

## Summary of Revenues Fiscal Year 2022

### GENERAL FUND

General Fund Revenues	Actual FY 2019	Actual FY 2020	Budget FY 2021	Proposed FY 2022	Dollar Change FY'22-'21	Percent Change FY'22-'21
Wage Tax	\$68,433,280	\$65,637,184	\$65,840,370	\$70,079,093	\$4,238,723	6.4%
Property Tax	42,747,586	43,698,151	42,142,742	43,256,728	1,113,986	2.6%
Other Taxes	8,171,822	10,215,568	5,977,720	7,109,957	1,132,237	18.9%
Licenses, Permits, & Fees	4,782,091	5,746,733	3,883,472	4,403,653	520,181	13.4%
Fines	6,945,327	5,380,602	8,154,141	8,495,153	341,012	4.2%
Interest	1,947,184	1,301,142	184,500	336,000	151,500	82.1%
Other Revenues	8,551,420	11,324,447	9,666,746	8,725,523	(941,223)	-9.7%
Task Force Revenues	5,775,578	5,624,656	5,063,006	5,990,845	927,839	18.3%
County Seat Relief	11,547,947	11,640,434	10,876,287	11,520,686	644,399	5.9%
State Pension Contribution	5,199,177	5,785,466	5,199,177	5,785,466	586,289	11.3%
Port Debt Reimbursement	396,574	569,356	870,857	554,204	(316,653)	-36.4%
Transfers In/(Out)	275,000	275,000	275,000	275,000	0	0.0%
Use of Fund Balance	0	0	5,367,031	5,644,490	277,459	5.2%
<b>Total Revenues</b>	<b>\$164,772,986</b>	<b>\$167,198,739</b>	<b>\$163,501,049</b>	<b>\$172,176,798</b>	<b>\$8,675,749</b>	<b>5.3%</b>

Total General Fund revenue before transfers and use of fund balance is budgeted to be **\$166,257,308**, a net increase of \$8.3 million, or 5.3%, above the FY 2021 budget. As the operating budget must be balanced per the City charter, FY 2022 also includes a one-time use of \$5.6 million from the General Fund's Tax Stabilization Reserve. This is sufficient to cover the projected revenue shortfall, based on projected revenues net of the approved General Fund expenditure budget of \$172.2 million.

The net change by revenue category is discussed in detail below:

**Wage Tax**, which includes Wage Taxes and Net Profit Taxes, is expected to increase by \$4.2 million to a new total of nearly \$70.1 million. Wage Taxes make up \$64.1 million of this total and are expected to grow by nearly \$4.1 million budget-to-budget in FY 2022. Given that FY 2021 Wage Tax revenues do not appear to have been significantly impacted by COVID, we have used the projected FY 2021 year-end total as the basis for the FY 2022 budget. This results in an adjusted base of \$59.6 million, which includes an approximately \$1.1 million net reduction for projected audit collections. On top of this, increased employee compensation is expected to result in 2.5% growth in taxable wages, further expanding Wage Tax revenues by nearly \$1.5 million. By comparison, DEFAC's December 18, 2020 report projects state salaries and wages growth to be 7.0% in FY 2022. However, given that Wilmington did not see Wage Tax fall off due to COVID, we have chosen to use a more conservative growth rate, largely reflecting underlying economic growth rather than post-COVID recovery. Finally, expanded collection efforts are expected to yield an additional \$1.7 million in audit collections; this is in addition to the \$1.25 million budgeted in FY 2021, for a collections total of nearly \$3.0 million.

Note that we do not include any potential reduction in revenue associated with employees requesting refunds (or, similarly, simply not remitting taxes going forward) due to working from home in a residence outside the City. As wages from non-resident employees make up almost 75% of the City's Wage Tax base, the effect could be significant if the refund / non-remittance rate is high. Given that as of Q2 FY

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2021 the available data appears to indicate that non-remittance is minimal, any estimate of lost revenue due to refunds / non-remittance would at this point be speculative.

Net Profits revenue, which is remitted by business partnerships, professional associations, and limited liability corporations, is projected to improve slightly relative to FY 2021, to a new total of \$6.0 million. However, as Net Profits is paid on a calendar year basis, revenues received during FY 2022 encompass the latter half of FY 2021 and the first half of FY 2022. Consequently, we have projected Net Profits to continue to be roughly \$500,000 off historical normal levels due to the effects of COVID.

**Property Tax** revenues are projected to total nearly \$43.3 million, an increase of \$1.1 million, or 2.6%, relative to the FY 2021 budget. Given that FY 2021 Property Tax revenues are projected to be largely unaffected by COVID, our estimate for FY 2022 does not include additional COVID effects and represents a return to historical revenue levels. Projected base billings for FY 2021 are \$43.0 million. This base is reduced by \$250,000 in projected reassessment appeals, though this is partially offset by a combined \$26,000 in additional revenue due to expiring tax incentives and projected property improvements. The usual 2.0% allowance for doubtful accounts (similar to pre-COVID estimates) further reduces revenue by \$856,000. Lastly, one-time revenue from Penalty and Interest is expected to be \$1.3 million, which is up \$300,000 over the FY 2021 budget and is consistent with pre-COVID revenues.

There is no Property Tax rate increase included in the FY 2022 budget.

**Other Taxes** are projected to increase by \$1.1 million in FY 2022 relative to the prior-year budget. This includes the following:

**Franchise Fees** consists of 2% of the gross revenues from Delmarva Power electricity sales in the City (as Delmarva is the sole electricity distributor). This is projected to be \$764,000 in FY 2022, unchanged from the prior year.

**Real Estate Transfer Tax (Residential)** revenues are projected to increase by \$781,000 relative to the FY 2021 budget; however, relative to the Q2 FY 2021 WEFAC year-end projection, this is down \$579,000. Contrary to the projections in the FY 2021 budget, Residential transfers did not fall off due to COVID but were instead boosted by historically low interest rates. As we do not expect this residential activity to continue permanently, our FY 2022 projection is conservatively based on the historical average of residential transfers, net of one downside standard deviation.

**Real Estate Transfer (Commercial)** revenues are projected to increase by nearly \$267,000 relative to the FY 2021 budget. Commercial transfers have slowed during FY 2021, though not outside the bounds of a normal year (as commercial transfer activity tends to be unpredictable even in normal economic environments). For FY 2022, we have assumed a return to historically average commercial transfers, net of one downside standard deviation.

**Head Tax** revenues are projected to increase only modestly, to a new total of \$3.3 million. While some recovery is expected, we have chosen to be conservative regarding the strength of post-COVID growth in FY 2022. This is driven not only by concerns over employees potentially continuing to work from home, but also uncertainty regarding when low-wage employment will return to pre-COVID levels. In addition, reductions to the Head Tax base due to the effects of the

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Barclays relocation and the Chemours exemption, which were included in the FY 2021 budget, further reduce Head Tax from its historical norm.

**Licenses, Permits, & Fees** revenues are up \$520,000, in net, compared to FY 2021. Business License revenues are projected to be down only slightly from FY 2021, consistent with historical trends. Conversely, Permits, which were less impacted by COVID than originally budgeted, are projected to be up by \$506,000 as they return to historically average levels, net of one downside standard deviation. Finally, Fees are expected to modestly increase, again based on pre-COVID historical actuals.

**Fines** are projected to be up by a net \$341,000, to a new total of \$8.5 million. This consists of the following:

**Criminal / Instant Ticket** revenues are composed of Criminal Fines remitted by the State and the L&I Instant Ticketing Program. Criminal Fines are projected to decrease by \$81,000 due to the ongoing declines in State remittances, which are projected to continue. Conversely, Instant Ticket revenues are projected to increase by \$42,000, with Instant Ticketing activity returning to historically normal levels as Licenses and Inspections resumes normal activities.

**Red Light** revenues, in total, are projected to be \$5.4 million, an increase of \$656,000 relative to the FY 2021 budget and \$132,000 relative to the Q2 FY 2021 WEFAC projection. Net of the combined effects of COVID and the implementation of 17 new Red Light cameras, FY 2021 has seen stronger than expected Red Light revenues. We expect this to continue into FY 2022 and improve slightly as COVID-related losses abate.

**Parking** revenues are projected to be nearly \$2.7 million, down \$276,000 from the FY 2021 budget, but up by almost \$2.7 million from the Q2 FY 2021 WEFAC projection (which assumes that parking enforcement remains suspended for the entirety of FY 2021). For FY 2022, we assume that parking enforcement is fully restored by the beginning of the fiscal year, with some slowdown in traffic activity for Q1. For Q2 and beyond, we assume that Parking revenues return to their historical, pre-COVID levels.

**Interest** earnings on the City's cash balances are projected to increase by \$152,000 relative to the prior year budget. This is consistent with the modest interest revenues seen in FY 2021, with the City earning 0.15% or less on its investments. For FY 2022, we have assumed no change in rates, with the additional earnings largely due to a greater-than-budgeted FY 2021 General Fund surplus, combined with additional earnings on the unspent portion of the FY 2021 bond issuance.

**Other Revenues** is comprised of Indirect Costs, General Government Charges, Rentals, and other miscellaneous revenues. In total, this category is projected to be more than \$941,000 below the FY 2021 budget. Rentals are expected to decline by \$165,000 as the City will no longer receive rental fees for the Christina Landing Parking Garage, which is expected to be sold at the beginning of FY 2022. Similarly, General Government Charges are projected to decline by \$348,000, mainly driven by slowdowns in vacant property fees and limitation of occupancy fees. Finally, Indirect Costs, which are charges to the Water/Sewer Fund reimbursing costs incurred by the General Fund in support of water, sewer, and stormwater utilities, are budgeted to decline by \$427,000, reflecting General Fund budget decreases and revisions to the cost allocation model.

## **Summary of Revenues**

### **Fiscal Year 2022**

**Task Force Revenues** are the revenue sources that were created as a result of the Governor's Task Force, which took effect in FY 2004. As a result, each county seat in the state (which includes Wilmington, as the county seat of New Castle County) receives the revenue derived from the State filing fee for corporations and limited liability companies (LLC). The State also passed enabling legislation that allowed the City to create a 2% Lodging Tax and a 2% Natural Gas Franchise Fee on gross sales of natural gas in the City.

In total, Task Force Revenues are projected to be up almost \$928,000 compared to the FY 2021 budget and \$387,000 compared to the Q2 FY 2021 WEFAC projection. The largest components of this increase are the Corporate Filing Tax and the LLC Filing Tax, which (per DEFAC growth estimates) are projected to increase by \$226,000 and \$537,000, respectively. These increases are consistent with strong FY 2021 revenues, as neither category appears to have been noticeably impacted by COVID. Lodging Tax is expected to see a smaller increase, at \$93,000 above the FY 2021 budget, but is still well below historical highs. This is based on a continued slowdown in lodging during Q1, followed by subsequent recovery. Finally, Natural Gas Tax is projected to increase by nearly \$72,000, consistent with historical trends.

The **County Seat Relief Package** is a bundle of escalating revenue enhancements built upon the Governor's Task Force and intended to provide further diversification to support the three county seats in the State of Delaware. The FY 2022 projection totals a combined \$11.5 million, up a net \$644,000 from FY 2021. This is composed of the following:

**Statutory Trust Filing Fees**, which are capped at \$1.0 million, are unchanged from prior years.

**New Castle County Corporate Filing Fees** are projected to be up over \$411,000, based on DEFAC growth estimates. This is consistent with FY 2021 revenues, which did not appear to be impacted by COVID.

**Uniform Commercial Code (UCC) Filing Fees** are projected to be down \$600,000, also based on DEFAC estimates. This follows the ongoing slowdown in UCC revenues seen in FY 2021, due to a combination of reduced overall UCC filings and the transition to electronic filing (from which the City receives a smaller revenue share).

The **Payment in Lieu of Taxes (PILOT)** on what would usually be tax-exempt properties in the City is budgeted to increase by \$833,000, to a new total of \$3.3 million. This is equal to the PILOT payment the City expects to receive (but did not fully budget for) in FY 2021.

The **State Pension Contribution** is a pass-through grant that is offset against an equal amount appropriated for pension contribution expenses in the Fire and Police Departments. This is projected to increase by almost \$586,300 in FY 2022. The City had previously expected to receive a reduced contribution amount due to a miscalculation by the State Insurance Commissioner's Office and had lowered the budget in FY 2021 to reflect this; however, this decrease did not occur. Consequently, we have increased the FY 2022 projection to match the FY 2020 actual and FY 2021 projected amount, which we expect to receive going forward.

The **State Port Debt Reimbursement** is related to the 1996 sale of the Port from the City to the State. Per the sale agreement, the outstanding Port debt remains as a liability on the City's books. In 2018, the State

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entered into a long-term lease of the Port, and subsequently provided the City with full payment for the outstanding debt. The City has amortized these funds and will continue to budget debt payments for the remaining life of the associated bonds, which will be fully paid down in FY 2023. For FY 2022, the reimbursement is down nearly \$317,000, as per the existing debt schedule.

### WATER / SEWER FUND

Water / Sewer Fund Revenues	Actual FY 2019	Actual FY 2020	Budget FY 2021	Proposed FY 2022	Dollar Change FY'22-'21	Percent Change FY'22-'21
Water/Sewer User Fees	\$53,337,686	\$46,785,501	\$48,165,541	\$52,209,830	\$4,044,289	8.4%
Stormwater Billings	8,552,418	8,301,152	8,074,000	8,664,000	590,000	7.3%
NCC Sewer Services	21,599,273	22,489,162	21,882,000	21,173,439	(708,561)	-3.2%
Rentals/Miscellaneous	1,218,514	1,209,157	1,065,000	1,050,000	(15,000)	-1.4%
Solar Panels	35,187	38,639	30,000	37,000	7,000	23.3%
<b>Total Revenues</b>	<b>\$84,743,078</b>	<b>\$78,823,611</b>	<b>\$79,216,541</b>	<b>\$83,134,269</b>	<b>\$3,917,728</b>	<b>4.9%</b>

Total Water / Sewer Fund revenue before transfers is budgeted to be **\$83,134,269**, a net increase of \$3.9 million, or 4.9%, above the FY 2021 budget. The net change by revenue category is discussed in detail below:

**Direct User Fees** are projected to total \$52.2 million, an increase of \$4.0 million from the FY 2021 budget and \$866,000 from the Q2 FY 2021 WEFAC projection. Excluding year-end accruals (which can vary significantly from year to year) FY 2021 appears to be consistent with prior years, with limited net impacts from COVID. We project that FY 2022 will be similar to this, with a starting base of \$48.7 million (up \$594,000 from the FY 2021 budgeted base). To this we have added a 3.0% increase on Inside City water and sewer along with a 3.0% increase on Outside City water. Combined, these rate increases yield nearly \$1.5 million in additional revenue, net of bad debt. For the typical Inside City residential customer, these proposed increases are equivalent to \$1.65 per month.

In addition, special sewer fees are projected to provide nearly \$2.2 million (down by \$256,000 from FY 2021), and penalty and interest will provide nearly \$1.9 million (up \$558,000 from FY 2021). Finally, the projection includes a greater than \$1.9 million offset for bad debt, an improvement of almost \$2.1 million from FY 2021's budgeted bad debt of over \$4.0 million. For the FY 2021 budget, the City had used a bad debt rate of 7.5%, conservatively assuming that COVID would heavily impact collections. As this largely has not occurred in FY 2021, for FY 2022 we have chosen to use a bad debt rate of 3.0% for direct user fees and 5.0% for stormwater (as the bad debt for stormwater is included here, rather than in its own category).

**Stormwater Billings** are the revenues derived from the Stormwater Property Fee, which is charged to all property owners in the City. The fee is not based on a consumption factor, but rather on the size of property and the characteristics of associated land and buildings as they relate to the generation of stormwater runoff. The Stormwater Billings base for FY 2022 is nearly \$8.5 million. A 2.0% increase to the Stormwater rate is expected to yield an additional \$170,000, for a total of nearly \$8.7 million. For the typical residential customer, this increase is equivalent to \$0.10 per month.

## **Summary of Revenues**

### **Fiscal Year 2022**

**New Castle County Sewer** is the revenue associated with the City's treatment of sewage from New Castle County. Efforts to resolve the dispute between the City and County and finalize a new sewer contract are expected to continue into FY 2022. While the County had previously begun providing a higher payment in FY 2020 (which served as a basis for the FY 2021 budget) it subsequently reduced this payment during FY 2021. Net of a \$233,000 increase for debt reimbursement, this lower payment results in a reduction to projected FY 2022 revenues of nearly \$709,000, for a new total of \$21.2 million.

**Rentals** revenues are the fees charged to telecommunication companies that rent space on the City's water tanks for antennae and transmitters. This category is expected to decrease by \$15,000, to a new total of almost \$1.1 million.

**Solar Panel Revenue** is derived from the sale of Solar Renewable Energy Credits (SRECs) earned by the solar arrays located at various municipal sites, most notably the Porter Filter Plant. The projected revenue for FY 2022 is up \$7,000, to a new total of \$37,000.