



CITY MANAGER'S OFFICE
CITY OF NEWARK

220 South Main Street · Newark, Delaware 19711
302.366.7000 · Fax 302.366.7035 · www.newarkde.gov

October 28, 2022

Newark City Council
City of Newark, Delaware

2023 GENERAL OPERATING BUDGET MESSAGE

The Honorable Mayor and Members of City Council:

On behalf of the City Manager's office and Finance Department of the City of Newark, with support from all departmental teams, I am pleased to submit our recommended 2023 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 quality service and identifies the anticipated revenue sources necessary to support our operations. The 2023 budget was developed based on a prioritization of needs for a well-rounded, full-service city. As with recent years, time was devoted in 2022 towards evaluating options for increased operational efficiencies and cost savings. We also spent time evaluating existing staffing levels to identify needs based on shifting workload and recruitment and retention pressures in our new, post-COVID hiring environment.

In preparation of the 2023 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. Unique to the last 18 months is inflation that is running at 40-year highs. High inflation has created additional cost pressure on almost every aspect of our budget. Lingering supply chain disruptions from COVID, increased demand for material goods, and the war in Ukraine are combining to create extreme price increases that have caused the cost of most goods to increase by double- or triple-digit percentages from just a year ago. This is especially so in fleet maintenance and our utilities. We have also seen large increases in the cost of contractual services due to the post-pandemic labor shortage that has driven up competition for employees and, similarly, wages. These dramatic inflationary cost pressures made it inadvisable to avoid some commensurate increases to our utility rates, fees for service, and tax collections or else we would have had to make significant cuts to our level of service provided.

Primary goals of the 2023 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 hold the line or gradually reduce our reliance on enterprise fund

2023 General Operating Budget Message

October 28, 2022

transfers into the General Fund. Inflationary cost pressures have made 2023 a uniquely difficult year with regard to our long-term goal to reduce reliance on utility transfers. Because of this, it will be particularly important to focus on lobbying efforts at the state level to get approval for additional revenue sources like an events tax. We should also look to complete development of the homestead tax exemption program for owner occupants during 2023 for implementation with the tax billing in 2024. We also recommend that the City continue to migrate utility revenue away from consumption based variable charges into lower risk fixed customer charges. Lastly, we should continue 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 2023 Operating Budget and 2023 thru 2027 Capital Improvement Program (CIP). The CIP continues to heavily leverage city funds to maximize external funding sources. Twenty-eight percent of the five-year funding for the City's capital program is earmarked to be paid with external funding sources. Utilizing 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:

- A proposed tax increase of 5% for 2023 (\$213,500)
 - Tax rate is based on 1983 taxable assessments provided by New Castle County.
 - Same service levels as provided in 2022.
 - Increased transfer from the utilities to the governmental funds totaling \$3.4 million (\$16.9 million to \$20.3 million).
- Water and sewer customer charge adjustment that will generate an additional \$324,500 to cover debt service expenses for projects that were approved in the 2018 Referendum. In 2020, City Council enacted meter-based customer charges in the water and sewer utilities to cover the debt service associated with borrowing approved under the 2018 referendum. Water and Sewer's capital program consists of:
 - \$8,200,000 of Water Fund projects to be completed utilizing \$249,000 in reserves, \$119,000 in current resources, \$2,310,000 in state revolving loan funding, \$3,782,000 in American Rescue Plan Act (ARPA) funding, and \$1,740,000 in grants. The CIP funding is driven by the Emerging Contaminant project (W2206) and the Water Main Replacement Program (W9308). ARPA and state revolving loans are accounting for the majority of the funding for the capital program.
 - \$1,336,000 of sewer projects to be completed utilizing \$1,261,000 in ARPA funds and \$75,000 in capital reserves to pay for ongoing sanitary sewer repairs.

- Volumetric water and sewer rate increases of 8% to meet operational needs, which will provide an additional \$760,000 to the water and sewer utilities to fund the rising costs of personnel, materials and equipment needs.
 - City overall water consumption has remained relatively flat through 2022. While new development normally brings with it increased water sales, much of the development in Newark is redevelopment of a property that had prior water use. This, coupled with conservation and technology advancements generally negate much of the increase, resulting in flat water sales. The City continues to see some fluctuations in water sales due to weather, but the conscious efforts made by the Administration and Council to recover fixed costs via the customer charge has provided more revenue stability than in years' past.
- No change to the Stormwater customer charge was recommended for 2023.
 - The monthly stormwater fee is between \$2.33 and \$7.01 per month for residential customers. Most residential customers pay \$3.89 or less per month. Non-residential customers will pay \$3.89 per month per ESU (Equivalent Stormwater Unit).
- Electric rate adjustment for 2023
 - The 2023 CIP provides for \$15,000,894 of electric projects to be completed utilizing 2023 current year revenue \$2,107,996, reserves of \$200,840, conduit debt via a DEMEC bond issuance of \$12,000,000, grants of \$521,000, and other funding totaling \$171,058. Material and equipment purchases for the City's new substation (E2002) will begin in 2023 and will be funded via the DEMEC conduit debt (\$12M). The total budget for the substation is currently estimated at \$27.7M.
 - Effective September 1, 2022, due to wholesale power cost increases directly caused by the "Reliability Must Run" tariff approved by NERC for NRG's Indian River generation facility in Millsboro, DE, the 2022 RSA was recalculated and applied to all customers assigned to rate classifications that are subject to the RSA. This reflects a RSA rate change of 1.367 cents per kWh. In addition, we expect two other factors will impact the RSA in March of 2023; the anticipated wholesale rate increase from DEMEC, and the need to cover the anticipated debt service payments for the new substation. What the impact in March of 2023 will be is dependent on several factors that are unknown at this time.
 - The City is in the process of performing an update to the rate study that was began prior to the COVID pandemic. We had planned to have this completed in 2022, but this project is taking a bit longer than anticipated due to changes in electric sales that were created by the COVID pandemic, and the market swing for distributed energy resources (DER's) and electric vehicles (EV's) as their impact on the City's grid requires more review.

2023 Budget Process – Discussion of Challenges and Initiatives

The 2023 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. For the fourth year in a row, Budget meetings began with Council in August to reflect the starting point of the 2023 budget and to highlight our anticipated revenue shortfalls. Efforts to compile our annual budget have become more complex, however the earlier start to the budget process and the involvement of City Council and the public 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 to align 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. During the beginning of the budget process, the expenditure budget was \$6.2 million short of estimated revenue.

Our organization's most valuable resource, our personnel, currently makes up 35% 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 in a competitive job market impacts the budget's bottom line. On top of our annual contractually obligated salary adjustments, 2023's budget includes the addition of much-needed personnel including:

- Alderman Court: Addition of one part-time bailiff
- Finance: Converting a contractual IT Desktop Support position to a City employee
- Police: Add five new police officers and two new communication officers
- PWR: Convert a part-time Administrative Aide to a full-time position
- Parks and Recreation: Add one full-time Maintenance IV position
- Administration: Convert a part-time HR Coordinator to full-time

The general fund requires regular non-utility revenue enhancements or else we will increase our reliance on utility revenue to cover general fund operations. The impact of inflation over the past two years has worsened the issue.

Many of our growing personnel costs are legacy obligations, like pensions and OPEB, 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 consistently increase each year. The City uses a realistic assumed rate of 5.75% for future return assumptions, which 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 investment returns we are likely to achieve from the funds. Unfortunately, while we have made large improvements in funded status of the pension and OPEB funds in recent years, both are still only funded between 75-80% and will require continued pension and OPEB contributions of around \$5 million per year for years to come to be able to meet our previously promised benefit obligations. Since 2021, all new members of the FOP are automatically enrolled in the State's pension plan, which will help the City with its pension liabilities in the long-term. In addition, health care expenses continue to be an ongoing challenge year over year, with 2023's premiums increasing nearly 6%.

Budget discussions in the recent past highlighted Newark's admirable utilization of the "pay-as-you-go"

method of financing its capital projects. While paying cash in the past for nearly all of 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 which has allowed us to incrementally build our cash reserves back to a level in line with our Council approved 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.

Despite moderate electric sales growth over the last few years from construction at STAR and elsewhere downtown, long-term trends for sewer and water sales have been relatively flat, largely due to higher efficiency fixtures used in new construction, improved leak detection from the smart meter project, and the slowdown of development projects due to the current economy. In 2021, the City began seeing the return of volumetric activity to pre-pandemic levels, but the overall trend of flat volumetric sales has continued. Additionally, our tax base only increases because of construction activity, and then only by the net difference between what was on the property originally and what is built back in its place. 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 neighboring communities. 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 a Measurement and Verification (M&V) analysis to determine the project’s overall impact and cost-effectiveness. This report confirmed that the City’s LED project will produce a 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 through avoided costs. Building off the success of that project, the City is just wrapping up the construction phase and initial savings verification 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 included replacement of 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 also completed the City’s transition to LED streetlights by replacing the remaining 800 streetlights in areas where we have underground electric lines. It also adds dimming capability on all streetlights in the City, repaired or replaced all flat roofing systems on City facilities, installed a megawatt of solar generation, upgraded water department pumps with variable frequency drives where appropriate, and included 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. During 2022 we were awarded over \$2 million in grant funding from the State of Delaware to be used for another ESPC project that will build off the success of the project we just finished up and continue critical efficiency improvements at even more City owned facilities. This project will again be completed in partnership with our ESCO, Seiberlich Trane, and is anticipated to be complete by the end of 2023.

Rising health care expenses are one of the biggest challenges facing both the public and private sector

2023 General Operating Budget Message
October 28, 2022

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 higher than those in the recent past at roughly 6%, but still below the annual increases we saw as an organization when we were in the private insurance market. We were advised that the larger than normal increase was driven partially by inflation but also due to plan participants working through a backlog of deferred medical care accrued during the pandemic when it was difficult to access care.

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 does not mean they received no benefit from the utility being there, ready to serve on demand. This was highlighted during the early months of the pandemic when UD and most businesses closed or moved to 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. This year we have continued to include the increased cost to service debt from the 2018 referendum in the customer charge for water and sewer. Even with this increase, the portion of our revenue coming from fixed charges is significantly below that of our neighboring investor-owned utilities like Artesian and Veolia DE (Previously Suez Water DE).

The 2023 Budget in Summary

The proposed budget for 2023, including the five-year Capital Improvements Program, currently results in a surplus of \$447,181. This estimated surplus is usually divided amongst all funds, however, this year, the Stormwater Fund accounts for 100% of the balance. If the expenditure budget fall under or equals the revenue estimates in 2023 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 Hillside Park (Rodney) project loan, which would decrease interest expense over the life of the loan.

	* as amended	** as proposed		
	2022	2023	\$ FROM	% FROM
EXPENDITURE/SURPLUS	* BUDGET	** BUDGET	2022 BUDGET	2022 BUDGET
Operating Budget	\$ 91,851,004	\$ 102,320,779	\$ 10,469,775	11.4%
Capital Budget	3,537,188	4,145,229	608,041	17.2%
Debt Service	4,526,148	4,592,685	66,537	1.5%
Net Current Surplus	(442,464)	447,181	889,645	-201.1%
Total	\$ 99,471,876	\$ 111,505,874	\$ 12,033,998	12.1%

Major components of the consolidated budget are reflected as follows:

Operating expenditures are increasing by \$10.5M (11.4%), while capital expenditures are increasing by \$608K (17.2%). Newark's debt service is up \$66K and our net current surplus has decreased by \$890K. The Net Capital Budget, the portion funded through current revenues, of \$4.1 million consists primarily of:

- Electric: \$2,107,996 – \$170,000 for new lines and services (E2301), \$170,000 for spacer cable replacement (E2302), \$155,000 for underground cable replacement (E2303), \$600,000 for the electric portion of the replacement of the TROPOS mesh network which relays utility meter information (E2305), \$250,000 for the SCADA and automated switching project (E0503), and \$200,000 towards the design of a new electric warehouse at the Facilities Operation Complex (E2202).
- Stormwater: \$150,000 – \$75,000 for a mini-excavator (Q2301), and \$75,000 for the City's NPDES Phase II permit (Q0101). NPDES is an acronym for National Pollutant Discharge Elimination System.
- Streets: \$1,066,441 – \$900,000 towards the annual street program, with a total budget of \$1.76 million (H2301). \$141,441 for the ADA accessibility transition plan (H2302), and \$25,000 towards the Newark transportation plan implementation (H1503).
- Water: \$119,000 - \$30,000 towards source water protection (W1702), \$64,000 for the Well Restoration Program (W0503), and \$25,000 for a local match for a backup generator for our water facilities.
- Sewer: In 2023, there are no current resources used to fund sewer's capital program.
- Parks and Recreation: \$390,000 – \$100,000 for the Ash tree removal/management program (K2302), \$154,000 for hard surface/facility improvements (K1301), \$56,000 for children's play equipment (K0908), \$20,000 for improvements at the pools at Dickey Park and the George Wilson Center (year 2 of 2), \$30,000 for tree pit installations along Main Street (K2303), and \$30,000 to help make our parks more ADA compliant (K2004).
- Police: \$28,000 – funding for the ethernet rewiring project of police headquarters (C1904).
- Facilities Management: \$210,000 – to provide funding for much-needed improvements at City Hall (N2302)

2023 Budgeted Operating Expenses by Function

Total operating expenses are recommended to be \$106.9 million for 2023, or a \$10.5 million increase from 2022. The table below highlights the City's 2023 budgeted operating expenses:

	* as amended	** as proposed		
	2022	2023	\$ FROM	% FROM
	* BUDGET	** BUDGET	2022 BUDGET	2022 BUDGET
Personnel Services	\$ 36,477,888	\$ 38,932,621	\$ 2,454,733	6.7%
Utility Purchases	37,430,531	44,417,788	6,987,257	18.7%
Materials and Supplies	2,509,366	3,006,287	496,921	19.8%
Contractual Services	12,259,238	12,682,960	423,722	3.5%
Equipment Depreciation	1,808,826	1,925,340	116,514	6.4%
Debt Service	4,526,148	4,592,685	66,537	1.5%
Other Expenses	1,365,155	1,355,783	(9,372)	-0.7%
Total	\$ 96,377,152	\$ 106,913,464	\$ 10,536,312	10.9%

Personnel Services – Personnel expenses are increasing by \$2.5 million or 6.7% in 2023. This increase can be partially attributed to the addition of personnel to maintain current levels of service. Those positions are:

- o Five new police officers and two new communication officers.
- o Part-time bailiff.
- o Maintenance IV position in Parks.
- o Conversion of a part-time HR Coordinator position in Administration to full-time.
- o Conversion of a part-time Administrative Aide in PWWR to full-time.
- o Conversion of a contractor Desktop Support position in Finance to City employee

Estimated cost for these 10.5 positions is \$675,800 in 2023. Some positions have offsetting revenue/expenses to offset the expenditure impact.

Wages includes the contractually negotiated salaries of our workforce, as most of our full-time employees are represented by the FOP, AFSCME or CWA. The increase for 2023 includes associated merit steps for eligible employees, and cost of living adjustments.

Included in the \$38.9 million in personnel services are funding for the City's pension plan (\$4 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 over \$1.7 million towards its OPEB obligations in 2023. Both pension and OPEB contributions reflect a 10% increase when compared to 2022.

Utility Purchases – Utility purchases, which include the cost of electric purchases from DEMEC (\$39.2 million) and sewer purchases from New Castle County (\$5.2 million), are anticipated to be \$44.4 million. Should New Castle County choose to raise rates after July 1, 2023 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. The Indian River Coal Plant, debt service for the beginning construction of a second substation, inflation, and an anticipated rate adjustment from DEMEC are all contributing to the electric increase next year.

Materials & Supplies – The materials and supplies lines have increased 20%, or \$496K. \$89,000 of this increase is related to the five new police positions. \$50,000 is for bridge-related maintenance for bridge

2023 General Operating Budget Message

October 28, 2022

repairs needed in our Park system. Another \$59,000 is for SCADA maintenance for our electric, water and sewer utilities. \$17,500 was added to cover the expense of vandalism throughout the City. The Alderman Court is up \$9,000 to cover the additional expenses of adding a 4th part-time bailiff. The remaining increase of \$271,000 lies across all departments and are solely attributed to the rising costs of providing our existing levels of service due to inflation.

Contractual Services – Contractual Services increased by \$424K, or 3.5%. \$300,000 of this figure is related to the expense of keeping our fleet and facilities maintained and operational. In addition, our projected cost of insurance is up \$117,000 which covers our property, auto, cyber, casualty, etc. Our cost of insurance has far outpaced the rate of inflation over the last few years. On a good note, our workers compensation program premium was reduced \$100,000 next year to \$700,000 due to our good incident record. Bank merchant fees are also a part of our contractual services line. This expense is budgeted to be \$38,000 higher than 2022, totaling \$1,255,000

Equipment Depreciation – Equipment depreciation (a non-cash, formula driven expense) increased by 6.4% versus 2022. This expense continues to supplement the funding our future large equipment purchases. As the City leases more equipment, this line will begin to diminish, and be offset by lease payments.

Other Expenses – Other Expenses decreased \$9K.

Budget by Department/Division – The budget changes by department/division are reflected on the table on the next page.

2023 General Operating Budget Message
October 28, 2022

	* as amended	** as proposed		
	2022	2023	\$ FROM	% FROM
DEPARTMENT/DIVISION	* BUDGET	** BUDGET	2022 BUDGET	2022 BUDGET
Electric Utility	\$ 7,474,786	\$ 7,587,851	\$ 113,065	1.5%
Water Utility	4,908,307	4,840,047	(68,260)	-1.4%
Sewer Utility	1,136,030	1,165,571	29,541	2.6%
Stormwater Utility	1,308,040	1,390,033	81,993	6.3%
Utility Purchases	36,804,486	37,430,531	626,045	1.7%
Refuse Division	2,258,135	2,265,016	6,881	0.3%
Street Division	1,595,897	1,619,458	23,561	1.5%
Fleet Maintenance Division	1,486,638	1,524,134	37,496	2.5%
Engineering Division	1,021,249	1,077,694	56,445	5.5%
Code Enforcement Division	1,644,804	1,671,774	26,970	1.6%
Police Department	16,470,374	17,024,680	554,306	3.4%
Finance Department	280,850	335,634	54,784	19.5%
Planning Division	1,171,842	1,332,286	160,444	13.7%
Municipal Parking	2,184,823	2,191,306	6,483	0.3%
Facilities Maintenance Division	846,913	1,012,114	165,201	19.5%
Administrative Department	1,117,926	1,253,472	135,546	12.1%
Legislative Department	1,215,282	1,413,377	198,095	16.3%
Alderman's Court	609,713	636,453	26,740	4.4%
Parks and Recreation Department	3,840,017	3,966,763	126,746	3.3%
Community Development Block Grant	202,885	669,329	466,444	229.9%
Law Enforcement Fund	401,237	352,885	(48,352)	-12.1%
Special Parks Fund	41,100	41,195	95	0.2%
Unicity Transportation Fund	269,236	288,637	19,401	7.2%
Self Insurance Fund	230,000	140,000	(90,000)	-39.1%
OPEB Expense Funding	662,300	659,300	(3,000)	-0.5%
Less: Inter-Dept. Electric Sales	(413,100)	(529,251)	(116,151)	28.1%
Total Operating Expenditures	\$ 88,769,770	\$ 91,360,289	\$ 2,590,519	2.9%

Revenue Highlights

City wide operating revenues of \$111.5 million in 2023 are expected to be above 2022 budgeted revenue by 12.1%. Utility revenue is collectively responsible for \$10.3 million of the \$12 million increase due to adjustments needed for inflation, new State drinking water mandates, wholesale power cost increases, and electric grid modernization just to name a few. In addition, the City is including \$2.2 million in fee adjustments for fines, recreation fees, and parking, as the City will be increasing some fees which have not been adjusted since 1999 (e.g., parking). We are estimating a small growth in taxable assessments for 2023, primarily due to commercial growth. Part of the property tax growth includes the proposed 5% tax increase which will provide \$213,500 in revenue to the City to fund its governmental services and to keep up on par with the rising costs of inflation. The hotel industry has been relatively steady since this past Spring, and we have increased our lodging tax expectations by \$40,000 to \$640,000 for 2023.

Real Estate Transfer Tax (RTT) fell off considerably during 2020 due to the slowdown in real estate activity caused by COVID-19. Since the end of 2020, RTT revenue has rebounded with 2021 being slightly above

average and culminating in 2022 with RTT revenue anticipated to finish the year at around \$5.2 million. During 2022, most of this record revenue came from a small group of sales of large apartment complexes including Christina Mill, One Easton, the Newark Shopping Center, and Pinebrook Apartments. Looking at the current real estate market for remaining large properties likely to transfer, there are not many candidates remaining. This, coupled with the Federal Reserve rapidly increasing interest rates, is likely to mean we will see much lower sales figures in 2023. Real estate prices remain higher than they were pre-pandemic so we will see more revenue per transaction, but we anticipate total transactions will be lower than 2021 and 2022. As a result, we have forecast RTT revenue in 2023 will be \$1,650,000, which is equal to what we initially anticipated in 2022.

Construction activity in 2022 has been weaker than we originally anticipated during the 2021 budget process. We believe this is primarily driven by supply chain shortages and rising interest rates which have combined to significantly increase the cost of construction. In addition to cost increases, Council spent much of 2022 discussing changes to the BB and RA zoning districts. The BB zone is where we have seen the most development activity in recent years and the new changes are likely to make it less expensive to build in this zone. Based on discussions we have held with the local development community; we believe several previously approved projects will be redesigned and come back through the subdivision process under the new zoning rules as opposed to proceeding to construction as previously approved. It is hard to estimate how many projects will be redesigned and then, if approved, will actually move to construction in 2023. Ultimately, interest rates and supply chain logistics will probably play the largest role in construction starts. The Congressional Budget Office anticipates interest rates will continue to increase through mid-year 2023 before leveling out and stabilizing just over 2% into the future. Assuming supply chain issues are resolved, construction should be able to continue at a strong pace with interest rates at that level.

2023 General Operating Budget Message
October 28, 2022

	* as amended	** as proposed		
REVENUE SOURCE	2022 * BUDGET	2023 ** BUDGET	\$ FROM 2022 BUDGET	% FROM 2022 BUDGET
Utility Revenue				
Electric	\$ 54,644,000	\$ 63,665,500	\$ 9,021,500	16.5%
Water	9,157,000	9,786,080	629,080	6.9%
Sewer	7,322,500	8,030,395	707,895	9.7%
Stormwater	2,600,000	2,550,000	(50,000)	-1.9%
Total Utility Revenue	\$ 73,723,500	\$ 84,031,975	\$ 10,308,475	14.0%
Tax Revenue				
Realty Transfer Tax	\$ 1,764,115	\$ 1,650,000	\$ (114,115)	-6.5%
Property Tax	8,146,000	8,508,500	362,500	4.5%
Penalties	60,000	60,000	-	0.0%
Franchise Tax	425,000	350,000	(75,000)	-17.6%
Lodging Tax 2	600,000	640,000	40,000	6.7%
Total Tax Revenue	\$ 10,995,115	\$ 11,208,500	\$ 213,385	1.9%
Fees for Service				
Fines	\$ 1,923,800	\$ 2,040,300	\$ 116,500	6.1%
Business License Fees	200,000	200,000	-	0.0%
Permits and Licenses	2,237,420	2,519,920	282,500	12.6%
Park Fees	709,000	766,725	57,725	8.1%
Commercial Refuse & Transfer Sta.	25,000	25,000	-	0.0%
Parking Lots	175,000	218,421	43,421	24.8%
Multi-Space Parking	2,620,000	4,045,079	1,425,079	54.4%
Internal Service 2	2,732,436	3,025,618	293,182	10.7%
Total Fees for Service	\$ 10,622,656	\$ 12,841,063	\$ 2,218,407	20.9%
Intergovernmental Revenue				
Subventions	\$ 553,575	\$ 598,415	\$ 44,840	8.1%
Local School District	197,620	187,400	(10,220)	-5.2%
Unicity Bus	143,380	143,380	-	0.0%
Community Development Block Grants 3	669,329	259,268	(410,061)	-61.3%
Law Enforcement Grants - Special Fund	327,885	327,885	-	0.0%
American Rescue Plan Act (ARPA)	619,116	156,612	(462,504)	-74.7%
Miscellaneous Grants and Donations	442,100	630,776	188,676	42.7%
Total Intergovernmental Revenue	\$ 2,953,005	\$ 2,303,736	\$ (649,269)	-22.0%
Other Revenue				
Interest Received	\$ 496,000	\$ 521,000	\$ 25,000	5.0%
Miscellaneous	244,100	337,100	93,000	38.1%
Reimbursable Overtime	250,000	250,000	-	0.0%
Assessments	12,500	12,500	-	0.0%
Total Other Revenue	\$ 1,002,600	\$ 1,120,600	\$ 118,000	11.8%
Appropriation of Prior Year Reserves	\$ 175,000	\$ -	\$ (175,000)	-100.0%
Total Operating Revenue	\$ 99,471,876	\$ 111,505,874	\$ 12,033,998	12.1%

The 2023 through 2027 Capital Improvements Program

The 2023 portion of the proposed five-year Capital Improvement Program exhibits gross expenditures of \$33.8 million. Reserve funding, grant funding, vehicle equipment replacement funds, a bond issue, state revolving loan, the American Rescue Plan Act (ARPA), conduit debt 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. Use of grant funding is likewise a fundamental goal and remains a recurring and successful funding mechanism for Newark.

Funding for the 2023 CIP is proposed on the table labeled "2023 CIP Funding Sources." The Net Capital Improvement total of \$4,145,229 will be funded in 2023 through current year revenue, which includes property taxes, utility rates, and other current sources of revenues.

Similar to 2018 through 2022, borrowing is included in the 2023 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 always a need to address a greater level of critical infrastructure projects than current resources and reserves will permit. Some use of ARPA funds is helping the City meet some of its infrastructure needs without going to referendum in 2024.

2023 CIP FUNDING SOURCES	Percent (%)	Dollar (\$)
Capital Improvements		\$ 33,838,053
Funding Sources:		
Use of Reserves	4.1%	1,389,858
Equipment Funding	1.1%	372,736
Grants	17.4%	5,873,802
Bond Issues	0.2%	56,000
State Revolving Loans (SRL)	6.8%	2,310,000
American Rescue Plan Act (ARPA)	21.3%	7,219,370
Other Sources	36.9%	12,471,058
Current Resources	12.3%	4,145,229

2023 CAPITAL EXPENDITURES	Percent (%)	Dollar (\$)
Electric Fund	44.3%	\$ 15,000,894
Water Fund	24.2%	8,200,000
Admin./Facilities - Maintenance Fund	10.4%	3,517,640
Public Works - Capital Proj. Fund	7.7%	2,601,243
Sewer Fund	3.9%	1,336,000
Stormwater Fund	3.1%	1,038,420
Parks and Recreation	2.9%	986,762
Other Departments	1.8%	600,000
Parking Fund	0.8%	262,792
Information Technology Division	0.6%	201,570
Police Department	0.3%	92,732
Gross Capital Expenditures	100.0%	33,838,053

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, American Rescue Plan Act, or a bond issue, will continue to move forward due to the referendum passing in 2018 since these projects have secure funding.

The table "2023 Capital Expenditures" exhibits planned capital spending by department. The majority of our gross capital expenditures consist of infrastructure, which are electric, water, sewer, stormwater and street projects. Facility projects have also begun to take a higher priority due to the need for City assets to be maintained at a level that meets current standards, and the availability of ARPA to fund those needs.

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 7.6% of our operating revenues in 2023. 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 \$20.3 million in 2023, or require a tax increase over 245% to account for the total loss of margin transfers and maintain current service levels. For comparison purposes, the City would need to add over 32,400 new additional residences just to collect \$20.3 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 by offsetting single family residential areas with 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 most of the additional revenue raised by significant rate increases dating back to 2011. Dialing back, or at a minimum not further increasing, our dependency would provide future benefits by leaving more revenue in our utility funds that are facing an infrastructure replacement tsunami as most 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 adoption 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, alongside high-quality municipal services and parks, 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. Our most recent revenue diversifier was the addition of the Hotel Lodging Tax in December of 2018. The Lodging Tax 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 2023 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 2023 Budget is proposed to meet the requirements of the City Charter:

Presentation to Council:

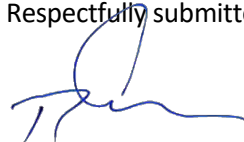
- Public Hearing/Possible Budget Adoption – November 7, 2022
- Contingency Date - Public Hearing/Budget Adoption – November 21, 2022 (if needed)
- Introduction Date for Revenue Ordinances – December 5, 2022 (if budget is approved on November 7)

The preparation and compilation of the 2023 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.

2023 General Operating Budget Message
October 28, 2022

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