FINAL REPORT
OF THE TASK FORCE
FOR THE FINANCIAL FUTURE
OF NEW CASTLE COUNTY

In July 2006, a joint initiative between County Executive Chris Coons and County Council led to the formation of the Task Force on the Financial Future of New Castle County, formally established by Council Resolution 06-171. The primary goal of the Task Force was to evaluate County operations, costs, revenues, and growth, and make recommendations for improving the long-term financial future of New Castle County.

This report is the result of the commitment and time of dozens of county residents representing the private, civic, government, and general public sectors. The Task Force authorized the formation of subcommittees to support its work and expand the range of participants in this process. The proposals put forward reflect findings about New Castle County's financial system made after many hours of extensive analysis and discussion. The full report, when completed, will provide detailed evidence in support of these recommendations.

The residents of New Castle County face a choice between the current level of service and the current price for receiving those services. As currently structured and funded, New Castle County cannot sustain its current service levels with existing property tax, fees, and other revenue sources.

Absent dramatic changes in the way New Castle County does business and the availability of new revenues, *every year in the future*, County general government service budgets will be cut and service levels will suffer. The financial imbalance between revenues and spending is the result of several factors:

- **Revenue sources not well aligned with the services provided to residents.**
- **Rate of growth in revenues roughly one-third of the growth rate in the cost to provide services.**
- **Overdependence on revenues related to real estate.**
- **Sharp declines in transfer tax revenues.**
- **Rapid expansion in services, facilities, and personnel.**
- **Salary and benefits costs outpacing revenues within the context of complex labor laws and policies.**

At the highest level, there are structural changes required to address the long-term fiscal health of the County. In the terms of County Executives from Rita Justice to the present, task forces and independent studies have persistently reconvened to address the imbalance between revenues and expenditure growth rates. This cycle is not productive for the community, for the economy, for State and local policy makers, or the citizens/taxpayers of New Castle County. To prevent returning to this point, the following changes are required in order to change "the rules of the game":

- **Establish an independent body modeled on the State's Delaware Economic and Financial Advisory Council (DEFAC) to adopt and ratify revenue and expenditure estimates** that support the County Executive's recommended budget and the final budget adopted by County Council. COMPLETED

- **Set tax levels to tie recurring and predictable revenue streams to support basic operating expenses.** Amend County Code controlling the certification of revenues to propose as follows: COMPLETED

    - "The County Executive shall not certify a revenue estimate that exceeds ninety percent of the actual real estate transfer tax collected for the most recently completed fiscal year to be used as a funding source in the proposed operating budget, nor shall Council adopt a budget based on revenue estimates that exceed ninety percent of the actual real estate transfer tax collected in the most recently completed fiscal year.

- **Develop policies for use of extraordinary revenue gains in volatile revenue sources** (namely, the real estate transfer tax). Substitute cash for capital bond authorizations that would ordinarily support facility construction or land acquisition, to decrease debt, to provide tax rebates or other forms of temporary tax relief, or to otherwise reduce rather than build future liabilities especially in the operating budget. Amend County Code controlling the use of transfer tax revenues as follows: COMPLETED

    - "Proceeds from the real estate transfer tax received in any fiscal year in excess of those certified shall be designated as cash in lieu of capital bond authorizations that would ordinarily be used to support construction of capital facilities or land acquisition, to decrease or defease debt, to provide tax rebates or other forms of temporary tax relief, or to otherwise reduce future liabilities, especially in the operating budget."

- **Adopt expenditure limitations modeled on the state's appropriations limits.** Plan transition to a 98% appropriations limit and at the same time adjust the "Rainy Day" reserve from the current twenty percent to a level equal to two-months of General Fund budget. UNDER REVIEW

- **Align growth in annual per employee costs with the fiscal conditions of the County.** Tie contractual provisions for annual increases more directly to the fiscal constraints of available revenues. Through ordinance or resolution, consider adopting the following: IN PROGRESS

    - "The County Executive should negotiate and present, and County Council ratify and adopt, negotiated bargaining agreements and pay plans that bring the combined per employee growth rates in county compensation from in-grade step increments, annual increases, and increases in the costs of pension, health care, and other employee benefits in line with the annual growth rates as measured by the Employee Cost Index for State and Local Government and Private Sector Employees from the United States Bureau of Labor Statistics.

- **Implement rolling reassessment**. Fairness and equity among taxpayers compels rolling reassessment if the County is to continue depending on property taxes as the dominant revenue source. Rolling reassessment would also make the County and school districts less dependent on regular tax rate increases, make their revenue sources grow more in line with increases in the cost of providing services, and reduce, if not eliminate, the dependency of both entities on regular and increasing assistance from the State. UNDER REVIEW

- **Diversify the portfolio of revenues supporting vital County services**. The County's current reliance on property and real estate transfer tax provides a base too narrow and inelastic to support the need for vital services like police, paramedics, libraries, parks, and code enforcement. Given the impact of these services on the quality of life and economic development of the State, the County needs to broaden its revenue base in order to have sufficient revenue growth to maintain current levels of service and quality of life. : IN PROGRESS

Without regular reassessment or a never-ending boom in the housing market, taxpayers will face regular tax rate increases to provide sufficient revenue growth to keep up with the rising costs of providing basic services, or they must be prepared to face service reductions. In total, general government expenditures are projected to grow at an annual rate of roughly six percent per year, while revenues are projected to grow at a rate of approximately two percent per year. The current slowdown in the real estate transfers is not a cause of this crisis, but it has exacerbated the challenge. These structural changes are necessary to break the current fiscal cycle.

Actions have been taken to address the fiscal health of New Castle County. In the last two years, significant budget cuts, reduced headcount, hiring freezes and other expenditure control measures have been made to general government services in order to balance the budget. There are no easy budget cuts left. There is no "silver bullet" to resolve the crisis. The Task Force finds it not advisable, or likely possible, to balance the budget through cost cutting or revenue increases alone. The financial situation is serious requires immediate action. Given current and predicted revenue constraints, unless changes are implemented, residents will receive reduced services every year. Delaying action will make any solutions much more difficult and painful for residents and taxpayers in the future.

The complexity of the challenge is such that, despite the many hours of work and public meetings of our Task Force over the last five months, we believe it is neither appropriate nor possible for us to offer line-item budget cut recommendations. Rather, this report recommends several policy directions and actions that we believe should guide County leaders in making short-term adjustments to address the fiscal balance of the County in the near term, until policy makers and County administration can put in place long-term, structural adjustments like reassessment, expenditure limits, and policies for use of reserves or extraordinary revenue gains.

Our report presents our analysis of the current situation and offers recommendations in three areas: Assets and Services; Employee Compensation, Revenues. The Task Force makes numerous interim recommendations and conclusions that are summarized below.

Assets and Services

- **Continue current service levels in core areas**. ***We identify no general areas where New Castle County should stop providing services***. The overwhelming majority of County spending is for the cost of employees who deliver safety-related services (e.g., police, ambulance, 911 call response, and code enforcement). Others, such as libraries, parks or human services are valued public services and have strong constituencies supporting an ongoing County role. Significant savings realistically may be achieved over time only from eliminating some specific programs within general services areas or reducing the level of service. : IN PROGRESS

- **Seek full cost recovery on discretionary services –** including not only operating and overhead costs, but also capital costs. Specific areas identified for full cost recovery include contracted police service, special events, and sports and recreation leagues. Achieve full cost recovery by a combination of fee for service, in-kind contributions, volunteers, or corporate/private sponsorships. : COMPLETED

- **Expand fiscal forecasting tools.** Require, as part of the budgeting process, annual cost-of service analysis for those areas that collect fees for service. Show the long-term cost of policy changes on fiscal notes with estimates for three fiscal years. Include with land use agreements fiscal notes that estimate the net incremental revenue and expenditure effects of development, both capital and operating. : IN PROGRESS

- **Reduce capital authorizations to bring in line with capacity of the general fund to absorb additional debt service.** Reform the practice of generalized capital project authorizations. Instead require specific project approval for building renovations and ongoing maintenance to facilities. COMPLETED

- **Update capital impact fee schedules for parks, libraries, and public safety.** UNDER REVIEW

- **Accept and implement the recommendations of the recent paramedic service study.** Vehicle deployment technology and station location will make a more significant impact on meeting call response standards than additional units or personnel. Explore potential synergies or working partnerships for paramedic service with fire companies, Christiana Care, or providers. UNDER REVIEW

- **Initiate dialogue to rationalize delivery of specialized police service** (such as K-9 teams, bomb squads, "SWAT" teams, training academies) and **evaluate systematically specialized programs** not provided by State or other surrounding municipal governments (equine unit, the scope and limits of take-home car policies). Significant savings are achievable if jurisdictions find less duplicative service delivery. : IN PROGRESS

- **Use regular RFP processes to benchmark against private proposals for providing services against the cost of the internal costs of service with the workforce.** If public sector employees cannot supply services as efficiently or effectively as private or other governmental service deliverers, then contracting out those services must be considered. Examples for pursuing whether contracted services would improve the efficiency in delivering services include operations at Rockwood, Carousel Stables, Delcastle Tennis, and parks and facilities maintenance. : COMPLETED

- **Leverage existing technology as a means of increasing productivity.** Unifying business practices to take full advantage of such investment. : IN PROGRESS

Personnel Costs and Employee Compensation (pending consultant report underway)

- **Reduce employee costs to a growth rate in line with the underlying growth of property tax revenues or inflation.** It is not possible to cut spending significantly without cutting employee costs, which account for nearly 75% of all spending and are growing at a rate more than three times the rate of growth in the property tax base. The growth rate in employee compensation averaged 8.8% from 1996 to 2005 as a result of increased headcount, position reclassifications, merit steps, annual increases, health/pension benefit cost increases, and other factors. : IN PROGRESS

- **Reduce the size of the current workforce to bring in line with fiscal capacity.** Controlling headcount has the most significant influence on expenditure growth. From 1999 to 2005, the workforce grew by 275 employees with the addition of facilities, an expanded Council, and other service level increases. At an average cost in salary and benefits of roughly $60,000, the growth in personnel has been the most significant influence on the imbalance between expenditures and revenues. : IN PROGRESS

Revenues

- **Diversify and align revenues with services provided.** The County revenue structure is inadequate to meet the demands of the County's service obligations. While significant effort can be made to forestall or reduce service cuts by doing business differently, it will not be possible to maintain service levels for a growing population with underlying revenue growth of less than two percent per year, even if the rate of spending growth were curtailed to the rate of inflation and population growth. A lodging tax parallel to that levied in the City of Wilmington, increased surcharges on 911 calls from land lines and extension of a municipal 911 fee on cell phones, and direct billing for paramedic services are among potential sources of revenue the County should pursue. : IN PROGRESS

- **Repeal the limitation on the Executive's authority to submit a budget with more than a five percent property tax increase since increases of more than five percent will be required to bring the budget into balance.** In the short-term, financing the County's current level of service will require a significant increase in property tax rates. The current average property tax bill is less than one dollar per day to support basic services like police, paramedics, libraries, and parks. So, despite significant increases in the rate, the increases in dollar terms will be relatively small. COMPLETED

- **Sunset and replace overly generous tax and sewer exemption programs.** Replace with programs targeted toward those in need. Implementing a need-based program more appropriately targets limit resources to residents that are truly suffering from financial hardship. COMPLETED

- **Implement a Payment-In-Lieu-of-Taxes program for commercial properties currently exempt from paying property taxes.** Pursue State legislation to eliminate the property tax exemption for cable television assets given the changes in the structure of that market. There is currently $3.6 billion of tax-exempt commercial property. IN PROGRESS

- **Require fees for service where appropriate, especially for special events or programs that are not basic, core services.** Eliminate subsidies for events or services that are privately provided elsewhere. . COMPLETED

- **Encourage the State to recognize the unique role that New Castle County and many municipalities play in providing public safety services.** While these services are in some ways discretionary (and not offered by the other jurisdictions in the State that receive similar revenue authorizations from the State), the State will face pressure for additional expenditures should New Castle County choose to reduce its service level for public safety. Such recognition might take the form of revenues more directly tied to the number of officers or call volume for emergency response. : IN PROGRESS

As we conclude our work, we acknowledge the importance of broad public outreach to educate policy makers and the citizenry about facing these challenges squarely. The engagement and attention given by the media, County Council, the Civic League for New Castle County, and business and union leaders are encouraging signs of growing public recognition. The work of this Task Force has established a credible and public case that critical services provided by New Castle County are threatened by a serious fiscal situation. We believe all County residents have reason to work together to find solutions to this challenge. We also believe this valuable process provided a thorough analysis and healthy dialogue that resulted in a viable plan for addressing the financial future of New Castle County government.