

**Minutes of the
New Castle County Financial Advisory Council
New Castle County Government Center – Large Executive Conference Room
February 14, 2017**

Attendance:

Member	Present
Richard F. Davis	No
Owen Mathews	No
Jill Floore	Yes
Joseph Larotonda	Yes
Michael Ferretti	No
Mark Oller	Yes
Lynette Scott	No

Members in Attendance: 3

Members Absent: 4

Others Present: Ron Russell, Mike Kapa, Brian Maxwell, Russ Morris, Ed Milowicki, Ken Porter, Bob Wasserbach, Lynne McIntosh, Joanna Finnigan, Joe Szczechowski

Opening Business:

Acting Chairman Mark Oller called the meeting to order at 8:18 a.m. Due to a lack of a quorum, the approval of the minutes from the November 9, 2016 meeting was deferred.

General and Sewer Fund Revenue by Major Categories for FY2017:

Mr. Morris reviewed the details of Exhibit A – New Castle County General and Sewer Funds Revenues Summary as of January 31, 2017. He indicated that General Fund Revenues were \$5.6 million (3%) over Budget. Sewer Fund Revenues were projecting a small deficit of \$209,000 (.3%).

General Fund Highlights:

- RTT remained strong from November to January. As a result, the FY2017 estimate for RTT has been increased to \$30 million, which is \$4.3 million over the original Budget.
- Service Charges remain strong at \$1.6 million over budget. The Recorder of Deeds Office is having a good year due to the strength of the real estate market. The Sheriff's Office is recovering from a down year. The Register of Wills had closings for several large estates.
- Use of Money & Property was adjusted down \$353,000 because of lower interest projections.

Ms. Floore asked for an update on the status of the Fisker property.

Mr. Morris stated that the property remains for sale. A portion of the taxes on the property were paid, but a balance remains due. Mr. Milowicki said that the two most recent payments made on the account were a \$200,000 payment on August 30 and a \$7,010 payment on September 8. The outstanding balance is \$81,473 for the County taxes and \$998,327 for School taxes. If the property sells, RTT would be included, as well as the delinquent taxes. The base for the RTT would have to be determined. There is an appeal pending on the property assessment.

Sewer Fund Highlights:

- The residential sewer service bills were mailed January 24. Sewer Current has been decreased by \$300,000 based on a 93% collection rate between now and June 30.

- No adjustment was made to the Sewer Delinquent line item, although it is running slightly ahead of last year. If this remains strong for the rest of the year, it could balance out the decrease in Sewer Current.
- Other Fees has been increased \$343,000 due mainly to better than expected Septic Hauler Fees.

Mr. Morris reviewed the details of the General and Sewer Funds Revenues found on pages 2 through 5 of Exhibit A.

Real Estate Taxes appear to be on target with budget estimates.

Ms. Floore asked for clarification on how the RTT reserve can be used. Mr. Milowicki stated that the RTT reserve can be used the following year to reduce debt or fund capital projects.

Mr. Morris noted that three Row Offices (Sheriff, Register of Wills, and Recorder of Deeds) account for the increases in Service Charges/Fees.

Ms. Floore asked for more details on the Interest-Investments line item found under Use of Money & Property on page 3 of Exhibit A.

Ken Porter stated that when interest rates go, there is a two-fold effect – our existing investments that are longer-term take a cut in value, but the new investments do better. Since the longer-term investments are held, however, the value loss is on paper only. The County revisited its investments at the end of last year. \$91 million was invested by five different firms at the end of December. For the first two quarters of this year, those investments should earn considerably more than they had in the past.

Mr. Morris then reviewed the charts found on pages 6 through 12 of Exhibit A.

RTT Revenue was revised higher due to fall activity.

Mr. Morris noted that Subdivision & Zoning Review Revenues show an increase prior to the building permits, the higher assessments, and the subsequent real estate taxes. The chart on page 10 of Exhibit A shows a bump due to two projects – Wilmington University and Concord Plaza.

General and Sewer Fund Expenditures FY2017 Budget vs. FY2017 Estimated:

Mr. Milowicki reviewed the details of Exhibit B – New Castle County's General and Sewer Fund Expenditures FY2017 Budget vs. FY2017 Estimated as of January 31, 2017.

Overall, we are projecting a \$3 million shortfall in the General Fund. There are two areas of concern that are projecting shortfalls and will require Council legislation to address. Salaries & Wages are projecting a \$1 million due to severances, retro payments for the negotiated union contracts, and COLA.

As of the end of December, New Castle County had paid out nearly \$1.5 million in severances. Normally, severance payments are not budgeted. Severance consists of unused sick and vacation pay (up to contractual limits), paid at the employee's rate at the time they leave the County. Fortunately, there are vacancies throughout the County that will soften the financial impact.

The retro payments and Cost of Living increases were not included in the current budget, because the contract negotiations were not finalized at the time the budget was passed.

The other issue is Employee Benefits. We continue to see our medical and healthcare costs increase, as well as our workers' compensation costs. There is currently an ordinance before Council to appropriate \$1 million from the Tax Stabilization Reserve toward workers' compensation costs. All levels of workers' compensation costs have increased – medical as well as settlements. The new administration is going to look into the issue.

Mr. Maxwell pointed out that there has been a practice of under-budgeting for Employee Healthcare for the past several years. The new administration will be looking at that issue, as well as the employees' share of the Healthcare costs. Currently, the split is approximately 93% employer and 7% employee.

Mr. Larotonda asked where OPEB (Other Post-Employment Benefits) fits in to the Benefits budget. Mr. Milowicki explained that a contribution is budgeted each year as part of the total Employee Benefit rate. Currently, New Castle County is between 11 and 12 percent funded, but New Castle County is not contributing the ARC.

In the Sewer Fund, there are a large number of position vacancies, which accounts for a \$500,000 surplus in the Salaries & Wages line. There is a projected shortfall of \$500,000 in Employee Benefits.

There is a projected shortfall of \$200,000 in the Communications & Utilities line due to the Wilmington True-up costs for the Wilmington Treatment Plant. The contract is still being negotiated, as there were administration changes on both sides.

General and Sewer Fund Financial Projections (Checkbook):

Mr. Maxwell reviewed the General Fund Financial Projections as of January 31, 2017 (Exhibit C). This is a four-year financial model for Fiscal Years 2017 through 2020. He noted that several changes were made to the format of the presentation. One of the new line items under Revenues is "Transfer Tax Reserve," rather than "Revenue/Reserves over Expenditures."

Mr. Oller asked for clarification regarding the difference between the Tax Stabilization Reserve and the Rainy Day General Fund Reserve.

Mr. Maxwell explained that the Rainy Day General Fund Reserve is a 20% reserve against General Fund Revenues. It requires a 10/13 vote from Council to utilize any funds. The Tax Stabilization Reserve was created over time before there was a Realty Transfer Tax Reserve. It does not require a 10/13 Council vote to utilize, but an ordinance is being drafted that would require a 10/13 Council vote to utilize those funds in the future.

Projected expenditures are growing faster than projected revenues, necessitating that the Tax Stabilization Reserve be drawn down to balance the budget. There is a projected gap of 12.9 million in revenues under expenditures in 2018. If expenditures continue to grow at 4%, by 2019 the Tax Stabilization Reserve would not have enough funds to cover the deficit.

Debt Service costs for which principal payments were not made, as well as Salaries & Benefits that were not budgeted, are driving the issue. There is also a bond issue planned for the spring.

Mr. Oller asked if it would make sense to refinance all of the County's debt and lock in at a lower rate. Mr. Maxwell said that the previous administration had already refunded the majority of the County's debt and targeted the savings in the next two budget cycles. Any debt issued is limited by how much the County can afford in its Operating Budget.

Ms. Floore mentioned the impact that additional State proposals would have on New Castle County. There was some discussion among the group regarding possible State actions.

Mr. Larotonda asked if vacant County positions are fully funded. Mr. Milowicki stated that the County funds approximately 98% of the estimated annual cost of all positions. Mr. Maxwell added that there were six positions in the budget that were unfunded.

Mr. Maxwell stated that the County Executive's Budget Address will be March 28. He suggested that, going forward, the NCCFAC Board might consider meeting in March to accept the Revenue Estimates further along in the budget process and closer to the Budget Address. He planned to meet with the Chairs of the Finance Committee to discuss changing the NCCFAC meeting schedule.

Without a quorum at this meeting, the board may need to reconvene prior to March 1 to officially accept the FY 2018 Revenue Estimates.

Mr. Milowicki reviewed the Sewer Fund Financial Projections as of January 31, 2017 (Exhibit C). He noted that with no fee increases, the Sewer Rate Stabilization Reserve would be drawn down to fund the FY2018, FY2019, and FY2020 budgets. It would be offset by Capital Recovery Fees, which can only be used for Debt Service or Capital Projects.

The date for the next meeting will be determined over the next few days, and the board members will be notified.

There being no further business, the meeting was adjourned at 9:13 a.m.