COUNCIL COMMITTEE OF THE WHOLE

The Council Committee of the Whole Meeting was held on April 12, 2016, at 6:00 p.m., with Council President Slavin presiding. Members of Council present were Mr. Anderson, Mr. Sudler (arrived at 6:01 p.m., departed at 7:13 p.m., and returned at 7:22 p.m.), Mr. Neil, Mr. Lewis (arrived at 6:04 p.m.), Mr. Cole, Mr. Hosfelt, Mr. Hare, and Mr. Hutchison. Mayor Christiansen was also present (departed at 7:10 p.m. and returned at 7:26 p.m.) Civilian committee members present were Mr. Keller and Mr. Shelton *(Safety Advisory and Transportation)*, Mr. Caldwell and Mrs. Horsey (*Parks, Recreation, and Community Enhancement*), Mr. Blakeman and Ms. Stewart *(Utility)*, and Mr. Shevock and Ms. Maucher (*Legislative, Finance, and Administration*).

AGENDA ADDITIONS/DELETIONS

Mr. Hutchison moved for approval of the agenda, seconded by Mr. Neil and unanimously carried.

Review of FY 2017 Preliminary Budget and Capital Investment Plan (CIP)

Council President Slavin advised those present that this two (2) hour meeting would likely lead to up to 15 or more hours of budget hearings between now and the end of May. He indicated that consideration of the FY 2017 budget would take place a little earlier in the budget season and extend a little later in the year than usual because the City would wait to see what occurs with some of the State's issues before adopting the final budget. Mr. Slavin reminded members that last year's budget was very challenging and the FY 17 budget, although perhaps not as daunting, would be challenging nonetheless.

Mr. Scott Koenig, City Manager, concurred that last year had been a very difficult budget year and that Council had been asked to do some heavy lifting and approve a large property tax increase of approximately 19.9 %. Council had directed Staff not to come back for a tax increase for FY 17 and to look at mid-year fee adjustments for rental and other permits that had not been adjusted in recent years. Mr. Koenig stated that the Electric Fund budget was the least difficult of the City's three (3) funds to balance and was seeing a downward trend in power costs over the long term. With respect to the Electric Fund, the City was getting up to authorized staffing levels and delivering on capital and operational projects. Mr. Koenig explained that the five (5) year forecast for the Water/Wastewater Fund was a little more challenging. Staff proposed to keep rates the same in the budget for this fund. Mr. Koenig advised that there had been discussion regarding an inclining block, which was on the radar screen for water and sewer rates, but staff did not believe that this would have to be enacted in the FY 17 budget. Mr. Koenig indicated that the General Fund budget had the most pressure and concerns, with a gap in policy compliance of a little more than $1M. He stated that ways to close this gap would be discussed in the coming months prior to the budget discussions.

Mr. Koenig reviewed a memorandum regarding FY 2016/2017 Preliminary Budget & Capital lnvestments Plans (5 Years), dated April 6, 2016. He advised that there had been a fair rebound of real estate property transfer taxes and that staff was keeping an eye on State revenues. Mr. Koenig reminded members that, when the budget year began, Staff had been asked to have an alternate plan to reflect the potential for no State revenue transfers; however, current indicators from the Delaware Department of Transportation (DelDOT) budget reflected that Municipal Street Aid and Community

Transportation Funds (CTF) would be funded at the current level. Additionally, discussions related to Payment in Lieu of Taxes (PILOT) in draft bills indicated that PILOT may be more favorable to the City in FY 17, partly due to changes in the allocation formula with existing funds. He advised that proposed changes to State law regarding PILOT would add provisions for cities with a minimum population of 25,000, and add funding to the total pot available, which would indicate that the City may receive additional PILOT funds; however, this was yet to be seen. Mr. Koenig noted that the State had increased the City's health insurance premiums by 7.7% and that the workforce shares this cost, with some employees sharing at an 85/15 rate and newer employees at 80/20. He expressed his belief that health care costs had increased by approximately 21%, compared to 15% last year.

Mr. Koenig explained that there was an increase of 16.5% in payroll in the General Fund and 3.4% in the Water/Wastewater Fund related to the Civilian Pension Fund, but a 31.1% decrease in this expense in the Electric Fund based on biennial actuarial calculations. Percentages for Other Post-Employment Benefits (OPEB), which had been a concern, decreased across all funds, as follows: General Fund, 2.2%; Water/Wastewater, 4.6%; and Electric, 5.4%.

Mr. Koenig informed members that new debt service was proposed for a couple of projects in the General Fund, one (1) of which was the replacement of the City's Enterprise Resource Planning System in hopes of fully integrating finances across the City, including the Police Department and other satellite locations. This would allow for a true electronic dashboard reflecting all revenue and expense classifications across the City, including grant management and other types of revenue that are currently not easily accounted for. Mr. Koenig indicated that abandonment of the old PW2 Site/Tar Ditch was also proposed for debt service funding. This stormwater improvement would alleviate flooding at the Water Street/Governors Avenue intersection across from Bayhealth Medical Center down to old PW2, at an estimated cost of $7.6M for construction. He stated that Staff would seek to use City funds and also to partner with the State and other interested entities for construction. Mr. Koenig noted that there would also be debt service related to water/wastewater projects using the State revolving fund. Several water/wastewater projects would be bundled together to fund construction of new pump stations and similar projects over approximately a three (3) year period, as well as expansion of the water treatment plant.

In reviewing Financial Policy Compliance, Mr. Koenig noted that there was a gap in the General Fund of approximately $1.2M. The Water/Wastewater and Electric Funds were both positive in terms of compliance; however, the five (5) year projection for the Water/Wastewater Fund indicated that additional funding through rates may be required.

Referring to the FY 2017 Preliminary Annual Operating Budget - Dover Delaware - General Fund Cash Receipt Summary, Mr. Koenig indicated that a beginning of the year adjustment would be made to the beginning balance after Mrs. Donna Mitchell, Controller/Treasurer, receives audit results. The projected beginning balance in the General Fund for FY 17 was approximately $4.45M, which was approximately 11.9% above the FY 16 numbers. Mr. Koenig informed members that some revenues were slightly increased. He expressed concern about Kent County book reimbursement, which reflected a decrease of approximately $50,000; however, he explained that those numbers were balancing out by other revenues coming from business licenses, permits, etc.

Mr. Koenig stated that property tax revenues were estimated at $12.932M, noting that staff had added tax ratables to the profiles for this year. He advised that recreation revenue was projected to increase slightly and franchise fees were projected to be flat. No sanitation rate changes were projected at this point and sanitation fees were trending slightly lower, with a reduction of approximately $42,000. Mr. Koenig indicated that court fees and investment income were increasing slightly. He stated that there was not much change in interfund receipts and transfers. Mr. Koenig explained that although there was a slight change in police-related extra duty, this is a pass through number and when expenses are considered, there would be an overall cost reduction.

With respect to transfer tax, Mr. Koenig stated that this revenue was trending up. The initial FY 16 budget projected transfer taxes at $1.34M and the current revised projection was $1.986M; however, staff expected this amount would be exceeded. Transfer taxes were tagged at $1.54M for FY 17; however, Mr. Koenig stated that this revenue stream is approached with caution. He noted that during high development years from 2006-2008, transfer taxes were as high as $3.4M or $3.6M; however, when the bottom fell out of the real estate market, these revenues pulled back to approximately $1M. Mr. Koenig indicated that this reversal tracked very closely with what was experienced in the General Fund. He cautioned members to be very mindful of this in developing the FY 17 budget, and did not recommend increasing to estimates of $1.9M or $2M for this revenue stream. Mr. Koenig reiterated that municipal street aid was expected to remain flat for the current year, and it was hoped that this number would track at approximately $673,000. He indicated that transfers were proposed from the Water/Wastewater Fund and the Electric Fund, explaining that this was a return on the City's investment in the utilities and would help to keep property taxes down. Transfers amounted to $875,000 from the Water/Wastewater Fund and $10M from the Electric Fund, which were the same as last year. Total revenues proposed for the General Fund for FY 17 were $42.37M.

Mr. Koenig reviewed some of the changes in departmental expenses in the General Fund Expense Summary. He noted that there was an increase of 6.1% in the City Clerk's Office, a fair change in Library expenses, and a large change in total dollars of approximately $1.2M, or 8%, in the Police Department. Mr. Koenig advised that the large increase in the Streets Division was predominantly related to Municipal Separate Storm Sewer System (MS4) permit compliance and grass mowing and ditch cleaning on land owned by the City at the Garrison Oak Technical Park. He stated that there was a slight reduction of approximately $91,000 in Sanitation due to an expected reduction in landfill rates. Facilities Management expenses were also reduced because the head count in that division was declining as a result of the privatization of custodial services following the retirement of several employees. Mr. Koenig noted that total departmental spending was increased by approximately $2.2M or 6.8%. Referring to Other Expenditures, he advised that debt service was being adjusted upwards; a contribution of $70,000 was proposed to the Downtown Dover Partnership (DDP), which would keep the City's transfer to the DDP flat for FY 17; and insurance expenses and retiree health care were increased. Mr. Koenig stated that a total balance in expenditures of approximately $46,820,000 was proposed. He indicated when expected revenues are offset with the proposed expenses, the City would be in the hole by approximately$117,000; however, to keep the budget in compliance with policy, approximately $1M would have to be added.

If revenues are not adjusted, there would be a need to shave the General Fund by approximately $1.1M to balance the budget.

Mr. Hutchison noted that the State had been discussing real estate transfer tax and questioned if Mr. Koenig had heard whether the State would be taking some of these funds. Responding, Mr. Koenig stated that the City met with legislators early in the fiscal year, when it seemed there would be a lot of discussion regarding real estate property transfer tax; however, he had not heard much more about this since August 2015. He indicated that this was the State revenue stream that he was most concerned about. Mr. Koenig explained that transfer tax is now split 50/50, with 1.5% going to the State and 1.5% going to the City. Last year 2.0% was proposed to go to the State and 1% to the City, which would result in a revenue loss of 17% or 18%. Mr. Koenig had not heard that the proposed bill had been reintroduced, expressing his belief that legislators were waiting for final Delaware Economic and Financial Advisory Council (DEFAC) numbers to be released. He stated that this is one (1) of the largest revenue streams that the City receives from the State, and the proposal discussed last year was significant and would result in a reduction to the City of several hundred thousand dollars.

Mr. Sudler questioned the best way to shave the $1M needed to balance the budget. Responding, Mr. Koenig stated that he thought that there would be discussions at all levels. He indicated the possibility of going back to departments and asking for only what is necessary, or making an adjustment to the General Fund capital plan which may involve deferring vehicles or reducing the street program. Mr. Koenig informed members that requests from citizens regarding services were continuing to escalate. He expressed the possibility of pulling back some of the MS4 funds for ditch maintenance; however, he stated the importance of coming into compliance with this permit, so this would not be first on the list. Mr. Koenig indicated that expectations in the Sanitation budget for tonnages going to the landfill would be reviewed, as would vehicles, open positions, debt service, and all types of issuances. He stated that everything that would maintain current levels of service would be reviewed; however, it may be necessary to discuss cutting levels of service.

Mr. Sudler asked if there was a process for prioritizing residents' requests for services and determining those that would be met in a given year. Responding, Mr. Koenig stated that, in his experience, residents typically express concern about the level of service at their house rather than elsewhere. He noted that staff takes into consideration feedback from those who come to speak at the budget discussions, Council, and social media; however, a majority of the requests received are for additional or enhanced services at the same or lower cost.

Mr. Slavin asked if a 2.5% adjustment of expenses and revenues was needed to come into policy compliance, and Mr. Koenig expressed his belief that this was correct.

Mayor Christiansen reminded members that one (1) of the functions of the Office of the Mayor was to work closely with legislators. He stated that the current formula for the PILOT program was being worked on and had been discussed with those in New Castle County who were tired of giving money to the City of Wilmington. Mayor Christiansen indicated that other municipalities with State of Delaware properties were being looked at. He was very comfortable that this matter would move

forward in the legislature and that the current realty transfer tax formula would remain intact unless DEFAC reports drastic funding problems. Mayor Christiansen advised that he and the City's standing committee chairs were planning an update and lunch with members of the Kent County legislative delegation, along with key members of New Castle and Sussex Counties, to ensure that the well-being of the City of Dover and other municipalities in the State would be looked after. Mayor Christiansen felt that those in Legislative Hall would be amenable to suggestions and recommendations developed since this was the middle of an election year. He indicated that he would keep Council and staff apprised regarding anything that might affect funds from the State, including DelDOT funding, community transportation funds, and municipal street aid.

Mr. Hare noted that some City positions that were vacant last year were still vacant. He suggested that if a position remains vacant for six (6) months, it should be vetted through the Legislative, Finance, and Administration Committee and Council before it is filled so that the need for the position can be justified. Mr. Hare did not want it to become a habit for funds for such positions to be used elsewhere, noting that it might be possible to eliminate them.

Mr. Hare asked if an inventory of vehicles and equipment would be provided, stating that supervisors should be able to adjust schedules to keep vehicles to a minimum. Responding, Mrs. Mitchell stated that the concept of sharing vehicles was discussed last year in relation to cost-savings ideas; however, staff had not yet gotten into that process. Mr. Hare indicated that he would like to see an inventory of all City vehicles and equipment by department to see if there were ways to share before making purchases.

In regard to vacant positions, Mr. Koenig stated that the City had been actively recruiting for almost every vacant position. He expressed his preference not to have to come back to Council every time a position is open for six (6) months, noting that he had been hired to manage the budget. Mr. Koenig advised members that there are unique instances in every department. For example, he explained that, Mr. Harry Maloney, Electric Director, was in the process of changing the Electric Department, hiring staff, and reorganizing positions as new people come into the organization. Mr. Koenig felt that making sure the appropriate people are in the right place is a staff/manager level decision, and he noted that some positions would be vacant for more than six (6) months. He indicated that coming back to Council to simply ask if he can fill a position would add an additional layer and burden of paperwork. Mr. Koenig felt that the budget could be managed as presented. He noted that staff had been working on at least one (1) position in the Public Works Department that had not yet been posted, explaining that, in some cases, positions in this Department had been through two (2) or three (3) postings due to employees quitting after being hired. Mr. Koenig pointed out that each department is unique and expressed the desire for Council to authorize the positions and allow staff to execute the budget based on that.

Mr. Hare expressed his opinion that if someone was not hired within six (6) months of a vacancy, the position was not that important. He reiterated his view that positions that remain vacant for more than six (6) months should be vetted.

Mr. Hosfelt stated that this matter was previously discussed last fall and Ms. Kim Hawkins, Human Resources Director, had prepared a report for him in this regard. He questioned if this report could be updated and given to all members of Council to provide a better understanding of recruitment, and Mr. Koenig stated that this could be done.

Responding to Mr. Hosfelt as to whether employees were quitting due to the pay scale, benefits, or other reasons, Mr. Koenig explained that some employees find the job different from what they expected, others have left during the review period because they were not a good fit for the organization, and some have transferred to another department. He noted that openings can cause a cascade effect in the organization that affects four (4) or five (5) positions. Mr. Koenig advised that there have been increasing discussions and complaints about the closure of the defined benefit pension plan, and some employees feel that the defined contribution plan is a retirement savings plan that is not the same as a defined benefit plan. He noted that this is a matter of perspective since the City's defined contribution plan is better than some private sector companies that do not offer anything. Mr. Koenig stated that some employees had left or retired because they were unhappy that the City was about to require health care cost sharing, and this was still rippling through the organization three (3) or four (4) years later. He explained that there had been recent instances when a selection was made for a position and the candidate asked for $3 or $4 per hour more than what was offered, and staff did not have the ability to do this. He noted that in some cases union negotiations had taken away a tool that private sector companies might be able to use since a union did not want the City to leapfrog over staff that had been working with the City for a while. The City had wanted to hire employees at levels ranging from A to E; however, the union wanted to use only levels A to C.

Mr. Koenig expressed additional concerns about changes in the private marketplace that were affecting employees, especially new, younger employees who may be covered by their parents for health insurance and for whom the benefit package may not register. He advised members that the hourly rate is what matters to these employees, but health insurance is a major part of the City's total cost for employment, and the City cannot convert the value of health care to an hourly rate addition under any of the City's union contracts because this is not an acceptable way to hire. Mr. Koenig noted that in some cases municipalities not far from Dover are hiring at $2 an hour higher, and the City has challenges in the workforce and in recruitment.

Mr. Sudler questioned if interim employees are selected to fill positions when employees resign and how soon staff solicits, considers, and interviews prospective employees. Responding, Mr. Koenig stated this would depend on the position and the part of the organization involved. In some cases a position's duties are absorbed by other employees in the office; however, there are interim appointments at the department head level because someone must be the overall authority in the department.

In regard to recruitment, Mr. Koenig explained that once an employee resigns it is up to the department to fill out a written request to recruit and indicate that this is a position that is needed and not a placeholder. This is submitted to the City Manager for review and forwarded to the Human Resources Department. The sooner the department head submits paperwork, the sooner they get into

the queue for advertising. Some departments focus a lot of time and attention immediately when someone resigns; others take a more structured approach. Mr. Koenig indicated that there was not an across-the-board answer to Mr. Sudler's question, because department heads, in some cases, control a portion of the equation to get everything in, have interviews scheduled, and make selections.

Mr. Sudler asked if it would be beneficial for City Council to designate a time frame across the board for all departments to solicit for positions. Responding, Mr. Koenig expressed his belief that this was not necessary.

Mr. Hare concurred that a designated time frame was not necessary; however, he felt that if a department head loses an individual and goes half a year before considering hiring someone, they may not be the right person to be a department head in a key position. He believed they should come before the Legislative, Finance, and Administration Committee to explain why it took so long, noting that it does not take half a year to find a replacement in the business sector.

In response to Mayor Christiansen regarding venues where City employees are solicited, Mr. Koenig indicated that very few positions are posted in the newspaper anymore; however, they are posted on the City's website and other social media outlets, and many are shared by City employees. Positions are posted on all bulletin boards, and staff shares information with Delaware Technical and Community College and has participated in job fairs there. Mr. Koenig indicated that the City had held its own job fairs and, for some of the more technical positions, staff had advertised in national journals. It was Mr. Koenig's belief that related links are also sent to Delaware State University. The number of applications received can range from four (4) or five (5) to several hundred, depending on the time of year or the market. Mr. Koenig stated that a wide range of outlets is used for jobs, and it may be a matter of whether people want to select the City as an employer. He noted that it took quite a while to hire a number of technical jobs, such as engineering staff, and to fill the Electric Director position. Mr. Koenig informed members that the services of a recruiter were engaged for the Electric Director position and this did not work; however, staff received contacts from people in the industry that had experience in this type of work. Mr. Koenig noted that advertising for positions in trade journals, etc., can cost several thousand dollars. He assured members that staff was always hoping to expand when reaching out to job applicants because each department head wants to hire the best person available for their opening.

Mr. Anderson, noting that electric costs had decreased, questioned the reason for the slight increase in funding for street lights and if these funds would be used for retooling or replacing street lights. Responding, Mr. Koenig expressed his belief that the street light payment identified in the General Fund was for electricity and maintenance related to those lights, stating that there was no proposed change to the electric rate for FY 17. He indicated that lights were being added and the system was getting bigger.

In response to Mr. Anderson as to whether the City continued to use temporary help, Mr. Koenig stated that the City uses temporary help in the Grounds and Sanitation Divisions. He indicated that there were difficulties with temporary help, noting that these individuals are required to pass

background checks, are not allowed to drive because of CDL issues, and are restricted to pure labor functions such as cutting grass, sanitation, and work in the Streets Division, such as collection and assisting the sign painter. To Mr. Koenig's knowledge, temporary help had not been used recently in administration.

Mr. Koenig reviewed the Water/Wastewater Fund Summary, noting that there had been adjustments to beginning balances. Under base reviews for FY 17, he indicated that staff was still assessing the impact of revenues from Calpine. The total revenue for Water/Wastewater in FY 16 was slightly over $15M and was projected at $15.8M for FY 17. Mr. Koenig pointed out slight growth in wastewater revenues due to new connections. The total increase in revenue would be approximately $89,500 for water/wastewater.

Mr. Koenig indicated that expenses in the Water/Wastewater Fund included transfers, the cost of engineering, the cost of running the plant, etc. Wholesale changes were not requested in the capital plan, and staff was trying to stick with the general authorizations that Council had expected over the five (5) year period. Mr. Koenig informed members that debt service would be issued in the Water/Wastewater Fund, noting that a treatment upgrade was planned for the Long Point Road Treatment Plant and design was almost complete. Construction was currently estimated at approximately $2.4M and the State revolving fund would be used for this. The State revolving fund would also be used for pump station replacement and upgrade projects. Mr. Koenig felt that staff was having success in working their way through capital project authorizations and starting to catch up with the expenditures that Council had authorized in years past. The backlog of projects had been decreasing over the last couple of years, although there had been times when it had been necessary to come before Council to modify project budgets due to estimates that had been incorrect and bids that had come in high. In some cases, projects had been finished under budget and project budgets were transferred. Mr. Koenig stated that staff had focused on modifying the capital plan to stay within the financial authorization of Council. He advised that all wastewater is sent to Kent County for treatment, and this is a direct pass-through cost.

Mr. Hutchison questioned how the financial numbers from Calpine compared to projections, based on the short period of time that Calpine had been in operation. Responding, Mr. Koenig stated there was discussion early on that revenues were projected in the $1.6M range; however, this year's revenues for water were only projected at approximately $700,000 to $800,000 for the Garrison Energy Center. He noted that it had been less than one (1) full year since construction finished and there was a major outage in the fall while things were being finalized. Mr. Koenig indicated that the City was seeing the ramp-up of this facility moving into the springtime, and he felt it would be another six (6) months before there would be a true gauge of the final numbers. He indicated that water revenues seemed to be slightly less than projected but the sewer revenues slightly more, noting that Calpine may have been referring to both water and sewer when they provided the $1.6M figure. Mr. Koenig informed members that Calpine is the top water user in the system and as their run profile starts to solidify, the true revenue profile will be seen.

In response to Mr. Hare's request for clarification regarding Intrafund Service Fees and Bank and Credit Card Service Fees, Mr. Koenig stated that the City's customers use credit cards to pay bills at Customer Service, but the City absorbs the transaction fees, which are allocated to the different funds.

Mr. Hare questioned if the City should consider charging an additional 1.5% or 2% for those using credit cards to pay, as many other companies do. Responding, Mr. Koenig stated that staff had gone back and forth on that internally; however, he did not agree with charging customers an additional fee, noting that a transaction cost is not paid for using a debit card at stores like Walmart. He expressed the desire to encourage people to pay their bills and not avoid doing so because of the credit card fee. Mr. Koenig felt that, with a perfect rate design, the City would assume that everyone is using credit and this would be included in the rate; however, this was not the case currently. He advised that payment procedures are slightly different from department to department, noting that a customer cannot walk up and swipe a card to pay a bill in Customer Service but must go off to the side and make a phone transaction, and the system is not where he would like it to be. Those who pay for a building permit in the Planning Department can swipe a credit card.

In regard to Intrafund Service Fees, Mrs. Mitchell informed members that this is where administrative costs for the City Manager's Office, City Council, City Clerk, Finance, Human Resources, Information Technology, Facilities, Fleet, and Warehouse are allocated to all three (3) funds. This is calculated using formulas based on assets, personnel costs for Human Resources, and the head count. Mrs. Mitchell indicated that Water/Wastewater Fund assets had climbed since more projects had been completed, which drove their allocation percentage higher. The Electric Fund's percentage of those costs remained stable.

Mr. Slavin clarified that this was the business side cost of running the utility. He cautioned members that when budget hearings are held in May, cuts are sometimes offered as a way of saving money in the General Fund; however, 100% of that cost is not always saved in the General Fund because costs are sometimes allocated across the three (3) different funds.

Mr. Sudler asked how long the City had been allocating for Intrafund Services. Responding, Mrs. Mitchell stated that this had been done since the 1980s.

Mr. Neil stated his presumption that credit card costs had been negotiated at the lowest possible level. He noted that volume retailers can get a lower rate and questioned if the City does that as well. Responding, Mrs. Mitchell stated that credit card and merchant services are bid out when the City bids out bank services and staff looks for the lowest rates.

Mr. Koenig pointed out, in regard to potential future rate changes for the water and sewer utility, that when talking to the State water is a scarce resource. Staff spends a lot of time and energy trying to plan the City's water resources and make sure the City has the permits to pump out as much water as needed from the system. The City is monitored closely by Public Health regarding the quality of water and must pass inspections and testing. Mr. Koenig informed members that as allocation permits have come up for renewal, modifying these permits has been discussed. In the past, there

may have been eight (8) wells that were all at 1,000 gallons, but if a well can pump only 680 gallons, that permit is adjusted down to 680 gallons. Mr. Koenig indicated that staff had been doing a lot of permit management and discussion with the State about the incentive to value water as a resource. He explained that when water is cheap, it is not valued as much as when it is expensive. When discussing allocation expansion, the State looks at rate design, whether people are being encouraged to save water, and if there is an active promotion of low-flow faucets and fixtures. Mr. Koenig stated that when considering how to develop the City's next water resource, discussion about rates will become part of the equation. When the City applies for the State revolving fund, they look at the City's financial abilities and the bond market. Mr. Koenig pointed out that some private sector providers have a tiered system where more water being used results in a higher rate being paid. He felt that future rate design for the water and sewer utility would likely mirror that type of philosophy. Mr. Koenig stated that this discussion was a precursor to consideration of the next rate adjustment and advised members that they would see a proposal from his office regarding a block rate design.

Mr. Sudler asked if the City has incentive programs for residents to save water. Responding, Mr. Koenig stated that staff does not go in and tell people to use low-flush toilets; however, new plumbing codes for new construction and remodeling have requirements for things such as low-flush and low-flow faucets. Behavior changes are also occurring as part of the sales market. Mr. Koenig felt that the price of water in the City of Dover, at $3 per thousand gallons, was not driving people to be more efficient in water use; however, such changes were being driven by the desire to save resources or to change fixtures.

In response to Mr. Sudler regarding the plumbing code used by the City, Mrs. Ann Marie Townshend, Director of Planning and Community Development, stated that the City had adopted the 2009 code but the State had adopted the 2015 code and requires the City to use what they adopt; therefore, the City had been using the 2015 code. Mrs. Townshend explained that the International Code Council (ICC) comes out with updated codes every three (3) years. Since adopting new codes every three (3) years would be a challenge administratively, in training code officials, and in working with the development community, the City had typically done this every six (6) years. Mrs. Townshend indicated that there had been discussion about adopting the 2012 code, which is used by Kent County; however, the 2015 code had now been issued. She stated that the City would either adopt the 2015 code, since they were required to use the plumbing and energy codes for 2015 by the State, or would wait until 2018.

Responding to Mr. Sudler, Mrs. Townshend advised that the 2009 codes were adopted by reference in Chapter 22 of the City of Dover Municipal Code.

In response to Ms. Maucher regarding when the last cost of service rate design was performed, Mr. Koenig stated his belief that the City had never had a true cost of service rate design done by a consultant for the water/wastewater utility. He advised that the utility's rate design was very rudimentary. Mr. Koenig stated that it took approximately four (4) or five (5) attempts to get a customer charge for the water rate on the water portion of the bill. In the future, when discussing the inclining block, Mr. Koenig felt that the City may want to do a cost of service rate design, noting that large customers have a substantial impact on the system that is probably not, from a rate design

standpoint, being allocated and reported through those types of standards. Mr. Koenig stated that the electric cost of service is very detailed and involves a lot of accounting and discussion; however, in regard to water, staff looks at how much is pumped into the system, the losses, and the capital plan and then develops a rate. Everyone is treated equally; however, Mr. Koenig felt that there would be a need to look at the cost of service to get a fair allocation of costs as the City moves toward a more modern utility.

In regard to expanding City water and water rights in new wells and aquifers, Mr. Anderson asked if there were any potential cost increases in the future when drilling in deeper aquifers. Responding, Mr. Koenig stated that there would be cost increases without question. He explained that the City draws from three (3) aquifers: 1) the Columbia, which is the unconfined aquifer on the east side of the City; 2) the Cheswold, which is a middle-depth confined aquifer; and 3) the Piney Point, which is a deep, confined aquifer. Mr. Koenig advised that the State has not allowed very many, if any, new wells in Piney Point because they are concerned about mining the water out of this aquifer; therefore, Piney Point is the most difficult to get a new well in. He explained that the City was able to drill a new well at Piney Point because two (2) old permits were given up, the permit location and allocation were moved to obtain authorization to go into the aquifer, and there were no additional allocations of water for this.

Mr. Koenig informed members that there seemed to be some room for expansion in the Cheswold aquifer and a new well was being proposed in the capital plan for this. He indicated that staff originally planned to go into the very deep Frederica aquifer; however, after working with the State, it appeared that the City may be able to get into the Cheswold aquifer and get the appropriate allocation at a mid-range depth, which would significantly reduce the cost of the well. Otherwise, it would be necessary to go deeper than Piney Point to get water, which could lead to additional costs.

Mr. Koenig indicated that a permit was issued in the early 1990s at the Long Point treatment plant. He noted that this area was under heavy influence of agricultural wells now and the City's long-term allocation there was shrinking. Mr. Koenig informed members that as much as 5M gallons were expected to run through this plant when it was originally designed. The plant redesign 27 years later was in the 3M gallon range, with the potential to expand to up to 4M. Mr. Koenig stated that in the 20 plus years that the plant had been in operation, it had probably never pulled even 3M gallons a day from the aquifer. There was room for growth from the City's system in the aquifer; however, in the overall umbrella of the City, the City would be pulling from the confined aquifers, and the costs would be significant when the City has to drill new wells. To Mr. Koenig's recollection, the cost was approximately $1.1M for the Piney Point well that produced approximately 600 to 700 gallons per minute.

Mr. Anderson questioned what would happen if there were expansions at the Garrison Oak Technology Park, such as for Calpine. Responding, Mr. Koenig stated that the engineering calculations for Calpine coming online indicated that the City would need a new tower immediately; however, Calpine had now been running for nine (9) months. The tower was nearly ready to go into service; however, the system went through the summer and the end of the last season without the need for the tower to be online. Mr. Koenig explained that when engineering calculations are run

for margins of safety and safe allocations, it is assumed that a major facility is offline, as if there were a major fire going on, which creates a handicap. He advised that the system was currently designed so that Block 1 would not affect allocation.

Mr. Koenig stated that if Calpine moves forward with Block 2, the City would look at the run profile of Block 1, as well the expected demand from a second block. He noted that estimates for a second block had ranged from 50MW to 520MW, and staff had not been able to get a definite answer from Calpine on this. Mr. Koenig indicated there had been changes in the City's Code since Block 1 was authorized; therefore, if Calpine proceeds with Block 2, there would be no cap on their impact fees. Mr. Koenig stated his belief that the impact fee for water and sewer for Block 1 would be more than $15M; therefore, Calpine would have to make a significant capital transfer to the City for Block 2 under the current ordinance. This money would have to be used to offset an investment for more supply. Mr. Koenig stated that the question, from an engineering standpoint, was whether the City could accommodate Calpine if they wanted to proceed today. He indicated that he did not have this answer tonight; however, the City is ready for those types of things to be introduced.

Responding to Mr. Neil, Mr. Koenig stated that City encompasses approximately 24 square miles; however, the City's electric service territory granted by the State is approximately 74 square miles, which is almost three (3) times the size of the City. In regard to the water service territory, Mr. Koenig estimated that 80% to 90% of the customers outside City limits are residential. There are subdivisions outside the City that receive City water and in some cases, City sewer, such as Rodney Village, Kent Acres, St. Jones Commons, and Wolfe Creek. Service areas extend beyond the City perhaps five (5) to 15 square miles. Some customers outside the City have electric, water, and sewer; some electric or water only; some have other combinations.

In response to Mr. Hutchison regarding the volume of calls regarding brown water with increased water usage on the east side and the flushing of pipes, Mr. Koenig stated that there were approximately 10-20 complaints reflected on a flushing report last week, and he expressed his impression that the number of calls was down. He noted that there is a lot of water running through the east side of the system when Calpine is running and the system is self-cleaning in some cases. Mr. Koenig indicated that complaints had decreased from years past.

Responding to Ms. Maucher regarding the rate differential for in-City versus out-of-City customers, Mr. Koenig stated his belief that this was spelled out in the Code and the differential was 50%. The in-City rate is $3.00 for 1,000 gallons, compared to $4.50 per 1,000 gallons outside the City.

Expressing his opinion that $3 per 1,000 gallons seemed like a very good rate, Mr. Hare questioned how often the City checks its water rates. Responding, Mr. Koenig stated that this is an excellent rate from the customer standpoint. He explained that the Finance Department had solicited rates from a number of municipalities, and a comparison of public and private providers would be provided during the upcoming budget hearings.

In response to Mr. Anderson, Mr. Koenig confirmed that the City's rates are so low that Tidewater Utilities buys water from the City and has three (3) active interconnections: 1) at Denney's and Kenton Roads; 2) at Denney's Road and Carlisle Village, and 3) running south on State Street, which feeds mobile home parks and other areas. Mr. Koenig explained that Tidewater has several of the top 10 meters that produce for the City of Dover. They buy at the in-City rate at $3 per 1,000 gallons and sell it in accordance with their tariff, which Mr. Koenig believed exceeds $8 per 1,000 gallons.

In regard to wastewater, Mr. Anderson noted that the City had put a lot of money into reducing infiltration over the last five (5) years and asked if a benefit had been received from this. Responding, Mr. Koenig stated that there had been a benefit. He noted that the Public Works Department had submitted applications for the return of impact fee credits related to Inflow and Infiltration (I & I) and he indicated that he would bring this report to the budget hearings. Mr. Koenig explained that I & I is outside rainwater and groundwater penetrating into the sanitary sewer system. He stated that this is a burden on the system that the City, as a utility, is paying extra to treat.

Mr. Slavin noted that the City sends rainwater to Kent County, who cleans it, and the City is charged for this.

Responding to Mr. Anderson as to whether the City had been able to reduce the amount that the City had been investing, Mr. Koenig indicated that he did not have those numbers with him but would bring the data to the budget hearings.

In regard to credit cards and their effect on all three (3) funds, Mrs. Mitchell advised members that in the past, all bank and credit card fees were netted against interest income; however, staff had made an accounting change. For example, referring to the Water/Wastewater Fund Summary, Lines 12-13, regarding water and wastewater interest, she explained that the figures for 2014/15 Actual were negative because those fees were netted against the interest. Referring to Line 31, Bank and Credit Card Fees, she explained that there was a zero balance, because staff did not have this information segregated at that time. Mrs. Mitchell stated that staff had since segregated the bank fees, so the interest earned increased in each of the funds.

In regard to the Electric Revenue Fund Summary, Mr. Koenig informed members that the Electric Fund had slightly over $80M in revenue. He stated that the largest revenue was from Direct Sales to Customer, which was projected to increase slightly by $712,000 or 0.9% because a slight increase in the load profile was projected. Mr. Koenig reminded members that there had been a lot of conflict and uncertainty in the industry. There had been fairly large expansions of commercial customers, including the Edgewell/Energizer and Kraft Heinz facilities; however, the long-term load profile of the utility was expected to be relatively flat. He noted that the utility is under a lot of influence from people wanting to put in private solar and other measures that will affect the system. Mr. Koenig indicated that there was a very slight increase in direct sales to customers, which cascades down into utility tax revenue, and a slight increase in miscellaneous revenue. He noted that the transfer from the Rate Stabilization Fund would be decreased for FY 17. Total revenues associated with the proposed FY 17 budget would be roughly $81.3M; however, there was a very substantial beginning

balance in revenues of approximately $93.9M, resulting in a total change of approximately $4.2M or an increase of approximately 4.7% from FY 16.

In regard to expenses, Mr. Koenig informed members that the cost of power supply had been decreasing, and this trend was expected to be realized in FY 17, although staff was still working on related issues for FY 16. Mr. Koenig pointed out that PJM charges regarding transmission were going up substantially, noting that it seemed that money was being moved from one (1) bucket to another to adjust to how the system is charging the City for power from the grid. He stated that there were additional capacity charges. Mr. Koenig indicated that power plant operations were proposed to decrease slightly by approximately $217,000, and the total cost of power supply and generation was approximately $49.1M.

Mr. Koenig pointed out that the transfer to Improvement & Extension (I & E) in the amount of $2.5M was to keep the City's infrastructure up to date. There was a $10M transfer to the General Fund and transfers to the depreciation, future capacity and rate stabilization reserves, with transfers totaling approximately $15.25M. The total budget balance and expenses resulted in a positive balance of approximately $4.2M.

Mr. Koenig, referring to Line 62, Exceeds (Remains) to Meet Requirement, indicated that the Electric Fund was over the policy requirements by approximately $5.15M. He advised that adjustments were needed to this and the other funds, noting that one (1) of the capital projects would influence the FY 17 budget and one (1) the FY 18 budget in the Electric Fund. Substation replacements were also being discussed in the five (5) year plan, and whether cash would be paid or debt would be issued for these things. Mr. Koenig reiterated that the Electric Fund had a positive balance; however, this number would be refined moving forward as proposals related to the Electric Fund are made in the final budget discussions.

Mr. Blakeman, referring to Line 13, Power Supply, of the Electric Revenue Fund Summary, noted that the cost of power supply was projected to decrease by $6.8M or approximately 29%, and asked if this was a one (1) year anomaly or was anticipated to be an ongoing trend, and if this was a fixed cost that is projected out. Responding, Mr. Koenig advised members that Mrs. Mitchell had indicated that these figures reflected the open hedge position as well as the purchase position, so this was why there was a large decrease in power supply but an increase in PJM transmission and fees. He stated that there is some influence in the hedge purchasing moving forward.

Mr. Blakeman asked whether hedging was bringing the price down and if the City was still buying the same number of kilowatt hours. Responding, Mrs. Mitchell explained that this was not the case. She explained that there was unhedged energy since hedges were not 100% covered. The hedges are included in the power supply, but the PJM figures reflect buying off the market and are the offset to what the City has not hedged. Mrs. Mitchell stated that the City may be 100% hedged in the current year, but may be only 80% hedged in 2017, the out year. Mrs. Mitchell stated that the figures represented the hedges that are in place. The unhedged energy comes from the PJM; therefore, these two (2) figures must be netted together.

Mr. Blakeman asked if this discussion pertained to the PJM spot market energy, and Mrs. Mitchell confirmed this. Mr. Blakeman indicated that this was decreased by approximately 52.9% in FY 17. Mrs. Mitchell stated her belief that the unhedged energy was included in the PJM Charges - Transmission and Fees, on Line 19 of the Electric Revenue Fund Summary. Mr. Blakeman questioned if transmission and fees included energy rather than services for transmission. Responding, Mrs. Mitchell stated her belief that the unhedged energy is included in the PJM energy and transmission, and the projection was increased by approximately $4.3M for FY 17 because this was the unhedged portion. She confirmed that transmission fees include some energy; however, she indicated that she would have review this to make sure that amounts were in the correct place.

Mr. Blakeman noted that capacity charges were approximately the same for FY 17; however, the capacity credits were decreased by approximately 29%. He questioned if this decrease in the cost of capacity was an ongoing trend. Responding, Mr. Koenig stated that a temporary dip was projected for FY 17 and a temporary rebound was then projected for a couple of years, followed by what he felt could be termed as some question marks.

Mr. Blakeman asked if transmission and distribution under direct expenditures were decreased due to a reduction in manning or material costs. In response, Mr. Koenig stated that this was being driven by the reductions in pension and OPEB funding since the City was on schedule in this regard. He noted that the City had to put extra money in for a while, but this had now leveled off and started to decline in the Electric Fund. He reiterated that this was the City's only fund in this position.

Mr. Anderson asked at what percentage the City was covered for price increases or hedging for FY 17. Responding, Mr. Koenig stated his recollection that the target when entering the budget year on July 1, 2017 would be approximately 80%. He indicated that the City was getting close for FY 18, and some of the other purchases made for some of the out years were close to 80%. Mr. Koenig advised members that the City would be right at or a little above 80%.

Noting the decline in capacity credits, Mr. Anderson questioned whether the City was getting less in capacity credits because the cost of power was down, and he inquired if these items track together. In response, Mr. Maloney stated that the drop in the City's capacity credits was due to an outage during the peak period in the last week of February 2015. He indicated that the City took a temporary hit that was showing up in this year's budget. Mr. Maloney stated that there was a need to go out and find replacement capacity, and this was the added cost. He projected that this should be a one (1) year rebound, noting that in this capacity planning year the City had been doing very well and there had not been any outages.

Mr. Neil noted that two (2) of the old plants would be going offline and questioned if this was reflected in the calculations. Responding, Mr. Maloney stated that buying replacement capacity for these plants would not be reflected until FY 18.

Mr. Koenig reviewed the Governmental Capital Projects Fund Summary, which identified the different revenue sources and predicted expenditures related to the capital plan for each department. The proposed revenue and expenditures were approximately $11.3M.

Mr. Anderson indicated that a developer had made a PILOT payment and questioned why this did not appear in the budget for the Parkland Reserve. Responding, Mrs. Mitchell advised members that none of the reserve funds were included at this point, but they would be included when the budget is brought forward in May. She indicated that staff had focused on the three (3) major funds for this presentation.

Mr. Koenig reviewed the Water/Wastewater Improvement & Extension Fund Summary, which had a total beginning balance and revenues of approximately $7.8M between the two (2) funds. There were expenditures of $1.33M in water, slightly over $2M in wastewater, and $1.2M in treatment expenses. He advised that total expenditures were roughly $4.5M, which would cover capital improvement and vehicle purchase expenditures.

Responding to Mr. Hare, Mr. Koenig stated that detailed information regarding the vehicles was provided in the Preliminary Capital Investment Plan - FY17 thru FY21, and staff would come back with a presentation on vehicles as part of the overall budget. He indicated that this evening's meeting was for a general overview of the expected expenses by category.

Mr. Koenig reviewed the Electric Improvement & Extension Fund Summary, noted that it was related to capital projects. He stated that a portion was for generation, transmission and distribution, electrical engineering, and meter reading.

In summary, Mr. Koenig stated that the Electric Fund, while challenging, was going fairly well, noting that the electric system received a reliability award during the City Council meeting held the previous night. He stated that this was an important award from an economic development and customer service standpoint. Mr. Koenig indicated that this was a reflection of the dedication of staff in keeping the system running, the City's continuing investment in keeping the system running 24/7 with very few interruptions, and the City's return on this investment.

Mr. Koenig advised members that there were challenges on the water and sewer side. The City had not quite reached the revenue plateaus that were originally promised for Calpine, but staff was working through some of the actual run profiles to see what the final revenues would be. The City was investing in the expansion of the supply side of the system, water pumping stations, the water treatment plant, renewals and replacement of pipe to improve water quality, and increased diameters in pipe sizes. He indicated that, when taking on new developments, the electric and water/wastewater systems are getting bigger and there are more customers, so there is an opportunity to expand these systems and increase the revenues associated with them. Mr. Koenig stated that challenges associated with the water/wastewater system were the future rate design issue, the future structure of water, and the continued focus and effort on renewals and replacement of the system, noting that, in some cases, pipe had been in the ground for 100 years and was still performing.

Mr. Koenig reiterated that the biggest challenge would be in the General Fund, as it had been for a number of years. There were some positive things over the last few years, including an uptick in realty transfer taxes and increased construction activity. He noted that an increase in houses being built results in new commercial structures being built. Mr. Koenig felt that these were good signs

for revenues coming into the local government, since the City derives a substantial amount of revenue from property transfers and construction-related activity. When the economy is moving in the City and there are real estate transfers, this usually equates to the City's budget improving from an overall revenue standpoint. Mr. Koenig stated that challenges associated with the General Fund include increased public safety spending for the police and potential fire purchases going forward, as well as increased spending related to the MS4 permit. He advised members that there was not a recommendation in the current proposal for non-bargaining salaries; however, all of the labor contracts that had been signed and were in place were reflected in the proposal. Mr. Koenig indicated that there was an uptick in health care costs, but these were being offset, in some cases, by decreases in funding to the Electric Fund. He also noted that there was some pension cost escalation related to the General Fund. Mr. Koenig indicated that staff would be bringing forward some discussions regarding how to fund public safety in the budget hearings, but staff was very conscious of the heavy lift that Council did with regard to the property tax rate increase last year and was committed to maintaining that property tax rate. Staff felt that, with some minor adjustments, the current level of service could be delivered within the current tax structure.

Mr. Slavin stated that the proposed capital plan would be reviewed at a later date.

Mr. Anderson questioned what formula was being used to project transfer taxes. Responding, Mrs. Mitchell advised members that the last three (3) to five (5) years in the Municast forecast model provided the basis for the preliminary numbers in the draft budget. Changes in these trends are reviewed and, based on that, staff prepares an estimate looking at the year to date. Mrs. Mitchell stated that staff does not look at property sales, noting that considering just the number of sales distorts the estimate. She indicated that trends in residential housing are fairly stable, so staff uses these figures and ramps them up to account for what they think may be the large receipts, such as those for apartment complexes. Mrs. Mitchell noted that there had been several large receipts in the current fiscal year totaling more than $0.5M, which occurs in some years and not in others, so staff tries to be conservative in their estimates.

In response to Mr. Anderson regarding how confident staff was with revenue numbers, Mrs. Mitchell stated her personal level of confidence at 90% - 95%. Mr. Sudler asked what would be included in the missing 5%, and Mrs. Mitchell indicated that she did not know what might be missing but, as a precaution, she did not want to say that staff felt 100% confident.

Mr. Koenig stated that in general he was very confident in the overall numbers. He stated the desire to take one more look at both the expense and revenue sides coming into the final budget presentation. Mr. Koenig indicated that the transfer tax is somewhat challenging from the administrative side and he did not want to overestimate it. He did not want the transfer tax to be the budget balancer, because he felt this would be a slippery slope from the administrative side. In regard to property taxes, Mr. Koenig indicated that Mrs. Cheryl Bundek, Tax Assessor, would probably be asked once more if she was sure of the numbers or if there would be changes; however, he felt this would not fluctuate very much. He stated that staff now accounts for exemptions that are issued, and the number presented was the number that staff expected to receive during the budget year based on current calculations. Mr. Koenig indicated that staff may review permits, licenses, and

Planning Commission authorizations to see what has happened during the past few months, but he did not expect large changes amounting to several hundred thousand dollars.

In response to Mr. Anderson as to when members would hear proposals resulting from the public safety study being conducted by the Center for Public Safety Management, Mr. Koenig stated that fire and Emergency Medical Services (EMS) recommendations were available on the City's website. He expressed his desire for the consultant who prepared the report to provide a presentation to Council or the Council Committee of the Whole; however, this had not been scheduled and it was uncertain if it would occur before, during, or after the end of the budget hearings. Mr. Koenig indicated that the consultant had done a site visit two (2) or three (3) weeks ago regarding the police portion of the study. He expressed his hope that this report would be finalized and made available in the next six (6) to eight (8) weeks.

In response to Mr. Shevock as to whether the decreasing landfill fees are offset by recycling fees, Mr. Koenig stated his recollection that the reduction in tipping fees was between $6.00 and $10.00 per ton. He explained that the City typically signs a differential disposal fee agreement with the Delaware Solid Waste Authority (DSWA) that sets the City's fee for a three (3) year period, and this agreement is approved by Council. Mr. Koenig noted that the DSWA is the City's only option for solid waste disposal. He advised members that there had been some difficulty with the performance of the City's recycling contractor and thought it likely that there would be internal discussion and proposals at the administrative level regarding how the City would handle recycling in the long run. He stated that the expense for the contractor exceeds the reduction in the landfill tipping fee; therefore, there was a net increase in expenses and staff was not happy with the service. Mr. Koenig indicated that he would like to implement weekly recycling since he believed this would increase the amount of recycling, noting that this would create some operational problems. He indicated that he would not be bringing this proposal for the FY 17 budget. Mr. Koenig explained that currently there was a need to separate waste and touch it more times, so costs were going up. Previously, customers put yard waste, household trash, and recycling in a 90-gallon, black trash containers, which were picked up and dumped by the City; however, staff was now under pressure to separate recycling, household garbage and yard waste, and bulk trash and yard waste are also picked up. Mr. Koenig stated that the service was being stretched. There were also challenges in areas with higher density or smaller properties, with limited space for setting out containers while allowing distance between containers and space for cars. Mr. Koenig indicated the need for the City to adjust and modify service delivery, and to discuss this with communities, noting that there may not be a one (1) size fits all for communities. He stated his belief that sanitation service would be modified over the next several budget cycles. Mr. Koenig stated that some customers have recycling every week but not trash, which is difficult for the City as a service provider to adjust to. He indicated that the City was having difficulty providing levels of service that customers are happy with, and the sanitation budget is challenging. He reiterated that at this point the tipping cost reduction would not cover the cost of recycling or enhanced recycling. Costs were close, but there was not a one (1) to one (1) ratio.

Mr. Neil moved for adjournment of the Council Committee of the Whole meeting, seconded by Mr. Hosfelt and unanimously carried.

Meeting adjourned at 8:01 p.m.

Timothy A. Slavin
Council President

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