



COUNTY COMMENTS

CIVIC LEAGUE FOR NEW CASTLE COUNTY
Informed Citizens for Sound County Growth

**April
2012**

STATEMENT OF PRINCIPLE

Monitor and selectively evaluate government actions including laws, regulations and policy.

Provide appropriate forums for informing as well as soliciting input from the public.

Establish positions based on responsible studies and consistent with the aims and purpose of the organization.

Advocate these positions.

Founded in 1962, the Civic League is non-profit volunteer organization, which studies and illuminates County and State government actions concerning comprehensive developments and the quality of life and is a vocal advocate of relevant positions.

County Comments is the official publication of the Civic League for New Castle County.

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MEETING

Tuesday, April 17, 2012

7:00 PM at the Delaware State Police Troop 2 Building
100 La Grange Ave
(Route 40 East of Route 896)
Bear, DE 19701

AGENDA

Presentation by Mr. Tom Cook
Delaware Secretary of Finance

Questions for the Delaware Secretary of Finance

Regarding the above meeting and the matter of the bonded debt level for the State of Delaware, we are seeking the following information:

#1. Given a current (2012) amount of \$1.7B compared to the 2002 amount of \$709.9 M, can you outline the average \$100M yearly increase over each of the past (10) years and provide the highest (5) different items (ie. specific capital projects) of increased expense each year during that time period?

#2. Is a yearly cost per resident available for that time period?

#3. Is a yearly amount of debt service payments available for that time period? What is the percentage amount necessary from yearly expenditures authorized by the General Assembly?

#4. What are the current projection(s) going forward, both for bonded debt amounts and debt service payments?

#5. Do the \$1.7 B and \$709.9M amounts, with all intervening amounts, include or exclude bond amounts for road construction and/or DeIDOT project(s) ?

#6. Has the Department made any calculation(s) regarding the event of increased interest rates? If so, what are the plans going forward?

#7. Are all bond amounts for capital projects? If not, what is the amount outstanding as "General Obligation Bonds" and can you provide an overview of amounts and increases for this category over the same time frame?

#8. Can you provide an overview of income streams for the State and how these source(s) may have changed over the last (10) years?

Connecting the Dots

The "Connecting the Dots" game most of us played in kindergarten and grade school also taught a subliminal lesson: Information is transmitted by each dot (size, texture, color). Additional information is transmitted by the positions of the dots relative to their neighbors. Seeing the full picture requires judging which dots to connect to which others. Some dots fit well together. Others do not.

The subliminal lesson applies to many judgments we make in everyday life. Which events connect with other events, policies, positions, and which are entirely unrelated with one another? In that light, it's interesting to explore the following list of dots involving State government in recent years. You can believe they fit well together, or that the connections are merely circumstantial, or that you need more information.

<> The Delaware House of Representatives recently (a few weeks ago) voted unanimously to eliminate a \$100,000 per year license fee for the Delaware business that enjoys a monopoly right to "lighter" oil at Big Stone Anchorage in the Delaware Bay. "Lightering" is the transfer of oil from ocean-going deep-draft tankers to shallower draft vessels or barges capable of reaching refineries along the Delaware River via its 40 ft. deep channel. The draft of an ocean-going tanker is also reduced, thereby enabling it to reach the refineries with a partial load.

<> The Governor's office expressed neutrality on the merits of eliminating the annual license fee.

<> The monopoly position of the lightering company results from the absolute prohibition of most bulk product transfer activity by Delaware's Coastal Zone Act that wasn't already ongoing when the CZA was adopted in 1971. The CZA provided that any pre-existing non-compliant use could continue, with expansions or extensions (including new equipment and staff) after 1971 subject to a CZ Permit compliant with the CZ Regulation.

The present lightering company is the successor to one that was operating in 1971. Although the refineries then served could apply for CZA "grandfather" status, none have exercised this option. The lightering permit was for 100 million barrels per year until just a few years ago when the permitted amount was increased. A barrel of oil can produce about 26 gallons of gasoline plus other residual oil products.

<> The \$100,000 annual license fee was imposed by legislation adopted since the 2008 election. The original proposal, 25 cents per barrel lightered (in anticipation of about \$25 million in annual revenue), was dropped in favor of the \$100,000 annual license fee to satisfy the desires of the Governor's office.

<> Since the start of the present Governor's term, the son of the long time lobbyist for the oil lightering monopoly company has been his Legislative Liaison Officer.

<> At about the time of the 2008 election, a position high in the new Governor's administration was anticipated for the president of the Maritime Exchange for the Delaware River and Bay, a conspicuous advocate for the US Army Corps of Engineers project to deepen the Delaware River channel to 45 feet, also advocated by former Governors of Pennsylvania and New Jersey. The Corps' project had by then been under review by the Delaware DNREC for approximately a decade. Cost versus benefit and environmental objections to the deepening had been emphatically expressed.

<> DNREC's review of the Corp's application somehow did NOT reflect the requirements of the CZ Regulation, even though 24 miles of the Delaware River from shore to shore, (centered on New Castle), is within the State of Delaware. Key among the requirements is that any permit application for a project that will result in a negative impact on the CZ must contain offsetting features that will result in greater

positive impacts. This disregard of standing law and a standing regulation was not corrected after the 2008 election. The end result of Delaware's review of the Corps' deepening proposal was approval by DNREC and the Governor without offsets exceeding the environmental damage.

<> Obviously, deepening the river channel will diminish the need for lightering, thereby reducing the revenues of the lightering company. The weakening of the Coastal Zone Regulation, by the refusal by both DNREC and the Governor to uphold its requirements, is a more subtle effect.

<> DNREC has recently granted a permit for a sewage treatment plant in the CZ south of Route 24 and west of Route 1 in Sussex County. At the full start of operation, the STP would damage the CZ with deposits of highly treated sewage imported from outside the CZ, with substantial residual quantities of nitrogen and phosphorus pollutants. The offsetting benefit would be the reduction of contributions of sewage with less intensive treatment to Sussex County aquifers outside the CZ. These contributions would eventually reach the CZ anyway, with pollutant concentrations reduced by dissipation, absorption, adsorption, dilution and delay along the way. (Remember that neither DNREC nor local land use regulators object to individual water supply wells as close as 100 feet from individual septic tank-drain field installations.)

<> Neither the Applicant nor DNREC has claimed that the eventual or the immediate net impact on the CZ would be beneficial. Indeed, DNREC refused even to attempt to quantify the negative and positive impacts. The CZ Regulation demands a net benefit to the CZ. DNREC's premise for the permit is that the STP is its own offset. To satisfy the Regulation requirement, the STP would have to be bigger than itself.

The notion that every bit of production by the STP has a positive impact on the Delaware CZ is not true according to cross examination testimony by a DNREC expert witness during an appeal proceeding after the STP was permitted. He testified that: 1) If a dwelling unit (DU) within the CZ connects to the STP, it's a positive impact on the CZ and on Sussex County; 2) That if a DU remote from the CZ and presently on septic connects to the STP, the continuing flow from prior contributions to aquifers draining to and/or thru the CZ, albeit with dilution, continues for years into the future as a negative impact on the CZ, and the contribution via the STP is an additional negative impact on the CZ, so that while BOTH impacts continue the former septic DU makes the negative impact LARGER than the contribution to the STP; and 3) That for a new DU remote from the CZ, the extent that there's a difference between how large is the negative impact on the CZ, and when the impact is felt in the CZ, if the DU connects to the STP or uses a septic alternative with aquifer flow and aquifer dilution, depends on how close the DU is to the CZ.

The STP is undeniably a benefit to Sussex County. The impact on the CZ depends on where the sewage originates and how long what's not dissipated on the way to the CZ takes to get there. Since geography and the calendar affect how much less than the total flow from new DU's outside the CZ is their impact on the CZ, it follows that when "how much less" is not credibly quantifiable, the total contribution to the CZ from new DU's must be regarded as a negative impact. And even if "how much less" were quantifiable, the IMMEDIATE negative impact would be the total flow because the flow via the septic alternative would be delayed, perhaps for many years, according to geography.

<> The grant of the CS Permit for the STP has been upheld by the Superior Court, where the case was taken on appeal beyond the Coastal Zone Industrial Control Board. Neither the Appellant nor the Court focused on the cross examination of the DNREC expert witness, starting at pg 198 of the CZICB hearing transcript. The refusal by both DNREC and the Governor to uphold its requirements is a further weakening of the CZ Regulation.

Certainly there are both plausible and implausible connections among these several dots, many quite worthy of further pursuit. Some of the connections Taken together, they paint an ugly picture that should be further explored. How many will volunteer?

As one can see, the topic for the April meeting is Delaware's bonded debt. On March 28, 2012, Bloomberg published an opinion on the same topic, namely the American debt, titled : **Four Numbers Add Up to an American Debt Disaster**, by Caroline Baum

<http://www.bloomberg.com/news/2012-03-28/four-numbers-add-up-to-an-american-debt-disaster.html>

In short, the message centered on (4) points :

- 1) *2.2 percent is the average interest rate on the U.S. Treasury's marketable and non-marketable debt (February data).*
- 2) *62.8 months is the average maturity of the Treasury's marketable debt (fourth quarter 2011).*
- 3) *\$454 billion is the interest expense on publicly held debt in fiscal 2011, which ended Sept. 30.*
- 4) *\$5.9 trillion is the amount of debt coming due in the next five years.*

and concluding with:

Still, the dangers are very real and were highlighted by Bernanke himself last week in the second of four [lectures](#) to students at George Washington University. Explaining why the decline in [house prices](#) had a greater impact than the drop in equity prices less than a decade earlier, Bernanke talked about "vulnerabilities" in the financial system. Too much debt was one; a reliance on short-term funding was another.

I doubt he had the Treasury in mind when he was explaining how the subprime debacle morphed into a global financial crisis, but the U.S. government would be wise to heed his advice. Currently its demand on the credit markets for annual interest and principal payments is equivalent to 25 percent of GDP, Goodman says, 10 percentage points higher than the norm. That's real money. And with the federal [budget deficit](#) projected to top \$1 trillion for the fourth year running, the funding pressure is bound to increase.

So the next time you hear someone say the Treasury can borrow all it wants at 2 percent, tell him, that's true -- until it can't.

My conclusion:

How much attention is being paid locally and in Dover about government debt level, who is being rewarded, and who is paying the freight?

Chuck Mulholland - 4/5/12