

**Minutes of the
New Castle County Financial Advisory Council**

New Castle County Government Center – February 21, 2012

Attendance:

Member	Present
Richard F. Davis	No
David Blowman	No
George Danneman	Yes
Glenn Kocher, Jr.	Yes
Joseph Larotonda	Yes
Mark Oller	Yes
Richelle Vible	Yes
Jill Floore	No

Members in Attendance: 5

Members Absent: 3

Others Present: George Smiley, Russ Morris, Ed Milowicki, Lynne McIntosh, Joseph Oddo, Joanna Ewbank, Paul Clark

Opening Business:

Chairman Rich Davis was unable to attend the meeting. George Danneman served as acting chairman in his absence. Mr. Danneman called the meeting to order at 3:15 p.m. Mr. Larotonda made a motion to approve the minutes from the September 20, 2011 meeting, Mr. Oller seconded the motion, and the minutes were approved as submitted. Mr. Larotonda made a motion to approve the minutes from the November 15, 2011 meeting, Mr. Oller seconded the motion, and the minutes were approved as submitted.

FY2012 General and Sewer Fund Revenue Activity A/O January:

Mr. Milowicki introduced NCC Finance Office member Russ Morris to review the FY2012 revenue activity. Mr. Morris reviewed NCC's General and Sewer Funds Revenue Summary as of January 31, 2012 (Exhibit A) and FY2012 Revenue Changes (Exhibit B) and noted that there are not a lot of changes. Since the last meeting the FY2012 General Fund revenue estimate is up \$664.0 over the original budget and the FY2012 Sewer Fund revenue estimate has gone down by \$374.5.

Real Estate Taxes

Mr. Morris noted that they have decreased the estimate for property tax by an additional \$100.0, split evenly between the initial levy and prior year numbers. It was previously decreased by \$200.0 so it is now down a total of \$300.0. It was noted that we should be collecting 99.8% of the revenue estimate on this line.

Service Charges/Fees

Mr. Morris noted they have increased the Sheriff's department estimate by \$750.0. Additionally, there is another \$133.0 we increased in Use of Property under Sheriff Interest. There was a legacy account that was cleaned out and some of it was counted as commissions and some as interest.

Mr. Morris noted that Subdivision Review has been reduced by \$200.0. It was noted that the Planning section in Land Use has experienced significantly slower revenues than the previous two years and slower than we had expected. This is offset by some significantly better revenues on the building and permits side. Net they are ahead but the estimates had to be

decreased for Subdivision Planning because we haven't seen any of the large plans coming in to date this year.

Licenses & Permits

Mr. Morris noted that Building Permits were previously increased by \$300.0 and they are not going to increase again right now.

Use of Money & Property

Mr. Morris noted that Interest is up and most of that is \$135.0 that is attributable to interest income received when a legacy account in the Sheriff's Office was closed. The rest of the increase is from the interest projections being slightly better than expected. However, there is still expected to be a net loss for the year.

Rentals, Concessions & Sales

Mr. Morris noted that Sale of Assets was increased by another \$50.0 to reflect revenues that have already been realized by the sale of vehicles.

Intergovernmental Revenues

Mr. Morris noted that CAD Reimbursement was increased by \$50.0 to reflect money received from the State that had not been budgeted this year.

Mr. Morris noted that \$24.8 is being transferred out due to funds received in FY2011 from FEMA that should have been in a Grant fund.

In summary, Mr. Morris noted that all of these changes add up to an increase of \$664.8 for the FY2012 General Fund estimate.

Mr. Morris noted that Stormwater Management Fees, Septic Hauler Fees and FOG program fees all went down as tracking changes in the Sewer Fund. Also, Interest on the Sewer Fund side was decreased by \$164.5 because it was increased by too much previously. The General Fund is doing a little better than expected and Sewer Fund is doing a little worse. In summary, Mr. Morris noted that there is a decrease of \$374.5 for the FY2012 Sewer Fund estimate.

Exhibit A – Charts

RTT Revenue – December was very disappointing because there were no large sales. There was one large sale in January which put us just about on budget. NCC will not receive any of the real estate transfer tax for Amazon because it is in the incorporated area of Middletown.

Recorder of Deeds Revenue – This was reduced at the last meeting and numbers for February are almost exactly where we expected them to be so no changes were made.

Sheriff Revenue – This was increased since the last meeting but we do not expect the increase to last throughout the rest of the year. We are seeing the effects of the new foreclosure mediation as February sales came in significantly lower compared to the previous month. There are only 212 sales set up for March when they have been setting up 350 in the past. According to the Sheriff's Office, they have not received any paperwork for new sales since January 19, 2012. Mr. Danneman noted that this could be because the program is so successful.

Register of Wills Revenue – This continues to be on budget with no big changes.

Subdivision & Zoning Review Revenue – This estimate has been dropped before and it may need to be dropped again in the future. Mr. Morris noted that this is a leading indicator.

Building Permit Revenue – There was an enormous jump in January primarily because of A.I. DuPont Hospital. It was \$630.0 in building permits for one project in one month while we normally we only expect a couple hundred thousand a month for both commercial and residential. We expect this number to come down but the numbers are ahead for February for the same time last year.

Major Commercial Building Permits – Three other smaller projects were received last month that were still significant enough to have made January a good month even without A.I. DuPont Hospital.

New Construction Permits – Year-to-date there have only been 34 commercial permits while there were 46 last year. However, the total number of permits is not as important as the revenues received for permits. On the residential side we are slightly slower than last year but the final quarter of the year is always one of the best times. It was noted that all revenues generated from RTT and all permits for Amazon would go through Middletown. We may be increasing building permits later in the year but may also be decreasing subdivision review.

*Richelle Vible arrived at 3:35pm

Business & Contractor Licenses – This is about where we expected it to be with Business doing slightly better and Contractor doing slightly worse.

FY2012 Non Residential Sewer: First and Second Quarter – Residential sewer bills have gone out but we have not received many of those revenues back yet. We will have a chart that includes residential at the next meeting. We were slightly below budget during first quarter and slightly above during the second quarter.

FY2013 General and Sewer Fund Revenue Forecast:

Mr. Morris reviewed NCC's General and Sewer Funds Revenue FY2013 Summary (Exhibit C). Mr. Morris noted that these are preliminary numbers developed by the Budget Office in cooperation with the individual departments. There are some fees increases included here, shown in column E, all of which can be enacted without Council legislation. They are all from the department of Land Use and only need to publish the new fees and they would take effect sixty days later. They would publish so they would become effective July 1, 2012.

GENERAL

Real Estate Taxes

There was a small increase here. The FY2013 estimate is up \$546.2 over the estimate for this year.

Real Estate Transfer Tax

FY2013 estimate is only up \$250.0 over this year's budget, based on the expectation that the real estate market will improve but we are only budgeting for 90% of what we expect.

Service Charges/Fees

Sheriff Sale shows a drop as we are only projecting \$6,702.1 right now. We are expecting this to go up but it will be a slower slope of improvement. Mr. Morris noted this is a lagging indicator and will go down with an improving economy. Subdivision Review includes fee increases of \$140.1 that bring us to \$1,400.0 which is what we expected to take this year.

Recreation

Everything here has been nudged down slightly. There is a new contract the department of Community Services has with PAL that includes revenue sharing where PAL will get some of the recreation revenues for activities conducted at PAL. One area that has gone up here is Carousel due to an additional \$50.0 for therapeutic riding lessons which is something we had not budgeted for.

Licenses & Permits

Most of these numbers are exactly the same as this year. The Building Permits total number goes down compared to this year because we do not expect another project like A.I. DuPont Hospital. The FY2013 estimate is up compared to the FY2012 budget mostly because of fee increase of \$147.0. The FY2013 estimate is up compared to FY2012 budget, but down slightly compared to our estimate of the actual revenues for FY2012.

Use of Money & Property

There are some abandoned escrow deposits which will be transferred to the General Fund next year in the amount of \$1,617.0. Mr. Milowicki explained Abandoned Deposits. Monuments are markers in developments to block off the plot lines in your area. Contractors would put down a deposit to make sure it was done and then come back later to get the deposit. Every once in a while someone comes to get their money but for the most part it is stale money that has been sitting there since 1999. The auditors advised the County that since it is stale money it should be taken in as revenue. The Law Office advised leaving a 10% balance in the account in case someone shows up asking for the money they put down. The other part is contractors put up an escrow amount for work they did. This was mostly prior to 1999 and UDC coming into effect, and there has been very little new activity in these accounts since then. It was noted that this is one-time revenue.

Sheriff estimate for FY2012 increased to \$155.0 based on the one time transfer from their legacy account but we will not see that again so the estimate goes back down to \$10.0 for FY2013. All other Row Offices are experiencing similarly slow interest.

Rentals, Concessions & Sales

Building Rental for the City of Wilmington is down \$302.0 for FY2013. The City of Wilmington is going to be taking over responsibility for maintenance of the building so we will no longer get reimbursed by the City for the staff that worked there. One person retired and the other person moved into another department. Land Rental is up \$173.5 due to revenue we should receive from renting cell towers. Building Rentals increased \$100.0 for revenue that will be received from renting out space at Rockwood to The Greenery. Most of the \$137.8 for Sale of Assets comes from the sale of vehicles which will not be as large as this year.

Intergovernmental Revenues

The biggest change is completely eliminating WILMAPCO. \$100.0 was a one-time only transfer of funds to the County to assist with the new master plan. We will not see this next year. Overall revenues go up just 1.3%.

Miscellaneous Revenues

There is a slight decrease in Other Income from some small accounts that are ticking down. Insurance Proceeds reflects a new TPA that helped the County catch up on some workers compensation and auto claims in FY2012 but we do not expect it to be nearly as high next year. Overall, Miscellaneous Revenues will be down about 12.8% next year.

The FY2013 General Fund Revenue Estimate is \$166,664.4 and will continue to be revised until the County Executive's Budget Address.

The County Executive's FY2013 Budget Address will be March 20, 2012 downtown at the City/County Building. County Executive Clark stated that there will be no tax increase.

SEWER

In the estimates prepared to date there are no increases in sewer charges. There is a small increase in estimates for Sewer Service Charges based upon modest growth within the County. There are a few small increases in fees for Stormwater/Groundwater and Plans Review. These are department of Land Use fees that they build into their projections for FY2013. Overall, we are looking at a very small increase in FY2013 sewer revenues over and above the original FY2012 budget. The FY2012 budget was \$69,081.0 and the working estimate for the FY2013 budget right now is \$69,586.1, which reflects a small increase of 1.7%.

Approval of FY2012 and FY2013 General and Sewer Fund Revenue Forecast:

Mr. Oller made a motion to accept the New Castle County General Fund revenue estimates of \$164,756.6 for FY2012 and \$166,664.4 for FY2013, and the Sewer Fund revenue estimates of \$68,416.8 for FY 2012 and \$69,586.1 for FY2013. Mr. Larotonda seconded the motion and they were unanimously approved.

Mr. Milowicki stated that the FY2013 numbers that were reviewed are preliminary numbers and the budget will be based on these projections but there could be minor changes. The FY2013 revenues will be certified at the meeting in April. None of the revenue assumptions included require Council action and all fee increases would go into effect on July 1, 2012. Councilman Smiley commented that we may see a difference in ticketing revenue based on how that program gets modified in the next month. Mr. Milowicki noted that we have not heard anything out of Dover yet that will affect County revenues. It was also noted that there is still state legislation out there to consolidate the Row Offices but there has not been any word yet on if that legislation is moving forward.

FY2012 General and Sewer Fund Expenditure Activity A/O January and Forecast:

Mr. Morris reviewed the FY2012 Budget vs. FY2012 Estimate and FY2012 Budget vs. FY2013 Estimate as of January 31, 2012 (Exhibit D) and Budget Highlights (Exhibit E).

FY2012 General Fund Expenditures

Mr. Morris noted that we are still expecting to have surplus at the end of the year in Salaries/Wages related to vacancies in general funded positions. The budget was \$81.6 million and we expect to spend \$81.1 million which amounts to a \$500,000 savings.

Mr. Morris noted that a small savings of \$200,000 is expected in Communications/Utilities. Some of that is from electrical savings and other savings related to data lines that the IS department uses.

The Materials/Supplies budget is \$4.9 million and we are expecting to spend \$5.3 million. This reflects an increase of \$425,000 because of increased gasoline and diesel costs. The budget was increased last year because we saw prices going up and prices went up faster than we expected.

The budget for Contractual Services was \$10.7 million and we are expecting to spend \$10.4 million. It looks like there is going to be a savings of \$300,000 due to savings across the board in all departments.

Contractual-Cross Charges was budgeted for \$14.7 million and we expect costs will actually be only \$14.5 million. Some of the savings received from data circuits in IS the charges then get spread out among the individual departments.

The Grants/Fixed Charges budget is \$11.6 million and we are expecting \$12.0 million. This reflects a \$400,000 shortfall in workers compensation, specifically in a three month period we had over \$300,000 in settlements.

The Equipment budget is \$3.8 million and we expect to spend \$3.4 million. The difference is due to the timing of lease payments for police vehicles. This was previously being paid out of the Capital Budget but was transferred into the Operating Budget this year. Special Services will be going to Council to ask for the savings of \$400,000 to be transferred to the fuel line.

The IGS Credit budget is \$22.1 million and we expect to spend \$21.9 million. This offsets the IS Cross Charges, since the charges go down the credit goes down as well.

The FY2012 Budget is \$163.5 million and we expect to spend \$162.9 million for a total of \$600,000 savings for this year.

Mr. Oller questioned the annual contribution from State for Police Pension. Mr. Morris stated that the County receives money every year from the State of Delaware that is a supplement for Police Pension but it is not budgeted. Whatever amount we receive Council votes that as a change to the Police Pension amounts. Mr. Milowicki added that we never know how much we are going to receive because we are waiting for reimbursement and it depends on how much the State has left. It is a pass through that comes into the County General Fund and gets passed into the County's Pension Fund. Previously, this revenue would be directly deposited into the Pension Fund, but the auditors felt that it should be reflected as an entry into the General Fund and then immediately transferred into the pension fund.

FY2013 General Fund Expenditures

These are rough numbers that are meant to be reflective of what would happen with a small growth. These are not exactly what will be reflected in the County Executive's Budget. Mr. Danneman noted that NCCFAC does not vote on expenditures, only revenues.

FY2012 Sewer Fund Expenditures

Mr. Morris noted that there is an overall savings for the Sewer Fund. Most of the savings comes from Salaries/Wages. \$11.4 million was budgeted but we expect to spend \$10.8 million for a \$600,000 savings or 5% under budget primarily due to the high number of vacancies in sewer funded positions. Mr. Milowicki noted that we normally fill higher level positions with promotions which create vacancies in the lower level positions that need to be filled and we are working through filling them all now. There was discussion regarding when someone retires and the County pays the retiree benefits and the benefits of the new employee that filled the position. Mr. Milowicki stated that healthcare coverage in the County is in the union contracts so we are bound by that until it is taken out of the contracts. Currently the employees share for healthcare coverage is around 6.4% and this year the employees gave 2.5% back through a healthcare surcharge to the County. When the current contract ends the employees will get the 2.5% back and then the County will be try to change it so a bigger share is picked up by employees or something like the State where when anyone new retires, depending on their years of service, that is the percentage the healthcare coverage they get. Right now in the County the same retiree healthcare coverage is provided regardless of years of service. This has already been initiated with non-union new hires and hopefully in the next round of negotiations the unions will look into this. Mr. Morris noted that there have been some changes for new employees. The pension plan is less generous for new employees and depending on which position you are hired for you may have 19 steps instead of 10. Ms. Vible questioned when looking at vacancies and projecting for next year how many positions do you eliminate. Mr. Milowicki stated that when we budget for the fiscal year we do not budget 100% of salaries, but instead budget an attrition rate of either 1 or 2% countywide knowing there are going to be vacancies.

Mr. Kocher asked for details on OPEB. Mr. Milowicki explained that OPEB has been in the private sector for a while but just started in the public sector in the last few years. GASB recommended it for governments and the County just started recording it 4 or 5 years ago. The County is about 5% funded, our current liability is \$266 million and we contribute anywhere between \$2.5 and \$3.5 million annually while we should probably be contributing close to \$8 million. It is just like starting a new pension fund it will take 30 years to get where it needs to be. We are most likely contributing far more than most governments while some are not even recognizing it and some cannot fund it. Most governments' liability is not as big as ours because our police retire so early in their years their healthcare coverage starts earlier. Most police officers that retire and work elsewhere stay on the County's health plan; however this is in the union contracts. Several governments have started raising the retirement age.

There is a small savings in Contractual services. We budgeted \$4.4 million and are expecting to spend about \$4.0 million. Only other savings expected is in Contingencies. \$100,000 was budgeted and we are expecting to need any in the Sewer Fund.

The FY2012 Sewer Fund budget is \$69.1 million and we are expecting to spend \$68.0 million for a total savings of \$1.1 million, roughly 1.6% of budget.

Mr. Milowicki stated that we are doing our best at cutting the budget and finding revenue sources but currently for this year we have \$6 million in costs that are state mandated against the County. The Paramedic Reimbursement went from 60% to 30% creating a \$4 million annual loss to the County. Dog Control is a \$900,000 unfunded mandate that we are doing and only receiving revenues of \$140,000. Councilman Smiley stated that he anticipates an increase in cost for the next dog control RFP because of the pressure to have no-kill facilities which would be a big increase in cost due to feeding and housing animals longer. The County also exempts first time homebuyers, creating a \$2-3 million loss, while the State does not exempt first time homebuyers from their share of the transfer tax. In 2008 we received about \$2.4 million in corporate filing fees but when the City of Wilmington was in some distress the State decided to take 50% of our revenue and give it to the City for their revenues.

FY2013 Sewer Fund Expenditures

Mr. Morris stated that these are projected numbers that do not represent the County Executive's budget. These projections take existing numbers and apply the ordinary increases you would expect to see without requesting any changes in programs or effects to contain costs.

Review General and Sewer Fund Checkbooks:

Mr. Milowicki noted that for the General Fund our revenue growth does not keep up with our expenditure growth. Unless we raise revenues, reduce programs or services, or have a dramatic change in the economy we are expecting a \$60.3 million shortfall from 2013 through 2017. It is expected that General Fund reserves will be exhausted by 2017.

Mr. Milowicki noted that the Sewer Fund growth is expected to be minimal on the revenue side and on the expenditure side most of the growth is debt service having to do with sewer rehabilitation. For many years the County did not put much money into sewer repair and rehabilitation and with some of the recent EPA decrees the County has gotten we are now rehabilitating Brandywine Hundred. The Sewer Fund is currently showing a \$31.1 million shortfall from 2013 through 2017. NCC sewer rates are currently still some of the lowest in the area but without any sewer fee increase or other reductions in cost it is expected that Sewer Fund reserves will be exhausted by 2015.

Other Business:

The next meeting will be Tuesday, April 17, 2012 at 3:00 p.m. at the Government Center in the Large Executive Conference Room.

There being no further business, Mr. Danneman adjourned the meeting at 4:35 p.m.