AD HOC FINANCIAL AND OPERATIONAL ADVISORY COMMITTEE

The Financial and Operational Advisory Committee Meeting was held on April 17, 2014 at 5:30 p.m. with Chairman Holden presiding. Members present were Councilman Hutchison, Mr. White, and Mr. Smith. Dr. Newton, Councilman Perza and Councilman Slavin were absent. Mayor Carey was also present.

Mr. Holden reminded those present that the Committee's purpose was to look at the City through a new set of eyes, from the outside in, keeping in mind that forecasters had indicated that three (3) years from now the City would be running an approximate $7.5M deficit. He noted that participation of all of those in the City was needed. He projected that it would take the balance of this year, and perhaps into the next year, to accomplish this. Mr. Holden stated that the organizational structure of the City would be examined, including the allocation of expenses for staffing and services provided by the City, including utilities, trash collection, landscaping, and public safety services, such as those provided by the Fire and Police Departments.

Mr. Holden noted that he reads financial articles, such as those in *The New York Times*, *Barron's Magazine*, *The Wall Street Journal,* and *The Wilmington Morning News* and provided two (2) such articles to members ***(Attachment #1)***. He stated his feeling that the crux of the City's problems will be related to the bond rating agencies that rate the City's debt service, noting that if they decide that the City is not meeting standards and lower its credit rating, particularly to "junk" status, as had happened to Puerto Rico, Detroit, and California cities, this would be a financial disaster for the City and would impact the current compensation and future pension benefits of City of Dover employees. He expressed concerns about the City's level of funding for employee pensions, noting that this had been a concern for the last decade in Detroit. Mr. Holden explained that Detroit employees may receive as little as 30% of their pension entitlement as a result of an unfunded gap and that the City of Dover has an unfunded gap as well. Mr. Holden acknowledged that the City had a plan to put money into the fund; however, this plan would take 30 years to execute, which was too long in his opinion. He reminded those present of the background and experience that Committee members had in the financial services industry and stated that members wanted to make sure that employees' pensions would be there for them upon retirement.

Responding to Mr. Hutchison regarding the amount of the City's budget shortfall for FY 15, Mr. Scott Koenig, City Manager, stated that a budget gap of $3M was projected for FY 15 during the Special Council Meeting - Budget Workshop held on March 31, 2014.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was approved as presented.

Adoption of Minutes - Regular Meeting of February 27, 2014

Mr. Hutchison moved for approval of the Regular Meeting Minutes of February 27, 2014, seconded by Mr. Smith and unanimously carried.

Review of Kent County 911 Center Visits

Responding to Mark Hall, Acting Deputy Fire Chief, Dover Fire Department, and Volunteer and Communications Operator, Dover Police Department 911 Center, Mr. Holden confirmed that employees of the City of Detroit may receive as little as 30% of their pension entitlement. Mr. Hall

questioned the number of businesses that Detroit lost from 1974 to the present and by how much its population had decreased from the 1970s to the present. Mr. Hall stated his understanding that Detroit's population had declined from 12 million to 750,000, noting that the City of Dover was nowhere near the size of Detroit and should not be compared to it. Mr. Hall stated his understanding that the City's budget deficit was projected to be approximately $7.5M in three (3) years and questioned the amount of Detroit's deficit.

Responding, Mr. Holden stated that Detroit's deficit was sufficient enough to cause the City of Detroit to file for bankruptcy and that the numbers were not relevant. He expressed concern that the City of Dover was $3M behind and planned to catch up over a period of 29 - 30 years. He stated his belief that the City's pension stated an actuarial rate of 6% or 7%; however, if this percentage was not being invested in the plan, this would create a 6% or 7% deficit every year.

Mr. Hall stated his desire to clarify that the City of Dover, including Council members, the City Manager, and employees present are "not Detroit, we are the City of Dover."

Mr. Holden reiterated his concern about the underfunding of the City of Dover's pension plan, noting that a *New York Times* article stated that Vallejo, California, which is smaller than the City of Dover, was projected to go bankrupt in April, not because they did not wish to pay their employees but because they did not have the money.

Fire Chief Matthew Carey, Dover Fire Department, questioned how members concluded that they should begin with emergency services when considering shortfalls, stating that he felt that this was the last item that should be considered for cuts. Responding, Mr. Holden stated his understanding that emergency services, including the Fire and Police Departments and Emergency Medical Services (EMS), were the largest employee segment in the City of Dover.

Mr. Tim Mullaney, Deputy Fire Marshal and President of the Dover Organization of Employees (DOE), advised members that the DOE was the largest union in the City of Dover.

Mr. Holden stated his belief that the aggregate of the Fire and Police Departments made up approximately one-third of the budget of the General Fund.

Chief Carey advised members that, although the Fire Department has one (1) of the biggest budgets in the City, it has 120 - 150 volunteer members and only five (5) paid City employees (four (4) full-time dispatchers and one (1) assistant), who help the Department remain 100% volunteer. He expressed his opinion that if the Department was not volunteer, the City's budget would be $15M - $20M in the hole, rather than $3M.

Mr. Holden stated that all municipalities in the country were suffering pain financially. He noted problems such as vacant houses, which are a safety issue, a problem for police and often a site of fires, need to be taken into consideration. He indicated that he would stand by using Detroit as an example, and the federal bankruptcy judge's decision regarding Detroit, because he felt that there would not be much difference between the two (2) cities if Dover was upside down financially, as Detroit was. He indicated that case law, rather than the size of the City, is the relevant factor.

Mr. Hall stated that the City of Dover Police Department Annual Report indicated that crime had decreased in the City last year and in each of the two (2) preceding years and felt that crime should be on the increase if the City was in a bad financial state.

Mr. Holden stated that the issues causing a projected $7.5M deficit must be anticipated and dealt with now and that City Council must be told what the problems are. He stated that more review must take place before a vote is taken by the Committee regarding its recommendations and that the Committee was in the phase of "turning over stones." Mr. Holden encouraged those present not to become upset, noting that the members had the long-term financial interest of employees at heart. He reiterated that he did not wish to see what happened in Detroit and Vallejo to occur in Dover. He stated that the City Manager of Vallejo stated that he did not believe that the City's fire and police officials were not worth the compensation they were earning, but there was no longer money to pay them.

Mr. Hall inquired if crime had increased in Vallejo. Mr. Holden stated that a *New York Times* article indicated that the crime level had been "not great but not overwhelming."

Mr. Koenig stated that the intent was to discuss how efficiencies could be improved over the City and to determine if the City was paying for unnecessary extra expenses, and that this was not about employee performance. He stressed that there was no foregone conclusion, but if "we can't get out of the gate to have a discussion," this would make it difficult to move on. He agreed that the City of Dover was not Detroit and he did not want to become Detroit. Mr. Koenig informed those present that the discussion was about a $7.5M gap in the General Fund over five (5) years and if a strategy were not developed to address this, it would be necessary to raise property taxes significantly or cut services, noting that cutting services would result in the loss of jobs and equipment, etc. He emphasized that it was necessary to find a way to work together.

Mr. Hall stated his belief that employees were present because they were concerned about their jobs. Noting that he was starting his ninth year as a City of Dover employee, he wished to know what would be happening with his job and whether he should be searching for employment.

Mr. Jason Osika, Inspector I/Deputy Fire Marshal, and DOE Vice President, expressed his feeling that employees were present at this meeting, as well as the last meeting, due to comments made at a previous meeting regarding the desire for the City not to become another Detroit and the need to cut staff. He indicated that he had met with Police and Fire Department employees in this regard and continued to receive many phone calls from employees who were concerned about their jobs. He felt that if it went on the record tonight that employees did not have to worry about their jobs, there would be much less resistance to the Committee's work.

Mr. Holden stated that the Committee was a long way from making these types of decisions. He did not feel that there was an issue regarding the number of employees, but the question was whether there should be an independent City of Dover call center. It was his understanding that there were 18 fire departments in this service area and only the Dover Fire Department had its own call center.

Chief Carey stated that the Dover Fire Department receives double the number of calls received by any of the other centers and the City's dispatchers' duties extend beyond those of most dispatchers. City dispatchers perform the functions of paid firefighters, which alleviates the stress on volunteers so that they can focus on training and responding to calls. Chief Carey indicated that he did not understand how an educated discussion or review could be conducted on this matter this evening when the entire Committee had not visited the Kent County and City of Dover call centers, noting that Mr. Holden had not yet visited the Dover Center.

Mr. Hutchison explained that the Committee had the opportunity and responsibility to work with the City to review finances. He questioned how many of those present felt that the City could continue to give raises and make the payments being made now if the City of Dover made no changes and stayed at a level of 347 employees with the current budget.

Mr. Mullaney stated that those present were not saying that they did not want changes.

Mr. Hutchison stated that the Committee was in the early stages of review and planned to look at all departments in the City and asked for employees' support to allow the Committee to do its job. He expressed his faith in members' ability to help solve the problems. He noted that $3.5M per year had been lost by the City in real estate transfer taxes that would not be coming back, noting that these funds had been counted on in the budget but were not present, and reiterated that changes would have to be made. He stated that there were 350 vacant houses in the City of Dover, which had placed a tremendous burden on the Planning, Fire, and Police Departments, and on the City as a whole. Mr. Hutchison asked all of those present to allow members to get the facts and reminded them that the Committee would only put the facts together and make financial recommendations to Council, who would move forward after looking at all issues.

Mr. Hall stated that it was not the intent of employees to hinder the Committee in performing their function. He commended Mr. Smith for asking many questions of the Dover Police Department dispatchers in order to learn what they are doing. Mr. Hall felt that it would be difficult for 911 Dispatchers to perform their jobs when they are worried about the Committee's actions. He indicated that it had been stated that 10% - 20% of City jobs may be cut or outsourced; however, noted that the agenda for the Legislative, Finance, and Administration Committee meeting scheduled for May 12, 2014 included consideration of the authorization of a new position - Assistant City Manager. Acknowledging that the City Manager had a very difficult job, Mr. Hall expressed his opinion that if outsourcing or cutting jobs were being considered, it was inappropriate to hire for new positions.

Mr. Holden noted that he had made the comment regarding the possible outsourcing of 10% - 20% of jobs after he distributed information regarding events in Puerto Rico, Detroit, Vallejo, California, etc. In the discussion regarding the City's projected $7.5M and $3M deficits, he made a statement that in order to fix those numbers with only layoffs or outsourcing, it seemed to him that a 10% - 20% range would be required. He did not say that this had to be done and indicated that there would be other ways to resolve this. Mr. Holden noted that part of the problem with compensation nationally had to do with Cost of Living Adjustments (COLAs). He stated that many entities were getting rid of COLAs, including the federal government as it pertains to veterans, noting that he no

longer received a COLA as a disabled war veteran. He felt that these types of things must be addressed first and, after performing initial steps, if necessary cost savings have still not been met, then head counts must be examined.

Mr. Osika stated that employees could no longer do more with less, noting that several years ago employees had taken furloughs. He stated that employees were present to help and had suggestions; however, he did not see how employees could be cut.

Mr. Mullaney stated his expectation that other employee groups would attend meetings of the Committee as they move on to different departments in the City. As the President and Vice President of the DOE, respectively, he stated that he and Mr. Osika had received daily phone calls since the statement was made regarding employee cuts and outsourcing. He suggested, if the comment had been misconstrued, that Mr. Holden issue a statement through the newspapers to revisit this comment or restate what he meant to say.

Mr. Holden stated that Puerto Rico was standing on a financial cliff but managed to sell $3B worth of bonds, at a "horrendous" cost, noting that these were 8% bonds at a discount, which he felt would quicken the process of "going off the cliff." He commended City Council for deciding not to wait to put the City Manager in a position of having a $7.5M deficit and being tasked by Council to determine the cuts that must be made to erase the deficit. Instead, they asked to look at all City functions and see if there were places where cutbacks could be made. Mr. Holden reiterated that no one had said anything about layoffs in the City of Dover; however, there were three (3) call centers (Police Department, Fire Department, and Kent County) within one (1) mile of each other, and as a regional call center, the Kent County call center could get grants from the Department of Homeland Security for equipment, equipment updates, etc.

Ms. Christina Kober, City of Dover Police Department 911 Supervisor and President of the American Federation of State, County, and Municipal Employees (AFSCME), advised members that the Dover Police Department could also obtain these types of grants.

Mr. Hall stated that everything in the Dispatch Center at the Police Department was paid for through grants or Enhanced 911 (E911) and that the City had paid nothing for this Center.

Mr. Patrick Smith, Fire Chief's Assistant, stated that the Dover Fire Department's Dispatch Center had not been updated for approximately five (5) or six (6) years and that the last update was funded by the State. He stated that the Fire Department does not have anyone to write grants, noting that it can take months at full-time capacity for an individual to write, complete, research, and put a grant together properly, and it is difficult for a volunteer to spend this time. He felt it would be helpful for the City to offer to assist in writing grants for funds to update the radio room, noting that cutting staff would be detrimental in this regard.

Mr. Koenig disagreed with Mr. Patrick Smith's comments. He indicated that the City of Dover upgraded the radio room at the Fire Station the last time that it was upgraded because it is not a certified 911 center and does not qualify for the 911 funds.

Deputy Chief of Police Marvin Mailey stated that the crime rate in the City of Dover had continued to drop and the City had the lowest crime rate and highest solved crime rate, in terms of burglary and robbery, in the nation. He indicated that this was because of the Department's association with the Dispatch Center in the building, which costs nothing to the City. Capt. Mailey advised members that an extensive camera system downtown is monitored entirely by 911 dispatchers, which has resulted in many crimes being solved, including some that were in progress and not yet reported. In one (1) instance, an officer had a gun pointed at him and was not aware of it, a dispatcher picked up on this, and the Department was able to solve the crime and arrest the individual before the officer was harmed. Capt. Mailey stated that if dispatchers are moved from the Police Department, the Department would lose this one (1) to one (1) contact which would cause the Department to lose efficiency and time, noting that time is essential in law enforcement. He advised members that a few years ago, dispatchers had to go to Kent Center for a couple of weeks while the City's dispatch center was upgraded. That one (1) to one (1) contact was lost and this "messed up a perfectly running machine." He stated, "if it's not broken, I don't see why you would try to fix that."

Mr. Donald Stiller, Communications Operator, Dover Police Department 911 Center, expressed his opinion that much of the anger expressed was due to discussion of the possibility of cutting jobs in order to address the deficit; however, he stated that in his 15-year career with the City, each year money was spent from the City's budget on things that, in his opinion, did not make sense. As a resident of the City, he stated that the Pitts Center was voted down twice by the City of Dover; however, it was decided to pay for the Center from the General Fund. He expressed frustration that employees were now being examined in the context of a projected $7.5M deficit. He noted that the when the City built the library, two (2) other entities that were partners in the project dropped out; however, close to the same amount of funds that was originally planned was spent on the library. He felt that libraries were "a dying thing" as the world was going digital and that the library was "a massive homeless shelter."

Mr. Koenig stated that his job was to look to the future. There would be a time, in his opinion, that the City would be large enough for satellite police stations and three (3) to four (4) fire stations; however, reasonable discussion must be held about the possible relocation of the dispatch center. He felt that everyone wanted to protect their own area and consider other functions, such as the library and the recreation Center; however, the reality was that all areas must be considered. He indicated that the situation is examined year to year and nothing ever changes; however, there was a need to look 20 - 25 years down the road. Mr. Koenig noted that an additional dispatcher position had just been added to the budget because the Police Chief stated that this was necessary, yet it had been noted that complaints in the City were decreasing. He emphasized that employees should not say that the dispatch function was not being funded, because it was being funded.

Mr. Hall stated that his comment was only that the Dispatch Center itself was not paid for by the City, although employees are paid by the City. Responding, Mr. Koenig stated that the building, personnel, etc. are paid for by the City. The equipment was paid for by 911 under the current regulations; however, because the national push is to consolidate dispatch centers, it was possible that the Dover Police Dispatch Center would not qualify in the future.

Mr. Hall questioned if the Dover Police and Dover Fire Department dispatchers were consulted about consolidating. Mr. Koenig stated that this was discussed with former Police Chief James Hosfelt.

Mr. Hall stated that dispatchers had not been asked how this could be accomplished, noting that their input was necessary because they know how the Center operates. He offered to meet on his own time to provide suggestions on this matter.

Ms. Kober stated that a twelfth dispatcher had just been added to the Police Department Dispatch Center and, prior to that, the last position added was her position in 1999; however, there had been a huge increase in the number of police officers between 1999 and 2014. She felt that the complaint load should be considered, noting that the workload had increased in ways that had not been calculated or considered. Ms. Kober expressed her opinion that the Dover Police Department could not be fixed as it was not broken, was working well, and its efficiency could not be increased.

Mr. Holden indicated that the Committee was very far away from making decisions in this regard. He indicated that all comments made were worthwhile for the Committee to hear and encouraged those present to return. He stated that members were getting ready to make direct inquiries, noting that he had not visited the Fire and Police Departments but intended to, and had asked each Committee and Council member to do so.

Mr. Christopher Smith stated that the Committee had no authority to release any jobs at all and would only make recommendations to Council. Members wanted to ask the relevant questions, find out what could and could not be done, and provide an opinion. He stated that he liked what he saw in terms of operations at the Police and Fire Stations. Mr. Smith stated that it would come down to whether consolidation would save money or not and if it would result in lessened efficiency. He stated that members had not begun examining numbers. He stressed that by working together questions could be answered and it could be seen whether consolidation would make sense.

Ms. Kober stated that there was a good reason why there was a Kent County 911Center as well as a center that is further away, since separate facilities provide redundancy to allow "fold-downs" to other agencies close by. If the Kent Center was the only Center and was evacuated, she stated that staff would have to go to New Castle or Sussex County, which was not feasible, and if the Sussex Center had to fold down to Kent County, there would not be space available if Dover staff were already there. She suggested that there were other ways to generate or save money besides cutting employees, noting that approximately two (2) years ago meetings were held where employees provided good ideas in this regard and she suggested that they be approached for cost-saving ideas.

Mr. Hall stated that he did not regard Police, Fire, and EMS as businesses as they do not primarily produce revenue. He questioned why the 911 System was being "attacked" as it was not a revenue generating service and questioned why members would "go after something" if it is not broken and is not a business.

Mr. Holden stated that the business of the Fire Department is fire protection and prevention and the business of the Police Department is public protection and these enterprises provide public safety services. He stressed that no one had questioned the professional nature of these organizations and that the question was whether those taking calls should be in Location A or Location B.

Responding to Mr. Hall, Mr. Holden stated that the purpose of placing this item on the agenda was to find out how many members still needed to visit the 911 Center. Mr. Hall indicated that only Mr. White, Mr. Smith, Mr. Hutchison, and Mr. Koenig had visited the Center.

Mr. Hutchison stated that it was not desired that the Committee review the operations of the 911 Center until all had the opportunity to go to the facility.

Mr. Holden stated that the Committee had asked Council members to go to the facility since they would ultimately make decisions about this and stated that he planned to go as well.

Mr. Osika inquired if Councilman Hutchison and Mr. Holden could confirm that it was not their intention to cut employees. Responding, Mr. Holden stated that he could not answer this question because, at this time, members were looking at numerous things, including physical location changes and potential cost savings before personnel is considered.

In response to Mr. Osika, Mr. Holden confirmed that his comments made regarding personnel cuts had been misconstrued and that this was not the intention at this time.

Mr. Hutchison stated that there is no Police or Fire Department in the State of Delaware that is better supported than the City of Dover. It was his feeling that it was not possible to continue on the present course without making changes. He felt that taxes would have to be increased down the road and fees may also have to be increased, noting that there were many avenues to examine. Acknowledging his 25 years with the Police Department and ten years serving as Mayor, Mr. Hutchison felt that one (1) of the most important jobs he had held with the City was serving on this Committee, noting that he cared about each City of Dover employee and pensioner. He said that this was an opportunity to take a total inventory of "who we are and where we are going" and asked everyone to allow the Committee do what is needed to get the facts.

Mr. Koenig quoted from Ms. Kober's comment, during the Committee meeting held on January 30, 2014, as part of a discussion on dispatch that "the process could be done differently and more efficiently. She stated that there was not a duplication of efforts, but a delay in response time." Mr. Koenig noted that the City was not as efficient as it could be because improvements in technology and techniques prevent reaching 100% efficiency, so there is always room for improvement. Mr. Koenig emphasized that the City cannot continue to do business the way it was currently being done because it had run out of money. He stated that the $3.1M budget gap must be closed if no additional revenue was received, which would mean that no vacant positions in the General Fund would be filled, no vehicles would be purchased, no projects would be included in the General Fund, and this would affect all employees, as well as the City's ability to deliver services. He stated that the objective was to obtain efficiencies and reduce costs, not primarily to reduce the workforce.

Ms. Kober questioned how moving the Dispatch Center and employees to Kent 911 would save funds for the City. Responding, Mr. Holden stated that expenses to upgrade equipment would be reduced.

Responding, Ms. Kober stated that the Dispatch Center's equipment was 100% paid for by the E911 Board. Mr. Holden stated that, nationally, the Department of Homeland Security is moving toward regional 911 Centers; therefore, it was uncertain if these funds would continue.

Mr. Joshua Krumm, Communications Operator, Dover Police Department 911 Center, informed members that a detective had stated to him that he heard that dispatchers would be losing their jobs to the Kent Center. This detective had sent Mr. Krumm a text message during the past week and communicated that he would not be comfortable sending this type of message to the Kent Center because he did not know the dispatchers there. Mr. Krumm responded within minutes, provided the information needed, and an arrest was made. He felt this illustrated the confidence that the Dover Police Department officers have in their dispatchers, noting that the FOP had concluded this. Mr. Krumm felt that no price could be put on safety.

In response to Capt. Mailey, Mr. Holden confirmed that the Committee did plan to return to the Police Department and would speak with Department employees.

Mr. Koenig questioned if it was there was a belief among employees of Dover Police Department that dispatchers would be losing their jobs. Responding, Chief Carey confirmed this and stated that the Kent Center was the source of these rumors.

Mr. Koenig stated that the discussion at the Kent Center was regarding the possible relocation of the City's dispatch operation to the same type of operation that the State Police have inside the Kent 911 Center. He stated that the text message referenced by Mr. Krumm could have been sent under those conditions because the person getting the text would likely have been the same person.

Capt. Mailey stated he understood the current and long-term financial status of the City: however, he disagreed with the statement that the Police Department's job is a business. He stated that when efficiency in public safety is lost, the reduction of numbers is not the concern but rather the preservation of human life and public safety, which cannot translate to numbers or bar graphs and that the Department does not want to spend any more money than must be spent but does not want to lose the lives of citizens of Dover or police officers. He had seen videotapes nationwide where officers get caught in bad situations because no one is watching a camera and did not want to see this happen in Dover.

Mr. Holden expressed his delight in the presence of those who attended and that members had heard their comments, and he encouraged those present to return for further discussions.

Mr. Hall provided a letter of support for the City of Dover Police Dispatchers from David Gist, President, Fraternal Order of Police - Lodge #15 FOP ***(Attachment #2)***.

Mr. Koenig stated that discussions were held regarding cost savings in 2010 and 2011 and that the possibility of combining the City dispatch centers was on that list; therefore, this topic of discussion had been around for quite some time. Responding to Mr. Holden, he explained that these discussions were held to address budget gaps and concerns over City finances and that no outside consultants were involved.

Mr. Holden expressed his understanding that approximately three (3) years ago a consultant made recommendations to the City, one (1) of which was to consolidate all departments under the City Manager; however, Council had not adopted this suggestion.

Mr. Koenig stated that this may have been part of an organizational study that was conducted by the Management Advisory Group (MAG) in 2003 and updated in approximately 2009.

Discussion of Dover Public Library Operations

Mr. Scott Koenig, City Manager, reviewed the Comparison of Library Expenses for Fiscal Year 2013 to Fiscal Year 2014. He explained that the new library opened in September 2012; therefore, the operating expenses listed from October 2012 to the present applied to the new facility. Mr. Koenig noted that the square footage of the old library was approximately 17,000 sq. feet and the new library was approximately 46,000 sq. ft., including two (2) full floors and a teen loft, with approximately 20 employees, including a number of part-time staff. He believed the number of hours was approximately 68 hours per week, including weekend hours. Mr. Koenig stated that the biggest differences between the old and new libraries were the significantly larger size and increased number of visitors at the new library, including many visitors from Kent County. He advised members that the new library is more of a cultural facility than the old library, as it contains a number of meeting rooms, a job center with expanded hours, and a computer center that is heavily used, noting that it is a busy facility being used throughout the week. He referred members to the Library reports provided that contained statistics on programming, visitations for adult services, circulation in the City versus outside the City, and types of use.

In response to Mr. Holden regarding the percentage of library utilizers who are from Kent County, Mr. Koenig stated that the February 2014 report revealed that circulation among Dover residents so far this year had been approximately172,340 and among Kent County residents approximately 122,386, estimating that use was approximately 60% City, 40% County in terms of circulation.

In response to Mr. Holden, Mr. Koenig confirmed that Kent County had opted out of being an operating partner for the facility. Mr. Holden questioned if the City had presented user statistics to the County and suggested splitting expenses based upon those numbers. Mr. Koenig stated that this had not been done but it would be feasible, from the City's perspective, to do so. Mr. Holden also suggested that partnering with other municipal or collegiate institutions on operating expenses of the library should be considered.

Mr. Koenig felt that if such an agreement were negotiated with Kent County, the County would feel obligated to negotiate similar agreements with other municipalities, and the County had invested in their own system at this point; however, partnering with the County could not be ruled out. He advised members that he had not been part of the related discussions that were held when building the library was planned.

Mr. Hutchison stated that the City of Dover, as the capital of the State, was different from other municipalities and that he liked the idea of discussing this matter with the County leadership. He suggested that this might be a topic of discussion at the next City/County meeting.

Mr. Holden inquired if central funds were available for regional libraries, as opposed to city libraries. Mr. Koenig stated that he was unsure but did not believe so. He stated that some private foundations fund such consolidations because they obtain a bigger area for their dollar. To his recollection, none of the information he had read regarding the Dover Public Library referred to federal funds; the project appeared to be funded by the State and through private donations.

In response to Mr. Smith, Mr. Koenig stated his recollection that the cost to the City for the Library was approximately $90,000 - $100,000 per month on average, or approximately $1M to $1.2M per year, indicating that this was a rough estimate.

Responding to Mr. Holden, Mr. Koenig estimated that the cost of operating the old library was approximately $75,000 - $80,000 per month, and that most of the increased cost of the new library was personnel driven.

Mr. Holden suggested that the City consider a joint arrangement with the Modern Maturity Center to bring volunteers on a regular basis to fully cover the open hours of the library, which would help to decrease the estimated annual $1.2M operating cost. He explained that the Modern Maturity Center receives funds from the federal government through the Retired and Senior Volunteer Program (RSVP), which is used to pay volunteers, and that the Schwartz Center had utilized this program for volunteers to serve as ushers at performances and to run concession stands.

Responding to Mr. Tim Mullaney, Deputy Fire Marshal and President of the Dover Organization of Employees (DOE), as to whether this type of change would be considered outsourcing, Mr. Koenig estimated that all but one (1) of the 20 library employees were covered by DOE and AFSCME union contracts; therefore, the City must be careful about what is offered to volunteers versus what is performed by paid labor. He noted that volunteers do work in the library, including the private, volunteer-run Friends of the Dover Public Library operation, and that there are other volunteer programs for the teen loft area and for children's programming, and some contractual services, such as those presented by authors. He indicated that the volunteer issue had not been fully explored. Mr. Koenig advised members that the Dover librarians were probably the most educated group of people in the City because the education requirements for librarians include a Master's in Library Science. He did not believe a library could meet the qualifications to receive State aid funds if librarian jobs were outsourced to volunteers, although he stated that he would have to verify this. Mr. Koenig stated that the $1.2M figure referenced included only expenses and that revenues would also have to be examined, noting that some library tax comes from Kent County for books, etc.

In response to Mr. Holden regarding the use of volunteers for shelving books, Mr. Koenig stated his belief that volunteers, as well as part-time pages, perform this function. Full-time employees are mostly librarians and librarian assistants.

Mr. Mullaney stated his belief that only one (1) or two (2) of the library pages were covered by the union.

Mr. Koenig stated that were three (3) categories of employees covered under the unions, DOE employees, AFSCME employees, and part-time employees. Mr. Mullaney explained that the number of scheduled hours per week determines whether part-time employees are eligible for union coverage.

In response to Mr. Holden regarding what other viable, cost-saving concepts could be applied to the library, Mr. Koenig stated that discussion had been held regarding turning the library into a private, independent 501(c)(3) foundation. It was his recollection that this did not happen because such a foundation would not qualify for State funding. He was unsure if the library could be turned over to a third party because State funding had been used to build the library. From an operating standpoint, he felt that there was potential to develop operating partnerships with other entities. He noted that at one (1) point there was discussion with Wesley College; however, he was unsure of the result. Mr. Koenig stated that the formula used to determine the size was based on population and indicated that the building should be 52,000 sq. ft.; however, it was built at 46,000 sq. ft. and there was room for growth.

Mr. Holden stated that he serves as the Secretary of the Wesley College Board, and that building a new library is part of the College's strategic plan. He noted that Wesley College was making a conscious effort to locate its facilities downtown and had partnered with Bayhealth Hospital in this regard. He noted that it may be possible for Wesley College to bring their education-oriented books to the Dover Library and to share in the operating costs. This would bring students downtown, with Wesley possibly providing a shuttle bus to stop at the library and the Wesley health facility.

Mr. Holden requested that staff provide members information regarding the revenues associated with the library, including whether funds are from the State, Kent County, late return fees, etc.

Responding to Mr. Smith regarding room rental policies and fees at the library, Mr. Koenig informed members that the library charges a fee for use of their rooms, stating that there had been discussion as to whether these rooms would be rented to private groups. The feeling was that it would be more difficult to control behavior in the rooms when renting to businesses versus non-profits. Mr. Smith felt that businesses would be more responsible than individuals when using the rooms. Mr. Koenig stated that a policy had been developed regarding rental of the rooms, with consideration given to whether the City would make enough money to offset the "headaches," risk, and "wear and tear" associated with renting. He indicated that the Library Foundation and Library Advisory Committee discussed this issue and set the fees. He stated that the new library was still in the fledgling stages of renting space and it may be time to reconsider this issue.

Mr. Smith questioned if expenses to the City would continue to increase year upon year. Responding, Mr. Koenig stated his belief that large changes in utility costs were not expected. He indicated that personnel costs would fluctuate, noting that approximately $20,000 had been added

to the FY 2015 budget for private security in the building since there had been problems with behavior and the police had been called to address these concerns. He did not expect much deviation in costs; however, he noted that costs were not decreasing and the trend would "tick up."

Responding to Mr. Smith, Mr. Koenig explained that usage is measured based on book circulation. He noted that anyone with a library card in the State of Delaware can check out books from the Dover Public Library through the State library system.

Mr. Holden stated that in 2002, the Schwartz Center had 14 salaried employees, all of whom had benefits and, financially, the Center "went upside down," losing $1,250,000 in 2002. In 2003, a new Board took over and cut employees, utilizing art or theater students from Wesley College and Delaware State University to run the projectors, set up rooms, and change stages. The theater ran very well "in the black" for ten years. It was his understanding that the Schwartz Center was again having problems and was cutting back the number of shows offered; however, the theater was still being run by student volunteers. The payroll decreased from over approximately $200,000 to 1.5 people. Mr. Holden stated that it may not be practical to make such changes at the library, noting that Master's degrees may be necessary and that the library could not be run with 1.5 people.

Mr. Mullaney reiterated that if these comments were made in the newspaper tomorrow, the phone would be ringing. Mr. Holden felt that this information needed to be shared.

Mr. Mullaney concurred; however, suggested that other options be explored before this type of suggestion is made "at the tail end."

Mr. Osika thanked Mr. Koenig for stating that it was not the intent to cut employees; however, it was his feeling that when dealing with Chairman Holden, it was "always about cutting employees."

Mr. Holden stated that if the City "goes upside down," the employees would be the number one group to be hurt. He reiterated that he did not want this to happen in Dover, and in order for it not to happen, cost savings must come from somewhere.

Mr. Mullaney acknowledged that many changes needed to take place; however, he had to do his job as DOE President, and that every time staff reductions and outsourcing are brought up, he must stand up and disagree, as this is what he was elected to do.

Mr. Koenig concurred that when decreasing the workforce is brought up, "an earthquake" goes through the workforce. He stated that if the gap must be addressed, he would tell Council that services must be reduced, because if employees were taken out of the component, the City could not provide the appropriate level of service, and Council must provide direction on the level of service desired. Mr. Koenig felt that it would be difficult for volunteers to run a $20M facility such as the library and maintain the present level of service, although he stressed that he was not saying that there should not be a volunteer component. He stated that Council had made it clear that they wished to make a lot of changes. Council had also said that they did not want employees to lose

their jobs; therefore, it was his responsibility to figure out how to close gaps without this occurring, which was a difficult task. Mr. Koenig stated that whenever there are open positions, it must be considered whether these positions should be filled.

Mr. Mullaney stated that it was his job to make sure that employees retain their jobs and receive what they signed up for.

Mr. Hutchison stated the importance of bringing the union leadership to the table, working with the Committee, and working with the City Manager. He noted that there were 347 employees, some would retire in the next ten years, and it was the job of the Committee to determine if that number should be decreased. He indicated that he did not wish to remove jobs from employees who are taking care of families. Mr. Hutchison stated that there were 200 miles of underground infrastructure (water, sewer, and electric lines) in the City and if this did not continue to work, the City's revenue stream would stop. He expressed his excitement at working on the things that were being discussed and his support for looking at Wesley College and Kent County for partnership.

Mr. David Truax, Fire Marshal, advised those present that, although this was not an operational expense, the City of Dover Library was operating under a temporary Certificate of Occupancy. He noted that this was a paperwork issue, but should be addressed.

Mr. Holden requested a list of capital City projects that had been done in the past 24 months, including the original cost estimate and final price, and how many projects came in on budget. He asked for information on the status in regard to the original cost estimate, who prepared the estimate (in-house versus an outside engineering firm), whether the projects were done through in-house engineering or contracted, and who did the bid process and pricing. Mr. Holden noted that the Committee may not consider this matter during their next meeting, but it could be addressed perhaps one (1) or two (2) meetings after that. He indicated that this question had been posed to him in light of newspaper articles relating to the Horsepond Road Substation and the Calpine project. Having researched City policies pertaining to cost overruns, Mr. Holden stated his understanding that, according to a sliding scale, projects costing $250,000 or less could run 10% over cost, and this percentage would change, according to project cost, at the levels of $500,000; $750,000; $1M; $2.5M; and $5M; with the overrun percentage expected to be less for more expensive projects. He stated his interest in knowing how the City was doing in relation to this policy.

Responding to Mr. Holden's question regarding how the Dover Fire Department filed their Form 990 - Return of Organization Exempt from Income Tax, Mr. Koenig stated that it was filed either under Robbins Hose Company or the Dover Fire Department.

In response to Mr. Smith regarding the availability of a revenue manual, Mr. Koenig stated that a revenue manual had been prepared approximately six (6) or (7) years ago and this manual listed all revenues (including every license); however, it had not been updated in some time. He noted that a summary of revenues was included in the budget; and this summary grouped some items together as one (1) line, such as fees and fines, etc.

Mrs. Traci McDowell, City Clerk, stated that Mrs. Donna Mitchell, Controller/Treasurer, also prepares a Quarterly Revenue Report. Mr. Koenig stated that this report was scheduled for review at the City Council meeting scheduled for April 28, 2014. Mr. Holden requested that this Report be sent to Committee members.

Review of Committee's Priorities and Strategies

Mr. Smith noted that different groups would be attending Committee meetings and questioned if a "grand plan" would be formulated in terms of putting together a list of priorities. Responding, Mr. Holden stated that he would like each Committee member to prepare a list of things that they felt should be considered, with priorities assigned. He stated that the issue of engineering cost estimates appeared to be a "flash fire." He indicated that if there was flaw in the process of creating the numbers that initially go to City Council related to these projects, this could result in Council approving projects that they might not have approved at a higher cost. Mr. Holden stated that there could be a Pay for Performance (PFP) aspect involved in the process of creating the estimates and employee raises could be connected, although he was unsure if the City wished to go in this direction. He noted that the City could also require that cost estimates be done by an outside party.

Mr. Koenig noted if a third-party engineer is hired to give an estimate and there is an overage, the only penalty is not to hire the third party again, they are not liable for overages.

Mr. Holden questioned if this could be written into the contracts, with 50% payment made up front and 50% after the project comes in on budget, unless there are change orders. Responding Mr. Koenig stated that any contract containing such a risk would include a premium for that risk in the hourly rate and this would drive up the cost to obtain an estimate. In response to Mr. Holden's follow-up question as to how to lock in the cost of projects so that Council is not surprised, as it was with the Calpine or Horsepond Road substation projects, Mr. Koenig stated that up-front work must be done for the estimate. He noted that sometimes the estimate might be appropriate, but the bid environment may change. He was unsure how cost could be locked in 100% of the time, noting that nine (9) projects out of ten may come in on budget, but there is always one (1) that is "an outsider."

Mr. Holden stated that if there were nine (9) projects without overages and one (1) that ran over, the issue should be dropped; however, if these figures were reversed the issue should be looked at. He stated that the City pays a lot of money for outside engineers; however, the City has an in-house engineer and questioned why the work was going outside. He inquired if the engineer was not capable of doing the work and was having to hire outside engineers to clean up what they cannot do, noting that he was only speculating. He felt that there was a problem, but he did not know what or where it was; however, he felt that it was necessary to look at the last 24 months of projects completed and in the process to see where they were, relative to what City Council was told when the project was approved, and the causes could then be examined.

Mr. Hutchison suggested that both the City Manager and Finance Director be asked to submit their list of priorities for the Committee, as Committee members were asked to do, and Mr. Holden concurred.

Discussion of Meeting Dates and Times

Mr. Hutchison suggested that Mr. Holden suggest the next meeting date after he receives the information requested from the City Manager and Controller/Treasurer. Mr. Holden concurred, stating that he would set a date after the information had been prepared.

Mr. Hutchison moved for adjournment, seconded by Mr. Smith and unanimously carried.

Meeting adjourned at 7:41 p.m.

D. Wayne Holden
Chairman

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Attachments
Attachment #1 - Newspaper articles pertaining to the financial problems of several governmental agencies, provided by Mr. Holden
Attachment #2 - Correspondence from Mr. David Gist, President, Fraternal Order of Police - Lodge #15

April 14, 2014 BARRO

Current Yield
Capital Markets

Chicago's Lessons for Muni Holders

by Michael Aneiro



IF YOU'RE WORRIED ABOUT the impact on the municipal bond market of underfunded government pension plans, you'd do well to look at what happened in Illinois last week.

The state legislature passed a bill that would aid two of Chicago's woefully underfunded municipal pension systems by raising employee contributions and cutting cost-of-living adjustments (legislators balked at a property-tax increase originally included in the bill). One of the pension plans is only 57% funded, the other 38%; the bill aims to lift the funding for both to 90% by 2055.

Illinois remains the lowest-rated state in the nation, largely due to widespread pension shortfalls. Following passage of the pension-reform bill, yields on its 10-year bonds fell to 3.42% from 3.67% a week earlier. The new rate was 1.05 percentage points higher than the average triple-A-rated 10-year munis, according to Thomson Reuters Municipal Market Data. The earlier rate had been 1.14 points higher.

Last month, Moody's Investors Service cut Chicago's credit rating to Baa1 with a negative outlook, reflecting "the city's massive and growing unfunded pension liabilities, which threaten the city's fiscal solvency." Last week, Moody's called the reform a step forward in an arduous process, but said that Chicago's pensions—the least funded of any major U.S. city—will still weigh heavily on its credit rating. Fitch Ratings said Chicago is years away from long-term pension sustainability, and any fixes could face litigation because Illinois affords strong legal protection to pension benefits.

The reminder here for muni investors is that pension reform is a protracted process that can take years or even decades to execute, but pension shortfalls, however problematic, rarely augur a direct path to default, much less a speedy one. When pressured to reform, city and state governments typically unload much of the burden onto employees and retirees via higher contributions and lower payouts. Fair or not, workers feel the pain long before bondholders do.

There are a handful of exceptionally acute pension problems. Puerto Rico's pensions are in miserable shape, and its overall finances are such a holistic mess that the island essentially has been quarantined from the rest of the U.S. muni market, as its junk credit ratings from all three major rating agencies attest.

Pension funding was also among the many causes of Detroit's bankruptcy filing last year. Most worrisome is how that threatens to strip bondholders of their traditional preferred status and lump them in with other unsecured creditors, such as retirees, to share equally in what the city can afford to pay. Last week, Detroit agreed to pay one class of bondholders—those with unlimited-tax general obligations—74% of their principal amount, versus just 15% in a prior proposal. Other bondholders await their fate, and the fear is that a severe impairment could set a precedent in the small canon of municipal-bankruptcy case law.

A few crafty cities looking to trim benefit costs, including Chicago and Detroit, recently have tried to use Obamacare to make the federal government fill gaps in health-care coverage for early retirees. Moody's says that such efforts, however clever, likely face significant political and legal hurdles.

If you're looking for nearer-term threats to your muni portfolio, Citi last week said the market's strength this year leaves little room for further price gains in 2014, especially if interest rates rise. "The performance of municipals is likely to be much less impressive because, at current levels, tax-exempts do not have much upside, and rates are expected to start moving higher," Citi muni strategists wrote, saying investors looking to take profits might do so now.

Treasuries were beneficiaries of last week's tech-stock malaise, with the 10-year yield falling to 2.623% by Friday, from 2.733% a week earlier. ■

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MAYOR WILLIAMS' BUDGET

Wilmington sewer and water rates set to rise

If city approves, fund would be at $68 million

By Matthew Albright
The News Journal

Even as Wilmington Mayor Dennis P. Williams pushes a nearly 10 percent increase in the city property tax, his budget also includes increases in water, sewer and stormwater fees for residents and others who use the city's systems.

Williams' budget includes an 8 percent increase in water and sewer fees and a 7 percent increase in stormwater fees. The typical customer who uses 12,000 gallons quarterly would pay $3.78 more a month. That includes a water increase of $1.97, sewer increase of $1.48 and a stormwater increase of 33 cents, according to Robert Greco, director of the city's Office of Management and Budget.

The additional $45 a year water and sewer customers would pay is on top of higher property taxes proposed by Williams for property owners, which would amount to another $175 a year for the owner of a house with an assessed value of $100,000; $78 more for one assessed at $44,900 – the average in Wilmington.

Some customers outside the city limits who still rely on Wilmington's water and sewer systems also will pay the increase.

See RATES, Page A4

Rates: Council reviewing options

Continued from Page A1

City Councilman Bud Freel, who chairs the finance committee, said council typically holds separate hearings on the water and sewer fund near the end of the city budget process. Freel said he expects council will "look closely" at the proposed increases.

"I'm sure people are concerned, hearing about a property tax increase and a water tax increase," he said. "It's not like I can think about one and not the other. It's the residents of Wilmington who get hit with both of those, so it's our job to put that under tight scrutiny."

There are about three new positions paid through the water and sewer fund, for example, that Freel said he wants to study.

Should the increases take effect, the water and sewer fund would grow to more than $68 million, an increase of more than $1.6 million or about 2.7 percent.

Since 2010, Wilmington has increased water and sewage fees each year in an effort to make the fund self-sustaining. Greco said the annual increase has declined somewhat from double digits in years before.

"This tends to be one of these 'out of sight, out of mind' issues," Greco said. "But I think a lot of people don't realize the amount of work and money that goes into maintaining a system like this."

Williams' budget proposal for water and sewer states that the increases would pay for improvements, including: $250,000 for comprehensive inspection, maintenance and repainting of water tanks; $249,000 more in the contract with Veolia Water to operate and maintain the city's sewage plant and to make some capital improvements; and $40,000 for fire hydrant testing, maintenance and repair.

At the same time, costs have risen, according to Williams' budget. Recently completed projects like those at the Cool Spring Reservoir, Hoopes Dam and the addition of a real-time control system have increased the value of sewer systems, raising depreciation expenses by $324,100. Fuel and maintenance costs on the public works department's vehicle fleet also grew by $261,000.

City officials say they've taken some steps to cut costs, trimming the amount spent on consultants and contracts by $358,000 in favor of more "in-house" work.

Contact Matthew Albright at malbright@delawareonline.com or at (302) 324-2428. Follow him on Twitter @TNJ_malbright.

City of Dover Police F.O.P. Lodge #15 • P.O. Box 1352 • Dover, Delaware 19903-1352

City of Dover,

This letter is to inform you that the Dover Police Department Fraternal Order of Police Lodge # 15 fully supports and stand by the City of Dover Police dispatchers. FOP #15 firmly believes that reassigning our dispatchers to Kent Comm, Would not only put the citizens of the City of Dover in danger, but also our police officers. Dover police officers have the luxury of knowing our dispatchers personally, not just a voice on the phone. This personal relationship makes it safer for us because the dispatchers know our personality and voice, and when an issue arises, they can tell.

Dover FOP # 15 is also against any reduction in staffing for dispatchers, and will assist them in any way that we can should this occur. You cannot put a dollar sign on the safety of our citizens or men and women of our police department. Should you have any questions, feel free to contact me at (302) 736-7122 ext. 7813

Respectfully submitted,

David Gist

President Fraternal Order of Police

Lodge # 15