



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

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220 South Main Street · Newark, Delaware 19711  
302.366.7000 · Fax 302.366.7035 · [www.newarkde.gov](http://www.newarkde.gov)

October 30, 2023

Newark City Council  
City of Newark, Delaware

**2024 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 2024 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 2024 budget was developed based on a prioritization of needs for a well-rounded, full-service city. As with recent years, time was devoted in 2023 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 2024 budget, we continue to face several familiar structural cost drivers that 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 36 months, inflation is very high, occasionally reaching levels not seen for the last 40 years. 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. The City entered into long term contracts with our labor unions in 2019 and 2020 that allowed us to delay the financial impact of inflation on labor costs, but those contracts are beginning to come to an end, and we will need to adjust our revenues to cover this growing expense moving forward. These dramatic inflationary cost pressures make it inadvisable to avoid some commensurate increase in our utility rates, fees for service, and tax collections or else we will have to make significant cuts to our level of service provided.

Primary goals of the 2024 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, taking advantage of innovative and/or progressive efforts to plan for the future and move our community forward, and ensuring all American Rescue Plan Act (ARPA) funding is spent or encumbered in accordance with federal requirements. Developing meaningful partnerships, leveraging grant opportunities, embracing efforts for economic development, and improving our use of

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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 transfers into the General Fund. Inflationary cost pressures continue to make 2024 a difficult year with regard to our long-term goal to reduce reliance on utility transfers. Because of this, it will be particularly important to continue our focus on lobbying efforts at the state level to get approval for additional revenue sources like an events tax, student fee, or gross receipts tax on rental revenue similar to what is in place in some Delaware beach towns. 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 2024 Operating Budget and 2024 through 2028 Capital Improvement Program (CIP). The CIP continues to heavily leverage city funds to maximize external funding sources. Thirteen percent of the five-year funding for the City's capital program is earmarked to be paid with external funding sources that are not required to be paid back. 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, along with conduit financing via DEMEC, into the budget. Capital projects have been prioritized with a "fix it first" approach, as keeping our current infrastructure maintained, functionally relevant, 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 7.5% for 2024 (\$335,625)
  - Tax rate is based on 1983 taxable assessments provided by New Castle County.
  - Same service levels as provided in 2023.
  - Transfer from the utilities to the governmental funds totaling \$19.8 million (reduction of \$530K from 2023).
- Water (customer and volumetric charges) and sewer (volumetric charge) adjustments will generate an additional \$690,000 to cover debt service expenses and operational expenses. City overall water consumption has remained relatively flat through 2023. 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 technological 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 2024.
  - 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 2024. At this moment, we are estimating that the cost to purchase electricity from DEMEC will increase by 4%. Any increase in the cost of providing power to our customers will be reconciled in the annual revenue stabilization adjustment (RSA) process in March of 2024.
  - The 2024 CIP provides for \$11.9M of electric projects to be completed utilizing the following funding sources: 2024 current year revenue - \$1.3M, electric reserves - \$770K, conduit debt via a DEMEC bond issuance - \$8.1M, grants - \$1.7M, and equipment sinking funds - \$78K. Material and equipment purchases for the City's new substation (E2002) will begin in 2024/2025 and will be funded via the proposed DEMEC conduit debt. The total budget for the substation is currently estimated at \$28M.
  - The City continues to pay the tariff added by NERC due to the "Reliability Must Run" designation applied to NRG's Indian River generation facility in Millsboro, DE (effective September 1, 2022). In addition, we expect two other factors that will impact the RSA in March of 2024; 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 2024 will be is dependent on several factors that are unknown at this time.
  - The City is still in the process of performing an update to the rate study that began prior to the COVID pandemic. We had planned to have this completed in 2022, but this project is taking a longer than anticipated due to changes in electric sales, the build out at STAR Campus, 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.

**2024 Budget Process – Discussion of Challenges and Initiatives**

The 2024 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 fifth year in a row, Budget meetings began with Council in August to reflect the starting point of the 2024 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 benefited all who are involved in the process. Staff are 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. At the beginning of the budget process, the expenditure budget was \$6.2 million short of estimated revenue. The budget proposed herein has closed that funding gap.

Our organization's most valuable resource, our personnel, currently makes up 36% 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, 2024's budget includes the addition of much-needed personnel including:

- Distribution Engineer/Compliance Officer: We are currently contracted with ACES Power (<https://www.acespower.com/>) to perform NERC compliance permitting together with DEMEC to meet baseline permitting requirements. Newark has now been determined to be part of the Bulk Electrical System (BES) which multiplies Newark's reporting requirements by a factor of 10. Because of these new requirements, much of the work will revolve around tasks that are most efficiently completed by City staff versus an outside consultant.
- Part-time Meter Reader: The City is not staffed to adequately manage our delinquent customers. The process of utility collections is an arduous task and takes a tremendous amount of time. While our collection balances are under control, it requires constant attention to keep it this way. This summer we created a pilot program, hired a temporary worker to do nothing but tag properties that had already received phone calls to call the office to catch up on their past-due balances. The 314 properties that we tagged in July and August turned into over \$135,000. In addition, we did not need to turn off the water or electricity to nearly all of these properties, which saved City labor efforts in our Electric and Public Works departments. Unpaid electric bills cannot be placed as a lien on property per state code so uncollected amounts are written off as bad debt expense once we no longer believe they are collectable. This position will help reduce bad debt expense.
- IT Applications Analyst: Part of this position's new role will be to directly support the tax and utility infrastructure accountable for all the City's revenue. This position will provide support to Payments and Utility Billing to assist in data scrubbing, which will raise additional revenue for our water, sewer, and electric accounts, similar to the part

time meter reader, and likely paying for itself each year. Our current staffing level of 2.5 positions is no longer adequate for the IT Application Division, with the responsibility of managing three Enterprise Resource Planning (ERP) systems that contain sixteen software components. This new position is anticipated to pay for itself over the course of the year.

- Part-time Bookkeeper: Additional GASB requirements along with federal grant requirements and the single audit process that we are now subject to have increased the workload on accounting staff. Without someone in this position at least part-time, we are concerned that we will be unable to meet our regulatory obligations which could endanger our ability to participate in federal programs and get future grants. We will evaluate this position as a part-time over the next year or so to see if we can keep it part time or if we will need to recommend it converted to full time. Accounting office is undersized and lacks sufficient overlap, with no redundancy in critical areas and roles.
- Fleet Maintenance Manager: The Fleet Maintenance division will be better managed and more efficient with a manager/supervisor, similar to the structure in the garage prior to 2014. The performance of this group directly affects City services provided to our residents and customers, specifically our Police Department and essential utilities. Council approved a temporary increase of the headcount in Fleet Maintenance in 2023 from 4 to 5 and we have successfully hired for this additional position. This request would make that headcount increase permanent; allowing four (4) working mechanics to be on the floor with a supervisory position to handle workload management, vehicle specification preparation, shop work orders, purchasing paperwork, and personnel management.
- Parking Coordinator (2) (remove Parking Lot Manager), net +1.5: Addition of two parking coordinators will allow evening and weekend oversight and coordination of the parking ambassadors. It will allow for extended office hours to provide better services to our residents and will reduce the cost of the radio replacement capital project by allowing for radios to be taken off the police band and by having someone in the parking office to monitor them. These additional 1.5 positions will pay for themselves annually through increases in existing revenue. As proposed, one parking coordinator will be hired at the beginning of 2024, which will allow staff to evaluate the success of the position in meeting stated goals. Staff will present the results from our analysis of performance during spring 2024 and receive council approval for the second coordinator prior to filling the second position in fall of 2024.
- Part-time Admin Professional I: This position was initially requested to be full-time but was reduced to part-time. Additional administrative professional support will allow the code enforcement division to properly administer the rental inspection program as well as the new State-required lead paint inspection program for rentals. Additional revenue will be generated from this position via increases in rental permit registrations from unlicensed rentals and increases in rental permit fees.
- Code Enforcement Officer: Allows for more timely permit processing and inspections

to provide better customer service to residents, by returning the division to its previous staffing level of four code enforcement officers. This additional position will also provide the opportunity to onboard and train a new code enforcement officer in advance of a future retirement. This position will be funded via increases in building permit fees.

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 three 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 6% 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 under funded 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 2024's premiums increasing nearly 5%.

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. While most of the projects from the 2018 referendum are complete, the practice of incorporating debt financing into capital program has provided the ability for the City to rehabilitate our utility 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, due to timing of reassessments as outlined above, our tax base only increases from 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 has completed 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 completed by the end of 2024.

Rising health care expenses are 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 higher than those in the recent past at roughly 5%, 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

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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 of providing 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 2024 Budget in Summary**

The proposed budget for 2024, including the five-year Capital Improvements Program, currently results in a surplus of \$430,239. This estimated surplus is usually divided amongst all funds, however, this year, the Stormwater Fund accounts for the entirety of the balance. If the expenditure budget were to fall under or equal the revenue estimates in 2024 at year-end, these funds would revert to their respective reserve accounts to help grow the City’s cash balances.

EXPENDITURE/SURPLUS	* as amended	** as proposed	\$ FROM 2023 BUDGET	% FROM 2023 BUDGET
	2023 * BUDGET	2024 ** BUDGET		
Operating Budget	\$ 102,968,219	\$ 106,323,126	\$ 3,354,907	3.3%
Capital Budget	4,105,229	3,170,522	(934,707)	-22.8%
Debt Service	4,472,652	4,939,941	467,289	10.4%
Net Current Surplus	19,774	430,239	410,465	2075.8%
<b>Total</b>	<b>\$ 111,565,874</b>	<b>\$ 114,863,828</b>	<b>\$ 3,297,954</b>	<b>3.0%</b>

Major components of the consolidated budget are reflected as follows:

Operating expenditures are increasing by \$3.3M (3.3%), while capital expenditures are decreasing by \$934K (-23%). Newark’s debt service is up \$467K and our net current surplus has increased by \$410K.

**2024 Budgeted Operating Expenses by Function**

Total operating expenses are recommended to be \$111.3 million for 2024, or a \$3.8 million (3.6%) increase from 2023. The table below highlights the City’s 2024 budgeted operating expenses:

	* as amended	** as proposed		
	2023	2024	\$ FROM	% FROM
	* BUDGET	** BUDGET	2023 BUDGET	2023 BUDGET
Personnel Services	\$ 39,480,061	\$ 41,434,426	\$ 1,954,365	5.0%
Utility Purchases	44,417,788	44,678,500	260,712	0.6%
Materials and Supplies	3,069,587	3,040,423	(29,164)	-1.0%
Contractual Services	12,716,460	13,525,172	808,712	6.4%
Equipment Depreciation	1,925,340	2,110,952	185,612	9.6%
Debt Service	4,472,652	4,939,941	467,289	10.4%
Other Expenses	1,358,983	1,533,653	174,670	12.9%
<b>Total</b>	<b>\$ 107,440,871</b>	<b>\$ 111,263,067</b>	<b>\$ 3,822,196</b>	<b>3.6%</b>

**Personnel Services** – Personnel expenses are increasing by \$1.9 million or 5% in 2024. This increase is due to a combination of contractually obligated pay increases and the addition of personnel to maintain current levels of service. Those positions are:

- Distribution Engineer/Compliance Officer
- Part-time Meter Reader
- IT Applications Analyst.
- Part-time Bookkeeper.
- Fleet Maintenance Manager
- Parking Coordinator (2) (remove Parking Lot Manager), net +1.5
- Part-time Admin Professional I
- Code Enforcement Officer

Estimated cost for these 9 positions ( 7 F T E s ) is \$637,913 in 2024. Some positions have offsetting revenue/expenses to offset the expenditure impact.

Wages include the contractually negotiated salaries of our workforce, as most of our full-time employees are represented by the FOP, AFSCME and CWA. The increase for 2024 includes associated merit steps for eligible employees, and cost of living adjustments. City management is in current contract negotiations with CWA and AFSCME Local 3919, which we plan to have completed by the end of the year.

Included in the \$41.4 million in personnel services is 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 2024. Most of these contributions are legacy expenses from employees that have already retired but were not adequately funded by the City during their period of employment. This was most likely driven by overly optimistic assumptions for investment returns in the past. As mentioned previously, we have reduced our investment return assumption down to 6% to address this issue moving forward.

**Utility Purchases** – Utility purchases, which include the cost of electric purchases from DEMEC (\$39.3 million) and sewer purchases from New Castle County (\$5.4 million), are anticipated to be \$44.7 million. Should New Castle County choose to raise rates after July 1, 2024, 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

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Plant, debt service for the beginning construction of a second substation, inflation, rising natural gas prices, increasing renewable portfolio expenses, and an anticipated wholesale rate adjustment from DEMEC are all contributing to the electric increase next year, which will be recognized through the annual revenue stabilization adjustment in March 2024.

**Materials & Supplies** – The materials and supplies lines have been reduced \$29K mostly for reductions in small equipment purchases related to new police positions in 2023.

**Contractual Services** – Contractual Services increased by \$808K, or 6.4%. \$287,000 of this figure is related to the expense of keeping our fleet and facilities maintained and operational. On a good note, our projected cost of insurance is down \$90,000 (property, auto, cyber, casualty, etc.) due to a successful RFP bid. Bank merchant fees are also a part of our contractual services line. This expense is budgeted to be \$127,000 higher than 2023, due to the increased number of customers who pay by credit/debit card.

**Equipment Depreciation** – Equipment depreciation (a non-cash, formula driven expense) increased by 9.6% versus 2023. This expense continues to supplement the funding of 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 increased \$175K, or 12.9%. Increase of \$150,000 is due to the increase in subvention to Aetna Hose Hook and Ladder through the Volunteer Fire Assistance Fee recently passed by City Council. This expense is offset by revenue associated with this new permit fee. Aetna will only receive the amount recovered from this specific fee tied to building permits.

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**Budget by Department/Division**

The budget changes by department/division are reflected in the table below.

DEPARTMENT/DIVISION	* as amended	** as proposed	\$ FROM 2023 BUDGET	% FROM 2023 BUDGET
	2023 * BUDGET	2024 ** BUDGET		
Electric Utility	\$ 7,881,789	\$ 8,502,295	\$ 620,506	7.9%
Water Utility	5,425,659	5,741,556	315,897	5.8%
Sewer Utility	1,331,053	1,395,844	64,791	4.9%
Stormwater Utility	1,488,395	1,562,820	74,425	5.0%
Utility Purchases	44,417,788	44,678,500	260,712	0.6%
Refuse Division	2,443,293	2,393,229	(50,064)	-2.0%
Street Division	1,908,158	1,983,750	75,592	4.0%
Fleet Maintenance Division	1,848,106	1,935,372	87,266	4.7%
Engineering Division	1,148,434	1,191,362	42,928	3.7%
Code Enforcement Division	1,736,408	2,222,339	485,931	28.0%
Police Department	18,550,573	19,492,351	941,778	5.1%
Finance Department	359,870	388,582	28,712	8.0%
Planning Division	1,398,050	1,594,810	196,760	14.1%
Municipal Parking	2,542,190	2,678,590	136,400	5.4%
Facilities Maintenance Division	1,037,495	1,152,030	114,535	11.0%
Administrative Department	1,539,378	1,674,905	135,527	8.8%
Legislative Department	1,415,299	1,512,227	96,928	6.8%
Alderman's Court	709,850	704,018	(5,832)	-0.8%
Parks and Recreation Department	4,268,170	4,489,827	221,657	5.2%
Community Development Block Grant	283,984	277,613	(6,371)	-2.2%
Law Enforcement Fund	381,709	284,111	(97,598)	-25.6%
Special Parks Fund	54,220	62,195	7,975	14.7%
Unicity Transportation Fund	305,279	-	(305,279)	-100.0%
Self Insurance Fund	145,000	145,000	-	0.0%
OPEB Expense Funding	726,850	767,000	40,150	5.5%
Less: Inter-Dept. Electric Sales	(378,781)	(507,200)	(128,419)	33.9%
<b>Total Operating Expenditures</b>	<b>\$ 102,968,219</b>	<b>\$ 106,323,126</b>	<b>\$ 3,354,907</b>	<b>3.3%</b>

### **Revenue Highlights**

City wide operating revenues of \$114.9 million in 2024 are expected to be above 2023 budgeted revenue by 3%. Utility revenue is collectively responsible for \$1.1 million of the \$3.3 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 \$1.55 million in interest income due to the increased Fed Rates, \$125,000 for a new technology fee, \$150,000 for the new Volunteer Fire Assistance Fund, \$100,000 in building permit adjustments, and \$55,500 for rental permit fee increases. We are estimating a small growth in taxable assessments for 2024, primarily due to commercial growth. Part of the property tax growth includes the proposed 7.5% tax increase which will provide \$335,625 in revenue to the City to fund its governmental services and to keep 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 \$75,000 to \$715,000 for 2024.

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 before peaking in 2022 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. RTT revenue in 2023 is back down closer to historic norms driven by historically high interest rates. Considering the skyrocketing value of real estate over the last three years, this means actual sales are down compared to the past. Real estate prices remain higher than they were pre- pandemic so we will see more revenue per transaction, but we anticipate total transactions will continue to be lower in 2024, similar to what we have seen so far in 2023. As a result, we have forecast RTT revenue in 2024 will be \$1,650,000, which is equal to what we initially anticipated in 2023.

Construction activity in 2023 has been weaker than we originally anticipated during the fall 2022 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 which went into place in early 2023. The BB zone is where we have seen the most development activity in recent years and the new changes have made it less expensive to build in this zone. As a result, some developers delayed previously approved projects to evaluate whether to resubmit under the new code. This pause paired with the handful of projects that are going back through the process under the new code, temporarily reduced construction activity in town. Ultimately, interest rates and supply chain logistics will probably play the largest role in construction starts for the next couple of years. Current estimates of the Federal Funds rate predict interest rates could reach 5.5% at the end of 2023 before slowly decreasing over 2024 and 2025 back into the low 3% range.

\* as amended      \*\* as proposed

REVENUE SOURCE	2023 * BUDGET	2024 ** BUDGET	\$ FROM 2023 BUDGET	% FROM 2023 BUDGET
<b>Utility Revenue</b>				
Electric	\$ 63,665,500	\$ 63,628,151	\$ (37,349)	-0.1%
Water	9,786,080	10,289,000	502,920	5.1%
Sewer	8,030,395	8,662,400	632,005	7.9%
Stormwater	2,550,000	2,552,500	2,500	0.1%
<b>Total Utility Revenue</b>	<b>\$ 84,031,975</b>	<b>\$ 85,132,051</b>	<b>\$ 1,100,076</b>	<b>1.3%</b>
<b>Tax Revenue</b>				
Realty Transfer Tax	\$ 1,650,000	\$ 1,650,000	\$ -	0.0%
Property Tax	8,508,500	9,285,625	777,125	9.1%
Penalties	60,000	67,500	7,500	12.5%
Franchise Tax	350,000	300,000	(50,000)	-14.3%
Lodging Tax	640,000	715,000	75,000	11.7%
<b>Total Tax Revenue</b>	<b>\$ 11,208,500</b>	<b>\$ 12,018,125</b>	<b>\$ 809,625</b>	<b>7.2%</b>
<b>Fees for Service</b>				
Fines	\$ 2,040,300	\$ 2,122,000	\$ 81,700	4.0%
Business License Fees	200,000	225,000	25,000	12.5%
Permits and Licenses	2,519,920	3,187,500	667,580	26.5%
Park Fees	766,725	768,225	1,500	0.2%
Commercial Refuse & Transfer Sta.	25,000	28,500	3,500	14.0%
Parking Lots	218,421	266,000	47,579	21.8%
Multi-Space Parking	4,045,079	3,100,000	(945,079)	-23.4%
Internal Service	3,025,618	3,278,599	252,981	8.4%
<b>Total Fees for Service</b>	<b>\$ 12,841,063</b>	<b>\$ 12,975,824</b>	<b>\$ 134,761</b>	<b>1.0%</b>
<b>Intergovernmental Revenue</b>				
Subventions	\$ 598,415	\$ 621,753	\$ 23,338	3.9%
Local School District	187,400	198,200	10,800	5.8%
Unicity Bus	143,380	-	(143,380)	-100.0%
Community Development Block Grants	259,268	277,613	18,345	7.1%
Law Enforcement Grants - Special Fund	327,885	284,111	(43,774)	-13.4%
American Rescue Plan Act (ARPA)	156,612	167,575	10,963	7.0%
Miscellaneous Grants and Donations	630,776	492,525	(138,251)	-21.9%
<b>Total Intergovernmental Revenue</b>	<b>\$ 2,303,736</b>	<b>\$ 2,041,777</b>	<b>\$ (261,959)</b>	<b>-11.4%</b>
<b>Other Revenue</b>				
Interest Received	\$ 521,000	\$ 1,997,000	\$ 1,476,000	283.3%
Miscellaneous	337,100	351,881	14,781	4.4%
Reimbursable Overtime	250,000	300,000	50,000	20.0%
Assessments	12,500	12,500	-	0.0%
<b>Total Other Revenue</b>	<b>\$ 1,120,600</b>	<b>\$ 2,661,381</b>	<b>\$ 1,540,781</b>	<b>137.5%</b>
<b>Appropriation of Prior Year Reserves</b>	<b>\$ 60,000</b>	<b>\$ 34,670</b>	<b>\$ (25,330)</b>	<b>-42.2%</b>
<b>Total Operating Revenue</b>	<b>\$ 111,565,874</b>	<b>\$ 114,863,828</b>	<b>\$ 3,297,954</b>	<b>3.0%</b>

**The 2024 through 2028 Capital Improvements Program**

The 2024 portion of the proposed five-year Capital Improvement Program exhibits gross expenditures of \$31.9 million. Reserve funding, grant funding, vehicle equipment replacement funds, 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 2024 CIP is proposed on the table labeled “2024 CIP Funding Sources.” The Net Capital Improvement total of \$3,170,522 will be funded in 2024 through current year revenue, property taxes, utility rates, and other current sources of revenue.

<b>2024 CIP FUNDING SOURCES</b>	<b>Percent (%)</b>	<b>Dollar (\$)</b>
<b>Capital Improvements</b>		<b>\$ 31,983,081</b>
<b>Funding Sources:</b>		
Use of Reserves	10.3%	3,284,516
Equipment Funding	0.3%	100,984
Grants	15.1%	4,816,794
Bond Issues	0.0%	-
State Revolving Loans (SRL)	21.8%	6,977,032
American Rescue Plan Act (ARPA)	16.0%	5,111,899
Other Sources	26.6%	8,521,334
<b>Current Resources</b>	<b>9.9%</b>	<b>3,170,522</b>

Similar to 2018 through 2023, borrowing is included in the 2024 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.

<b>2024 CAPITAL EXPENDITURES</b>	<b>Percent (%)</b>	<b>Dollar (\$)</b>
Electric Fund	37.4%	\$ 11,933,280
Water Fund	31.0%	9,904,814
Public Works - Capital Proj. Fund	8.6%	2,756,207
Parks and Recreation	7.2%	2,298,900
Sewer Fund	6.7%	2,136,000
Stormwater Fund	3.1%	989,057
Public Works - Maintenance Fund	2.8%	908,920
Police Department	1.0%	323,789
Parking Fund	0.9%	297,858
Information Technology Division	0.8%	267,630
Other Departments	0.5%	166,626
<b>Gross Capital Expenditures</b>	<b>100.0%</b>	<b>31,983,081</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 and the American Rescue Plan Act will continue to move forward due to their secure funding.

The table “2024 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 continue to take a higher priority due to the need to address deferred maintenance for City assets and to maintain them at a level that meets current standards. The availability of ARPA and State grants to fund those needs has had a big impact as we work to reduce the backlog of projects.

## **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 10.4% of our operating revenues in 2024. While in recent years we have limited the level of our transfers in association with our Financial Policies, 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 \$19.8 million in 2024, or require a tax increase over 242% to account for the total loss of margin transfers and maintain current service levels. For comparison purposes, the City would need to add over 30,045 new additional residences just to collect \$19.8 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. Private development at STAR Campus will provide a financial windfall for the City through increased taxes and utility sales with limited additional demand for City services, especially since police coverage is provided to STAR Campus by UDPD and all roads are privately maintained.

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 increased as a percentage of revenues over the last decade, 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 53% of our water mains that were installed 20<sup>th</sup> mid-century reach the end of their normal service life over the next 10 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 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. Council may wish to continue our focus on lobbying efforts at the state level to get approval for additional revenue sources like an events tax, student fee, or gross receipts tax on rental revenue similar to what is in place in some Delaware beach towns.

Following the 2025 countywide reassessment, state code mandates that the County update their assessments no less frequently than every 5 years. Due to the timing of county assessments, the City will not receive new revenue as anticipated from reassessment. This is because we will receive the new assessment values after the subject budget has been approved and the tax revenue target set.

Staff recommends that Council consider an ordinance to direct the City to update county assessment values by an amount equal to the CPI in each of the 4 years between reassessments utilizing the power already granted to the City by Charter. We would then reset back to the county assessment when they complete the mandatory reassessment. This will prevent erosion of tax revenue due to inflation while also retaining the option for Council to reduce the tax rate if desired to offset the increase in assessment values. We were hesitant to do this before a countywide reassessment due to the existing county assessments being set so far out of date. Now that our annual adjustment would be much smaller, making local adjustments to assessment values will be easier and it will reduce the likelihood of a significant number of assessment appeals. This would require local appeals be heard by Newark as opposed to current practice where we direct their appeal toward the County's assessment office.

**Budget Presentation**

The 2024 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 2024 Budget is proposed to meet the requirements of the City Charter:

Presentation to Council:

- Public Hearing/Possible Budget Adoption – November 6, 2023
- Contingency Date - Public Hearing/Budget Adoption – November 27, 2023 (if needed)
- Introduction Date for Revenue Ordinances – December 4, 2023 (if budget is approved on November 6)

The preparation and compilation of the 2024 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, 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, assessing their capacity to complete projects, considering opportunities, and responding to timelines and funding limitations.

I look forward to working with City Council and 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 for 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