supports our general fund, and the City strives to find new sources of revenue to ensure all are paying their fair share of City services.

**Budget Presentation**

The 2021 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 2021 Budget is proposed to meet the requirements of the City Charter:

Presentation to Council:

- Public Hearing/Possible Budget Adoption – November 2, 2020
- Contingency Date - Public Hearing/Budget Adoption – November 16, 2020 (if needed)
- Introduction Date for Revenue Ordinances – November 23, 2020

The preparation and compilation of the 2021 General Operating Budget and its accompanying Capital Program was the result of much hard work, research, and prioritization of all our departments. The Finance Department under the leadership of Finance Director David Del Grande, Deputy Finance Director Jill Hollander, Accountants Jim Smith and Debi Keeley, and Trevor Miller worked diligently in coordinating all stages of this document's development. Likewise, our Department Directors should be commended for thoroughly evaluating their needs, considering opportunities and responding to timelines and funding limitations.

I look forward to continuing the many efforts already underway, and yet to be proposed, along with our staff to move our organization forward and take advantage of opportunities for improvement. Lastly, I thank you for your dedication to Newark and ask that you continue to show your support of the hard work of our many employees on behalf of our community. Your commitment of time, skills, and interest in doing the right thing on behalf of our citizens, businesses and visitors will be greatly appreciated as we move into the New Year.

Respectfully submitted,



Thomas Coleman  
City Manager