



CITY MANAGER'S OFFICE
CITY OF NEWARK

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November 8, 2024

Newark City Council
City of Newark, Delaware

2025 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 2025 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 2025 budget was developed based on a prioritization of needs for a well-rounded, full-service city. As with recent years, time was devoted in 2025 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 2025 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. Inflation continues to be high, but has leveled off somewhat over the past year. 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, the war in Ukraine, and an election year 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 couple years 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 has begun renewing long term contracts with our labor unions in 2024, including an extension with the FOP (through 7/31/25), 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 2025 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

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. While stabilizing, locked in cost increases from recent inflation continue to make 2025 a difficult year with regard to our long-term goal to reduce reliance on utility transfers. Because of this, it is particularly important to continue our focus on lobbying efforts at the state level to get approval for additional revenue sources like an events tax, higher education enrollment based tax, 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 2025 Operating Budget and 2025 through 2029 Capital Improvement Program (CIP). The CIP continues to heavily leverage city funds to maximize external funding sources. Over six 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 haves.

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

- A proposed tax increase of 2.5% for 2025 (\$120,000)
 - Tax rate is based on 1983 taxable assessments provided by New Castle County.
 - New tax rate will be adjusted once New Castle County certifies the 2025 assessment valuation.
 - Same service levels as provided in 2024.
 - Transfer from the utilities to the governmental funds totaling \$20.7 million (increase of \$900K from 2024).
- Water (volumetric charges) and sewer (customer and volumetric charge) adjustments will generate an additional \$1.1 million to cover debt service expenses (\$24K) and operational expenses (\$1.1 million). The majority of the funding (\$850,000) is required due to the forthcoming revised contract with New Castle County to provide sewage treatment, with the remaining \$244K necessary for initial funding for PFAs treatment and engineering design costs for the Curtis Treatment Plant. City overall water consumption has remained relatively flat through 2024. 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.
- 3% increase to the Stormwater customer charge for 2025.
 - The proposed monthly stormwater fee is between \$2.40 and \$7.22 per month for

residential customers. Most residential customers pay \$4.01 or less per month. Non-residential customers will pay \$4.01 per month per ESU (Equivalent Stormwater Unit). Increase reflects an increase of 12 cents per month per EDU. With no change since 2022, this increase will provide sufficient funding to meet inflationary challenges.

- Electric rate adjustment for 2025. At this moment, we are estimating that the cost to purchase electricity from DEMEC will increase by 6%. In addition, the City completed an [Electric Cost of Service Study, along with a proposed rate design](#) which had not been performed in over 10 years. This study recommends an annual additional revenue requirement of 4.5% in order to meet the City's requirements for debt coverage ratios, minimum cash reserves, and optimal operating income. It is anticipated that these new rates will go into effect January 2025, with the annual revenue stabilization adjustment (RSA) process continuing annually thereafter.
 - The 2025 CIP provides for \$15.4M of electric projects to be completed utilizing the following funding sources: 2025 current year revenue - \$727K, electric reserves - \$330K, conduit debt via a DEMEC bond issuance - \$13.6M, grants - \$.4M, and equipment sinking funds - \$373K. Material and equipment purchases for the City's new substation (E2002) will begin in 2025 and will be funded via the proposed DEMEC conduit debt. The total budget for the substation is currently estimated to be \$37M.
 - 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). However, we do expect some resolution to occur in 2025, but it is not expected that we will see immediate relief from this tariff.

2025 Budget Process – Discussion of Challenges and Initiatives

The 2025 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 sixth year in a row, Budget meetings began with Council in August to reflect the starting point of the 2025 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 \$3.4 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, 2025's budget includes the addition of much-needed personnel including:

- Water Plant Operator: Water treatment regulations are continuously evolving. The City of Newark has historically utilized staff to just barely cover the 24-hour schedule of the plant operations. Very little overlap/redundancy exists. There is also the new need of PFAS reporting and sampling requirements, resulting in less preventative maintenance being completed. In addition, employee wellness is also a consideration in this request due to long shifts and overnight requirements.
- Utility Inspector I: Protection of our utilities is of utmost importance and this position would be able to focus on accurate and efficient markouts as well as assisting with inspections and plan reviews. The need for this position has only increased throughout this year.
- Part-time Admin Professional I: With the incorporation of speed cameras within the City, additional support staff will be needed to review the tickets and assist in the administration of the program. This position is fully funded through the revenue generated from the tickets.

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 few years has worsened the issue.

Many of our growing personnel costs are legacy obligations, like pensions and OPEB. 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 \$5.4 million per year for years to come to be able to meet our previously promised benefit obligations. While all new members of the FOP (since 2021) are automatically enrolled in the State's pension plan, the City has recently reopened the pension to members of CWA, AFSCME 3919 and Management, which will help with employee recruitment and retention. In addition, health care expenses continue to be an ongoing challenge year over year, with 2025'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 adequately meet 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, while charging the residents/customers equitably.

Despite modest 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 development at STAR Campus falling in the section that is within Viola's water territory. In 2021, the City began seeing the return of volumetric activity to pre-pandemic levels, but the overall trend of generally 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 a focus on economic development can mitigate these expenses and ensure that both our residents and businesses pay for services at a rate that is comparable to our neighboring communities. Significant reductions in development activity or UD enrollment will increase cost pressures on the City and result in the need to reduce services or increase costs to our residents. The good news is that Newark remains a great value compared to our surrounding region.

Smart City initiatives over the past decade continue to deliver 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 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 addressing critical deferred maintenance projects and moving us toward the goals included in the “Sustainable Newark” sustainability plan adopted by Council in 2019.

During 2023 and 2024 the City was awarded \$4.5 million in grant funding from the State of Delaware’s Bond Bill and Community Reinvestment Fund to help pay for facilities and infrastructure projects. Specifically, we have used this money to complete deferred maintenance at the historic Newark Train Station, the George Wilson Center, the VFW’s parking lot, and the Olan Thomas Building in Olan Thomas Park. It will also be used to complete security upgrades at the Field Operation Complex and water facilities, along with a handful of smaller projects. Many of these projects have been deferred for many years, like the train station, but will now be able to proceed due to State funding. Staff plan to apply for funding again during the State’s Fiscal 2026 budget process in early 2025.

In addition to infrastructure funding, the State Legislature included an item in the Grants-in-Aid bill for their Fiscal 2025 budget that directed \$2 million to the City of Newark and \$1.65 million to the City of Dover. This was through a new program set up to reimburse towns that provide police or fire services to institutions of higher education with on-campus housing. The City has received \$450k in funding through the Grants-in-Aid bill for the last few years, which this \$2 million replaced, for a net gain to the City of \$1.55 million. In recognition that it is difficult for us to budget without some level of confidence that the funding would be there again in future years, the legislature passed SCR 167 which created a Payments In Lieu of Taxes (PILOT) study group which was tasked with reviewing the existing PILOT program and making recommendations on how it should be modernized. The existing program was created in 2003 and was limited to county seats, which meant Newark, despite having the highest share of State Agency owned tax exempt property, didn’t receive compensation unlike the county seats. Due to the ongoing reassessment, the study group recommended to the legislature that they renew the \$2 million in funding for the upcoming budget year and reconvene the study group to reevaluate PILOT once we have new assessment data for all three counties.

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 7% which we were able to reduce to under 6% through use of rate stabilization funding we held in reserve at DVHT. This is below the annual increases we saw as an organization when we were in the private insurance market and in-line with the anticipated increase in the State’s healthcare plan.

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, like what has been proposed with the addition of demand charges to residential electric rates. 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 of providing them equitably to all our customers. This year we have completed an electric cost of service study and recommended rate design which has been presented for feedback to council with the goal of implementing starting January 1st, 2025, alongside small cost of living adjustments to water, sewer, and stormwater rates.

The 2025 Budget in Summary

The proposed budget for 2025, including the five-year Capital Improvements Program, currently results in a surplus of \$335,448. 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 2025 at year-end, these funds would revert to their respective reserve accounts to help grow the City's cash balances.

	* as amended	** as proposed		
	2024	2025	\$ FROM	% FROM
EXPENDITURE/SURPLUS	* BUDGET	** BUDGET	2024 BUDGET	2024 BUDGET
Operating Budget	\$ 106,774,808	\$ 116,392,098	\$ 9,617,290	9.0%
Capital Budget	3,075,100	1,864,195	(1,210,905)	-39.4%
Debt Service	4,939,941	4,822,498	(117,443)	-2.4%
Net Current Surplus	85,979	375,448	289,469	336.7%
Total	\$ 114,875,828	\$ 123,454,239	\$ 8,578,411	7.5%

Operating expenditures are increasing by \$9.6M (9%), while capital expenditures are decreasing by \$1.2M (-39.4%). Newark's debt service is down \$117K and our net current surplus has increased by \$289K. More detail is provided below.

2025 Budgeted Operating Expenses by Function

Total operating expenses are recommended to be \$121.2 million for 2025, or a \$9.5 million (8.5%) increase from 2024. The table below highlights the City's 2025 budgeted operating expenses:

	* as amended	** as proposed		
	2024	2025	\$ FROM	% FROM
	* BUDGET	** BUDGET	2024 BUDGET	2024 BUDGET
Personnel Services	\$ 41,436,926	\$ 44,587,197	\$ 3,150,271	7.6%
Utility Purchases	44,678,500	50,533,363	5,854,863	13.1%
Materials and Supplies	3,048,923	3,096,135	47,212	1.5%
Contractual Services	13,929,393	14,564,353	634,960	4.6%
Equipment Depreciation	2,147,413	2,069,775	(77,638)	-3.6%
Debt Service	4,939,941	4,822,498	(117,443)	-2.4%
Other Expenses	1,533,653	1,541,275	7,622	0.5%
Total	\$ 111,714,749	\$ 121,214,596	\$ 9,499,847	8.5%

Personnel Services – Personnel expenses are increasing by \$3.1 million or 7.6% in 2025. 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 Water Plant Operator, Utility Inspector, and Part-time Admin Professional I. The estimated cost for these 3 positions (2.5 FTEs) is \$188,759 in 2025. The part-time Admin Professional I has offsetting revenue to fully 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 2025 includes associated merit steps for eligible employees, and cost of living adjustments. City management recently settled contract negotiations with CWA and AFSCME Local 3919, and are currently in negotiations with AFSCME Local 1670 which we plan to have completed by the end of the year.

Included in the \$44.6 million in personnel services is funding for the City's pension plan (\$4.4 million). The Pension plan had been closed since 2014 to new hires, except for the City's police officers. However, recent contracts with CWA, AFSCME 3919 and Management are opening the pension plan back up to City staff with the hopes to retain our workforce. In addition, the City will be contributing over \$1.9 million towards its OPEB obligations in 2025. 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. Our investment return assumption is 6% to address this issue moving forward.

Utility Purchases – Utility purchases, which include the cost of electric purchases from DEMEC (\$44.3 million) and sewer purchases from New Castle County (\$6.25 million), are anticipated to be \$50.5 million. Should New Castle County choose to raise rates after July 1, 2025, 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, 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 2025. Sewer expenses are going up an estimated \$850,000 due to the new sewer agreement with New Castle County, as the existing agreement was close to fifty years old.

Materials & Supplies – The materials and supplies lines increased \$47K mostly due to the rising costs of chemicals, water meters and line maintenance within Public Works and Water Resources.

Contractual Services – Contractual Services increased by \$635K, or 4.6%. \$110,000 of this figure is related to the expense of keeping our fleet and facilities maintained and operational. Another \$492,000 of this increase is due to IT-related expenses. Workers' compensation costs have increased another \$173,000, and our other insurance lines are up \$161,000 in 2025. These increases are offset by a reduction of \$290K for outside contractual services.

Equipment Depreciation – Equipment depreciation (a non-cash, formula driven expense) decreased by 3.6% versus 2024. 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 \$7K, or 0.5%. This line includes our subventions. Our subvention to Aetna remains funded at \$205,000. We have another \$150,000 set aside for the estimated cost of the volunteer fire assessment fund. This \$150,000 is a placeholder and will be offset by building permit activity. So, if only \$100,000 is collected, Aetna will only receive \$100,000. This year, the fund has done quite well and collected just under \$300,000 to date. We are also continuing to provide free electric, water and sewer to Aetna for a total cost of \$70,000. Also, we have included subventions to the Newark Senior Center for free electric, which is another \$55,000, and we are continuing to provide \$25,000 to Catholic Charities to assist our electric customers during their times of need.

Budget by Department/Division

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

DEPARTMENT/DIVISION	* as amended	** as proposed	\$ FROM 2024 BUDGET	% FROM 2024 BUDGET
	2024 * BUDGET	2025 ** BUDGET		
Electric Utility	\$ 8,502,295	\$ 8,936,737	\$ 434,442	5.1%
Water Utility	5,741,556	6,267,339	525,783	9.2%
Sewer Utility	1,395,844	1,448,934	53,090	3.8%
Stormwater Utility	1,562,820	1,717,959	155,139	9.9%
Utility Purchases	44,678,500	50,533,363	5,854,863	13.1%
Refuse Division	2,393,229	2,555,500	162,271	6.8%
Street Division	1,992,250	2,010,751	18,501	0.9%
Fleet Maintenance Division	1,935,372	2,099,012	163,640	8.5%
Engineering Division	1,191,362	1,364,446	173,084	14.5%
Code Enforcement Division	2,222,339	2,527,511	305,172	13.7%
Police Department	19,548,412	20,577,385	1,028,973	5.3%
Finance Department	388,582	442,561	53,979	13.9%
Planning Division	1,594,810	1,793,461	198,651	12.5%
Municipal Parking	2,678,590	2,909,769	231,179	8.6%
Facilities Maintenance Division	1,152,030	1,097,263	(54,767)	-4.8%
Administrative Department	1,784,905	1,794,445	9,540	0.5%
Legislative Department	1,512,227	1,584,990	72,763	4.8%
Alderman's Court	704,018	798,576	94,558	13.4%
Parks and Recreation Department	4,501,827	4,811,721	309,894	6.9%
Community Development Block Grant	277,613	263,681	(13,932)	-5.0%
Law Enforcement Fund	487,056	275,695	(211,361)	-43.4%
Special Parks Fund	124,371	62,195	(62,176)	-50.0%
Self Insurance Fund	145,000	145,000	-	0.0%
OPEB Expense Funding	767,000	932,000	165,000	21.5%
Less: Inter-Dept. Electric Sales	(507,200)	(558,196)	(50,996)	10.1%
Total Operating Expenditures	\$ 106,774,808	\$ 116,392,098	\$ 9,617,290	9.0%

Revenue Highlights

City wide operating revenues of \$123.5 million in 2025 are expected to be above 2024 budgeted revenue by 7.5%. Utility revenue is collectively responsible for \$7.9 million of the \$8.5 million increase due to adjustments needed for inflation, State drinking water mandates, wholesale power cost increases, and electric grid modernization just to name a few. Included in the aforementioned is \$850K for the forthcoming sewer treatment contract with New Castle County, which has not been amended since the 1970's. We are estimating a small growth in taxable assessments for 2025, primarily due to commercial growth. Part of the property tax growth includes the proposed 2.5% tax increase which will provide \$120K 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 \$65,000 to \$780,000 for 2025.

Real Estate Transfer Tax (RTT) revenue in 2024 has been closer to historic norms driven by historically high interest rates. Considering the skyrocketing value of real estate over the last few years, this means actual sales are down compared to past history. Real estate prices remain higher than they were pre- pandemic so we are seeing more revenue per transaction, but we anticipate total transactions to pick up slightly as the Federal Reserve eases on the Federal Funds rate. As a result, we have forecast RTT revenue in 2025 will be \$1,700,000, which is \$50K more than what we initially anticipated in 2024.

Construction activity in 2024 has been slower than we originally anticipated during the fall 2023 budget process. We believe this is primarily driven by rising interest rates and the increased cost of construction. City Council adopted new zoning regulations for the BB and RA zoning districts 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. Most of those delayed projects have come back under the new code and are beginning to receive subdivision and construction plan approvals. There was a temporary reduction in development activity while we worked through the zoning update, we have seen a significant increase in development application activity since adoption. As those projects get into construction and eventually receive certificates of occupancy, they will generate new revenue by way of building permits, utility sales, and property taxes. Unfortunately, interest rates remain elevated and supply chain logistics are still a challenge, so some developers may choose to wait a little longer until they begin construction. Fortunately, the Federal Reserve recently reduced rates and indicated more rate reductions will come during 2025.

2025 General Operating Budget Message
November 8, 2024

	* as amended	** as proposed		
REVENUE SOURCE	2024 * BUDGET	2025 ** BUDGET	\$ FROM 2024 BUDGET	% FROM 2024 BUDGET
Utility Revenue				
Electric	\$ 63,628,151	\$ 70,475,100	\$ 6,846,949	10.8%
Water	10,289,000	10,443,948	154,948	1.5%
Sewer	8,662,400	9,515,150	852,750	9.8%
Stormwater	2,552,500	2,629,050	76,550	3.0%
Total Utility Revenue	\$ 85,132,051	\$ 93,063,248	\$ 7,931,197	9.3%
Tax Revenue				
Realty Transfer Tax	\$ 1,650,000	\$ 1,700,000	\$ 50,000	3.0%
Property Tax	9,285,625	9,745,313	459,688	5.0%
Penalties	67,500	67,500	-	0.0%
Franchise Tax	300,000	300,000	-	0.0%
Lodging Tax	715,000	780,000	65,000	9.1%
Total Tax Revenue	\$ 12,018,125	\$ 12,592,813	\$ 574,688	4.8%
Fees for Service				
Fines	\$ 2,122,000	\$ 2,209,467	\$ 87,467	4.1%
Business License Fees	225,000	215,000	(10,000)	-4.4%
Permits and Licenses	3,187,500	3,164,000	(23,500)	-0.7%
Park Fees	768,225	825,140	56,915	7.4%
Commercial Refuse & Transfer Sta.	28,500	30,500	2,000	7.0%
Parking Lots	266,000	240,000	(26,000)	-9.8%
Multi-Space Parking	3,100,000	3,040,000	(60,000)	-1.9%
Internal Service	3,278,599	3,388,379	109,780	3.3%
Total Fees for Service	\$ 12,975,824	\$ 13,112,486	\$ 136,662	1.1%
Intergovernmental Revenue				
Subventions	\$ 621,753	\$ 642,893	\$ 21,140	3.4%
Local School District	198,200	210,000	11,800	6.0%
Community Development Block Grants	277,613	264,912	(12,701)	-4.6%
Law Enforcement Grants - Special Fund	284,111	271,287	(12,824)	-4.5%
American Rescue Plan Act (ARPA)	179,575	-	(179,575)	-100.0%
Miscellaneous Grants and Donations	492,525	540,500	47,975	9.7%
Total Intergovernmental Revenue	\$ 2,053,777	\$ 1,929,592	\$ (124,185)	-6.0%
Other Revenue				
Interest Received	\$ 1,997,000	\$ 2,047,000	\$ 50,000	2.5%
Miscellaneous	351,881	395,600	43,719	12.4%
Reimbursable Overtime	300,000	300,000	-	0.0%
Assessments	12,500	13,500	1,000	8.0%
Total Other Revenue	\$ 2,661,381	\$ 2,756,100	\$ 94,719	3.6%
Appropriation of Prior Year Reserves	\$ 34,670	\$ -	\$ (34,670)	-100.0%
Total Operating Revenue	\$ 114,875,828	\$ 123,454,239	\$ 8,578,411	7.5%

The 2025 through 2029 Capital Improvements Program

The 2025 portion of the proposed five-year Capital Improvement Program exhibits gross expenditures of \$28 million. Reserve funding, grant funding, vehicle equipment replacement funds, state revolving loan, 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 2025 CIP is proposed on the table labeled “2025 CIP Funding Sources.” The Net Capital Improvement total of \$1,814,195 will be funded in 2025 through current year revenue, property taxes, utility rates, and other current sources of revenue.

Similar to previous years, borrowing is included in the 2025 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.

2025 CIP FUNDING SOURCES	Percent (%)	Dollar (\$)
Capital Improvements		\$ 27,984,398
Funding Sources:		
Use of Reserves	7.6%	2,134,706
Equipment Funding	1.6%	437,280
Grants	7.2%	2,012,194
Bond Issues	0.0%	-
State Revolving Loans (SRL)	28.4%	7,938,609
Other Sources	48.6%	13,597,414
Current Resources	6.7%	1,864,195

2025 CAPITAL EXPENDITURES	Percent (%)	Dollar (\$)
Electric Fund	54.9%	\$ 15,385,244
Water Fund	26.5%	7,422,209
Sewer Fund	5.5%	1,550,000
Administrative - Maintenance Fund	2.3%	650,000
Stormwater Fund	3.9%	1,087,722
Public Works - Capital Proj. Fund	3.5%	990,209
Parks and Recreation	1.6%	434,500
Parking Fund	1.2%	347,336
Information Technology Division	0.4%	110,000
Police Department	0.1%	7,178
Gross Capital Expenditures	100.0%	27,984,398

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 will continue to move forward due to their secure funding.

The table “2025 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 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 10.2% of our operating revenues in 2025. 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 \$20.5 million in 2025, or require a tax increase over 213% to account for the total loss of margin transfers and maintain current service levels. For comparison purposes, the City would need to add 27,502 new additional residences just to collect \$20.5 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. 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 dramatically increasing need for infrastructure replacement as much of it was installed mid-century and is now reaching the end of their normal service life. It could also help mitigate the rate impact from treatment for forever compounds (PFAS) as our treatment comes online at South Well Field WTP and is designed and implemented at the Curtis WTP, as required by federal regulation.

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. This points toward a structural issue where the level of services provided by the City, and the infrastructure we must maintain, exceed the tax and utility customer base available to support it. To address this we should focus on building the tax and utility base through smart redevelopment, continue to work to identify alternative revenue streams, and continue to look for ways to streamline development review and improve internal operational efficiency. As mentioned previously, Council should continue to focus lobbying efforts at the state level to get approval for additional revenue sources like an events tax, higher education enrollment tax, 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. Once New Castle County certifies the new assessment in March of 2025, City Council will need to approve a new tax rate for the 2025/2026 property tax billing.

Budget Presentation

The 2025 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 2025 Budget is proposed to meet the requirements of the City Charter:

Presentation to Council:

- Public Hearing/Possible Budget Adoption – November 18, 2024
- Contingency Date - Public Hearing/Budget Adoption – December 9, 2024 (if needed)
- Introduction Date for Revenue Ordinances – November 25, 2024 (if budget is approved on November 18)

The preparation and compilation of the 2025 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, Accountant Jim Smith, and Financial Analyst 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,

A handwritten signature in blue ink, appearing to read 'Thomas Coleman', with a stylized flourish at the end.

Thomas Coleman
City Manager